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

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**FORM 10-K**

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

For the fiscal year ended December 31, 2016

Commission File Number 0-22903

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**SYNTEL, INC.**

(Exact name of Registrant as specified in its charter)

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

**38-2312018**  
(I.R.S. Employer  
Identification No.)

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

**48083**  
(Zip Code)

Registrant's telephone number, including area code: (248) 619-2800

Securities registered pursuant to Section 12(b) of the Act:

Title of Class  
**Common Stock, no par value**

Name of Exchange on Which Registered  
**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 such shorter period that the Registrant has been required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2016, based on the last sale price of \$45.26 per share for the Common Stock on The NASDAQ Global Select Market on such date, was approximately \$1,459,795,537.

As of January 31, 2017, the Registrant had 83,634,955 shares of Common Stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders to be held on or about June 7, 2017 are incorporated by reference into Part III hereof.

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### **PART I**

#### **ITEM 1. BUSINESS**

*References herein to the “Company” or “Syntel” refer to Syntel, Inc. and its subsidiaries worldwide on a consolidated basis.*

#### **FORWARD-LOOKING STATEMENTS**

Certain statements and information set forth in this report on Form 10-K, including the allowance for doubtful accounts, contingencies and litigation, potential tax liabilities, interest rate or foreign currency risks, and projections regarding the Company’s liquidity and capital resources could be construed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements containing words such as “could,” “expects,” “may,” “anticipates,” “believes,” “estimates,” “plans,” and similar expressions. In addition, the Company or persons acting on its behalf may, from time to time, publish other forward-looking statements. Such forward-looking statements are based on management’s current estimates, assumptions and projections and are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements, including, without limitation, the risks and uncertainties detailed in “Item 1A, Risk Factors,” of this Form 10-K.

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

#### **OVERVIEW**

Syntel, incorporated under Michigan law on April 15, 1980, is a global provider of digital transformation, information technology (IT) and knowledge process outsourcing (KPO) services to Global 2000 companies.

Effective the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to industry segments as follows:

- Banking and Financial Services
- Healthcare and Life Sciences
- Insurance
- Manufacturing
- Retail, Logistics and Telecom

In each of our business segments, Syntel helps customers adapt to market change by providing a broad array of technology-based, industry-specific solutions. These solutions leverage Syntel’s strong understanding of the underlying trends and market forces in our chosen industry segments. These

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solutions are complemented by strong capabilities in Digital Modernization, Social, Mobile, Analytics and Cloud (SMAC) technologies, Business Intelligence (BI), Knowledge Process Outsourcing (KPO), application services, testing, Enterprise Resource Planning (ERP), IT Infrastructure Management Services (IMS), and business and technology consulting.

### **Banking and Financial Services**

Our Banking and Financial Services segment serves financial institutions throughout the world. Our clients include companies providing banking, capital markets, cards and payments, investments and transaction processing services to third parties. Our clients engage us to help make their operations as effective, productive and cost-efficient as possible, and to support new capabilities. We assist these clients in such areas as: payment solutions, retail banking, wholesale banking, consumer lending, risk management, investment banking, reconciliation, fraud analysis, mobile banking, and compliance and securities services. The demand for our services in the banking and financial services sector is being driven by changing global regulatory requirements, customer interest in newer technology areas and related services such as digital modernization, and an ongoing focus on cost reduction and operational efficiencies.

### **Healthcare and Life Sciences**

Our Healthcare and Life Sciences segment serves healthcare payers, providers and pharmaceutical and medical device providers, among others. The healthcare industry is constantly seeking to improve the quality of care while managing the cost of care in order to make healthcare affordable to a larger population. Our healthcare practice focuses on providing a broad range of services and solutions to the industry across the consumer life cycle, which includes regulatory requirements, integrated care, stake holder engagement and wider use of electronic health records, among others. We also partner with clients to modernize their systems and processes to enable them to deal with the increasing consumer orientation of healthcare, such as support for individual mandates and the adoption of mobile and analytics solutions to improve access to health information and decision making by end consumers.

In the life sciences category, we partner with leading pharmaceutical, biotech, and medical device companies, as well as providers of generics, animal health and consumer health products. Our life sciences solutions help transform many of the business processes in the life sciences value chain (research, clinical development, manufacturing and supply chain, and sales and marketing) as well as regulatory and administrative functions.

### **Insurance**

We serve the needs of global property and casualty insurers, insurance brokers, personal, commercial, life and retirement insurance service providers. These customers turn to us for assistance in improving the efficiency and effectiveness of their operations and in achieving business transformation. We focus on aspects of our clients' operations, such as policy administration, claims processing and compliance reporting. We also serve the growing trend among insurers to improve their sales and marketing processes by deepening direct retail customer relationships and strengthening interactions with networks of independent and captive

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insurance agents. This is often accomplished through the use of digital front-end technologies like cloud, social media and mobile, and supported by modernization of applications and infrastructure elements. Additionally, many insurers seek to improve business effectiveness by reducing expense ratios and exiting non-core lines of business and operations.

### **Manufacturing**

We provide technology services and business consulting in a range of sub-sectors including industrial products, aerospace and automotive manufacturing, as well as to processors of raw materials and natural resources. Demand for our services in this segment is being driven by trends that, among others, include the increasing globalization of sourcing and the desire of clients to further penetrate emerging markets, leading to longer and more complex supply chains. Some of our solutions for industrial and manufacturing clients include warranty management, dealer system integration, Product Lifecycle Management (PLM), Supply Chain Management (SCM), sales and operations planning, and mobility.

### **Retail, Logistics and Telecom**

In Retail, we serve a wide spectrum of retailers in specialty, apparel and home improvement segments. We also serve the travel and hospitality industry including airlines, hotels as well as online and travel retail, global distribution systems and intermediaries. Our domain intensive solutions transform customer/shopper experiences while keeping down the cost of IT operations.

In Logistics, our clients look to Syntel to implement business-relevant changes that will make them more productive, competitive and cost effective. To that end, we help organizations improve operational efficiencies, enhance responsiveness and collaborate with trading partners to better serve their markets and end customers.

In Telecom, we help our clients address important changes in the telecom industry, such as the transition to new network technologies, designing, developing, testing and introducing new products and channels, improving customer service and increasing customer satisfaction.

Syntel's Retail Logistics and Telecom Business unit leverages its comprehensive understanding of the business and technology needs of the industry. Our industry solutions for our clients includes SCM, sales and operations planning, mobility, Point of Sale (POS) testing, omnichannel enablement and integration, web content management solutions, Sales force and cloud foundry enablement, among others. In addition, there is strong demand for digital modernization services across these industries to enhance efficiency and agility of their underlying technology systems.

### **INDUSTRY**

The rapid pace of business change and technology innovation over the past several years has increased the urgency for corporations to modernize and transform their business processes and technology environments to remain competitive and adopt new digital business models.

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Global 2000 companies are faced with a dual challenge:

- Manage and optimize **“Run the Business” services**, or IT and process outsourcing services that are primarily characterized by an emphasis on scale and cost factors. These services feature standardized business processes and promote a high level of stability.
- Invest in **“Change the Business” initiatives**, which are transformational in nature and seek to achieve greater enterprise growth, speed and agility. These types of services require a focus on innovation, often involve dynamic requirements, and can create a high degree of organizational change.

Demand for IT services is driven by companies seeking ways to outsource not just specific projects for the design, development and integration of new technologies, but also ongoing management, maintenance and enhancement of existing IT systems.

Demand for KPO services is driven by enterprises going beyond IT outsourcing to drive cost reduction through outsourcing of business and knowledge processes. Companies are beginning to appreciate the benefits a KPO partner can deliver through increased efficiencies and service performance.

The companies best positioned to benefit from the demand for “Run the Business” initiatives have access to a pool of skilled professionals, a proven ability to manage IT and KPO programs, robust methodologies for managing transition, projects and risk, low-cost offshore software development facilities, and operational scalability to meet customer growth requirements.

Organizations seeking to “Change the Business” require an experienced outsourcing services provider with the expertise and knowledge to address the complexities of a rapidly changing technology landscape, along with the ability to understand their business processes and industry drivers.

In addition, globalization is an integral element of the business strategy of any Global 2000 corporation that seeks to balance their “Run” and “Change” needs. Services globalization enables companies to access a global pool of talent and capabilities to drive greater competitiveness. A well-executed global services model delivers higher quality, lower cost, faster turnaround and responsive and customized service.

Syntel’s customer-centric approach delivers tangible value to clients through a flexible model that combines technology and business domain expertise to develop innovative solutions to solve unique business problems. Our organization is focused on and aligned to help customers strike the right balance between investing in new initiatives and optimizing and modernizing existing ones.

Syntel’s “Customer for Life” philosophy emphasizes flexibility, customer responsiveness, value focus and a tradition of delivery excellence.

During 2016, the Company provided services to 137 customers primarily in the U.S. and Europe. Syntel has been chosen as a preferred vendor by many of its customers and has been recognized for its quality and responsiveness. The Company seeks to develop long-term relationships with its customers in order to become a trusted business partner and expand its presence with current customers. Additionally, the Company believes that its domain expertise, breadth of services and strong alignment with client culture and business imperatives are important decision factors in Syntel being chosen as a preferred vendor.

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The Company has an integrated sales and marketing approach that leverages a dedicated sales team to identify and acquire new accounts and work with engagement teams to expand and cross-sell within existing accounts. In addition, Syntel's Strategic Sourcing Services group — formed in 2014 — is tasked with pursuing and signing large outsourcing deals for the Company.

The Company believes that human resources are its most valuable asset and invests significantly in programs to recruit, train and retain technology and operations professionals. The Company recruits through a global recruiting network and maintains a broad package of employee support programs. Syntel believes that its management structure and human resources organization is designed to maximize the Company's ability to efficiently expand its professional staff in response to customer needs. As of December 31, 2016, Syntel's worldwide billable headcount consisted of 17,192 professionals providing professional services to Syntel's customers.

The information set forth under Note 16, "Geographic Information," to the Consolidated Financial Statements in the separate financial section of this Annual Report on Form 10-K is incorporated herein by reference.

### **COMPETITIVE ADVANTAGES**

Syntel has developed proven and effective processes to handle large, complex engagements and efficiently deliver high quality IT and KPO solutions through a global delivery model. Management believes that Syntel's "Customer for Life" philosophy, industry expertise, end-to-end service offerings, intellectual capital, commitment to client success, and global delivery model are key competitive advantages.

**Customers for Life:** The Company recognizes that its best source for new business opportunities comes from existing customers and believes its superior customer service is a differentiating factor resulting in Syntel's high rate of repeat business. At engagement initiation, Syntel's services are based on expertise in the software lifecycle and underlying technologies. Over time, however, as Syntel develops an in-depth knowledge of a customer's business processes, applications and industry, Syntel gains a competitive advantage to perform additional higher-value services for that customer.

**Deep Industry Expertise:** Syntel's mission statement is "We create new opportunities for our clients by harnessing our talent, passion and innovation." The Company is focused on developing a strong understanding of its clients' businesses to drive new opportunities that improve their business performance. Syntel has developed methodologies, toolsets and proprietary knowledge applicable to specific industries. Syntel combines deep industry knowledge with an understanding of its clients' needs and technologies to provide high-value, high-quality services that are strongly linked to their underlying business. For the year ended December 31, 2016, the Company's percentage of revenue by industry segment was 49%, 17%, 16%, 13% and 5% for banking and financial services, retail, logistics and telecom, healthcare and life sciences, insurance and manufacturing respectively.



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**Depth and Breadth of Technology Service Offerings:** The Company provides a comprehensive range of technology services, including application development, application maintenance and support, packaged software implementation, infrastructure management services, architecture planning, KPO services, migration and testing services. Syntel has also invested in developing strong capabilities in digital technology areas including cloud computing, analytics, automation, mobility, modernization and business process management. This broad technology expertise is strongly complemented by the Company's focus, specialization and deep domain expertise in key industries. Syntel's knowledge, experience, and technology expertise enables the Company to partner closely with its customers to address a range of pressing business needs.

**Intellectual Capital:** Over its 36-year history, Syntel has developed proven methodologies and practices, innovative accelerators, tools and utilities, reusable software assets, and technical expertise for the development, management and transformation of its customers' information systems and business processes.

The Company believes this intellectual capital enhances its ability to understand customer needs, design customized solutions and provide quality services in a timely and cost-effective manner.

The Company strives to continually enhance this knowledge base by creating competencies in emerging technical fields such as automation, big data analytics, cloud computing, mobile and embedded technologies, open source platforms, and social media.

Through these efforts, the Company delivers additional value to its clients, drives an expanded scope of work for existing customers, and creates greater efficiency in its own service delivery.

In order to protect the Company's intellectual property rights, the Company relies upon a combination of non-disclosure and other contractual arrangements as well as trade secret, patent, copyright and trademark laws. The Company enters into confidentiality agreements with its employees, consultants, clients and potential clients, which limit access to and distribution of the Company's proprietary information.

**Commitment to Client Success:** Syntel aligns its objectives with those of its clients by committing to outcome-based delivery models such as fixed-price, fixed-time frame engagements. The Company also believes its ability to take ownership for its clients' successes is an important competitive differentiator in the marketplace. The Company leverages its domain expertise, skilled technical resources and proprietary tools and methodologies to meet and exceed customer expectations on these engagements.

**Global Delivery:** Syntel performs its services on-site at customer locations, off-site at the Company's U.S. and European locations, and offshore at the Company's locations in Asia. By linking each of its service locations together through a dedicated data and voice network, Syntel provides a seamless service capability to its customers around the world, largely unconstrained by geographies, time zones and cultures.

Syntel's Global Delivery Model gives the Company the flexibility to deliver to each customer a unique mix of on-site, off-site and offshore services to meet varying customer needs for direct interaction with Syntel personnel, access to technical and process expertise, resource availability and cost-effective delivery.

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Benefits to clients include responsive delivery based on an in-depth understanding of client-specific processes and needs, quick turnaround, access to the most knowledgeable personnel and best practices, resource depth, 24-hour support seven days a week, scalability, and cost-effectiveness. Syntel has Global Development Centers in Pune, Mumbai, Gurugram (previously known as “Gurgaon”) and Chennai, India; Glasgow, Scotland; Krakow, Poland; and Manila, Philippines. The Company has offsite development facilities in Phoenix, Arizona; Memphis, Tennessee; Nashville, Tennessee, and a support center in Cary, North Carolina to support the Company’s Global Delivery Model.

### **BUSINESS STRATEGY**

The Company’s objective is to become a strategic partner with its customers in managing the full IT/KPO services lifecycle. The Company plans to continue to pursue the following strategies to achieve this objective:

**Grow Application Services Through Close Alignment With Customer Challenges.** Two notable business challenges faced by clients today are optimizing their “Run the Business” costs and freeing up resources to “Change the Business.” Syntel has aligned its delivery structure to create dedicated teams focused on developing and delivering value-added services that address this dual dynamic. The Company’s Managed Services Organization encompasses Syntel’s application development, management, maintenance, digital modernization, IT infrastructure and testing practices, and is designed to deliver the services that run its clients’ businesses on a daily basis. Syntel’s Digital One practice executes digital transformation projects that deploy SMAC technologies to enable clients to leverage emerging technologies to open new markets and create competitive advantage. The Company has also invested significantly in additional sales and marketing resources, as well as hiring engagement and delivery personnel to develop proprietary solutions, accelerators and methodologies in support of these two service lines.

**Expand Role with Current Customers and Add Select New Customers.** Syntel’s emphasis on customer service and long-term relationships has enabled the Company to generate recurring revenues from existing customers. The Company also seeks to expand its customer base by leveraging its expertise in providing services to the financial services, healthcare, insurance, retail, logistics and telecom, and manufacturing industries. The Company is increasing its marketing efforts in other parts of the world, particularly in Europe.

**Expand KPO Market.** The Company will grow its expertise in the area of value-added KPO services, primarily in the areas of financial services, healthcare and insurance. By leveraging its proven Global Delivery Model and industry and technical expertise, the Company is able to deliver process improvements as well as provide high-value KPO services. In addition to offering its existing KPO services, the Company also seeks out potential new lines of service and leverages its investments in IP and automation technologies to deliver enhanced value to clients.

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**Attract and Retain Highly Skilled Professionals.** The Company believes that employees are its most valuable asset, and that its success depends in large part upon the ability to attract, develop, motivate, retain and effectively utilize highly skilled professionals. Over the years, the Company has developed a worldwide recruiting network, logistical expertise to relocate its personnel, and programs for human resource retention and development.

The Company believes that its management structure and human resources organization is designed to maximize the Company's ability to efficiently expand its professional staff in response to customer needs. The Company believes that its investments in creating world-class campus facilities have positively impacted its ability to attract and retain high quality talent.

**Leverage Global Delivery Model.** The ability to deliver a seamless service capability virtually anywhere in the world from its domestic and offshore facilities gives the Company an effective ability to meet customer needs for technical and process expertise, best practice solutions, resource availability, scalability, responsive turnaround and cost-effective delivery. A significant proportion of the Company's services are delivered from offshore delivery locations. Measured by billable headcount, approximately 76% and 75% of services were delivered from offshore centers as of December 31, 2016 and as of December 31, 2015, respectively.

**Pursue Selective Partnership Opportunities.** The Company has entered into partnership alliances with several software firms and IT application infrastructure firms. The alliances provide a strong software implementation strategy for the customer, combining the partner's software with Syntel's extensive implementation and delivery capabilities. Before entering into a partnership alliance, the Company considers a number of criteria, including: the technology employed, the industry served, the projected product lifecycle, the size of the potential market, the product's integration requirements, and the reputation of the potential partner.

## **SERVICE OFFERINGS**

Syntel provides a broad range of technology solutions to its customers, including Managed IT Services, Digital One® and KPO services.

Through its Managed Services offering, the Company provides complete software applications development, maintenance, digital modernization, testing, IT infrastructure, cloud and migration services. The Company's SyntBots® automation platform delivers robust, reusable automation capabilities that enhance the productivity and quality of its Managed Services offerings.

Syntel's Digital One service line provides a range of consulting and implementation services built around enterprise architecture, data warehousing and business intelligence, Enterprise Application Integration (EAI), and SMAC technologies like social media, web and mobile applications, Big Data, analytics and Internet of Things (IoT).

Through its KPO service offerings, the Company provides a host of high value outsourced solutions for knowledge and business processes.

Syntel's focus on customer service is evidenced by the high level of repeat business from existing customers and the performance and quality

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awards its customers have bestowed on Syntel. During 2016, approximately 99% of Syntel's revenue came from clients the Company has worked with for at least one year. Syntel has earned recognition for its quality and innovation from a host of clients in a variety of industries. Syntel's development centers in India were assessed at the highest possible quality rating of the Software Engineering Institute (SEI) Capability Maturity Model (CMM) – Level 5. Syntel is also an ISO 9001:2015 and ISO 27001:2013 certified company and has achieved SSAE 16 Type II Certification.

### **Managed Services**

Syntel provides end-to-end “Run the Business” services to its clients across all industries through its Managed Services offering. The goal of Managed Services is to create new sources of value from existing client technology investments by moving to “as-a-service” models. Syntel's Managed Services Organization was created in 2014 by combining groups responsible for application services, testing, IT infrastructure, migration and cloud computing services. The Managed Services Organization has been further strengthened by investments in service capabilities and intellectual property that reflect customer needs.

Through application services, Syntel assumes responsibility for and manages the complete lifecycle of development, management and maintenance of business applications. Along with application services, Syntel's Managed Services Organization also provides a suite of complementary service offerings such as testing, IT infrastructure services, cloud computing and digital modernization. Syntel's digital modernization solutions leverage an automated approach to enable the seamless adoption of new technologies and to ensure interoperability between a customer's new and existing technology investments.

The Managed Services offering is designed to drive greater efficiency, agility and client satisfaction through integrated and automated delivery of application and infrastructure services in an industrialized model.

Syntel has developed methodologies, processes and tools to effectively integrate and execute Managed Services engagements. The key enabler of Syntel's Managed Services offering is the Company's proprietary MIII: Manage–Migrate–Modernize offering. MIII enables clients to objectively examine their existing technology investments and make informed decisions about which applications should be managed as-is, which could benefit from migration to a different system or platform, and which should be modernized to newer technologies. The Company's MIII offering is powered by the SyntBots automation platform, which enhances the efficiency and quality of this offering.

The Global Delivery Model is central to Syntel's delivery of Managed Services. It enables the Company to respond to client needs for ongoing service and flexibility, and has provided the capability to become productive quickly on a cost-effective basis to meet timing and resource demands for mission-critical applications.

Because delivering Managed Services typically involves close participation in the IT strategy of a customer's organization, Syntel adjusts the manner in which it delivers these services to meet the specific needs of each customer. For example, if the customer's business requires fast delivery of a mission-critical applications update, Syntel will combine its on-site professionals, who have knowledge of the customer's business processes and

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applications, together with its global infrastructure to deliver around-the-clock resources. If the customer's need is for cost reduction, Syntel may increase the portion of work performed at its offshore Global Development Centers, which has significantly lower costs. The Company believes that its ability to provide flexible service, delivery and access to resources permits responsiveness to customer needs and are important factors that distinguish its Managed Services from other IT service firms.

The Company believes its approach to providing these services and its commitment to improved business outcomes results in a long-term collaborative relationship with customers.

### **Digital One®**

The Company believes that digital technologies are a disruptive force that affects every industry. Digital One enables clients to adopt and leverage digital technologies for business transformation. By combining expertise in digital technologies with industry knowledge, Digital One helps clients use data as a strategic asset to gain deep business insights, create a highly integrated enterprise, deliver a superior customer experience, and create business value in the Digital Economy.

Syntel's Digital One service line centralizes the delivery of digital architecture, web and mobile applications, user experience, Big Data, analytics, social and IoT services. It has since expanded to include enterprise architecture, data warehousing and business intelligence, complex event processing (CEP), Microservices, EAI, EDM, BPM and ERP offerings.

Through data warehousing, business intelligence, Big Data Analytics and enterprise data management (EDM), Syntel helps customers harness their data assets, turn them into real business value, and make more strategic use of information within their businesses.

The goal of Digital One is to:

- enable clients to go to market and create new sources of revenue with products and services,
- gain profound insights into their businesses and customers,
- create robust technology environments that efficiently support their current business,
- provide the agility and scalability to incorporate new technologies,
- face new sources of competition, and
- modernize to support future expansion and growth.

### **Knowledge Process Outsourcing (KPO)**

Syntel seeks to provide high-value, industry-focused KPO services to its customers, as opposed to undifferentiated, capital-intensive, or voice-based business process outsourcing services (BPO) services. Through KPO services, Syntel provides outsourced solutions for a client's knowledge and business processes, providing them with the advantage of enhanced performance, efficiencies of scale, and optimal use of technology. Syntel uses a proprietary tool called Identeon™ to assist with strategic assessments of business processes, identifying the right ones for outsourcing.

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Syntel focuses on the middle and back-office business processes of the transaction cycle in the capital markets, banking, healthcare and insurance industries. The Company's banking and capital markets KPO services include global investment management operations including brokerage operations, middle office reconciliation, transfer agency, fund accounting, performance and attribution, trade processing, compliance monitoring, corporate actions, custody reconciliation, hedge fund administration and data management.

KPO services for the healthcare and life sciences industry includes records management, clinical data management and claims solutions. Syntel's insurance KPO services include claims processing and policy administration, among others.

### **CUSTOMERS**

Syntel provides its services to a broad range of Global 2000 corporations in the banking and financial services, healthcare and life sciences, insurance, manufacturing, retail, logistics and telecom industries. In 2016, the Company provided services to 137 customers, principally in the U.S and Europe. The Company also services a few customers in Asia, many of whom are subsidiaries or affiliates of U.S. customers.

For the years ended December 31, 2016, 2015 and 2014, the Company's top ten customers accounted for approximately 73%, 74% and 74% of the Company's total revenues, respectively. The Company's three largest customers in 2016 contributed approximately 22%, 14% and 12%, respectively, of the total revenues. The Company's largest customer for the years ended December 31, 2016, 2015 and 2014 was American Express, accounting for approximately 22%, 21% and 22% of the total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's second-largest customer, State Street Bank, contributed approximately 14%, 15% and 14% of total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Finally, the Company's third-largest customer, Federal Express Corporation, contributed approximately 12%, 12%, 12% of total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively.

### **SALES AND MARKETING**

The Company markets and sells services directly through a professional sales and account management team operating from the Company's offices in key markets across North America and Europe.

The sales and account management team is aligned by industry vertical and is equipped to sell the entire range of Syntel services to existing and prospective clients. The sales team is supported by domain and technical subject matter experts from the client solutions, practice, pre-sales and delivery teams.

The sales cycle involves multiple stages including marketing activities to generate leads, collateral and capability presentations, responding to RFIs (Requests for Information) and RFPs (Requests for Proposal), technical solution development, presenting proposals to clients, hosting site visits for clients and commercial and contractual negotiations.

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The sales team collaborates with Syntel's client solutions, pre-sales, practice, delivery, finance, marketing, human resources and legal teams to develop a technical solution and commercial value proposition that meets client requirements. Senior Syntel leaders from Sales, Business Unit and Corporate functions are involved and engaged with client management throughout the sales process.

The sales cycle for IT engagements can range from six to twelve months and depends on the nature of the services required and contracted for, as well as the scope, size and complexity of the engagement.

The sales cycle for KPO engagements can range from six to eighteen months from initial contact to execution of an agreement, and varies by type and scope of services, account size and complexity of the engagement.

The Company's marketing initiatives cover traditional and digital channels to connect and engage with customers and prospects. Digital channels include the corporate website, social media channels and webinars. Offline channels include direct marketing campaigns, presence in conferences, events, public relations activities and maintenance of strong relationships with industry trade groups, industry analysts and sourcing advisory firms.

## **HUMAN RESOURCES**

The Company believes that its human resources are its most valuable asset. As of December 31, 2016, the Company globally had 23,011 full-time employees including a billable headcount of 17,192 providing a wide range of IT and KPO services to Syntel's customers.

The Company has implemented a management structure and human resources organization intended to maximize the Company's ability to efficiently expand its professional staff to meet customer demands. The Company believes that it has the capability to meet its anticipated future staffing needs for IT and KPO professionals through its established recruiting, talent management and training programs.

**Talent Acquisition:** The Company has developed a robust recruiting methodology over the years, with campus hiring as the prime focus area. The Company has significantly expanded its global recruiting team, with recruiters in the U.S., Europe, the Philippines, and at offices across India working to recruit candidates with the right mix of skills and experience to support its global customer base.

**Talent Management:** The Company seeks to provide meaningful development and advancement opportunities to its employees, which the Company believes leads to improved employee retention and better customer service.

Syntel's primary talent management program is STEP (Syntel Talent Engagement Program), a structured performance management program that consists of detailed business discussions, talent evaluation, the creation of short-term and long-term employee career plans, and identifying future leaders from within the Company's ranks.

As part of its retention strategy, the Company provides a competitive compensation and benefits package on par with industry standards.

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**Training:** The Company uses a number of established training delivery mechanisms in its efforts to provide a consistent and reliable talent pool of qualified IT and KPO professionals. Syntel periodically introduces relevant new training programs that enhance the skills and abilities of the Company's employees in one of four core training areas: Technical, Functional, Industry Domain, and Management.

Technical training programs encompass the core technology skills, programming languages, software packages, and development methodologies used to execute projects.

Functional training is primarily focused on instructing employees how to properly execute processes involved in the Company's KPO engagements.

Industry Domain training is intended to provide employees with deep knowledge of the fundamental principles of a customer's underlying business.

Management training covers a range of topics that include project management, leadership development, and "soft skills" like communication, business etiquette and public speaking.

## **COMPETITION**

The IT and KPO services industry is competitive, fragmented and subject to rapid changes. The Company competes for business with a variety of other firms, including system integrators, application software companies, professional services companies and contract programming companies.

Syntel competes with IT services companies that utilize a similar integrated on-site/offshore business model, such as Tata Consultancy Services, Cognizant Technology Solutions, Infosys Technologies and Wipro Technologies, as well as large global IT service providers like Accenture and IBM Global Services.

Competition also arises from geographies such as Eastern Europe and the Philippines, as well as from smaller local companies in the various geographic markets in which Syntel operates.

In KPO services, the Company primarily competes with other offshore KPO vendors including Genpact, HCL, Wipro Technologies, WNS and with offshore captive units established by client organizations.

## **AVAILABLE INFORMATION**

Syntel makes available free of charge, through its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The URL for Syntel's web site is [www.syntelinc.com](http://www.syntelinc.com).



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[Table of Contents](#)**EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of the Registrant, their ages, and the position or office held by each, are as follows:

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
Bharat Desai	64	Co-Chairman and Director
Prashant Ranade	64	Co-Chairman and Director
Rakesh Khanna	54	Interim Chief Executive Officer and President
Anil Agrawal	40	Chief Financial Officer and Chief Information Security Officer
Daniel M. Moore	62	Chief Administrative Officer, General Counsel and Secretary
Rahul Aggarwal	47	Vice President, Insurance Business Unit Head
Ben Andradi	56	Vice President, Head – Europe Sales
Sanjay Garg	50	Vice President, Chief Executive Officer, State Street Syntel Services Private Limited
Anil Jain	58	Senior Vice President, Head – Sales NAO
Sujay Puthran	45	Vice President, Global Head – Human Resources & Administration
V. S. Raj	53	Senior Vice President, Banking and Financial Services Business Unit Head
Raja Ray	54	Senior Vice President, RCT, Logistics and Travel Business Unit Head
Murlidhar Reddy	47	Senior Vice President, Healthcare Business Unit Head
Narendar Reddy	52	Vice President, Life Sciences Business Unit Head
Avinash Salelkar	54	Vice President, Manufacturing Business Unit Head
Rajiv Tandon	58	Senior Vice President, Client Relations – Key Accounts

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Bharat Desai is a co-founder of the Company and serves as its Co-Chairman of the Board and as a director. He served as the Company's Chief Executive Officer from the Company's formation through February 2009 and has been the Chairman of the Company's Board of Directors since February 1999 and Co-Chairman since November 2016.

Prashant Ranade was appointed Co-Chairman in November 2016. He served as Executive Vice Chairman from April 2014 to October 2016 and Chief Executive Officer and President of the Company from February 2010 to April 2014. He has served as a director of the Company since June 2007.

Rakesh Khanna was appointed Interim Chief Executive Officer and President of the Company in November 2016. He previously served the Company as Chief Operating Officer from January 2012 to October 2016 and President, Business Unit Head – Banking and Finance from July 2005 to December 2011.

Anil Agrawal was appointed Chief Financial Officer and Chief Information Security Officer in October 2016. Mr. Agrawal served as Acting Chief Financial Officer and Chief Information Security Officer from December 2015 to October 2016 and has been with the Company since April 2001 serving in various positions in the finance and operations departments including most recently as Head of Corporate Financial Planning and Analytics.

Daniel M. Moore has served the Company as Chief Administrative Officer, General Counsel and Secretary since August 1998.

Rahul Aggarwal was appointed Vice President, Insurance Business Unit Head in December 2016. Mr. Aggarwal has been with the Company since February 2008 and served as MSO Location Head from June 2014 to November 2016, Head for Infrastructure Services from January 2013 to May 2014, and Delivery Head for Insurance from February 2008 to December 2012.

Ben Andradi was appointed Vice President, Head – Europe Sales in March 2015. Mr. Andradi has been with the Company since June 2009 and was responsible for the Banking and Financial Services and Insurance business units in Europe through March 2015.

Sanjay Garg was appointed Vice President, Chief Executive Officer State Street Syntel Services Private Limited in July 2013. Mr. Garg has been with the Company since May 2011 serving in various other KPO service delivery capacities. From March 2006 to May 2011, Mr. Garg led operations in the custody division at Northern Trust, a financial services company.

Anil Jain was appointed Senior Vice President – Head Sales NAO in December 2016. Mr. Jain previously served the Company as Senior Vice President, Insurance Business Unit Head from February 2006 to November 2016.

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Sujay Puthran was appointed Vice President, Global Head – Human Resources and Administration in December 2016. Prior to that Mr. Puthran served the Company as Head—HR Operations from December 2009 to December 2016.

V. S. Raj was appointed Senior Vice President, Banking and Financial Services Business Unit Head in November 2012. Mr. Raj served as Chief Executive Officer of State Street Syntel Services Private Limited from October 2008 to June 2013.

Raja Ray was appointed Senior Vice President, RCT, Logistics and Travel Business Unit Head in December 2016. Mr. Ray was Senior Vice President, Retail, CPG, and Telecom Business Unit Head from January 2015 to November 2016 and he was Senior Vice President, Retail, Logistics and Telecom Business Unit Head from February 2011 to December 2014.

Murlidhar Reddy was appointed Senior Vice President, Healthcare Business Unit Head in July 2016. Prior to that, he served as Senior Vice President, Healthcare and Life Sciences Business Unit Head from October 2011 to June 2016 and as Vice President, Healthcare and Life Sciences Business Unit Head from July 2006 to September 2011.

Narendar Reddy was appointed Vice President, Life Sciences Business Unit Head in July 2016. Prior to that, Mr. Reddy served the Company as Vice President – Healthcare and Life Sciences Sales for North America from April 2012 to July 2016 and as Divisional Manager—Healthcare and Life Sciences Sales from September 2007 to April 2012.

Avinash Salelkar was appointed Vice President, Manufacturing Business Unit Head in February 2011. Prior to joining the Company, Mr. Salelkar served at Geometric Limited, a software services and consulting company, as Vice President, Engineering Services, heading the engineering services business from April 2009 to January 2011.

Rajiv Tandon was appointed Senior Vice President, Client Relations – Key Accounts in July 2014. Prior to joining the Company, Mr. Tandon was Chief Executive Officer of Technosoft Corporation from March 2005 to July 2014.

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### ITEM 1A. RISK FACTORS

Our business and financial condition can be impacted by a number of factors, including the risks described below and elsewhere in this Annual Report on Form 10-K. Any of these risks could cause our actual results to vary materially from recent or anticipated results and could materially and adversely affect our business, results of operations and financial condition.

**The Company's business could be materially adversely affected if one of the Company's significant clients terminates its engagement of the Company or if there is a downturn in one of the industries the Company serves.**

The Company's ten largest clients generated approximately 73%, 74% and 74% of the Company's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's largest client for the years ended December 31, 2016, 2015 and 2014 was American Express, which generated approximately 22%, 21% and 22% of the Company's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's second largest client for the years ended December 31, 2016, 2015 and 2014 was State Street Bank, which generated approximately 14%, 15% and 14% of the Company's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's third largest client for the years ended December 31, 2016, 2015 and 2014 was Federal Express Corporation, which generated approximately 12% of the Company's total revenues for each of the years ended December 31, 2016, 2015 and 2014. The Company expects to continue to derive a significant portion of the Company's revenues from American Express, State Street Bank and Federal Express Corporation. Failure to meet a client's expectations could result in cancellation or non-renewal of the Company's engagement and could damage the Company's reputation and adversely affect its ability to attract new business. Many of the Company's contracts, including all of the Company's contracts with its ten largest clients, are terminable by the client with limited notice to the Company and without compensation beyond payment for the professional services rendered through the date of termination. An unanticipated termination of a significant engagement could result in the loss of substantial anticipated revenues. The loss of any significant client or engagement could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company also derived, and expects to continue to derive, a significant portion of its revenues from clients in certain industries, including the financial services, insurance and healthcare industries. Clients in the financial services industry generated approximately 49%, 49% and 50% of the Company's revenues for the years ended December 31, 2016, 2015 and 2014, respectively. A downturn in the financial services industry or other industries from which the Company derives significant revenues could result in less revenue from current and potential clients in such industry and could have a material adverse effect on the Company's business, results of operations and financial condition.

In addition, the Company's KPO services to State Street Bank and Trust Company and its affiliate are provided through a joint venture between Syntel and an affiliate of State Street Bank and Trust Company. Sales of KPO services only to State Street Bank and Trust Company and its affiliate represented approximately 11%, 12% and 13% of the Company's total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. The

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current master agreement under which the Company is able to provide KPO services to State Street Bank and Trust Company and its affiliate appoints the Company as an authorized provider but does not require that the clients use the Company for KPO services. KPO services are ordered through separate work orders as may be agreed to by the clients and the Company from time to time. The master agreement is terminable on short notice, has no minimum volume commitments, and has an initial expiration date of September 30, 2020, with the ability of State Street Bank and Trust Company to further extend the agreement for an additional one-year term by providing at least 6 months prior written notice to the Company. State Street Bank and Trust Company, through a separate shareholders agreement between an affiliate and an affiliate of Syntel, has the right to purchase the Company's interest in the joint venture at an agreed upon formula price. This purchase right is exercisable by State Street Bank and Trust Company affiliate (i) during the 30-day period beginning on the first business day of the 90-day period prior to the expiration of the initial term of the master agreement (September 30, 2020) or the expiration of the renewal term (September 30, 2021), (ii) in the event that State Street Bank and Trust Company or its affiliate terminates the master agreement due to the Company's change in control, insolvency, inadequate financial resources or material breach of the master agreement or the shareholders agreement, (iii) if State Street Bank and Trust Company and its affiliates suffer certain cumulative losses under the master agreement that exceed \$25 million, or (iv) if the master agreement is required by law or regulation to be terminated. The exercise of this purchase right would have the effect of terminating the Company's ability to provide KPO services to State Street Bank and Trust Company and its affiliate and transferring some related KPO professionals and assets to State Street Bank and Trust Company. State Street Bank and Trust Company's exercise of the purchase right under the shareholders agreement could have a material adverse effect on the Company's business, results of operations and financial condition.

**The Company's business could be materially adversely affected if there were a default in providing contracted services and that default resulted in damages that were substantially in excess of current insurance coverage or there were a denial of an insurance claim by the Company's insurance carriers.**

The Company provides information technology and KPO services that are integral to our clients' businesses. If the Company were to default in the provision of contractually agreed-upon services, Company clients could suffer significant damages and make claims upon the Company for those damages. Although the Company believes it has adequate processes in place to protect against defaults in the provisions of services, errors may occur, particularly in KPO services which are more transactional in nature. The Company currently carries \$50 million in errors and omissions liability coverage for all services provided by the Company other than the joint venture between an affiliate of Syntel and an affiliate of State Street Bank and Trust company. That joint venture currently carries \$40 million in errors and omissions coverage. To the extent client damages were deemed recoverable against the Company and were substantially in excess of the Company's insurance coverage, or if the Company's claims for insurance coverage were denied by the Company's insurance carriers for any reason including, but not limited to a Company client's failure to provide insurance carrier-required documentation or a Company client's failure to follow insurance carrier-required claim settlement procedures, there could be a material adverse effect on our business, results of operations and financial condition.

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### **The continued uncertainty and negative conditions in the worldwide economic markets could adversely affect the Company's business, results of operations and financial condition.**

Worldwide financial systems and economic conditions continue to be under stress. In response to that stress, the Company's customers may curtail their spending programs, which could result in a decrease in demand for the Company's services. In addition, certain of the Company's customers could experience an inability to pay suppliers. Likewise, suppliers may be unable to sustain their current level of operations, fulfill their commitments and/or fund future operations and obligations, each of which could adversely affect the Company's business, results of operations and financial condition.

### **Failure to hire and retain a sufficient number of qualified professionals could have a material adverse effect on the Company's business, results of operations and financial condition.**

The Company's business of delivering professional services is labor intensive, and accordingly, the Company's success depends upon the Company's ability to attract, develop, motivate, retain and effectively utilize highly-skilled professionals. The Company believes that there is a continuing shortage of, and significant competition for, professionals who possess the technical skills and experience necessary to deliver the Company's services, both in the United States and in India, and that such professionals are likely to remain a limited resource for the foreseeable future. Further unplanned exit of senior management team members could have an adverse impact on company's business or results. The Company believes that as a result of these factors, the Company operates within an industry that experiences a significant rate of annual turnover of personnel. The Company's business plans are based on hiring and training a significant number of additional professionals each year to meet anticipated turnover and increased staffing needs. The Company's ability to maintain and renew existing engagements and to obtain new business depends, in large part, on the Company's ability to hire and retain qualified professionals. The Company performs a portion of the Company's employee recruitment for U.S. positions in foreign countries, particularly India. For the years ended December 31, 2016, 2015 and 2014, annual voluntary attrition was 23.1%, 22.3% and 17.0%, respectively. For the same periods, the number of net hires was 1,526,(16)and 901 respectively. There can be no assurance that the Company will be able to recruit and train a sufficient number of qualified professionals or that the Company will be successful in retaining current or future employees. Increased hiring by technology companies, particularly in India, and increasing worldwide competition for skilled technology professionals may lead to a shortage in the availability of qualified personnel in the markets in which the Company operates and hires. Failure to hire and train or retain qualified professionals in sufficient numbers could have a material adverse effect on the Company's business, results of operations and financial condition.

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### **Government regulation of immigration and work permits/visas could impact the Company's ability to effectively utilize the Company's Global Delivery Model.**

The Company recruits professionals on a global basis and, therefore, must comply with the immigration and work permit/visa laws and regulations of the countries in which the Company operates or plans to operate. As of December 31, 2016, 3,387 IT professionals representing approximately 14.7% of the Company's worldwide workforce provided services under work permits/visas. The Company's inability to obtain sufficient work permits/visas due to the impact of these regulations, including any changes to immigration and work permit/visa regulations in particular jurisdictions, could have a material adverse effect on the Company's business, results of operations and financial condition.

### **Government taxation in the countries where the Company does business could reduce the Company's overall profitability.**

The Company's Indian subsidiaries have units registered as a Software Technology park (STP), an Export Oriented Unit (EOU), or a Special Economic Zone (SEZ) unit. Units registered as a STP, EOU and certain units located in a SEZ were exempt from payment of corporate income taxes on the profits generated by these units either for ten years of operations or until March 31, 2011, whichever came first. Other units located in a SEZ are eligible for 100% exemption from payment of corporate income taxes for the first five years of operation and 50% exemption for the next two years and a further 50% exemption for another three years, subject to fulfillment of criteria laid down. New units in a SEZ that are operational after April 1, 2005 are eligible for a 100% exemption from payment of corporate income taxes for the first five years of operation, 50% exemption for the next five years and a further 50% exemption for another five years, subject to the fulfillment of certain criteria. Without the above exemptions, business income is taxable at the Indian statutory rate (34.608% as of December 31, 2016).

The Company expects to continue to locate a portion of our new development centers in areas designated as Special Economic Zones (SEZs). Development centers operating in SEZs will be entitled to certain income tax incentives for periods of up to 15 years. Certain of our development centers currently operate in SEZs and many of our future planned development centers are likely to operate in SEZs. A change in the Indian government's policies affecting SEZs in a manner that adversely impacts the incentives for establishing and operating facilities in SEZs could have a material adverse effect on our business, results of operations and financial condition.

The Company has relied on the provisions of the Income-tax Act, 1961, the Income-tax Rules, 1962 and judicial and administrative interpretations thereof, which are subject to change or modification by subsequent legislation, regulatory changes, administrative pronouncements, or judicial decisions. Any such change, which could be prospective, retrospective or retroactive, could affect the validity of the conclusions herein.

The United States government is discussing, and other countries' governments may discuss, increased corporate taxation including the possibility of taxing profits generated by the Company outside the country of taxation. Increased corporate taxation could have a material adverse effect on the Company's business, results of operations and financial condition.

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As of December 31, 2016 and 2015, the Company has disputed and potentially disputable tax liabilities of \$83.67 million and \$132.26 million, respectively, relating to various fiscal years. Against the above, the Company has recognized tax liabilities, representing the unrecognized tax benefits, of \$68.51 million and \$50.24 million and corresponding interest of \$1.33 million and \$1.45 million for the years ended December 31, 2016 and 2015, respectively. The Company periodically reviews the disputed and potentially disputable tax liabilities, which includes reviews by the external tax consultants and tax counsels. These reviews are performed to ensure the adequacy of the corresponding provision for tax liabilities and that appropriate provisions are being made.

The Company has paid income taxes of \$41.41 million and \$42.18 million against the liabilities for unrecognized tax benefits of \$68.51 million and \$50.24 million, as of December 31, 2016 and 2015, respectively. The Company has paid the taxes in order to reduce the possible interest and penalties related to these unrecognized tax benefits.

### **The IT and KPO services industries are intensely competitive, and the Company may not be able to compete successfully against current and future competitors.**

The IT and KPO services industries are intensely competitive, highly fragmented and subject to rapid change and evolving industry standards. The Company competes with a variety of other companies, depending on the services offered. In IT services, the Company primarily competes with domestic firms such as Accenture, Cognizant, EDS and IBM Global Services and with an increasing number of India-based companies including Infosys Technologies, Tata Consultancy Services and Wipro Technologies. The Company is also seeing increased competition from non-Indian sources such as Eastern Europe and the Philippines. In KPO services, the Company primarily competes with other offshore KPO vendors including HCL Technologies, Wipro Technologies and WNS. Many of the Company's competitors have substantially greater financial, technical and marketing resources and greater name recognition than the Company does. As a result, they may be able to compete more aggressively on pricing, respond more quickly to new or emerging technologies and changes in client requirements, or devote greater resources to the development and promotion of IT services and KPO services than the Company does. India-based companies also present significant price competition due to their competitive cost structures and tax advantages. In addition, there are relatively few barriers to entry into the Company's markets and the Company has faced, and expects to continue to face, additional competition from new IT service and KPO service providers. Further, there is a risk that the Company's clients may elect to increase their internal resources to satisfy their services needs as opposed to relying on a third-party vendor. The IT services industry is also undergoing consolidation, which may result in increased competition in the Company's target markets. Increased competition could result in price reductions, reduced operating margins and loss of market share. There can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competitive pressures will not materially adversely affect the Company's business, results of operations and financial condition.



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### **The Company's quarterly operating results are variable.**

The Company has experienced and expects to continue to experience fluctuations in revenues and operating results from quarter to quarter due to a number of factors, including: the timing, number and scope of customer engagements commenced and completed during the quarter; progress on fixed-price engagements; timing and cost associated with expansion of the Company's facilities; changes in professional wage rates; the accuracy of estimates of resources and time frames required to complete pending assignments; the number of working days in a quarter; employee hiring, attrition and utilization rates; the mix of services performed on-site, off-site and offshore; termination of engagements; start-up expenses for new engagements; length of sales cycles; customers' budget cycles; and investment time for training. Because a significant percentage of the Company's selling, general and administrative expenses are relatively fixed, variations in revenues may cause significant variations in operating results. It is possible that the Company's operating results could be below or above the expectations of market analysts and investors. In such an event, the price of the Company's common stock would likely be materially adversely affected. No assurance can be given that quarterly results will not fluctuate, causing an adverse effect on the Company's financial condition at the time.

### **The Company's international sales and operations are subject to many uncertainties.**

Revenues from customers outside North America represented approximately 10.4% of the Company's revenues for the year ended December 31, 2016. The Company anticipates that revenues from customers outside North America will continue to account for a material portion of the Company's revenues in the foreseeable future and may increase as the Company expands its international presence, particularly in Europe. Risks associated with international operations include the burden in complying with a wide variety of foreign laws, potentially adverse tax consequences, tariffs, quotas and other barriers and potential difficulties in collecting accounts receivable. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations. We may also face difficulties integrating employees that we hire in different countries into our existing corporate culture. Our international expansion plans may not be successful and we may not be able to compete effectively in other countries. There can be no assurance that these and other factors will not have a material adverse effect on the Company's business, results of operations and financial condition.

### **Terrorist activity, war or natural disasters could make travel and communication more difficult and adversely affect the Company's business.**

Terrorist activity, war or natural disasters could adversely affect the Company's business, results of operations and financial condition. Terrorist activities, other acts of violence or war, or natural disasters occur in India, the United States and in other countries around the world and have the potential to have a direct impact on the Company's clients. Such events may disrupt the Company's ability to communicate between the Company's Global Development Centers and the Company's clients' sites, make travel more difficult, make it more difficult to obtain work visas for many of the Company's technology professionals and effectively curtail

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the Company's ability to deliver the Company's services to the Company's clients. Such obstacles to business may increase the Company's expenses and materially adversely affect the Company's business, results of operations and financial condition. In addition, many of the Company's clients visit several technology services firms prior to reaching a decision on vendor selection. Terrorist activity, war or natural disasters could make travel more difficult and delay, postpone or cancel decisions to use the Company's services.

### **The Company's fixed-price engagements may commit the Company to unfavorable terms.**

The Company undertakes development and maintenance engagements, which are billed on a fixed-price basis, in addition to the engagements billed on a time-and-materials basis. Fixed-price revenues from development and maintenance activity represented approximately 43%, 42% and 40% of total revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Any failure to estimate the resources and time required to complete a fixed-price engagement on time and to the required quality levels or any unexpected increase in the cost to the Company of IT professionals, office space or materials could expose the Company to risks associated with cost overruns and could have a material adverse effect on the Company's business, results of operations and financial condition.

### **Future legislation in countries where the Company does business could significantly impact the ability of the Company's clients to utilize the Company's services.**

The issue of companies outsourcing services abroad has become a topic of political discussion in the United States and other countries. Measures aimed at limiting or restricting outsourcing have been enacted in some jurisdictions, and there is currently legislation restricting outsourcing pending or being discussed in several other jurisdictions where the Company does business. The measures that have been enacted to date have not significantly adversely affected the Company's business. There can be no assurance that pending or future legislation that would significantly adversely affect the Company's business will not be enacted. If enacted, such measures are likely to fall within two categories: (1) a broadening of restrictions on outsourcing by government agencies and on government contracts with firms that outsource services directly or indirectly, and/or (2) measures that impact private industry, such as tax disincentives, restrictions on the transfer or maintenance of certain information abroad and/or intellectual property transfer restrictions. In the event that any such measures are enacted, or if the prospect of such measures being enacted increases, the ability of the Company's clients to utilize its services could be restricted or become less economical and the Company's business, results of operations and financial condition could be adversely affected.

### **Wage pressures in India and other countries where the Company does business may reduce the Company's profit margins.**

Wage pressures in India and other countries where the Company does business may prevent the Company from sustaining the Company's competitive advantage and may reduce the Company's profit margins. As of December 31, 2016, approximately 76% of the Company's billable workforce was in India. Wage costs in India have historically been lower than wage costs in the

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United States and Europe for comparably skilled professionals, which has been one of the Company's competitive strengths. However, wage increases in India may prevent the Company from sustaining this competitive advantage and may negatively affect the Company's profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased costs for technology professionals. Compensation increases may result in a material adverse effect on the Company's business, results of operations and financial condition.

### **The Company's future success depends on its ability to market new services to the Company's existing and new clients.**

The Company has been expanding the nature and scope of its engagements by extending the breadth of services the Company offers. The success of the Company's service offerings depends, in part, upon continued demand for such services by the Company's existing and new clients and the Company's ability to meet this demand in a cost competitive and effective manner. The Company's new service offerings may not effectively meet client needs, and the Company may be unable to attract existing and new clients to these service offerings. The increased breadth of the Company's service offerings may also result in larger and more complex client projects. This will require that the Company establish closer relationships with its clients, and potentially with other technology service providers and vendors, and develop a more thorough understanding of the Company's clients' operations. The Company's ability to establish these relationships will depend on a number of factors including the proficiency of the Company's technology professionals and its management personnel and the willingness of the Company's existing and potential clients to provide it with information about their businesses. If the Company is not able to successfully market and provide the Company's new and broader service offerings, the Company's business, results of operations and financial condition could be materially adversely affected.

### **The Company may be affected by political and regulatory conditions in countries where the Company does business.**

Changes in the political or regulatory climate in countries where the Company does business, could have a material adverse effect on the Company's business, results of operations and financial condition. No assurance can be given that the Company will not be adversely affected by changes in inflation, exchange rate fluctuations, currency controls, interest rates, tax provisions, social stability or other political, economic or diplomatic developments. Some governments have provided tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in certain sectors of the economy, including the technology industry. Certain of these benefits directly benefited the Company including, among others, tax holidays, liberalized import and export duties and preferential rules on foreign investment. Further, dynamic regulatory environment especially in banking, insurance and health care industry could lead to complex compliance requirements and higher cost. There can be no assurance that these benefits will be continued or that other similar benefits will be provided in future periods.

### **The Company's margins may be adversely affected if demand for the Company's services slows.**

If demand for the Company's services slows, the Company's utilization and billing rates for its technology professionals could be adversely affected, which may result in lower gross and operating profits.

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### **The Company is subject to risks of fluctuation in the exchange rate between the U.S. dollar and the Indian rupee.**

The Company holds a significant amount of its cash in U.S. dollars and in Indian rupees. Accordingly, changes in exchange rates between the Indian rupee and the U.S. dollar could have a material adverse effect on the Company's revenues, other income, cost of services, gross margin and net income, which may in turn have a negative impact on the Company's business, operating results and financial condition. The exchange rate between the Indian rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. The Company expects that a majority of the Company's revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of the Company's expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in Indian rupees. Consequently, the results of the Company's operations may be adversely affected if the Indian rupee appreciates against the U.S. dollar and an effective foreign exchange hedging program is not in place.

### **The Company may not be able to successfully manage the rapid growth of the Company's business.**

The Company has from time to time experienced periods of rapid growth in revenues that place significant demands on the Company's managerial, administrative and operational resources. Additionally, the longer-term transitions in the Company's delivery mix between onsite and offshore staffing has also placed additional operational and structural demands on the Company. The Company's future growth depends on recruiting, hiring and training professionals, increasing the Company's international operations, expanding its U.S. and offshore capabilities, adding effective sales and management staff and adding service offerings. Effective management of these and other growth initiatives will require that the Company continue to improve its infrastructure, execution standards and ability to expand services. Failure to manage growth effectively could have a material adverse effect on the quality of the Company's services and engagements, the Company's ability to attract and retain professionals, the Company's prospects and the Company's business, results of operations and financial condition.

### **The Company's business could be adversely affected if the Company does not anticipate and respond to technology advances in the Company's and the Company's clients' industries.**

The Company's business will suffer if the Company fails to anticipate and develop new services and enhance existing services in order to keep pace with rapid changes in technology and in the industries on which the Company focuses. The technology services and KPO markets are characterized by rapid technological change, evolving industry standards, changing client preferences and frequent new product and service introductions. The Company's future success will depend on the Company's ability to anticipate these advances and develop new product and service offerings to meet the Company's existing and potential clients' needs. The Company may fail to anticipate or respond to these advances in a timely manner, or, if

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the Company does respond, the services or technologies the Company develops may not be successful in the marketplace. Further, products, services or technologies that are developed by the Company's competitors may render the Company's services non-competitive or obsolete. If the Company does not respond effectively to these changes, the Company's business, results of operations and financial condition could be materially adversely affected.

### **The Company may be required to include benchmarking provisions in future engagements, which could have an adverse effect on the Company's revenues and profitability.**

As the size and duration of the Company's client engagements increase, the Company's current and future clients may require benchmarking provisions. Benchmarking provisions generally allow a client in certain circumstances to request that a benchmark study be prepared by an agreed-upon third-party comparing the Company's pricing, performance and efficiency gains for delivered contract services to that of an agreed-upon list of other service providers for comparable services. Based on the results of the benchmark study and depending on the reasons for an unfavorable variance, if any, the Company could then be required to reduce the pricing for future services to be performed under the balance of the contract or to change the services being provided under the contract, which could have an adverse impact on the Company's revenues and profitability.

### **The Company may be liable to its clients for disclosure of confidential information or if the Company does not fulfill its obligations under its engagements.**

The Company may be liable to the Company's clients for damages caused by disclosure of confidential information or system failures. The Company is often required to collect and store sensitive or confidential client data. Many of the Company's client agreements do not limit its potential liability for breaches of confidentiality. If any person, including any of the Company's employees, penetrates the Company's network security or misappropriates sensitive data, the Company could be subject to significant liability from its clients or from their customers for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential client data, whether through breach of the Company's computer systems, systems failure or otherwise, could also damage the Company's reputation and cause it to lose existing and potential clients. Many of the Company's engagements involve IT services that are critical to the operations of the Company's clients' businesses. Any failure or inability to meet a client's expectations in the performance of services could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. There can be no assurance that any limitations of liability set forth in the Company's service contracts will be enforceable in all instances or would otherwise protect the Company from liability for damages. In addition, the costs of defending against any such claims, even if successful, could be significant.

Although the Company maintains general liability insurance coverage, including coverage for errors and omissions, there can be no assurance that the Company's insurance coverage will continue to be available on reasonable terms, will be available in sufficient amounts to cover one or more large claims or defense costs, or that the Company's insurer will not disclaim coverage as to any future claim. The successful assertion of one

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or more large claims against the Company that are uninsured, exceed available insurance coverage or result in changes to the Company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect the Company's business, results of operations and financial condition.

### **The Company relies on global telecommunications infrastructure to maintain communication between its various locations and the Company's clients' sites.**

Disruptions in telecommunications, system failures, or virus attacks could harm the Company's ability to execute the Company's Global Delivery Model, which could result in client dissatisfaction and a reduction of the Company's revenues. A significant element of the Company's Global Delivery Model is to continue to leverage and expand the Company's Global Development Centers. The Company's Global Development Centers are linked with a redundant telecommunications network architecture that uses multiple service providers and various satellite and optical links with alternate routing. The Company may not be able to maintain active voice and data communications between its various Global Development Centers and between the Company's Global Development Centers and the Company's clients' sites at all times due to disruptions in these networks, system failures or virus attacks. Failure of internal controls in upgrading the software and hardware once it is out of sale or out of support could lead to cyber security risk or probable business disruption. Any significant failure in the Company's ability to communicate could result in a disruption in business, which could hinder the Company's performance or its ability to complete projects on time. This, in turn, could lead to client dissatisfaction and a material adverse effect on the Company's business, results of operations and financial condition.

### **There are risks associated with the Company's investment in new facilities and physical infrastructure.**

The Company's business model includes developing and operating Global Development Centers in order to support the Company's Global Delivery Service. The Company has Global Development Centers located in Pune, Mumbai, Gurugram and Chennai, India; Glasgow, Scotland; Krakow, Poland and in Manila, Philippines. The Company is in the process of expanding its Global Development Centers, often on land located in Special Economic Zones (SEZ) in India. With regard to construction on land located in a SEZ, there are certain construction and other requirements that must be met in order to maximize certain tax and other benefits. If those conditions are not met, Syntel may not be able to maximize all benefits associated with the SEZ designations. The full completion of the development of these facilities is contingent on many factors including the Company's funding the continuation of the construction and obtaining appropriate construction and other permits from the Indian government. The Company cannot make any assurances that the construction of these facilities or any future facilities that the Company may develop will occur on a timely basis or that they will be completed. If the Company is unable to complete the construction of these facilities, the Company's business, results of operation and financial condition will be adversely affected. In addition, the Company is developing these facilities in expectation of increased growth in the Company's business. If the Company's business does not grow as expected, the Company may not be able to benefit from its investment in these facilities.

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### **The Company's business could be materially adversely affected if the Company does not protect its intellectual capital or if the Company's services are found to infringe on the intellectual property of others.**

The Company's success depends in part on certain methodologies, practices, tools and technical expertise the Company utilizes in designing, developing, implementing and maintaining applications and other proprietary intellectual capital. In order to protect the Company's rights in this intellectual capital, the Company relies upon a combination of nondisclosure and other contractual arrangements as well as trade secret, copyright and trademark laws. The Company also generally enters into confidentiality agreements with its employees, consultants, clients and potential clients and limits access to and distribution of the Company's proprietary information.

The Company holds several trademarks or service marks and intends to submit additional United States federal and foreign trademark applications for the names of additional service offerings in the future. There can be no assurance that the Company will be successful in maintaining existing or obtaining future trademarks. There can be no assurance that the laws, rules, regulations and treaties in effect now or in the future or the contractual and other protective measures the Company takes are adequate to protect it from misappropriation or unauthorized use of the Company's intellectual capital or that such laws, rules, regulations and treaties will not change. There can be no assurance that the Company will be able to detect unauthorized use and take appropriate steps to enforce the Company's rights or that any such steps will be successful. Misappropriation by others of the Company's intellectual capital, including the costs of enforcing the Company's intellectual capital rights, could have a material adverse effect on the Company's business, results of operations and financial condition. However, the Company is not significantly dependent on the referenced trademarks in the conduct of its business.

Although the Company believes that its intellectual capital does not infringe on the intellectual property rights of others, there can be no assurance that such a claim will not be asserted against the Company in the future or that any such claim, if asserted, would not be successful. The costs of defending any such claims could be significant and any successful claim could require the Company to modify, discontinue or change the manner in which the Company provides its services. Any such changes could have a material adverse effect on the Company's business, results of operations and financial condition.

### **The Company's earnings are affected by issuance of stock-based awards to employees and directors.**

The Company expenses stock-based awards in accordance with provisions prescribed by authoritative guidance. The Company measures and recognizes compensation expense for all stock-based payments at fair value. The Company has issued restricted stock units to its non-employee directors and employees. During the year ended December 31, 2016, the Company recorded \$8.2 million of expense for equity-based compensation (including charges for restricted stock units and a dividend equivalent). The assumptions used in calculating and estimating future costs are highly subjective and changes in these assumptions could significantly affect the Company's future earnings.

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**Any future business combinations, acquisitions or mergers would expose the Company to risks, including that the Company may not be able to successfully integrate any acquired businesses.**

The Company may expand its operations through the acquisition of other businesses. Financing of any future acquisition could require the incurrence of indebtedness, the issuance of equity (common or preferred) or a combination thereof. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses without substantial expense, delays or other operational or financial risks and problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or legal liabilities and amortization of acquired intangible assets. In addition, any client satisfaction or performance problems within an acquired firm could have a material adverse impact on the Company's reputation as a whole. There can be no assurance that any acquired businesses would achieve anticipated revenues and earnings. Any failure to manage the Company's acquisition strategy successfully could have a material adverse effect on the Company's business, results of operations and financial condition.

**The Company's ability to repatriate earnings from its foreign operations.**

The Company's accumulated foreign earnings are deemed to be permanently reinvested outside the United States and the Company has not provided for income taxes on such earnings. Management regularly evaluates foreign earnings to determine whether future foreign earnings that accumulate will be permanently invested outside the U.S. In conducting this evaluation, management considers, among other factors, the operational and financial objectives of the Company, long-term and short-term capital needs, the Company's projections on growth and working capital needs, planned uses of U.S. and foreign earnings, the available sources of liquidity in the U.S., and growth plans outside of the U.S. If in the future, management were to conclude that any portion of foreign earnings will not be permanently reinvested outside the U.S., this may result in an additional provision for income taxes, which could affect our future effective tax rate. If the Company repatriates any of such earnings, the Company will incur a dividend distribution tax for distribution from India, currently 20.358% on dividend distribution under Indian tax law, and be required to pay United States corporate income taxes on such earnings, net of foreign tax credits. If the Company decided to repatriate all undistributed repatriable earnings of foreign subsidiaries as of December 31, 2016, the Company would accrue taxes of approximately \$24.2 million.

**The Company's failure to comply with the covenants contained in the Senior Credit Facility, as amended, including as a result of events beyond its control, could result in an event of default, which could materially and adversely affect the Company's business, results of operations and financial condition.**

The Company's Senior Credit Facility, as amended, requires it to maintain certain financial ratios and requires the Company to comply with various operational and other negative covenants including certain limitations on liens, making investments in India, permitted acquisitions, subsidiary indebtedness, mergers, dissolutions, liquidations, consolidations with or into another person or dispositions of all or substantially all of the



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Company's assets to or in favor of any person, as well as limitations on making dispositions, making restricted payments, changing the nature of its business, undertaking affiliate transactions, making burdensome agreements, purchasing or carrying margin stock, or entering into sale and leaseback transactions. If there were an event of default that was not cured or waived, the lenders of the Senior Credit Facility could cause all amounts outstanding with respect to the Senior Credit Facility to be due and payable immediately.

### **The Company's exposure to fluctuations in interest rates due to market conditions which could materially and adversely affect Company's business, results of operations and financial condition.**

The interest rates applicable to the Senior Credit Facility, as amended, other than in respect of swing line loans, will be LIBOR plus 1.50% or, at the option of the Company, the Base Rate (to be defined as the highest of (x) the Federal Funds Rate (as that term is defined in the Senior Credit Facility) plus 0.50%, (y) the Bank of America prime rate, or (z) LIBOR plus 1.00%) plus 0.50%. Each swing line loan will bear interest at the Base Rate plus 0.50%. In no event will LIBOR be less than 0% per annum. While the Company has entered into interest rate swaps (IRS) to partially hedge against fluctuations in interest rates, since interest rates vary with changes in LIBOR, which is dependent on market conditions, our debt exposes us to market risk from fluctuations in interest rates.

### **Environmental regulations to which the Company is subject could increase its costs and liabilities, reduce its profits or limit its ability to run its business.**

The Company's operations and the properties it owns and develops (primarily located in India) are subject to environmental laws and regulations, including requirements addressing: health and safety; the use, management and disposal of hazardous substances and wastes; discharges of waste materials into the environment, such as refuse or sewage; and air emissions. Complying with these laws and regulations, or addressing violations arising under them, could result in environmental costs and liabilities, reduce the Company's profits or limit its ability to run its business. Existing environmental laws and regulations may be revised, or new laws and regulations related to global climate change, air quality, or other environmental and health concerns may be adopted or become applicable to the Company. The identification of areas of contamination, changes in cleanup requirements, or the adoption of new requirements governing the Company's operations could have a material adverse effect on the Company's results or operations, financial condition and business.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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### **ITEM 2. PROPERTIES**

The Company's headquarters and principal administrative, sales and marketing, and system development operations are located in 6,430 square feet of leased space in Troy, Michigan. The Company occupies these premises under a lease expiring in August 2017.

The Company has a telecommunications hub located in 3,128 square feet of leased space in Cary, North Carolina under a lease which expires in April 2018.

The Company also leases office facilities in Phoenix, Arizona; Schaumburg, Illinois; Miami, Florida; Irving, Texas; New York, New York; Nashville, Tennessee; Memphis, Tennessee; Cambridge, Massachusetts(Boston); London, UK; Glasgow, Scotland; Toronto, Canada; Stuttgart and Frankfurt, Germany; Taguig City, Philippines, Port Louis, Mauritius. The Company also maintains registered offices in Singapore; Paris, France; Dublin, Ireland and Hong Kong.

The Company has Global Development Centers in Pune, Mumbai, Gurugram and Chennai, India and a Support Center in Cary, North Carolina to support the Company's Global Delivery Service.

Syntel's Global Development Centers enable its strategy to provide cost effective services to its clients.

The Company acquired 78 acres of land in Pune, India for establishing a state-of-the-art development and training campus. Initial construction was completed in August 2006, which included an office building with 950 seats, a food court and residential guest house. In February 2007, the Company completed two additional office buildings with more than 2,000 seats. The remaining land adjacent to the campus has been designated as a Special Economic Zone ("SEZ") by the Government of India. The Company has completed construction of two office buildings in the SEZ area with more than 2,000 seats. The Company added three additional office buildings with more than 4,600 seats in the year 2013 and 1,900 seats in 2014.

In addition, Syntel leases one facility in Pune, India consisting of 55,028 square feet.

The Company's India operations are registered in Mumbai. Syntel has multiple leased facilities in Mumbai with a total capacity of nearly 9,400 seats.

Syntel leases 701,245 square feet of office space in Mumbai, India, under twelve leases expiring between April 16 2017 and January 26, 2025. These facilities house IT and KPO professionals, as well as its senior management, finance and accounting, administrative personnel, human resources, recruiting and sales and marketing functions.

Syntel has one leased facility in Chennai with a total capacity of nearly 502 seats. Syntel leases 47,900 square feet of office space in Chennai, India, under leases expiring on September 1, 2017.

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The Company has approximately 29 acres of land in an Information Technology Park in Chennai, India. This area of land has been designated as a Special Economic Zone (SEZ) by the Government of India. In Phase 1, the Company constructed 0.7 million square feet of space. Phase 1 consists of three Software Development Blocks each having a capacity of 1,700 seats, a Food Court with 1,000 seat capacity, a Training Block with a 900 seat capacity, a Welcome Block and a Utility Block.

The first software development block along with the training block, welcome block, utility block and cafeteria commenced operations in August 2010. The second software development block commenced operations in the fourth quarter of 2011. The third software development block was added in the third quarter of 2013.

Syntel leases 11,800 square feet of office space in Gurugram, India under two leases expiring on February 9, 2021.

Syntel acquired 100 acres of land that is classified as a SEZ in Gangikondan Village, Tirunelveli District, Tamil Nadu, India. The Company has started Phase 1 of the site's development, consisting of the construction of a 200,000 square foot facility in 2013 with a plan to start operations in 2017.

The Company believes that its infrastructure in Mumbai, Pune, Gurugram and Chennai is adequate for meeting its short-term requirements. Planned capacity additions in these cities will enable the Company to meet offshore growth requirements for the next several years. The Company is also considering expanding its footprint in metropolitan areas of varying sizes to meet its growth objectives.

### **ITEM 3. LEGAL PROCEEDINGS**

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

### **ITEM 4. MINE SAFETY DISCLOSURES**

**None.**

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The Company's Common Stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "SYNT." The following table sets forth, for the periods indicated, the range of high and low sales prices per share of the Company's Common Stock as reported on NASDAQ for each full quarterly period in 2015 and 2016.

<u>Period</u>	<u>High</u>	<u>Low</u>
First Quarter, 2015	52.990	42.680
Second Quarter, 2015	52.900	44.010
Third Quarter, 2015	49.110	41.072
Fourth Quarter, 2015	48.970	43.880
First Quarter, 2016	50.870	42.400
Second Quarter, 2016	50.920	41.170
Third Quarter, 2016	48.407	40.680
Fourth Quarter, 2016	43.190	18.000

(b) There were 126 shareholders of record and approximately 27,000 beneficial holders on January 31, 2017.

(c) During the third quarter of 2016, the Board of Directors declared a special cash dividend of fifteen dollars (\$15.00) per share on outstanding common stock which was payable on October 3, 2016, to shareholders of record at the close of business on September 22, 2016. The Board of Directors neither declared nor paid any dividends during fiscal year 2015.

(d) On November 14, 2016, the Board of Directors authorized a stock repurchase plan under which the Company may repurchase shares of common stock with a total value not to exceed \$10 million.

Repurchases under the Company's new program were made in the open market or privately negotiated transactions or through a Rule 10b5-1 plan in compliance with Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements, and other relevant factors. Any repurchased common stock will be available for use in connection with the Company's incentive plan and for other corporate purposes.

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The following information describes the Company's stock repurchases during the fourth quarter of the fiscal year ended December 31, 2016.

<u>Period</u>	<u>Total number of shares (or units) purchased</u>	<u>Average price paid per share (or unit) including other charges</u>	<u>Total number of shares (or units) purchased as part of publicly announced plans or programs</u>	<u>Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs</u>
November 1, 2016 — November 30, 2016	190,200	19.46	190,200	\$ 6,298,441.72
December 1, 2016 — December 31, 2016	320,723	19.64	320,723	\$ 18.40
<b>Total</b>	<b>510,923</b>	<b>19.57</b>	<b>510,923</b>	<b>\$ 18.40</b>

(e) The information set forth under the captions "Equity Compensation Plan Information" in Item 12 of this report is incorporated herein by reference.

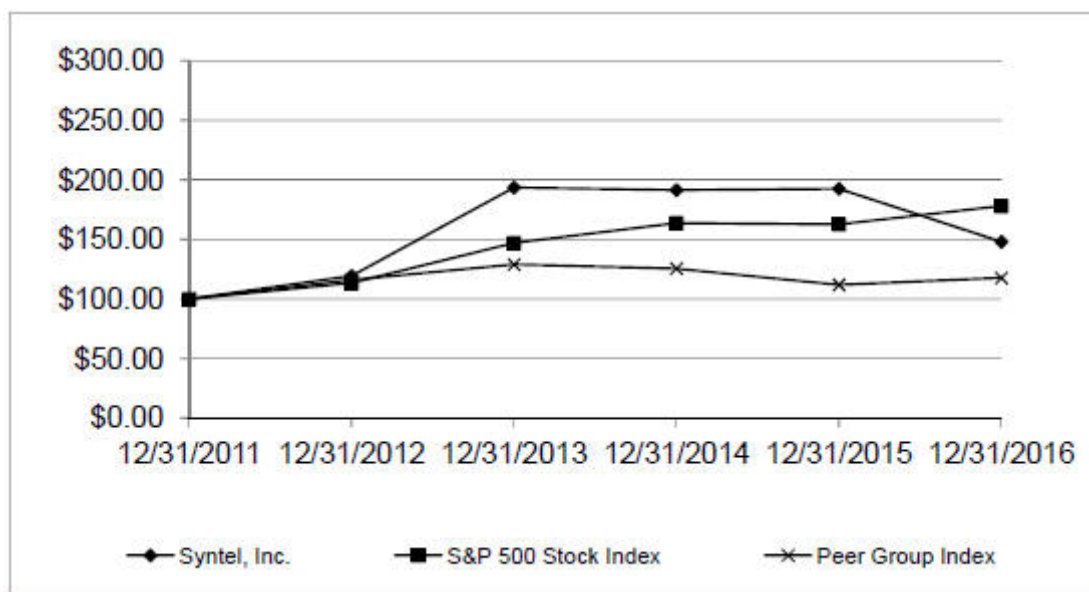
## PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on the Company's Common Stock to the cumulative total shareholder returns for the S&P 500 Stock Index and for an index of peer companies selected by the Company. The period for comparison is for five years from December 31, 2011 through December 31, 2016, the end of the Company's last fiscal year. The peer group index is composed of Cognizant Technology Solutions Corporation, International Business Machines Corporation, Tata Consultancy Services Limited, Wipro Limited, Infosys Technologies Limited, Oracle Financial Services Software Limited (formerly known as I-Flex Solutions Limited) and HCL Technologies Limited. These companies were selected based on similarities in their service offerings and their competitive position in the Company's industry.

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**Comparison of Five-Year Cumulative Total Return  
Among Syntel, Inc., S&P 500 Stock Index  
And an Index of Peer Companies \***

[PERFORMANCE GRAPH]



	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
Syntel, Inc.	\$100.00	\$119.38	\$193.47	\$191.36	\$192.51	\$148.01
S&P 500 Stock Index	\$100.00	\$113.41	\$146.98	\$163.72	\$162.53	\$178.02
Peer Group Index	\$100.00	\$116.10	\$128.98	\$125.48	\$111.88	\$117.76

\* Assumes that the value of a simple unweighted average investment in Syntel's Common Stock and each index was \$100 on December 31, 2011 and that all dividends were reinvested.

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[Table of Contents](#)**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA****SYNTEL, INC. & SUBSIDIARIES***(In thousands, except share and headcount data)*

The following tables set forth selected consolidated financial data and other data concerning Syntel, Inc. and its subsidiaries for each of the last five years. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related Notes thereto.

**Year Ended December 31,  
STATEMENT OF INCOME DATA**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net revenues	\$966,550	\$968,612	\$911,429	\$824,765	\$723,903
Cost of revenues	<u>595,725</u>	<u>584,611</u>	<u>533,862</u>	<u>460,576</u>	<u>408,919</u>
Gross profit	<u>370,825</u>	<u>384,001</u>	<u>377,567</u>	<u>364,189</u>	<u>314,984</u>
Selling, general and administrative expenses	<u>108,528</u>	<u>100,256</u>	<u>109,217</u>	<u>96,587</u>	<u>103,044</u>
Income from operations	<u>262,297</u>	<u>283,745</u>	<u>268,350</u>	<u>267,602</u>	<u>211,940</u>
Other income, net	<u>11,088</u>	<u>43,456</u>	<u>50,523</u>	<u>18,220</u>	<u>27,988</u>
Income before income taxes	<u>273,385</u>	<u>327,201</u>	<u>318,873</u>	<u>285,822</u>	<u>239,928</u>
Income tax expense	<u>330,775</u>	<u>74,675</u>	<u>69,133</u>	<u>66,164</u>	<u>54,385</u>
Net (loss)/income	<u><u>\$ (57,390)</u></u>	<u><u>\$252,526</u></u>	<u><u>\$249,740</u></u>	<u><u>\$219,658</u></u>	<u><u>\$185,543</u></u>
(Loss)/Earnings per share, diluted	\$ (0.68)	\$ 3.00	\$ 2.97	\$ 2.62	\$ 2.22
Weighted average shares outstanding, diluted	84,146	84,149	83,971	83,764	83,586
Cash dividends declared per common share	\$ 15.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1.25

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	AS OF DECEMBER 31,				
	2016	2015	2014	2013	2012
	(\$ In thousands)				
BALANCE SHEET DATA					
Working capital(1)	\$ 146,949	\$ 997,172	\$ 926,530	\$714,698	\$414,849
Long term debt	478,616	—	129,750	138,375	—
Total assets	454,543	1,423,270	1,224,015	997,176	725,836
Total shareholders' equity	(183,087)	1,158,445	947,830	722,546	565,670
OTHER DATA					
Billable headcount in U.S.	3,737	3,917	3,433	3,239	2,758
Billable headcount in India	12,993	13,651	13,562	13,417	11,997
Billable headcount at other locations	462	525	327	220	163
Total billable headcount	<u>17,192</u>	<u>18,093</u>	<u>17,322</u>	<u>16,876</u>	<u>14,918</u>

(1) In November 2015, the FASB issued an update to the standard on income taxes pertaining to the balance sheet classification of deferred income taxes. The update requires that all deferred tax assets and liabilities, along with the related valuation allowances within each tax jurisdiction be classified as non-current on the balance sheet. As a result each jurisdiction will only have one net non-current deferred income tax asset or liability. We have adopted this guidance retrospectively in the fourth quarter of 2016 and conformed prior years presentation to current year's presentation.

The tax rate for the year ended December 31, 2016 was primarily impacted by a one-time repatriation, where the Company recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) and reversal of unrecognized tax benefits of \$3.08 million. Without the above, the effective tax rate for the year ended December 31, 2016 would have been 23.0%.

The tax rate for the year ended December 31, 2015 was impacted by favorable adjustments of \$1.10 million relating to the true up of tax provisions upon the finalization of the India tax computation and \$1.20 million relating to the finalization of state tax and local tax matters. The company has provided tax charges of \$0.84 million on account of valuation allowances against the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2015 would have been 23.3%.

The tax rate for the year ended December 31, 2014 was impacted by a favorable adjustment of \$1.20 million, which related to the true up of tax provisions, pursuant to finalization of the tax computation of Syntel Private Limited (Syntel India), which had arisen on account of setoff of inter units unabsorbed expenses. Further, a \$0.86 million tax charge has arisen on account of a particular tax dispute raised during the year. The Company has provided tax charges of \$1.63 million and \$0.88 million on account of valuation allowances against deferred tax assets recognized on investments and the minimum alternative tax, respectively. Without the above, the effective tax rate for the year ended December 31, 2014 would have been 21.1%.



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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Critical Accounting Policies**

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

**Revenue Recognition.** Revenue recognition is a significant accounting policy for the Company. The Company recognizes revenue from time-and-materials contracts as services are performed. During the years ended December 31, 2016, 2015 and 2014, revenues from time-and-materials contracts constituted 57%, 58% and 60%, respectively, of total revenues. Revenue from fixed-price application management maintenance and support engagements is recognized as earned, which generally results in straight-line revenue recognition as services are performed continuously over the term of the engagement. During the years ended December 31, 2016, 2015 and 2014, revenues from fixed-price application management maintenance and support engagements constituted 35%, 33% and 29%, respectively.

Revenue on fixed-price application development and integration projects is measured using the proportional performance method of accounting. Performance is generally measured based upon the efforts incurred to date in relation to the total estimated efforts to the completion of the contract. The Company monitors estimates of total contract revenues and cost on a routine basis throughout the delivery period. The cumulative impact of any change in estimates of the contract revenues or costs is reflected in the period in which the changes become known. In the event that a loss is anticipated on a particular contract, provision is made for the estimated loss. The Company issues invoices related to fixed-price contracts based on either the achievement of milestones during a project or other contractual terms. Differences between the timing of billings and the recognition of revenue based upon the proportional performance method of accounting are recorded as revenue earned in excess of billings or deferred revenue in the accompanying financial statements. During the years ended December 31, 2016, 2015 and 2014, revenues from fixed-price application development and integration contracts constituted 8%, 9% and 11%, respectively.

#### **Significant Accounting Estimates**

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

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

**Allowance for Doubtful Accounts.** The Company records an allowance for doubtful accounts based on a specific review of aged receivables. The provision for the allowance for doubtful accounts is recorded in selling, general and administrative expenses. As at December 31, 2016 and 2015, the allowance for doubtful accounts was \$0.8 million and \$0.6 million, respectively. These estimates are based on our assessment of the probable collection from specific customer accounts, the aging of the accounts receivable, analysis of credit data, bad debt write-offs and other known factors.

**Income Taxes—Estimates of Effective Tax Rates and Reserves for Tax Contingencies.** The Company records provisions for income taxes based on enacted tax laws and rates in the various taxing jurisdictions in which it operates.

In determining the tax provisions, the Company also reserves for tax contingencies based on the Company's assessment of future regulatory reviews of filed tax returns. Such reserves, which are recorded in income taxes payable, are based on management's estimates and accordingly are subject to revision based on additional information. The reserve no longer required for any particular tax year is credited to the current year's income tax provision.

The tax rate for the year ended December 31, 2016 was primarily impacted by one-time repatriation, where the Company recognized a one-time tax expense of about \$270.6 million (net of foreign tax credits) and reversal of unrecognized tax benefits of \$3.08 million. Without the above, the effective tax rate for the year ended December 31, 2016 would have been 23.0%.

The tax rate for the year ended December 31, 2015 was impacted by favorable adjustments of \$1.10 million relating to the true up of tax provisions upon the finalization of the India tax computation and \$1.20 million relating to the finalization of state tax and local tax matters. The company has provided tax charges of \$0.84 million on account of valuation allowances against the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2015 would have been 23.3%.

The tax rate for the year ended December 31, 2014 was impacted by a favorable adjustment of \$1.20 million, relating to the true up of tax provisions, upon the finalization of the tax computation of Syntel India, which was finalized after setoff of unabsorbed inter-company expenses. Further, \$0.86 million charge of tax has arisen on account of a tax dispute raised during the year. The Company has provided tax charges of \$1.63 million and \$0.88 million on account of valuation allowance against deferred tax assets recognized on the investments and minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2014 would have been 21.1%.

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### *Accruals for Legal Expenses and Exposures.*

The Company is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. The Company's estimates regarding legal contingencies are based on information known about the matters and its experience in contesting, litigating and settling similar matters. It is the opinion of management with respect to pending or threatened litigation matters that unfavorable outcomes are remote and that estimates of possible loss are not able to be made. Although actual amounts could differ from management's estimates, none of the actions are believed by management to involve future amounts that would be material to the Company's financial position or results of operations.

The Company estimates the costs associated with known legal exposures and their related legal expenses and accrues reserves for either the probable liability, if that amount can be reasonably estimated, or otherwise the lower end of an estimated range of potential liability. As at December 31, 2016, the Company has recorded a \$0.3 million liability for a litigation matter related contingency. During the year ended December 31, 2015, there was no accrual related to litigation.

## **OVERVIEW**

Syntel is a worldwide provider of IT and KPO services to Global 2000 companies. The Company's IT services include programming, system integration, outsourcing and overall project management. The Company's KPO services consist of high-value, customized outsourcing solutions that enhance critical back-office services such as transaction processing, loan servicing, retirement processing, collections and payment processing.

The Company's revenues are generated from professional services fees provided through five segments, Banking and Financial Services, Healthcare and Life Sciences, Insurance, Manufacturing, and Retail, Logistics and Telecom. The Company has invested significantly in developing its ability to sell and deliver Applications Outsourcing and KPO services, which the Company believes have higher growth and gross margin potential.

Effective the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to vertical segments as follows:

- Banking and Financial Services
- Healthcare and Life Sciences
- Insurance
- Manufacturing
- Retail, Logistics and Telecom

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The following table outlines the revenue mix for the years ended December 31, 2016, 2015 and 2014:

	<b>Percent of Total Revenues</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Banking and Financial Services	49	49	50
Healthcare and Life Sciences	16	16	16
Insurance	13	14	15
Manufacturing	5	4	3
Retail, Logistics and Telecom	17	17	16
	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

Revenues are generated principally on either a time-and-materials or fixed-priced, fixed-time frame basis. We believe the ability to offer fixed-time frame processes is an important competitive differentiator that allows Syntel and its clients to better understand the client's needs, and to design, develop, integrate and implement solutions that address those needs. During the years ended December 31, 2016, 2015 and 2014, revenues from fixed-price development contracts constituted 8%, 9% and 11% respectively.

Revenues from Banking and Financial Services, Healthcare and Life Sciences, Insurance, Manufacturing, and Retail, Logistics and Telecom are generally recognized on either time-and-materials or fixed-price basis. For the years ended December 31, 2016, 2015 and 2014, fixed-price revenues from development and maintenance activity comprised approximately 23%, 24% and 25% of total Banking and Financial Services revenues, respectively. For the years ended December 31, 2016, 2015 and 2014, fixed-price revenues from development and maintenance activity comprised approximately 65%, 56% and 41% of total Healthcare and Life Sciences revenues, respectively. For the years ended December 31, 2016, 2015 and 2014, fixed-price revenues from development and maintenance activity comprised approximately 38%, 41% and 48% of total Insurance revenues, respectively. For the years ended December 31, 2016, 2015 and 2014, fixed-price revenues from development and maintenance activity comprised approximately 32%, 33% and 27% of total Manufacturing revenues, respectively. For the years ended December 31, 2016, 2015 and 2014, fixed-price revenues from development and maintenance activity comprised approximately 84%, 84% and 80% of total Retail Logistics and Telecom revenues, respectively.

The Company's most significant cost is personnel cost, which consists of compensation, benefits, recruiting, relocation and other related costs for its professionals. The Company strives to maintain its gross margin by controlling engagement costs and offsetting increases in salaries and benefits with increases in billing rates. The Company has established a human resource allocation team whose purpose is to staff professionals on engagements that efficiently utilize their technical skills and allow for optimal billing rates. The Company's Indian subsidiaries provide software development services from Mumbai, Pune and Chennai, India, where salaries of IT professionals are comparatively lower than in the U.S.

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The Company has performed a significant portion of its employee recruiting in other countries. As of December 31, 2016, approximately 14.7% of Syntel's worldwide workforce provided services under work permits / visas.

The Company has made substantial investments in infrastructure in recent years, including: (1) expanding the facilities in Mumbai, India, including a KPO facility; (2) developing a Technology Campus in Pune, India; (3) expanding the Global Development Center in Chennai, India; (4) upgrading the Company's global telecommunication network; (5) increasing IT services sales and delivery capabilities through significant expansion of the sales force and the Company's Enterprise Solutions Group, which develops and formalizes proprietary methodologies, practices and tools for the entire Syntel organization; (6) hiring additional experienced senior management; (7) expanding global recruiting and training capabilities; and (8) enhancing human resource and financial information systems.

Through its strong relationships with customers, the Company has been able to generate recurring revenues from repeat business. These strong relationships also have resulted in the Company generating a significant percentage of revenues from key customers. The Company's top ten customers accounted for approximately 73%, 74% and 74% of total revenues for the years ended December 31, 2016, 2015 and 2014, respectively.

For the years ended December 31, 2016, 2015 and 2014, there were three customers contributing revenues in excess of 10% of the Company's total consolidated revenues. The Company's largest customer for the years 2016, 2015 and 2014 was American Express, contributing approximately 22%, 21% and 22%, respectively, of total consolidated revenues. For the years 2016, 2015 and 2014, the Company's second largest customer, State Street Bank also contributed 14%, 15% and 14%, respectively, of the Company's total consolidated revenues. For the years 2016, 2015 and 2014, the Company's third largest customer, Federal Express Corporation also contributed 12%, 12% and 12%, respectively, of the Company's total consolidated revenues. Although the Company does not currently foresee a credit risk associated with accounts receivable from these customers, credit risk is affected by conditions or occurrences within the economy and the specific industries in which these customers operate.

As a result of the continued uncertainty and weakness in the global economic and political environment, companies continue to seek to outsource their IT spending offshore. However, Syntel also sees clients' needs to reduce their costs and the increased competitive environment among IT companies. The Company expects these conditions to continue in the foreseeable future. In response to the continued pricing pressures and increased competition for outsourcing clients, the Company continues to focus on expanding its service offerings into areas with higher and sustainable price margins, managing its cost structure and anticipating and correcting for decreased demand and skill and pay level imbalances in its personnel. The Company's immediate measures include increased management of compensation expenses through headcount management and variable compensation plans, as well as increasing utilization rates or reducing non-deployed sub-contractors or non-billable IT professionals.

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**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, selected income statement data as a percentage of the Company's net revenues.

	<b>PERCENTAGE OF NET REVENUES YEAR ENDED DECEMBER 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net revenues	100.0%	100.0%	100.0%
Cost of revenues	61.6	60.4	58.6
Gross profit	38.4	39.6	41.4
Selling, general and administrative expenses	11.2	10.4	12.0
<b>Income from operations</b>	<b>27.2%</b>	<b>29.2%</b>	<b>29.4%</b>

Below is selected segment financial data for the years ended December 31, 2016, 2015 and 2014. The Company does not allocate assets to operating segments:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	(In thousands)		
Net Revenues:			
Banking and Financial Services	\$472,999	\$474,943	\$455,100
Healthcare and Life Sciences	155,970	157,970	147,424
Insurance	128,270	133,519	137,447
Manufacturing	44,420	41,154	27,622
Retail, Logistics and Telecom	164,891	161,026	143,836
Gross Profit:	\$966,550	\$968,612	\$911,429
Banking and Financial Services	183,530	188,152	193,916
Healthcare and Life Sciences	62,466	68,822	67,289
Insurance	46,192	49,497	50,050
Manufacturing	13,091	13,111	8,136
Retail, Logistics and Telecom	68,113	69,505	63,262
<b>Total Segment Gross Profit</b>	<b>373,392</b>	<b>389,087</b>	<b>382,653</b>
Corporate Direct Cost	(2,567)	(5,086)	(5,086)
<b>Gross Profit</b>	<b>\$370,825</b>	<b>\$384,001</b>	<b>\$377,567</b>
Selling, general and administrative expenses	108,528	100,256	109,217
<b>Income from operations</b>	<b>\$262,297</b>	<b>\$283,745</b>	<b>\$268,350</b>

## COMPARISON OF YEARS ENDED DECEMBER 31, 2016 AND 2015.

**Revenues.** Net revenues decreased to \$966.6 million in 2016 from \$968.6 million in 2015, representing a 0.2% decrease. Syntel's revenues decreased primarily due to our customers facing considerable volatility in their respective industries. As a result of the increased industry volatility, demand has softened. Amid softer macroeconomic trends, industry-specific headwinds and regulatory-related uncertainty in key end markets, decision cycles lengthened related to discretionary spending by customers. This resulted in delayed project starts and extension of deals from second half of 2016, slower ramps up in project in some cases with consequent reduction in revenue. The combination of these factors has resulted in a reduction in revenues. The Company's verticalization sales strategy focusing on Banking and Financial Services; Healthcare and Life Sciences; Insurance; Manufacturing; and Retail, Logistics and Telecom has enabled better focus and relationship with key customers. Further, our focus on execution and ongoing investments in new offerings such as digital modernization and automation have a potential to contribute growth in the business across service lines and geographic regions. The focus is to continue investments in more new offerings and geographical expansion. Worldwide billable headcount, including personnel employed by Syntel's Indian subsidiaries, Syntel Singapore, Syntel Europe, Syntel Deutschland and Syntel Canada as of December 31, 2016, decreased 5% to 17,192 employees as compared to 18,093 employees as of December 31, 2015. As of December 31, 2016 the Company had approximately 76% of its billable workforce in India as compared to 75% as of December 31, 2015. The top five customers accounted for 58% of the Company's total revenue in 2016, down from 59% of total revenues in the 2015. Moreover, the top 10 customers accounted for 73% of the Company's total revenues in 2016, down from 74% of total revenues in the 2015. The Company's top 4-30 customers accounted for 42% and 44% of the Company's total revenues in the year 2016 and 2015, respectively.

**Cost of Revenues.** The Company's cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. The cost of revenues increased to 61.6% of total revenue in 2016, from 60.4% in 2015. The 1.2% increase in cost of revenues, as a percent of revenues in 2016 as compared to 2015, was attributable primarily to increase in compensation, salary increase for offshore and onsite employees, increased contract cost offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decrease in immigration expenses. Salary increases are discretionary and determined by management. During the year ended December 31, 2016, the Indian rupee depreciated against the U.S. dollar, on average, 4.77% as compared to the year ended December 31, 2015. This rupee depreciation positively impacted the Company's gross margin by 71 basis points, operating income by 117 basis points and negatively impacted net loss by 126 basis points, each as a percentage of revenue.

**Banking and Financial Services Revenues.** Banking and Financial Services revenues decreased to \$473.0 million for the year ended December 31, 2016 or 48.9% of total revenues, from \$474.9 million, or 49.0% of total revenues for the year ended December 31, 2015. The \$1.9 million decrease was attributable primarily to \$139.5 million net reduction in revenues as a result of project completion and a \$25.4 million net reduction in revenue from existing projects, largely offset by \$163.0 million in revenues from new engagements.

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**Banking and Financial Services Cost of Revenues.** Banking and Financial Services cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Banking and Financial Services cost of revenues increased to 61.2% of total Banking and Financial Services revenues in 2016, from 60.4% in 2015. The 0.8% increase in cost of revenues, as a percent of total Banking and Financial Services revenues was attributable primarily to increase in compensation, salary increase for offshore and onsite employees, increase in contract cost offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decrease in immigration expenses.

**Healthcare and Life Sciences Revenues.** Healthcare and Life Sciences revenues decreased to \$ 156.0 million for the year ended December 31, 2015, or 16.1% of total revenues from \$158.0 million for the year ended December 31, 2015, or 16.3% of total revenues. The \$2.0 million decrease was attributable primarily to \$28.0 million net reduction in revenue from existing projects and a \$26.4 million net reduction in revenues as a result of project completion, largely offset by \$52.4 million in revenues from new engagements.

**Healthcare and Life Sciences Cost of Revenues.** Healthcare and Life Sciences cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Healthcare and Life Sciences cost of revenues increased to 59.9% of total Healthcare and Life Sciences revenues in 2016, from 56.4% in 2015. The 3.5% increase in cost of revenues, as a percent of total Healthcare and Life Sciences revenues was attributable primarily to an increase in compensation, salary increases for offshore and onsite employees, and increased contract costs, offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decrease in immigration expenses.

**Insurance Revenues.** Insurance revenues decreased to \$128.3 million for the year ended December 31, 2016 or 13.3% of total revenues, from \$133.5 million, or 13.8% of total revenues for the year ended December 31, 2015. The \$5.2 million decrease was attributable primarily to \$34.6 million net reduction in revenues as a result of project completion and a \$24.4 million net reduction in revenue from existing projects, largely offset by a \$53.8 million increase in revenues from new engagements.

**Insurance Cost of Revenues.** Insurance cost of revenues consists of costs directly associated with billable consultants, including salaries, payroll taxes, benefits, finder's fees, trainee compensation and travel. Insurance cost of revenues increased to 64.0% of total insurance revenues in 2016, from 62.9% in 2015. The 1.1% increase in cost of revenues, as a percent of total Insurance revenues was attributable primarily to an increase in compensation, salary increases for offshore and onsite employees, and increased contract costs offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decrease in immigration expenses.



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**Manufacturing Revenues.** Manufacturing revenues increased to \$44.4 million for the year ended December 31, 2016, or 4.6% of total revenues from \$41.2 million for the year ended December 31, 2015, or 4.2% of total revenues. The \$3.2 million increase was attributable primarily to revenues from new engagements contributing \$10.0 million and a \$0.9 million increase in revenue from existing projects, largely offset by \$7.7 million in lost revenues as a result of project completion.

**Manufacturing Cost of Revenues.** Manufacturing cost of revenues consists of costs directly associated with billable consultants in the U.S., including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Manufacturing cost of revenues increased to 70.5% of total Manufacturing revenues in 2016, from 68.1% in 2015. The 2.4% increase in cost of revenues as a percent of total Manufacturing revenues, was attributable primarily to an increase in compensation, salary increases for offshore and onsite employees, and increased contract costs offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decreased immigration expenses.

**Retail, Logistics and Telecom Revenues.** Retail, Logistics and Telecom revenues increased to \$164.9 million for the year ended December 31, 2016 or 17.1% of total revenues, from \$161.0 million, or 16.6% of total revenues for the year ended December 31, 2015. The \$3.9 million increase was attributable primarily to revenues from new engagements contributing \$115.7 million, largely offset by a \$92.7 million decrease in revenue from existing projects and a \$19.1 million in lost revenues as a result of project completion.

**Retail, Logistics and Telecom Cost of Revenues.** Retail, Logistics and Telecom, cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Retail, Logistics and Telecom cost of revenues increased to 58.7% of total Retail, Logistics and Telecom revenues in 2016, from 56.8% in 2015. The 1.9% increase in cost of revenues as a percent of total Retail, Logistics and Telecom revenues, was attributable primarily to an increase in compensation, salary increases for offshore and onsite employees, and increased contract costs offset by rupee depreciation, decrease in travel expenses, decrease in other direct expenses, decrease in recruiting expenses, decrease in training expenses and decrease in immigration expenses.

**Corporate Direct Costs—Cost of Revenues.** Certain expenses, for cost centers such as Centers of Excellence, Architecture Solutions Group (ASG), Research and Development, Cloud Computing, and Application Management, are not specifically allocated to specific segments because management believes it is not practical to allocate such expenses to individual segments as they are not directly attributable to any specific segment. Accordingly, these expenses are separately disclosed as Corporate Direct Costs and adjusted only against the Total Gross Profit.

Corporate Direct Costs cost of revenues decreased to 0.3% of total revenue in 2016, from 0.5% in 2015. The 0.2% decrease in cost of revenues as a percent of total revenue, was attributable primarily to rupee depreciation, decrease in other direct expenses and decrease in recruiting expenses offset by increase in compensation.

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

Selling, general and administrative expenses for the year ended December 31, 2016 were \$108.53 million or 11.2% of total revenues, compared to \$100.26 million or 10.4% of total revenues for the year ended December 31, 2015.

Selling, general and administrative expenses for the year ended December 31, 2016 were impacted by a decrease in revenue of \$2.06 million that resulted increase of 0.02% in selling, general and administrative expenses as a percentage of total revenue.

The overall increase of \$8.27 million in selling, general and administrative expenses was primarily attributable to an increase in corporate expenses of \$10.78 million primarily on account of a decrease in foreign exchange gain of \$9.84 million; gain of \$8.25 million for the year ended December 31, 2016 as against gain of \$18.09 million for the year ended December 31, 2015, increase in benefits of \$0.44 million and increase in marketing expenses of \$0.8 million offset by decrease in office expenses \$1.08 million, decrease in depreciation expenses of \$0.89 million, decrease in office rent expenses of \$0.64 million, decrease in voice data expenses of \$0.77 million, decrease in compensation of \$0.29 million, and decrease in other expenses of \$0.08 million.

**Other Income, Net.** Other income includes interest and dividend income, gains and losses on forward contracts, gains and losses from the sale of securities, other investments, treasury operations, and interest expenses on loans and borrowings.

Other income, net for the year ended December 31, 2016 was \$11.09 million or 1.1% of total revenues, compared to \$43.46 million or 4.5% of total revenues for the year ended December 31, 2015.

The decrease in other income of \$32.37 million was attributable to a decrease in interest income of \$17.05 million, a decrease in gain from sale of mutual fund of \$13.0 million, and an increase in interest expense of \$2.49 million partially offset by increase in other miscellaneous income of \$0.17 million.

## COMPARISON OF YEARS ENDED DECEMBER 31, 2015 AND 2014.

**Revenues.** Net revenues increased to \$968.6 million in 2015 from \$911.4 million in 2014, representing a 6% increase. Syntel's revenues increased primarily due to an increased billable workforce. Information technology offshoring is a trend with increasing numbers of global corporations aggressively outsourcing their crucial applications development or business processes to vendors with an offshore presence. Syntel has benefited from this trend. The Company's verticalization sales strategy focusing on Banking and Financial Services; Healthcare and Life Sciences; Insurance; Manufacturing; and Retail, Logistics and Telecom has enabled better focus and relationship with key customers leading to continued growth in business. The focus is to continue investments in more new offerings. Worldwide billable headcount, including personnel employed by Syntel's Indian subsidiaries, Syntel Singapore, Syntel Europe, Syntel Deutschland and Syntel Canada as of December 31, 2015, increased 4% to 18,093 employees as compared to 17,322 employees as of December 31, 2014. As of December 31, 2015 the Company had approximately 75% of its billable workforce in India as compared to 78% as of December 31, 2014. The top five customers accounted for 59% of the Company's total revenue in 2015, down from 61% of total revenues in the 2014. Moreover, the top 10 customers accounted for 74% of the Company's total revenues in both the year 2015 and the year 2014. The Company's top 4-30 customers accounted for 44% and 46% of the Company's total revenues in the years 2015 and 2014, respectively.

**Cost of Revenues.** The Company's cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. The cost of revenues increased to 60.4% of total revenue in 2015, from 58.6% in 2014. The 1.8% increase in cost of revenues, as a percent of revenues in 2015 as compared to 2014, was attributable primarily to increases in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract cost, increased benefits costs and increased immigration expenses, offset by rupee depreciation. Salary increases are discretionary and determined by management. During the year ended December 31, 2015, the Indian rupee depreciated against the U.S. dollar, on average, 5.32% as compared to the year ended December 31, 2014. This rupee depreciation positively impacted the Company's gross margin by 83 basis points, operating income by 134 basis points and net income by 127 basis points, each as a percentage of revenue.

**Banking and Financial Services Revenues.** Banking and Financial Services revenues increased to \$474.9 million for the year ended December 31, 2015 or 49.0% of total revenues, from \$455.1 million, or 49.9% of total revenues for the year ended December 31, 2014. The \$19.8 million increase was attributable primarily to revenues from new engagements contributing \$155.9 million and a net increase in revenue from existing projects by \$11.8 million, largely offset by \$147.9 million in lost revenues as a result of project completion.

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**Banking and Financial Services Cost of Revenues.** Banking and Financial Services cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Banking and Financial Services cost of revenues increased to 60.4% of total Banking and Financial Services revenues in 2015, from 57.4% in 2014. The 3.0% increase in cost of revenues, as a percent of total Banking and Financial Services revenues was attributable primarily to an increase in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract costs, increased benefits costs and increased immigration expenses, which was offset by the depreciation of the rupee. Salary increases are discretionary and determined by management.

**Healthcare and Life Sciences Revenues.** Healthcare and Life Sciences revenues increased to \$158.0 million for the year ended December 31, 2015, or 16.3% of total revenues from \$147.4 million for the year ended December 31, 2014, or 16.2% of total revenues. The \$10.6 million increase was attributable primarily to revenues from new engagements contributing \$42.7 million, largely offset by \$16.5 million in lost revenues as a result of project completion and a \$15.6 million net reduction in revenues from existing projects.

**Healthcare and Life Sciences Cost of Revenues.** Healthcare and Life Sciences cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Healthcare and Life Sciences cost of revenues increased to 56.4% of total Healthcare and Life Sciences revenues in 2015, from 54.4% in 2014. The 2.00% increase in cost of revenues, as a percent of total Healthcare and Life Sciences revenues was attributable primarily to an increase in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract costs, increased benefits costs and increased immigration expenses, offset by the rupee depreciation. Salary increases are discretionary and determined by management.

**Insurance Revenues.** Insurance revenues decreased to \$133.5 million for the year ended December 31, 2015 or 13.8% of total revenues, from \$137.4 million, or 15.1% of total revenues for the year ended December 31, 2014. The \$3.9 million decrease was attributable primarily to \$48.9 net reduction in revenues as a result of project completion and a 17.8 million net reduction in revenue from existing projects, largely offset by \$62.8 million in revenues from new engagements.

**Insurance Cost of Revenues.** Insurance cost of revenues consists of costs directly associated with billable consultants, including salaries, payroll taxes, benefits, finder's fees, trainee compensation and travel. Insurance cost of revenues decreased to 62.9% of total insurance revenues in 2015, from 63.6% in 2014. The 0.7% decrease in cost of revenues, as a percent of total Insurance revenues was attributable primarily to rupee depreciation, offset by increases in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract cost, increased benefits costs and increased immigration expenses. Salary increases are discretionary and determined by management.

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**Manufacturing Revenues.** Manufacturing revenues increased to \$41.2 million for the year ended December 31, 2015, or 4.2% of total revenues from \$27.6 million for the year ended December 31, 2014, or 3.0% of total revenues. The \$13.6 million increase was attributable primarily to revenues from new engagements contributing \$9.5 million and a 5.7 million increase in revenue from existing projects, largely offset by \$1.6 million in lost revenues as a result of project completion.

**Manufacturing Cost of Revenues.** Manufacturing cost of revenues consists of costs directly associated with billable consultants in the U.S., including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Manufacturing cost of revenues decreased to 68.1% of total Manufacturing revenues in 2015, from 70.5% in 2014. The 2.4% decrease in cost of revenues as a percent of total Manufacturing revenues, was attributable primarily to rupee depreciation, offset by increases in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract cost, increased benefits costs and increased immigration expenses. Salary increases are discretionary and determined by management.

**Retail, Logistics and Telecom Revenues.** Retail, Logistics and Telecom revenues increased to \$161.0 million for the year ended December 31, 2015 or 16.6% of total revenues, from \$143.8 million, or 15.8% of total revenues for the year ended December 31, 2014. The \$17.2 million increase was attributable primarily to revenues from new engagements contributing \$30.6 million and a \$10.9 million increase in revenue from existing projects, which is partially offset by \$24.3 million in lost revenues as a result of project completion.

**Retail, Logistics and Telecom Cost of Revenues.** Retail, Logistics and Telecom, cost of revenues consists of costs directly associated with billable consultants in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder's fees, trainee compensation and travel. Retail, Logistics and Telecom cost of revenues increased to 56.8% of total Retail, Logistics and Telecom revenues in 2015, from 56.0% in 2014. The 0.8% increase in cost of revenues as a percent of total Retail, Logistics and Telecom revenues, was attributable primarily to an increase in compensation due to increased headcount, salary increases for offshore and onsite employees, increased contract costs, increased benefits costs and increased immigration expenses, offset by the rupee depreciation. Salary increases are discretionary and determined by management.

**Corporate Direct Costs—Cost of Revenues.** Certain expenses, for cost centers such as Centers of Excellence, Architecture Solutions Group (ASG), Research and Development (R&D), Cloud Computing, and Application Management, are not specifically allocated to specific segments because management believes it is not practical to allocate such expenses to individual segments as they are not directly attributable to any specific segment. Accordingly, these expenses are separately disclosed as Corporate Direct Costs and adjusted only against the Total Gross Profit.

Corporate Direct Costs cost of revenues decreased to 0.5% of total revenue in 2015, from 0.6% in 2014. The 0.1% decrease in cost of revenues as a percent of total revenue, was attributable primarily to rupee depreciation offset by increases in compensation due to increase headcount. Salary increases are discretionary and determined by management.

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

Selling, general and administrative expenses for the year ended December 31, 2015 were \$100.2 million or 10.4% of total revenues, compared to \$109.2 million or 12.0% of total revenues for the year ended December 31, 2014.

Selling, general and administrative expenses for the year ended December 31, 2015 were impacted by an increase in revenue of \$57.2 million that resulted in a 0.6% decrease in selling, general and administrative expenses as a percentage of total revenue.

The overall decrease in selling, general and administrative expenses was primarily attributable to decrease in corporate expenses of \$8.4 million primarily on account of an increase in foreign exchange gain of \$10.4 million ; gain of \$18.1 million for the year ended December 31, 2015 as against gain of \$7.7 million for the year ended December 31, 2014 and decrease in legal and professional fees \$1.0 million offset by an out-of-period accounting adjustment during the second quarter of 2014 that lowered selling, general, and administrative expenses by \$3.0 million (which related to the prior period cumulative impact, arising out of the modification of the accounting treatment adopted by the Company during the second quarter of 2014, around certain foreign currency related balance sheet translations, exchange gains or losses on certain forward contracts and the related tax impacts), a decrease in immigration expenses of \$0.8 million, a decrease in voice data expenses \$0.4 million and a decrease in other expenses \$0.4 million offset by an increase in compensation due to increases in headcount of \$1.0 million.

**Other Income (loss), Net.** Other income includes interest and dividend income, gains and losses on forward contracts, gains and losses from the sale of securities, other investments, treasury operations, and interest expenses on loans and borrowings.

Other income, net for the year ended December 31, 2015 was \$43.5 million or 4.8% of total revenues, compared to \$50.5 million or 5.5% of total revenues for the year ended December 31, 2014.

The decrease in other income of \$7.0 million was attributable to decrease in interest income of \$7.6 million, decrease in forward contract gain of \$3.8 million, which was partially offset by an increase in gains from the sale of mutual funds of \$4.2 million and an increase in miscellaneous income of \$0.1 million and a decrease in interest expense of \$.1 million.

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### **QUARTERLY RESULTS OF OPERATIONS**

Note 17, “Selected Quarterly Financial Data (Unaudited),” to the Consolidated Financial Statements sets forth certain unaudited quarterly income statement data for each of the eight quarters beginning January 1, 2015 and ended December 31, 2016. In the opinion of management, this information has been presented on the same basis as the Company’s Consolidated Financial Statements appearing elsewhere in this document and all consolidated necessary adjustments (consisting only of normal recurring adjustments) have been included in order to present fairly the unaudited quarterly results. The results of operations for any quarter are not necessarily indicative of the results for any future period.

The Company’s quarterly revenues and results of operations have not fluctuated significantly from quarter to quarter in the past but could fluctuate in the future. Factors that could cause such fluctuations include: the timing, number and scope of customer engagements commenced and completed during the quarter; fluctuation in the revenue mix by segments; progress on fixed-price engagements; acquisitions; timing and cost associated with expansion of the Company’s facilities; changes in IT professional wage rates; the accuracy of estimates of resources and time frames required to complete pending assignments; the number of working days in a quarter; employee hiring and training, attrition and utilization rates; the mix of services performed on-site, off-site and offshore; termination of engagements; start-up expenses for new engagements; longer sales cycles for IT services outsourcing engagements; significant fluctuations in exchange rate; customers’ budget cycles and investment time for training.

### **LIQUIDITY AND CAPITAL RESOURCES**

During 2014, the Company’s Board of Directors authorized a two-for-one stock split of its outstanding common shares. On November 3, 2014, an additional common share was issued for each existing common share held by shareholders of record on October 20, 2014. Accordingly, all share and per share amounts for all periods presented in this discussion, have been adjusted retroactively, where applicable, to reflect this stock split.

During the third quarter of 2016, the Board of Directors declared a special cash dividend of fifteen dollars (\$15.00) per share on outstanding common stock which was payable on October 3, 2016, to shareholders of record at the close of business on September 22, 2016. Accordingly, \$1.261 billion in dividends was paid on October 3, 2016.

The special cash dividend was funded through a one-time repatriation of approximately \$1.03 billion (net of dividend distribution tax \$210 million paid outside of the U.S) of cash held by the Company’s foreign subsidiaries and a portion of borrowings under the new Senior Credit Facility.

On November 14, 2016, the Board of Directors authorized a stock repurchase plan under which the Company may repurchase shares of common stock with a total value not to exceed approximately \$10 million.

The Company repurchased 510,923 shares of common stock with a total value of \$10 million at an average price of \$19.57 per share during fourth quarter of 2016.

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The Company generally has financed its working capital needs through operations. The Mumbai, Chennai, Pune (India) and other expansion programs are financed from internally generated funds. The Company's cash and cash equivalents consist primarily of certificates of deposit and cash deposited in banks. These amounts are held by various banking institutions including U.S.-based and India-based banks. As at December 31, 2016, the total cash and cash equivalent and short-term investment balance was \$99.9 million. Out of the above, an amount of \$61.1 million was held by Indian subsidiaries which were comprised of an amount of \$37.1 million held in U.S. dollars with the balance of the amount held in Indian rupees. The Company believes that the amount of cash and cash equivalent outside the U.S. will not have a material impact on liquidity.

Net cash (used) provided by operating activities was \$(11.65) million, \$223.5 million and \$233.4 million for the years ended December 31, 2016, 2015 and 2014, respectively. The number of days sales outstanding in accounts receivable was approximately 54 days, 59 days and 53 days as of December 31, 2016, 2015 and 2014, respectively.

Net cash provided by investing activities was \$495.3 million for the year ended December 31, 2016, consisting principally of \$299.2 million from sales of mutual funds, \$621.8 million from maturities of term deposits with banks; offset by \$17.1 million of capital expenditures primarily for the construction/acquisition of the Global Development Center at Pune, the Knowledge Process Outsourcing facility at Mumbai and additional facilities in Tirunelveli, Chennai, Glasgow, Poland and Scotland, the acquisition of computers, software and communications equipment, purchase of mutual funds of \$184.7 million and the purchase of term deposits with banks of \$223.9 million.

Net cash provided by investing activities was \$106.0 million for the year ended December 31, 2015. During 2015, the Company invested \$667.9 million to purchase short-term investments and \$17.0 million for capital expenditures, which consists principally of computer hardware, software, communications equipment, infrastructure and facilities. This was offset by the proceeds from the sale or maturity of short-term investments of \$790.7 million and the proceeds from the sale of assets of \$0.2 million.

Net cash used in investing activities was \$201.3 million for the year ended December 31, 2014. During 2014, the Company invested \$933.1 million to purchase short-term investments and \$19.2 million for capital expenditures, which consists principally of computer hardware, software, communications equipment, infrastructure and facilities. This was partially offset by the proceeds from the sale or maturity of short-term investments of \$751.0 million and the proceeds from the sale of assets of \$0.07 million.

Net cash used in financing activities in 2016 was \$902.2 million consisting principally of dividends paid of \$1,261.5 million, repayment of loan of \$210 million, loan origination fees of \$1.0 million and repurchase of stock of \$10 million, which is partially offset by proceeds from loans and borrowings of \$580.3 million.

Net cash used in financing activities in 2015 was \$8.4 million and was principally applied to the repayment of loans and borrowings of \$8.6 million, which is partially offset by excess tax benefits on stock-based compensation plans of \$0.2 million.



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Net cash used in financing activities in 2014 was \$6.1 million and was principally applied to the repayment of loans and borrowings of \$7.1 million, which is partially offset by excess tax benefits on stock-based compensation plans of \$1.0 million.

On May 23, 2013, Syntel entered into a Credit Agreement with Bank of America, N.A. for \$150 million in credit facilities consisting of a three-year term loan facility of \$60 million and a three-year revolving credit facility of \$90 million (the “Credit Agreement”). The maturity date of both the three-year term loan facility and the three-year revolving credit facility was May 23, 2016. The Credit Agreement was amended on May 9, 2016 (the “First Amendment Effective Date”) thereby extending the maturity date from May 23, 2016 to May 9, 2019. Further, by way of the amended Credit Agreement, an additional \$40 million for term loan facility and \$10 million for revolving credit facility was granted by Bank of America to Syntel (the “First Amendment” and together with the Credit Agreement, the “Amended Credit Agreement”). Thus, the total amount of the credit facility was \$200 million, consisting of a three-year term loan facility of \$100 million and a three-year revolving credit facility of \$100 million. The Amended Credit Agreement was guaranteed by two of the Company’s domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the “Guarantors”). In connection with the First Amendment, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

The interest rates under the Amended Credit Agreement were, with respect to both the revolving credit facility and the term loan, (a) for the period beginning on the First Amendment Effective Date through and including the date prior to the first anniversary of the First Amendment Effective Date, (i) the Eurodollar Rate (as that term is defined in the Amended Credit Agreement) plus 1.50% with respect to Eurodollar Rate Loans (as that term is defined in the Amended Credit Agreement) and (ii) the Base Rate (as that term is defined in the Amended Credit Agreement) plus 0.50% with respect to Base Rate Loans (as that term is defined in the amendment to the Credit Agreement), (b) for the period beginning on the first anniversary of the First Amendment Effective Date through and including the date prior to the second anniversary of the First Amendment Effective Date, (i) the Eurodollar Rate plus 1.45% with respect to Eurodollar Rate Loans and (ii) the Base Rate plus 0.45% with respect to Base Rate Loans, and (c) for the period beginning on the second anniversary of the First Amendment Effective Date and continuing thereafter, (i) the Eurodollar Rate plus 1.40% with respect to Eurodollar Rate Loans and (ii) the Base Rate plus 0.40% with respect to Base Rate Loans.

During the year ended December 31, 2016, the Company fully repaid the revolving credit and term loan of \$190.0 million, and terminated the Amended Credit Agreement.

On September 12, 2016, the Company entered into a new credit agreement, as amended as of October 26, 2016, (“Senior Credit Facility”) with Bank of America, N.A. as administrative agent, L/C issuer and swing line lender, the other lenders party thereto, and Merrill, Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner for \$500 million in credit facilities consisting of a five-year term loan facility

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of \$300 million (the “Term Loan”) and a five-year revolving credit facility of \$200 million (the “Revolving Facility”). The maturity date of the Senior Credit Facility is September 11, 2021. The Revolving Facility allows for the issuance of letters of credit and swingline loans. The Senior Credit Facility is guaranteed by two of the Company’s domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the “Guarantors”). In connection with the Senior Credit Facility, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

The interest rates applicable to the Senior Credit Facility other than in respect of swing line loans will be LIBOR plus 1.50% or, at the option of the Company, the Base Rate (to be defined as the highest of (x) the Federal Funds Rate (as that term is defined in the Senior Credit Facility) plus 0.50%, (y) the Bank of America prime rate, or (z) LIBOR plus 1.00%) plus 0.50%. Each swingline loan shall bear interest at the Base Rate plus 0.50%. In no event shall LIBOR be less than 0% per annum.

As of December 31, 2016, the interest rates were 2.11% for the Term Loan of \$300 million, 2.11% and 2.20% for two portion of the Revolving Facility equaling \$160 million and \$40 million respectively.

The Company has also hedged interest rate risk on the entire Term Loan of \$300 million by entering into a Pay Fixed and Receive Floating Interest rate swap on November 30, 2016. The Company has designated this interest rate swap (“IRS”) in a hedging relationship with the term loan. The IRS is recorded at fair value and a gain of \$ 0.5 million during the fourth quarter is recorded in “Accumulated other comprehensive income” with the corresponding debit in other current assets and other long-term assets.

With the interest rates charged on the Senior Credit Facility being variable, the fair value of the Senior Credit Facility approximates the reported value as of December 31, 2016, as it reflects the current market value.

The Term Loan provides for the principal payments as under:

Period		Amt in Mn per quarter
Beginning from	Until	
December 31, 2016	September 30, 2017	3.750
October 31, 2017	September 30, 2018	5.625
October 31, 2018	June 30, 2021	7.500

During the three months ended December 31, 2016, no principal payment was made towards the term loan. \$3.750 million of principal was due to be paid on December 31, 2016 and the amount was paid on January 3, 2017 as the three day delay originated with the lender. However, the Company was still in compliance with loan covenants related to the payment schedule as of December 31, 2016.

The Senior Credit Facility requires compliance with certain financial ratios and covenants. As of December 31, 2016, the Company was in compliance with all financial covenants.

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As of December 31, 2016 the outstanding balances of the Term Loan and Revolving Facility, including accrued interest, are \$299.9 million and \$199.9 million (net of \$0.9 million unamortized debt issuance cost), respectively.

Future scheduled payments on the Senior Credit Facility, at December 31, 2016 are as follows:

	Term Loan (In thousands) Principal Payments	Revolving Facility Principal Payments
<b>2017</b>	\$ 20,625	
<b>2018</b>	\$ 24,375	
<b>2019</b>	\$ 30,000	
<b>2020</b>	\$ 30,000	
<b>2021</b>	\$195,000	\$200,000

## CONTRACTUAL OBLIGATIONS

The following table sets forth the Company's known contractual obligations which includes operating leases and purchase obligations as of December 31, 2016:

<u>Contractual Obligation</u>	<u>Payments due by period</u>				<u>(In thousands)</u>
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Long term debt obligation	\$500,000	\$20,625	\$84,375	\$395,000	—
Operating leases	\$ 10,844	\$ 3,268	\$ 4,771	\$ 2,750	\$ 55
Purchase obligations	\$ 32,813	\$32,813	—	—	—
<b>Total</b>	<b>\$543,657</b>	<b>\$56,706</b>	<b>\$89,146</b>	<b>\$397,750</b>	<b>\$ 55</b>

Purchase obligations included above are primarily related to the expansion or construction of facilities. Certain agreements for lease and purchase obligations are cancelable with a specified notice period or penalty; however, all contracts are reflected in the table above as if they will be performed for the full term of the agreement.

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### **INCOME TAX MATTERS**

Syntel's software development centers/units in India are located in Mumbai, Chennai Pune and Gurugram. Software development centers/units enjoy favorable tax provisions due to their registration in Special Economic Zone (SEZ), as Export Oriented Unit (EOU) and as units located in Software Technologies Parks of India (STPI). Units registered with STPI, EOUs and certain units located in SEZ were exempt from payment of corporate income taxes for ten years of operations on the profits generated by these units or March 31, 2011, whichever was earlier. Certain units located in SEZ are eligible for 100% exemption from payment of corporate taxes for the first five years of operation and 50% exemption for the next two years and a further 50% exemption for another three years, subject to fulfillment of certain criteria laid down. New units in SEZ operational after April 1, 2005 are eligible for 100% exemption from payment of corporate taxes for the first five years of operation, 50% exemption for the next five years and a further 50% exemption for another five years, subject to fulfillment of criteria.

The Company's units located at SEEPZ Mumbai and the STPI/EOU units ceased to enjoy the tax exemption on March 31, 2011. Three SEZ units have completed their first five years of 100% exemption as of March 31, 2016. One SEZ unit located at Chennai has completed its first five years of 100% exemption as of March 31, 2015. The Company has started operations in KPO SEZs unit in Airoli, Navi Mumbai in the quarters ended June 30, 2015 and June 30, 2016, respectively.

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

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

The benefit of the tax holiday under Indian Income Tax was \$38.97 million, \$45.6 million and \$43.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

During the three months ended September 30, 2016, and after a comprehensive review of anticipated sources and uses of capital both domestically and abroad, as well as other considerations, the Board of Directors determined that it was in the best interests of the Company and its shareholders to declare a special cash dividend of fifteen dollars (\$15.00) per share. In conducting this evaluation, the Board of Directors considered, among other factors, the operational and financial objectives of the Company, long-term and short-term capital needs, the Company's projections on growth and working capital needs, planned uses of U.S. and foreign earnings, the available sources of liquidity in the U.S., and growth plans outside of the U.S. As part of this evaluation, the Company determined that certain amounts which had been previously designated for internal and external expansion and investment at its foreign subsidiaries were no longer required for these purposes. The special cash dividend was funded through a one-time repatriation of approximately \$1.03 billion (net of foreign income tax \$210 million paid outside of the U.S.) of cash held

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by the Company's foreign subsidiaries and a portion of borrowings under the new Senior Credit Facility. In connection with the one-time repatriation, the Company recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) in the third quarter of 2016.

Other than the amounts affected by the one-time repatriation, the Company's accumulated foreign earnings are deemed to be permanently reinvested outside the United States and the Company has not provided for income taxes on such earnings. Management regularly evaluates foreign earnings to determine whether future foreign earnings that accumulate will be permanently invested outside the U.S. In conducting this evaluation, management considers, among other factors, the operational and financial objectives of the Company, long-term and short-term capital needs, the Company's projections on growth and working capital needs, planned uses of U.S. and foreign earnings, the available sources of liquidity in the U.S., and growth plans outside of the U.S. If in the future, management were to conclude that any portion of foreign earnings will not be permanently reinvested outside the U.S., this would result in an additional provision for income taxes, which could affect the Company's future effective tax rate. If the Company determines to repatriate all undistributed repatriable earnings of foreign subsidiaries as of December 31, 2016, the Company would have accrued taxes of approximately \$24.2 million.

For the year ended December 31, 2016, the Company has provided a tax charge of \$16.75 million related to repatriation and recorded liabilities for unrecognized tax benefits related to repatriation. The Company has also classified a deferred tax liability of \$1.73 million as unrecognized tax benefits related to repatriation.

The Company reversed a provision for tax of \$3.08 million for the quarter ended March 31, 2016 due to the expiration of the time limit with respect to a particular tax provision.

During the years ended December 31, 2016, 2015 and 2014, the effective income tax rate was 121.0%, 22.8% and 21.7%, respectively.

The tax rate for the year ended December 31, 2016 was primarily impacted by a one-time repatriation. The Company recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) and reversal of unrecognized tax benefits of \$3.08 million. Without the above, the effective tax rate for the year ended December 31, 2016 would have been 23.0%.

The tax rate for the year ended December 31, 2015 was impacted by a favorable adjustments of \$1.10 million relating to the true up of tax provisions upon the finalization of the India tax computation and \$1.20 million relating to the finalization of state tax and local tax matters. The company has provided tax charges of \$0.84 million on account of valuation allowances against the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2015 would have been 23.3%.

The tax rate for the year ended December 31, 2014 was impacted by a favorable adjustment of \$1.20 million, relating to the true up of tax provisions, upon the finalization of the tax computation of Syntel India, which was finalized after setoff of unabsorbed inter-company expenses.

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Further, a \$0.86 million charge of tax has arisen on account of a tax dispute raised during the year. The Company has provided tax charges of \$1.63 million and \$0.88 million on account of valuation allowances against deferred tax assets recognized on investments and the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2014 would have been 21.1%.

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

Syntel Inc. and its subsidiaries file income tax returns in various tax jurisdictions. The Company is no longer subject to U.S. federal tax examinations by tax authorities for years before 2013 and for state tax examinations for years before 2012.

Syntel India, the Company's India subsidiary, has disputed tax matters for the financial years 1996-97 to 2013-14 pending at various levels of tax authorities. Financial year 2014-15 and onwards are open for regular tax examination by the Indian tax authorities. However, the tax authorities in India are authorized to reopen the already concluded tax assessments for financial years 2009-10 and onwards.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(in millions)	
	<u>2016</u>	<u>2015</u>
Balance as at January 1	\$ 50.24	\$ 40.47
Additions based on tax positions related to the current year	22.48	11.72
Additions based on tax positions for prior years	0.0	0.18
Reductions for tax positions of prior years	(3.08)	(0.14)
Foreign currency translation effect	(1.13)	(1.99)
Balance as at December 31	\$ 68.51	\$ 50.24
Income taxes paid, see below	(41.41)	(42.18)
Amounts, net of income taxes paid	<u>\$ 27.10</u>	<u>\$ 8.06</u>

The above table shows the unrecognized tax benefits that, if recognized, would affect the effective tax rate.

The Company has paid income taxes of \$41.41 million and \$42.18 million against the liabilities for unrecognized tax benefits of \$68.51 million and \$50.24 million, as at December 31, 2016 and 2015, respectively. The Company has paid the taxes in order to reduce the possible interest and penalties related to these unrecognized tax benefits.

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The Company recognized accrued interest and penalties related to unrecognized tax benefits as part of tax expense. During the years ended December 31, 2016 and December 31, 2015, the Company recognized a tax charge and tax reversal towards interest of approximately \$0.15 million and \$0.07 million, respectively.

The Company had accrued approximately \$1.45 million and \$1.33 million for interest and penalties as of December 31, 2016 and December 31, 2015, respectively.

The Company's amount of net unrecognized tax benefits for the tax disputes of \$1.54 million could change in the next twelve months as litigation and global tax audits progress. At this time, due to the uncertain nature of this process, it is not reasonably possible to estimate an overall range of possible change.

Syntel has not provided for India Income Tax which are disputed and pending at various level (including potential tax dispute) of \$13.70 million for the financial year 1996-97 to December 31, 2016, which is after providing \$51.50 million as unrecognized tax benefits under ASC740. Indian tax exposures involve complex issues and may need an extended period to resolve the issues with the Indian income tax authorities. Syntel's management, after consultation with legal counsel, believes that the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

### **Branch Profit Tax**

Syntel India is subject to a 15% U.S. Branch Profit Tax (BPT) related to its effectively connected income in the United States, to the extent its U.S. taxable adjusted net income during the taxable year is not invested in the United States. The Company expected that U.S. profits earned on or after January 1, 2008 would be permanently invested in the U.S. Accordingly, effective January 1, 2008 to June 30, 2016, a provision for BPT was not required. The accumulated deferred tax liability of \$1.73 million as of December 31, 2007 continues to be carried forward.

As a result of the dividends declared during the third quarter of 2016, as of September 30, 2016, the Company expects that U.S. profits earned will not be permanently invested in the U.S. Accordingly, the Company has recorded a provision for additional BPT of \$8.05 million for the year ended December 31, 2016.

### **SERVICE TAX AUDIT**

Syntel India regularly files quarterly Service Tax refund applications and claims refunds of Service Tax on input services, which remain unutilized against a no service tax on export of services. As of December 31, 2016, Syntel Indian entities has not provided against Service tax refunds claims of \$3.24 million disputed by Service tax Department which are pending at various level.

The Company obtained a tax consultant's advice on the aforesaid disputes. The consultant is of the view that the tax disputes are contrary to the wording of the service tax notifications and provisions. The Company therefore believes that its claims of service tax refunds should be upheld at the appellate stage and the refunds should be accordingly granted.

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Based on the consultant's tax advice, the Company believes that it has a reasonable basis to defend the rejection of the refunds. Accordingly, no provision has been made in the Company's books.

### **Local Taxes**

As of December 31, 2016, the Company had a local tax liability provision of approximately \$0.4 million, equal to \$0.3 million net of federal tax benefit, relating to local taxes including employer withholding taxes, employer payroll expense taxes, business licenses, and corporate income taxes. As of December 31, 2015, the Company had a local tax liability provision of approximately \$1.1 million, equal to \$0.7 million net of tax, relating to local taxes including employer withholding taxes, employer payroll expense taxes, business license registrations, and corporate income taxes. The decrease in December 31, 2016 as compared December 31, 2015 is mainly on account of result of filing, payment, or settlement of such local taxes.

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

Minimum Alternate Tax ("MAT") is payable on Book Income, including the income for which deduction is claimed under Section 10A and Section 10AA of the Indian Income Tax Act. The excess MAT over the normal tax liability is "MAT Credit". MAT Credit can be carried forward for 10 years and set-off against future tax liabilities, if normal tax provisions are in excess of taxes payable under MAT. The Company estimated that the Company may not be able to utilize part of the MAT credit for two Indian subsidiaries. Accordingly, a valuation allowance of \$5.19 million was recorded against the accumulated MAT credit recognized as deferred tax assets. The MAT credit as of December 31, 2016 of \$30.78 million (net of valuation allowance of \$5.19 million) shall be utilized before March 31 of the following financial years and shall expire as follows:

<u>Year of Expiry of MAT Credit</u>	<u>(In millions)</u>
2017-18	\$ 0.19
2018-19	0.26
2019-20	0.95
2020-21	1.59
2021-22	0.78
2022-23	5.86
2023-24	6.94
2024-25	7.62
2025-26	9.80
2026-27	1.98
<b>Total</b>	<b>\$ 35.97</b>
<b>Less: Valuation allowance</b>	<b>5.19</b>
<b>Total (net of valuation allowance)</b>	<b>\$ 30.78</b>



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### India Budget Proposal 2017

The Finance Bill 2017 was presented on February 1, 2017. These proposals include provisions that the MAT credit can be carried forward up to 15 years, as compared to the existing provision for the MAT credit to be carried forward up to 10 years. The Indian corporate tax rate would be reduced to 25%, as compared to the existing 30% for companies with annual turnover below INR 500 million (\$7.3 million). The proposal includes no other changes to corporate income tax rates outside of the changes included above.

If enacted, these proposals, would have a one time tax benefit to Syntel of \$2.7 million. These tax benefits would be accounted in the quarter in which the aforesaid proposal is enacted.

### RECENT ACCOUNTING PRONOUNCEMENTS

Recently issued accounting standards set forth under Note 2, “Summary of Significant Accounting Policies,” to the Consolidated Financial Statements in the separate financial section of this Annual Report on Form 10-K is incorporated herein by reference.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### *Interest Rate Risk*

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

	December 31, 2016	(In thousands) December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 78,332	\$ 500,499
Short-term investments	21,614	540,045
Total	<u>\$ 99,946</u>	<u>\$ 1,040,544</u>

As at December 31, 2016, the total cash and cash equivalent and short-term investment balance was \$99.9 million. Out of the above, an amount of \$61.1 million was held by Indian subsidiaries which were comprised of an amount of \$37.1 million held in U.S. dollars with the balance of the amount held in Indian rupees. The Company believes that the amount of cash and cash equivalent outside the U.S. will not have a material impact on liquidity.

The Company’s exposure to market rate risk for changes in interest rates relates primarily to the Company’s investment portfolio and its Senior Credit Facility. The Company does not use derivative financial instruments in its investment portfolio. The Company’s investments are in high-quality

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Indian Mutual Funds and, by policy, limit the amount of credit exposure to any one issuer. At any time, changes in interest rates could have a material impact on interest earnings for the Company's investment portfolio. The Company strives to protect and preserve the Company's invested funds by limiting default, market and reinvestment risk. Investments in interest earning instruments carry a degree of interest rate risk. Floating rate securities may produce less income than expected if there is a decline in interest rates. Due in part to these factors, the Company's future investment income may fall short of expectations, or the Company may suffer a loss in principal if the Company is forced to sell securities, which have declined in market value due to changes in interest rates as stated above.

The currency composition of the investment portfolio also impacts the investment income generated by the Company. Investment income generated from Indian rupee denominated investment portfolio is higher than that generated by U.S dollar denominated investment portfolio. As at December 31, 2016 and December 31, 2015, Company held 24% and 32% of total funds in Indian rupees.

The Company is also exposed to interest rate risk under the Senior credit Facility. In connection with the Senior Credit Facility, the Company has entered into an Interest Rate Swap arrangement (the "IRS") on November 30, 2016 to hedge interest rate risk on the Term Loan. The IRS Swap is designed to reduce the variability of future interest payments with respect to Term Loan by effectively fixing the annual interest rate payable on the Term Loan's outstanding principal.

The "IRS" is recorded at fair value and gain arising of \$0.5 million during the period is recoded in "Accumulated other comprehensive income" with the corresponding debit in other current assets and other long-term assets.

The Company does not use derivative instruments for speculative purpose.

A hypothetical decrease in benchmark interest rates of up to 1.0% would have resulted in a decrease of approximately \$10.6 million in the fair value of the IRS as of December 31, 2016. Whereas a hypothetical increase in benchmark interest rates of up to 1.0% would have resulted in an increase in the fair value of the IRS of approximately \$10.5 million as of December 31, 2016.

### **Foreign Currency Risk**

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

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During the year ended December 31, 2016, the Indian rupee depreciated against the U.S. dollar, by average, 4.8% as compared to the average rate for the year ended December 31, 2015. This rupee depreciation positively impacted the Company's gross margin by 71 basis points, operating income by 117 basis points and net income by 126 basis points, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 26.3% and 80.0% of the expenses, respectively.

During the year ended December 31, 2015, the Indian rupee depreciated against the U.S. dollar, by average, 5.3% as compared to the average rate for the year ended December 31, 2014. This rupee depreciation positively impacted the Company's gross margin by 83 basis points, operating income by 134 basis points and net income by 127 basis points, each as a percentage of revenue. The Indian rupee denominated cost of revenues and selling, general and administrative expense was 29.3% and 82.9% of the expenses, respectively.

As at December 31, 2015, the Indian rupee depreciated 5.3% against the U.S. dollar, as compared to the rate as at December 31, 2014. The foreign exchange rate fluctuation has resulted in foreign currency translation adjustment of \$45.7 million during the year ended December 31, 2015 which has been reported as Other Comprehensive Loss which adversely impacted the shareholders equity.

Although the Company cannot predict future movement in interest rates or fluctuations in foreign currency rates, the Company currently anticipates that interest rate risk or foreign currency risk may have a significant impact on the financial statements. In order to limit the exposure to fluctuations in foreign currency rate, when the Company enters into foreign exchange forward contracts, where the counterparty is a bank, these contracts may also have a material impact on the financial statements.

During the year ended December 31, 2016, the Company did not enter into foreign exchange forward contracts where the counterparty is a bank.

No forward contracts were outstanding as on December 31, 2016.

The Company managed exposure to interest risk by investing in high-quality Indian Mutual Funds, by adhering to policies that limit the amount of credit exposure to any one issuer, by avoiding use of any derivative financial instruments, by entering into foreign exchange forward contracts and option contracts with only financially sound banks that have passed Syntel internal review to hedge no more than 100% of the Company's India-based entity revenue, and by generally, limiting foreign exchange forward contracts and option contracts to maturities of one to six months. The Company also specifically discloses any net gain or loss on contracts, which are not designated as hedges, under the heading of "Other Income, net" in the Statement of Income.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements filed herewith are set forth on the Index to Financial Statements on page F-1 of the separate financial section which follows page 79 of this Report and are incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

***Disclosure Controls and Procedures***

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

***Management's Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). We maintain internal control over financial reporting designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, internal control over financial reporting determined to be effective provides only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our management, including our Interim CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Crowe Horwath LLP, an independent registered public accounting firm, has audited the Company's consolidated financial statements and its subsidiaries as of December 31, 2016 and for the year then ended included in this Annual Report on Form 10-K and, as part of its audit, has issued its report, included herein, on the effectiveness of our internal control over financial reporting.

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

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

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**ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information set forth in the sections entitled “Proposal 1. Election of Directors,” “Additional Information – Section 16 (a) Beneficial Ownership Reporting Compliance” and “Additional Information – Transactions with Related Persons” in the Registrant’s Proxy Statement for the Annual Shareholders’ Meeting to be held on or about June 7, 2017 (the “Proxy Statement”) is incorporated herein by reference. The information set forth in the section entitled “Executive Officers of the Registrant” in Item 1 of this report is incorporated herein by reference.

The Company has adopted a Code of Ethical Conduct applicable to all of the Company’s employees, executive officers and directors. The Code of Ethical Conduct, as currently in effect (together with any amendments that may be adopted from time to time), is posted in the “Investors – Corporate Governance” section of the Company’s website at [www.syntelinc.com](http://www.syntelinc.com). Amendments to, and any waiver from, any provision of the Code of Ethical Conduct that requires disclosure under applicable SEC rules will be posted on the website at the address specified above.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information set forth under the sections entitled “Executive Compensation,” and “Proposal 1. Election of Directors – Compensation of Directors” in the Registrant’s Proxy Statement is incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in the section entitled “Additional Information” in the Registrant’s Proxy Statement is incorporated herein by reference.

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### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth, with respect to the Company's equity compensation plans, (i) the number of shares of common stock to be issued upon the exercise of outstanding options, (ii) the weighted-average exercise price of outstanding options and (iii) the number of shares remaining available for future issuance, as of December 31, 2016.

<u>Plan Category</u>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (\$)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (1))**</b>
Equity compensation plans approved by shareholders	-	-	15,585,281
Equity compensation plans not approved by shareholders	-	-	-
<b>TOTAL</b>	-	-	<b>15,585,281</b>

\*\* Includes 15,585,281 shares available for future issuance under Syntel's 2016 Incentive Plan.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company's Corporate Governance Guidelines and the Company's Code of Ethical Conduct, which are published on the Company's website, prohibit related person transactions without prior approval by the Board of Directors. Related person transactions are those between the Company and its directors, executive officers, director nominees, large security holders or any immediate family member of any of the foregoing. Immediate family member means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and any person (other than a tenant or employee) sharing the household of a director, executive officer, director nominee, or large security holder. As provided in the Corporate Governance Guidelines, the Audit Committee will review all related person transactions and as provided in the Code of Ethical Conduct, the Board of Directors must approve any waiver of the prohibition against related person transactions. All related person transactions exceeding \$120,000 must be disclosed. There were no related person transactions in 2016.

The information set forth under the subsection entitled "Board Independence" in the Registrant's Proxy Statement is incorporated herein by reference.



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**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Crowe Horwath LLP served as the Company's independent auditors for the consolidated financial statements prepared for the years ended December 31, 2016, 2015 and 2014, and all the quarters of 2016, 2015 and 2014. The following table lists the aggregate fees for professional services rendered by Crowe Horwath LLP for all "Audit Fees," "Audit-Related Fees," "Tax Fees," and "All Other Fees" which pertain to the last two years.

	<b>Fiscal Year Ended</b>	
	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Audit Fees	\$ 608,818	\$ 494,453
Audit—Related Fees	14,014	14,002
Tax Fees	7,465	—
All Other Fees	142,533	—

Audit Fees represent fees for professional services rendered for the audit of the consolidated financial statements of the Company and assistance with review of documents filed with the SEC and the audit of management's assessment of the effectiveness of internal control over financial reporting. Audit-Related Fees represent professional fees in connection with the statutory audit services relative to the 401K plan for Syntel Inc. Tax Fees represent fees for the services related to tax compliance, tax advice and tax planning. All Other Fees represent consultation on various accounting related matters.

**Audit Committee Authorization of Audit and Non-Audit Services**

The Audit Committee has the sole authority to authorize all audit and non-audit services to be provided by the independent audit firm engaged to conduct the annual statutory audit of the Company's consolidated financial statements. In addition, the Audit Committee has adopted pre-approval policies and procedures that are detailed as to each particular service to be provided by the independent auditors, and such policies and procedures do not permit the Audit Committee to delegate its responsibilities under the Securities Exchange Act of 1934, as amended, to management. The Audit Committee pre-approved fees for all audit and non-audit services provided by the independent audit firm during the fiscal year ended December 31, 2016 and 2015 as required by the Sarbanes-Oxley Act of 2002.

The Audit Committee has considered whether the provision of the non-audit services is compatible with maintaining the independent auditor's independence, and has advised the Company that, in its opinion, the activities performed by Crowe Horwath LLP on the Company's behalf are compatible with maintaining the independence of such auditors.

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### **PART IV**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) The financial statements and supplementary financial information filed herewith are set forth on the Index to Financial Statements on page F-1 of the separate financial section which follows page 79 of this Report, which is incorporated herein by reference.

(a)(2) The consolidated financial statement schedules of the Company and its subsidiaries have been omitted because they are not required, are not applicable, or are adequately explained in the financial statements included in Part II, Item 8 of this report.

(a)(3) The following exhibits are filed as part of this Report. Those exhibits with an asterisk (\*) designate the Registrant's management contracts or compensation plans or arrangements for its executive officers.

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended Articles of Incorporation of the Registrant filed as an Exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, and incorporated herein by reference.
3.2	Bylaws of the Registrant filed as an Exhibit to the Registrant's Current Report on Form 8-K dated April 28, 2014, and incorporated herein by reference.
4.1	Registration Rights Agreement, dated December 8, 2006, filed as an Exhibit to the Registrant's Registration Statement on Form S-3/A dated January 3, 2007 and incorporated herein by reference.
10.1*	Amended and Restated Stock Option and Incentive Plan, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 1, 2006 and incorporated herein by reference.
10.2*	2016 Incentive Plan, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.3*	Form of Restricted Stock Unit Grant Agreement for Employees, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.4*	Form of Restricted Stock Unit Grant Agreement for Non-Employee Directors, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.5*	Form of Special Program Restricted Stock Unit Grant

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- 10.6\* Form of Annual Performance Award, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
- 10.7\* Employment Agreement, dated October 18, 2001, between the Company and Bharat Desai, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
- 10.8\* Employment Agreement, dated October 18, 2001, between the Company and Daniel M. Moore, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
- 10.9\* Employment Agreement, dated March 5, 2009, between the Company and Anil Jain, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.10\* Employment Agreement, dated May 20, 2005, between the Company and Rakesh Khanna, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.11\* Employment Agreement, dated September 5, 2003, between the Company and Murlidhar Reddy, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.12\* Employment Agreement, dated October 13, 2008, between the Company and V. S. Raj, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.13\* Employment Agreement, dated August 3, 2009, between the Company and Raja Ray, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.
- 10.14\* Employment Agreement, dated March 15, 2010, between the Company and Prashant Ranade, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.
- 10.15\* Employment Agreement, dated February 1, 2011, between the Company and Avinash Salelkar, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference.

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- 10.16\* Employment Agreement, dated May 23, 2011, between the Company and Sanjay Garg, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, and incorporated herein by reference.
- 10.17\* Employment Agreement, dated July 18, 2014, between the Company and Rajiv Tandon, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.
- 10.18\* Employment Agreement, dated February 11, 2016, between the Company and Anil Agrawal filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.
- 10.19\* Employment Agreement, dated February 11, 2008, between the Company and Rahul Aggarwal.
- 10.20\* Employment Agreement, dated June 9, 2009, between the Company and Ben Andradi.
- 10.21\* Employment Agreement, dated June 21, 2005, between the Company and Sujay Puthran.
- 10.22\* Employment Agreement, dated July 26, 2007, between the Company and Narendar Reddy.
- 10.23 Shareholders Agreement effective February 1, 2012 by and between State Street International Holdings, Syntel Delaware, LLC, Syntel, Inc., and State Street Syntel Services (Mauritius) Limited, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.
- 10.24 Credit Agreement, dated September 12, 2016, between the Company and Bank of America, N.A., as administrative agent, L/C issuer and swing line lender, the other lenders party thereto, and Merrill, Lynch, Pierce Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 12, 2016, and incorporated herein by reference.
- 10.25 Security and Pledge Agreement, dated September 12, 2016, between the Company and Bank of America, N.A., in its capacity as administrative agent, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 12, 2016, and incorporated herein by reference.
- 10.26 First Amendment to Credit Agreement, dated October 26, 2016, between the Company and Bank of America, N.A., as administrative agent, L/C issuer and swing line lender and the other lenders party thereto, filed as an Exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, and incorporated herein by reference.

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14	Code of Ethical Conduct filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated herein by reference .
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
<b>101.INS</b>	<b>XBRL Instance Document</b>
<b>101.SCH</b>	<b>XBRL Taxonomy Extension Schema</b>
<b>101.CAL</b>	<b>XBRL Taxonomy Extension Calculation Linkbase</b>
<b>101.DEF</b>	<b>XBRL Taxonomy Extension Definition Linkbase</b>
<b>101.LAB</b>	<b>XBRL Taxonomy Extension Label Linkbase</b>
<b>101.PRE</b>	<b>XBRL Taxonomy Extension Presentation Linkbase</b>

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNTEL, INC.

By: /S/ Rakesh Khanna

Rakesh Khanna

Interim Chief Executive Officer and  
President (principal executive officer)

Dated: March 1, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ Bharat Desai</u> Bharat Desai	Co-Chairman and Director (principal executive officer)	March 1, 2017
<u>/S/ Rakesh Khanna</u> Rakesh Khanna	Interim Chief Executive Officer and President (principal executive officer)	March 1, 2017
<u>/S/ Anil Agrawal</u> Anil Agrawal	Chief Financial Officer and Chief Information Security Officer (principal financial officer and principal accounting officer)	March 1, 2017
<u>/S/ Prashant Ranade</u> Prashant Ranade	Co-Chairman and Director	March 1, 2017

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<u>/S/ Neerja Sethi</u> Neerja Sethi	Director	March 1, 2017
<u>/S/ Paritosh K. Choksi</u> Paritosh K. Choksi	Director	March 1, 2017
<u>/S/ Thomas Doeke</u> Thomas Doeke	Director	March 1, 2017
<u>/S/ Rajesh Mashruwala</u> Rajesh Mashruwala	Director	March 1, 2017
<u>/S/ Vinod Sahney</u> Vinod Sahney	Director	March 1, 2017
<u>/S/ Rex E. Schlaybaugh, Jr.</u> Rex E. Schlaybaugh, Jr.	Director	March 1, 2017

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<b>Consolidated Financial Statements</b>	
<a href="#"><u>Consolidated Balance Sheets</u></a>	F-4
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<a href="#"><u>Consolidated Statements of Shareholders' Equity(Deficit)</u></a>	F-6
<a href="#"><u>Consolidated Statements of Cash Flows</u></a>	F-8
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-9 to F-51



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Syntel, Inc.  
Troy, Michigan

We have audited the accompanying consolidated balance sheets of Syntel, Inc. and Subsidiaries (the “Company”) as of December 31, 2016 and 2015 and the related consolidated statements of comprehensive (loss) income, shareholders’ equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited the Company’s internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included within this Form 10-K Item 9A as Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Syntel, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Syntel, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP

Oak Brook, Illinois  
March 1, 2017

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**Syntel, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**(In thousands, except share data)**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 78,332	\$ 500,499
Short-term investments	21,614	540,045
Accounts receivable, net of allowance for doubtful accounts of \$801 and \$622 at December 31, 2016 and 2015, respectively	118,299	136,926
Revenue earned in excess of billings	25,039	30,448
Other current assets	36,306	36,423
Total current assets	279,590	1,244,341
Property and equipment	227,056	217,922
Less accumulated depreciation and amortization	120,580	112,146
Property and equipment, net	106,476	105,776
Goodwill	906	906
Non-current term deposits with banks	225	77
Deferred income taxes and other non-current assets	67,346	72,170
<b>TOTAL ASSETS</b>	<b>\$ 454,543</b>	<b>\$ 1,423,270</b>
<b>LIABILITIES AND SHAREHOLDERS' (DEFICIT)/EQUITY</b>		
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 10,760	\$ 14,678
Accrued payroll and related costs	56,650	60,339
Income taxes payable	15,195	11,305
Accrued liabilities	20,799	23,150
Deferred revenue	7,973	7,716
Loans and borrowings	21,264	129,981
Total current liabilities	132,641	247,169
Deferred income taxes and other non-current liabilities	26,373	17,656
Non-current loans and borrowings	478,616	—
<b>TOTAL LIABILITIES</b>	637,630	264,825
Commitments and contingencies ( See Note 13 )		
<b>SHAREHOLDERS' (DEFICIT)/EQUITY</b>		
Common Stock, no par value per share, 200,000,000 shares authorized; 83,634,955 and 83,947,151 shares issued and outstanding at December 31, 2016 and 2015, respectively	1	1
Restricted stock, 669,554 and 465,290 shares issued and outstanding at December 31, 2016 and 2015, respectively	45,033	38,389
Treasury stock at cost 510,923 shares of common stock at December 31, 2016	(9,990)	—
Additional paid-in capital	67,422	67,422
Accumulated other comprehensive loss	(254,905)	(235,609)
Retained earnings(accumulated deficit)	(30,648)	1,288,242
Total shareholders' (deficit) equity	(183,087)	1,158,445
<b>Total liabilities and shareholders' (deficit) equity</b>	<b>\$ 454,543</b>	<b>\$ 1,423,270</b>

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

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### Syntel, Inc. and Subsidiaries Consolidated Statements of Comprehensive (Loss)/Income (In thousands, except per share data)

	Years Ended December 31,		
	2016	2015	2014
Net revenues	\$966,550	\$968,612	\$911,429
Cost of revenues	595,725	584,611	533,862
<b>Gross profit</b>	370,825	384,001	377,567
Selling, general and administrative expenses	108,528	100,256	109,217
<b>Income from operations</b>	262,297	283,745	268,350
Other income, net (See note 21)	11,088	43,456	50,523
Income before provision for income taxes	273,385	327,201	318,873
Income tax expense	330,775	74,675	69,133
<b>Net (loss) income</b>	<u>\$ (57,390)</u>	<u>\$252,526</u>	<u>\$249,740</u>
Other comprehensive loss			
Foreign currency translation adjustments	\$ (19,018)	\$ (45,428)	\$ (32,381)
<b>Gains (losses) on derivatives:</b>			
Gains arising during period on net investment hedges	—	—	724
Gain arising during period on cash flow hedges	533	—	—
<b>Unrealized gains on securities:</b>			
Unrealized holding gains arising during period	242	116	5,777
Reclassification adjustment for gains included in net (loss) income	(248)	(6,580)	(4,555)
	(6)	(6,464)	1,222
<b>Defined benefit pension plans:</b>			
Net profit (loss) arising during period	(802)	802	(1,147)
Amortization of prior service cost included in net periodic pension cost	(35)	149	29
	(837)	951	(1,118)
Other comprehensive loss, before tax	(19,328)	(50,941)	(31,553)
Income tax benefits (expenses) related to other comprehensive loss	32	1,576	(388)
<b>Other comprehensive loss, net of tax</b>	(19,296)	(49,365)	(31,941)
<b>Comprehensive (loss) income</b>	<u>\$ (76,686)</u>	<u>\$203,161</u>	<u>\$217,799</u>
Dividend per share	\$ 15.00	\$ 0.00	\$ 0.00
<b>(LOSS) EARNINGS PER SHARE:</b>			
Basic	\$ (0.68)	\$ 3.01	\$ 2.98
Diluted	\$ (0.68)	\$ 3.00	\$ 2.97
<b>Weighted average common shares outstanding:</b>			
Basic	84,146	83,982	83,785
Diluted	84,146	84,149	83,971

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

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**Syntel, Inc. and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity(Deficit)**  
(In thousands, except per share data)

	Common Stock Shares	Amount	Treasury Stock Amount	Restricted Stock		Additional Paid-In Capital	Retained Earnings	Accumulated other Comprehensive (loss)	Total Shareholders' Equity
				Shares	Amount				
<b>Balance, January 1, 2014</b>	<b>83,514</b>	<b>\$ 1</b>	<b>—</b>	<b>501</b>	<b>\$23,450</b>	<b>\$ 67,422</b>	<b>\$ 785,976</b>	<b>\$ (154,303)</b>	<b>\$ 722,546</b>
Net income							249,740		249,740
Other comprehensive loss, net of tax								(31,941)	(31,941)
Excess tax benefits on stock-based compensation plans					1,028				1,028
Restricted stock activity	228			63	6,457				6,457
Dividends \$0.00 per share									
<b>Balance, December 31, 2014</b>	<b>83,742</b>	<b>1</b>	<b>—</b>	<b>564</b>	<b>\$30,935</b>	<b>\$ 67,422</b>	<b>\$1,035,716</b>	<b>\$ (186,244)</b>	<b>\$ 947,830</b>
Net income							252,526		252,526
Other comprehensive loss, net of tax								(49,365)	(49,365)
Excess tax benefits on stock-based compensation plans					257				257

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	<u>Common Stock Shares</u>	<u>Amount</u>	<u>Treasury Stock Amount</u>	<u>Restricted Stock Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated other Comprehensive (loss)</u>	<u>Total Shareholders' Equity</u>
Restricted stock activity	205			(99)	7,197				7,197
Dividends\$0.00 per share							—		—
<b>Balance, December 31, 2015</b>	<b><u>83,947</u></b>	<b><u>1</u></b>	<b><u>—</u></b>	<b><u>465</u></b>	<b><u>\$38,389</u></b>	<b><u>\$ 67,422</u></b>	<b><u>\$ 1,288,242</u></b>	<b><u>\$ (235,609)</u></b>	<b><u>\$ 1,158,445</u></b>
Net loss							(57,390)		(57,390)
Other comprehensive loss, net of tax								(19,296)	(19,296)
Excess tax benefits on stock-based compensation plans					(7)				(7)
Restricted stock activity	199			205	6,651				6,651
\$15 Dividend per share							(1,261,500)		(1,261,500)
Repurchases of common stock	(511)		(9,990)						(9,990)
<b>Balance, December 31, 2016</b>	<b><u>83,635</u></b>	<b><u>\$ 1</u></b>	<b><u>(9,990)</u></b>	<b><u>670</u></b>	<b><u>\$45,033</u></b>	<b><u>\$ 67,422</u></b>	<b><u>\$ (30,648)</u></b>	<b><u>\$ (254,905)</u></b>	<b><u>\$ (183,087)</u></b>

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

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**Syntel, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>			
Net (loss)/income	\$ (57,390)	\$ 252,526	\$ 249,740
Adjustments to reconcile net income(loss) to net cash used in/provided by operating activities:			
Depreciation and amortization	14,917	15,567	16,142
Provision for doubtful debts / advances(recoveries)	316	494	(357)
Realized gains on sales of short-term investments	(5,790)	(18,796)	(14,619)
Deferred income taxes	5,510	(4,083)	(5,625)
Compensation expense related to restricted stock	8,148	7,197	6,457
Unrealized foreign exchange loss(gain)	713	(207)	—
Gain on sale of property and equipment	(231)	(25)	(44)
Changes in assets and liabilities:			
Accounts receivable and revenue earned in excess of billings	18,963	(39,470)	(25,677)
Other current assets	4,153	(2,422)	(7,392)
Accounts payable, accrued payroll and other liabilities	(1,162)	8,198	16,289
Deferred revenues	203	4,542	(1,514)
Net cash (used)provided by operating activities	<u>(11,650)</u>	<u>223,521</u>	<u>233,400</u>
<b>Cash flows from investing activities:</b>			
Property and equipment expenditures	(17,513)	(17,013)	(19,218)
Proceeds from sale of property and equipment	345	191	66
Purchases of mutual funds	(184,692)	(221,097)	(349,791)
Purchases of term deposits with banks	(223,904)	(446,768)	(583,341)
Proceeds from sales of mutual funds	299,208	304,083	305,298
Maturities of term deposits with banks	621,824	486,651	445,717
Net cash provided by (used) in investing activities	<u>495,268</u>	<u>106,047</u>	<u>(201,269)</u>
<b>Cash flows from financing activities:</b>			
Excess tax (deficiency)benefits on stock-based compensation plans	(7)	257	1,028
Repayment of loans and borrowings	(210,000)	(8,625)	(7,125)
Proceeds from loans and borrowings	580,250	—	—
Fees paid relating to loans and borrowing	(1,026)	—	—
Repurchases of common stock	(9,990)	—	—
Dividend paid	(1,261,500)	—	—
Net cash used in financing activities	<u>(902,273)</u>	<u>(8,368)</u>	<u>(6,097)</u>
Effect of foreign currency exchange rate changes on cash	<u>(3,512)</u>	<u>(18,409)</u>	<u>(7,083)</u>
Change in cash and cash equivalents	(422,167)	302,791	18,951
Cash and cash equivalents, beginning of year	500,499	197,708	178,757
Cash and cash equivalents, end of year	<u><u>\$ 78,332</u></u>	<u><u>\$ 500,499</u></u>	<u><u>\$ 197,708</u></u>
Non cash investing and financing activities			
Supplemental disclosures of cash flow information			
Cash paid for income taxes	\$ 329,830	\$ 77,794	\$ 73,039
Cash paid for interest	3,328	2,215	2,291
Cash received from interest	9,564	25,956	35,827

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

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### **Syntel, Inc. and Subsidiaries**

#### **Notes to Consolidated Financial Statements**

##### **1. Business**

Syntel, incorporated under Michigan law on April 15, 1980, is a global provider of digital transformation, information technology (IT) and knowledge process outsourcing (KPO) services to Global 2000 companies.

Effective the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to vertical segments as follows:

- Banking and Financial Services
- Healthcare and Life Sciences
- Insurance
- Manufacturing
- Retail, Logistics and Telecom

In each of our business segments, Syntel helps customers adapt to market change by providing a broad array of technology-based, industry-specific solutions. These solutions leverage Syntel's strong understanding of the underlying trends and market forces in our chosen industry segments. These solutions are complemented by strong capabilities in Digital Modernization, Social, Mobile, Analytics and Cloud (SMAC) technologies, Business Intelligence (BI), Knowledge Process Outsourcing (KPO), application services, testing, Enterprise Resource Planning (ERP), IT Infrastructure Management Services (IMS), and business and technology consulting.

##### **Banking and Financial Services**

Our Banking and Financial Services segment serves financial institutions throughout the world. Our clients include companies providing banking, capital markets, cards and payments, investments and transaction processing services to third parties. Our clients engage us to help make their operations as effective, productive and cost-efficient as possible, and to support new capabilities. We assist these clients in such areas as: payment solutions, retail banking, wholesale banking, consumer lending, risk management, investment banking, reconciliation, fraud analysis, mobile banking, and compliance and securities services. The demand for our services in the banking and financial services sector is being driven by changing global regulatory requirements, customer interest in newer technology areas and related services such as digital modernization, and an ongoing focus on cost reduction and operational efficiencies.

##### **Healthcare and Life Sciences**

Our Healthcare and Life Sciences segment serves healthcare payers, providers and pharmaceutical and medical device providers, among others. The healthcare industry is constantly seeking to improve the quality of care while managing the cost of care in order to make healthcare affordable to a larger population. Our healthcare practice focuses on providing a broad range of services and solutions to the industry across the consumer life cycle, which includes regulatory requirements, integrated care, stake holder engagement and wider use of electronic health records, among others. We also partner with clients to modernize their systems and processes to enable them to deal with the increasing consumer orientation of healthcare, such as support for individual mandates and the adoption of mobile and analytics solutions to improve access to health information and decision making by end consumers.



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In the life sciences category, we partner with leading pharmaceutical, biotech, and medical device companies, as well as providers of generics, animal health and consumer health products. Our life sciences solutions help transform many of the business processes in the life sciences value chain (research, clinical development, manufacturing and supply chain, and sales and marketing) as well as regulatory and administrative functions.

### **Insurance**

We serve the needs of global property and casualty insurers, insurance brokers, personal, commercial, life and retirement insurance service providers. These customers turn to us for assistance in improving the efficiency and effectiveness of their operations and in achieving business transformation. We focus on aspects of our clients' operations, such as policy administration, claims processing and compliance reporting. We also serve the growing trend among insurers to improve their sales and marketing processes by deepening direct retail customer relationships and strengthening interactions with networks of independent and captive insurance agents. This is often accomplished through the use of digital front-end technologies like cloud, social media and mobile, and supported by modernization of applications and infrastructure elements. Additionally, many insurers seek to improve business effectiveness by reducing expense ratios and exiting non-core lines of business and operations.

### **Manufacturing**

We provide technology services and business consulting in a range of sub-sectors including industrial products, aerospace and automotive manufacturing, as well as to processors of raw materials and natural resources. Demand for our services in this segment is being driven by trends that, among others, include the increasing globalization of sourcing and the desire of clients to further penetrate emerging markets, leading to longer and more complex supply chains. Some of our solutions for industrial and manufacturing clients include warranty management, dealer system integration, Product Lifecycle Management (PLM), Supply Chain Management (SCM), sales and operations planning, and mobility.

### **Retail, Logistics and Telecom**

In Retail, we serve a wide spectrum of retailers in specialty, apparel and home improvement segments. We also serve the travel and hospitality industry including airlines, hotels as well as online and travel retail, global distribution systems and intermediaries. Our domain intensive solutions transform customer/shopper experiences while keeping down the cost of IT Operations.

In Logistics, our clients look to Syntel to implement business-relevant changes that will make them more productive, competitive and cost effective. To that end, we help organizations improve operational efficiencies, enhance responsiveness and collaborate with trading partners to better serve their markets and end customers.

In Telecom, we help our clients address important changes in the telecom industry, such as the transition to new network technologies, designing, developing, testing and introducing new products and channels, improving customer service and increasing customer satisfaction.

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Syntel's Retail Logistics and Telecom Business unit leverages its comprehensive understanding of the business and technology needs of the industry. Our industry solutions for our clients includes SCM, sales and operations planning, mobility, Point of Sale (POS) testing, omnichannel enablement and integration, web content management solutions, Sales force and cloud foundry enablement, among others.

In addition, there is strong demand for digital modernization services across these industries to enhance efficiency and agility of their underlying technology systems.

## **2. Summary of Significant Accounting Policies**

### **Principles of consolidation**

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

The wholly owned subsidiaries of Syntel, Inc. are:

- Syntel Private Limited, an Indian limited liability company, formerly known as Syntel Limited up to March 17, 2015 ("Syntel India");
- Syntel Europe Limited, a United Kingdom limited liability company;
- Syntel Canada Inc., an Ontario limited liability company;
- Syntel Deutschland GmbH, a German limited liability company;
- Syntel (Hong Kong) Limited, a Hong Kong limited liability company;
- Syntel Delaware, LLC, a Delaware limited liability company ("Syntel Delaware");
- SkillBay LLC, a Michigan limited liability company ("SkillBay");
- Syntel (Mauritius) Limited, a Mauritius limited liability company;
- Syntel Consulting Inc., a Michigan corporation ("Syntel Consulting");
- Syntel Holding (Mauritius) Limited, a Mauritius limited liability company ("SHML");
- Syntel Worldwide (Mauritius) Limited, a Mauritius limited liability company ("SWML");
- Syntel (Australia) Pty. Ltd., an Australian limited liability company; and
- Syntel Solutions Mexico, S. de R.L. de C.V., a Mexican limited liability company.

The wholly owned subsidiaries of Syntel Europe Limited are:

- Intellisourcing, SARL, a French limited liability company;
- Syntel Solutions BV, a Netherlands limited liability company;
- Syntel Switzerland GmbH, a Switzerland limited liability company; and
- Syntel Poland, sp. z o. o., a Polish limited liability company ("Syntel Poland").

The partially owned joint venture of Syntel Delaware is:

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

The wholly owned subsidiary of SSSSML is:

- State Street Syntel Services Private Limited, an Indian limited liability company ("SSSSPL").

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The wholly owned subsidiaries of Syntel (Mauritius) Limited are:

- Syntel International Private Limited, an Indian limited liability company (“SIPL”);
- Syntel Global Private Limited, an Indian limited liability company; and
- Syntel Technologies (Mauritius) Limited, a Mauritius limited liability company (“STML”).

The wholly owned subsidiaries of SHML are:

- Syntel Services Private Limited, an Indian limited liability company;
- Syntel Solutions (Mauritius) Limited, a Mauritius limited liability company (“SSML”); and
- Syntel Software (Mauritius) Limited, a Mauritius limited liability company (“SSOML”).

The wholly owned subsidiary of SSML is:

- Syntel Solutions (India) Private Limited, an Indian limited liability company.

The wholly owned subsidiary of SWML is:

- Syntel (Singapore) PTE Limited, a Singapore limited liability company.

The wholly owned subsidiary of Syntel (Singapore) PTE Limited is:

- Syntel Infotech, Inc., a Philippines corporation.

## **Revenue recognition**

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

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

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

Revenues are reported net of sales incentives to customers.

Reimbursements of out-of-pocket expenses are included in revenue.

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### **Stock-based employee compensation plans**

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

### **Stock repurchase plans**

The Company recognizes its cost of repurchase common stock acquired for purposes other than retirement (formal or constructive), or if ultimate disposition has not yet been decided, separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings.

### **Derivative instruments**

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed by the Company through the use of derivative instruments are foreign currency exchange rate risk and interest rate risk.

### **Hedging transactions and derivative financial instruments**

The Company uses derivative instruments such as Interest Rate swaps("IRS"). A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. We do not enter into derivative financial instruments for trading purposes.

All derivatives are carried at fair value in our consolidated balance sheets in the following line items, as applicable: other current assets; deferred income taxes and other non-current assets; accounts payable and deferred income taxes and other non-current liabilities. The carrying values of the derivatives reflect the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties, as applicable. These master netting agreements allow the Company to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationships. Derivatives such as IRS can be designated as cash flow hedges. The changes in the fair values of derivatives that have been designated and qualify as cash flow hedges are recorded in "Accumulated Other Comprehensive Income" (AOCI) and are reclassified into the line item in our consolidated statement of income in which the hedged items are recorded in the same period the hedged items affect earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. The changes in the fair values of derivatives that were not designated and/or did not qualify as hedging instruments are immediately recognized into earnings.

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For derivatives that will be accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally assesses both at the inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized into earnings.

The Company determines the fair values of its derivatives based on quoted market prices or pricing models using current market rates. Fair values of interest rate swaps are measured using standard valuation models using inputs that are readily available in public markets, or can be derived from observable market transactions, including LIBOR spot and forward rates.

### **Credit risk associated with derivatives**

The Company considers the risks of non-performance by the counterparty as not material. The Company utilizes standard counterparty master agreements containing provisions for the netting of certain foreign currency transaction and interest rate swap obligations. The Company also mitigates the credit risk of these derivatives by transacting with highly rated counterparties globally, which are major banks. The Company evaluates the credit and non-performance risks associated with its derivative counterparties, and believes that the impact of the credit risk associated with the outstanding derivatives was insignificant.

### **Cash flow hedging strategy**

The Company uses cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in interest rates. The changes in the fair values of derivatives designated as cash flow hedges are recorded in AOCI and are reclassified into the line item in our consolidated statement of (loss) income in which the hedged items are recorded in the same period the hedged items affect earnings. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from AOCI into earnings. The maximum length of time for which the Company hedges its exposure to the variability in future cash flows is typically over the terms of hedged items.

### **Interest rate swaps**

In connection with company's Senior Credit facility with Bank of America N.A., the Company has entered into an Interest Rate Swap arrangement (the "IRS") on November 30, 2016 to hedge interest rate risk on entire term loan of \$300 million by entering into Pay Fixed and Receive Floating Interest rate swap. The IRS Swap is designed to reduce the variability of future interest payments with respect to term Loan by effectively fixing the annual interest rate payable on the loan's outstanding principal.

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A designated hedge with exposure to variability in the future interest payments of a floating rate loan is a cash flow hedge. The criteria for designating a derivative as a cash flow hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. For derivatives with cash flow hedge accounting designation, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassifies it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated statements of income as the impact of the hedged transaction.

### **Measurement of effectiveness and ineffectiveness:**

Effectiveness for interest rate swaps is generally measured by comparing the critical terms of the hedged item and the hedging instrument whereas ineffectiveness is measured by comparing the cumulative change in fair value of the swap with the cumulative change in the fair value of the hedged item. Interest rate swap with an aggregate amount of \$300 Million economically convert a portion of company's variable rate debt to fixed rate debt. The effective portions of cash flow hedges are recorded in "Accumulated other comprehensive income (loss)" until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of interest expense are recognized in "Other income (expense), net" in the same period as the related expense is recognized. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in "Other income (expense), net."

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable that the forecasted hedged transaction will not occur in the initially identified time period. Deferred gains and losses in "Accumulated other comprehensive income (loss)" associated with such derivative instruments are reclassified immediately into "Other income (expense), net." Any subsequent changes in fair value of such derivative instruments are reflected in "Other income (expense), net" unless they are re-designated as hedges of other transactions.

The following table provides information of location and fair value of derivative financial instrument included in our consolidated statement of financial positions as of December 31, 2016.

Particulars	Nominal Amount	Fair Value of derivative and location on statement of financial position as on 31st December 2016		Gain/(loss) on fair value	
		(In thousands)		Effective	Ineffective
Cash flow Hedge		Deferred Income Taxes and Other non-current assets	Other current assets		
Pay fixed Interest rate swap	\$300 Million	\$ 503	\$ 30	\$ 533	—

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The following table present the net gains (losses) recorded in accumulated other comprehensive (loss) income relating to the interest rate swap contract designated as cash flow hedges for the period ending December 31, 2016, 2015 and 2014.

### **Gains (losses) on derivatives**

	2016	2015	2014
	(In thousands)		
Gains/ (losses) recognized in other comprehensive income (loss)	\$533	\$—	\$—

The Company will reclassify an amount which will be equivalent to the accrued interest on the swap contract on every reporting period as there is a similar impact of accrued interest on the loan in the income statement.

### **Derivative (Non-Designated) Hedging Strategy**

In addition to derivative instruments that are designated and qualify for hedge accounting, the Company also uses certain derivatives for its foreign currency exposure. These derivatives were not designated and/or did not qualify for hedge accounting. The changes in fair value of derivatives are immediately recognized into earnings.

The Company periodically enters into foreign exchange forward contracts to mitigate the risk of changes in foreign currency exchange rates, specifically changes between the Indian Rupee currency and U.S. dollar currency. The contracts are adjusted to fair value at each reporting period. Gains and losses on forward contracts are generally recorded in “Other income, net” unless they are designated as an effective hedge. Although the Company cannot predict fluctuations in foreign currency rates, the Company currently anticipates that foreign currency risk may have a significant impact on the financial statements. In order to limit the exposure to fluctuations in foreign currency rates, when the Company enters into foreign exchange forward contracts, where the counter-party is a bank, these contracts may also have a material impact on the financial statements.

The Company’s Indian subsidiaries, whose functional currency is the Indian Rupee, periodically enter into foreign exchange forward contracts to buy Indian rupees and sell U.S. dollars to mitigate the risk of changes in foreign exchange rates on U.S. dollar denominated assets, primarily comprised of receivables from the parent (Syntel Inc.), other direct customers and liabilities recorded on the books of the Indian subsidiaries. These forward contracts are denominated in U.S. dollars.

These forward contracts do not qualify for hedge accounting under ASC 815, “Derivative and Hedging”. Accordingly, these contracts are carried at a fair value with the resulting gains or losses included in the statement of comprehensive income under ‘other income, net’. The related cash flow impacts of all of our derivative activities are recorded in cash flows from operating activities.

During the year ended December 31, 2016, the Company did not enter into new foreign exchange forward contracts. At December 31, 2016 and December 31, 2015, no foreign exchange forward contracts were outstanding.

During the year ended December 31, 2014, the Company entered into foreign exchange forward contracts with a notional amount of \$160.0 million with maturity dates of one to six months. During the year ended December 31, 2014, contracts amounting to \$160.0 million expired resulting in a gain of \$4.56 million, which is recorded in comprehensive income. At December 31, 2014, no foreign exchange forward contracts were outstanding.

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The following table presents the net gains (losses) recorded in accumulated other comprehensive income (loss) relating to the foreign exchange contracts designated as net investment hedges for the periods ending December 31, 2016, 2015 and 2014.

### **Gains (losses) on derivatives**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(In thousands)</u>		
Gains/ (losses) recognized in other comprehensive income (loss)	\$—	\$—	\$724*

\* *for and up to three months ended March 31, 2014.*

The following table presents the net gains (losses) recorded in other income relating to the foreign exchange contracts not designated as hedges for the periods ending December 31, 2016, 2015 and 2014.

### **Gains (Losses) recognized in other income, net:**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(In thousands)</u>		
Gains/(Losses) recognized in other income, net	\$—	\$—	\$3,836



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**Change in accumulated other comprehensive loss by component (Net of tax expense or benefit)**

The change in balances of accumulated comprehensive loss for the year ended December 31, 2016 is as follows:

					(In thousands)
	Foreign Currency Translation Adjustments	Unrealized Gains (losses) on Securities	Defined Benefit Pension Plans	Unrealised gain on derivatives designated as cash flow hedge	Accumulated Other Comprehensive Loss
<b>Beginning balance</b>	\$ (235,146)	\$ 332	\$ (795)	\$ —	\$ (235,609)
Other comprehensive income (loss) before reclassifications	(19,064)	161	(525)	322	(19,106)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(165)	(25)	—	(190)
Net current-period other comprehensive (loss)/income	\$ (19,064)	\$ (4)	\$ (550)	\$ 322	\$ (19,296)
<b>Ending balance</b>	<b>\$ (254,210)</b>	<b>\$ 328</b>	<b>\$ (1,345)</b>	<b>\$ 322</b>	<b>\$ (254,905)</b>

Reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2016 is as follows:

					(In thousands)
	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (expense) Benefit	Net of Tax	
<b>Details about Accumulated Other Comprehensive Income (loss) Components</b>					
Unrealized gains on available for sale securities realized in current year	Other income, net	\$ (248)	\$ 83	\$ (165)	
Amortization of prior service cost included in net periodic pension cost	Cost of revenues	\$ (35)	\$ 10	\$ (25)	

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**Change in accumulated other comprehensive income (loss) by component (Net of tax expense or benefit)**

The change in balances of accumulated comprehensive loss for the year ended December 31, 2015 is as follows:

	Foreign Currency Translation Adjustments	Unrealized Gains (losses) on Securities	Defined Benefit Pension Plans	(In thousands) Accumulated Other Comprehensive Loss
<b>Beginning balance</b>	\$ (189,410)	\$ 4,600	\$ (1,434)	\$ (186,244)
Other comprehensive income (loss) before reclassifications	(45,736)	50	524	(45,162)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(4,318)	115	(4,203)
Net current-period other comprehensive income (loss)	<u>\$ (45,736)</u>	<u>\$ (4,268)</u>	<u>\$ 639</u>	<u>\$ (49,365)</u>
<b>Ending balance</b>	<u><b>\$ (235,146)</b></u>	<u><b>\$ 332</b></u>	<u><b>\$ (795)</b></u>	<u><b>\$ (235,609)</b></u>

Reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2015 is as follows:

	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (expense) Benefit	Net of Tax
<b>Details about Accumulated Other Comprehensive Income (loss) Components</b>				
Unrealized gains on available for sale securities realized in current year	Other income, net	\$(6,580)	\$ 2,262	\$(4,318)
Amortization of prior service cost included in net periodic pension cost	Cost of revenues	\$ 149	\$ (34)	\$ 115

The change in balances of accumulated comprehensive loss for the year ended December 31, 2014 is as follows:

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	Foreign Currency Translation Adjustments	Unrealized Gains (losses) on Securities	Defined Benefit Pension Plans	(In thousands) Accumulated Other Comprehensive Loss
<b>Beginning balance</b>	\$ (157,416)	\$ 3,808	\$ (695)	\$ (154,303)
Other comprehensive income (loss) before reclassifications	(28,994)	3,853	(758)	(25,899)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(3,061)	19	(3,042)
Out-of-period adjustment	(3,000)	—	—	(3,000)
Net current-period other comprehensive income (loss)	<u>\$ (31,994)</u>	<u>\$ 792</u>	<u>\$ (739)</u>	<u>\$ (31,941)</u>
<b>Ending balance</b>	<u><b>\$ (189,410)</b></u>	<u><b>\$ 4,600</b></u>	<u><b>\$ (1,434)</b></u>	<u><b>\$ (186,244)</b></u>

Reclassifications out of accumulated other comprehensive income (loss) for the year ended December 31, 2014 is as follows:

	Affected Line Item in the Statement Where Net Income Is Presented	Before Tax Amount	Tax (expense) Benefit	(In thousands) Net of Tax
Details about Accumulated Other Comprehensive Income (loss) Components				
Unrealized gains on available for sale securities realized in the current year	Other income, net	\$(4,555)	\$ 1,494	\$(3,061)
Amortization of prior service cost included in net periodic pension cost	Cost of revenues	\$ 29	\$ (10)	\$ 19

### **Other income, net**

Other income includes interest and dividend income, gains and losses on forward contracts, gains and losses from the sale of securities, other investments, treasury operations and interest expenses on loans and borrowings.

### **Other comprehensive loss**

The other comprehensive loss consists of foreign currency translation adjustments, gains (losses) on net investment hedge derivatives, gain (losses) on cash flow hedge reserve, unrealized gains (losses) on securities and a component of a defined benefit plan. During the years ended December 31, 2016, 2015 and 2014, the other comprehensive loss amounts to \$19.3 million, \$49.4 million and \$31.9 million, respectively, primarily attributable to the foreign currency translation loss adjustments of \$19.0 million, \$45.4 million and \$32.4 million respectively.

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### **Tax on other comprehensive loss**

Total tax (expense) benefit on other comprehensive income (loss) for the years ended December 31, 2016, 2015 and 2014 is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<u>(In thousands)</u>		
Tax expense on Foreign currency translation adjustments	\$ (46)	\$ (308)	\$(337)
Tax expense on unrealized gains on securities	2	2,196	(430)
Tax (expense) benefit on defined benefit pension plans	287	(312)	379
Tax expense on cash flow hedge	(211)	—	—
Total (taxes )benefit on other comprehensive income (loss)	<u>\$ 32</u>	<u>\$1,576</u>	<u>\$(388)</u>

### **Cash and cash equivalents**

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

The cash and Cash equivalents as at December 31, 2016 and December 31, 2015, were \$78.3 million and \$500.5 million, respectively, which were held in bank and fixed deposits with various banking and financial institutions.

### **Fair value of financial instruments**

The fair values of the Company's current assets and current liabilities approximate their carrying values because of their short maturities. Such financial instruments are classified as current and are expected to be liquidated within the next twelve months.

### **Concentration of credit risks**

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash, investments and accounts receivable and certain derivative instruments(IRS) designated as hedge instrument. Cash on deposit is held with financial institutions with high credit standings. The Company has cash deposited with financial institutions that, at times, may exceed the federally insured limits.

The Company establishes an allowance for doubtful accounts for known and inherent collection risks related to its accounts receivable. The estimation of the allowance is primarily based on the Company's assessment of the probable collection from specific customer accounts, the aging of the accounts receivable, analysis of credit data, bad debt write-offs and other known factors.

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The Company considers the risks of non-performance by the counterparty as not material. The Company utilizes standard counterparty master agreements containing provisions for the netting of certain foreign currency transaction obligations. The Company also mitigates the credit risk of these derivatives by transacting with highly rated counterparties globally, which are major banks. The Company evaluates the credit and non-performance risks associated with its derivative counterparties, and believes that the impact of the credit risk associated with the outstanding derivatives was insignificant.

### **Investments**

#### Short-term investments

The Company's short-term investments consist of short-term mutual funds, which have been classified as available-for-sale and are carried at estimated fair value. Fair value is determined based on quoted market prices. Unrealized gains and losses, net of taxes, on available-for-sale securities are reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity. Net realized gains or losses resulting from the sale of these investments, and losses resulting from decline in fair values of these investments that are other than temporary declines, are included in other income. The cost of securities sold is determined using the weighted-average method.

During the year ended December 31, 2015, the Company has realized short-term investments in Fixed Maturity Plans (FMPs) of mutual funds, which are classified as held to maturity securities. As at December 31, 2016 and 2015 there were no investment in FMPs of mutual funds, respectively.

#### Non-current term deposits with banks

Non-current term deposits with banks include deposits with maturity exceeding one year from the date of the balance sheet. As at December 31, 2016 and 2015 non-current term deposits with banks were at \$0.2 million and \$0.08 million, respectively. Term deposits with banks include restricted deposits of \$0.44 million and \$0.60 million as at December 31, 2016 and December 31, 2015 respectively, placed as security towards performance guarantees issued by the Company's bankers on the Company's behalf.

Short-term investments also include term deposits with an original maturity exceeding three months and whose maturity date is within one year from the date of the balance sheet. Term deposits were \$6.6 million and \$413.6 million at December 31, 2016 and 2015, respectively.

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### **Property and equipment**

Property and equipment are stated at cost. Maintenance and repairs are charged to expense when incurred. Depreciation is computed primarily using the straight-line method over the estimated useful lives as follows:

	Years
Office building	30
Residential property	20
Computer equipment and software	3
Furniture, fixtures and other equipment	5-7
Vehicles	3-5
Leasehold improvements	Shorter of economic life or life of lease
Leasehold land	Shorter of economic life or life of lease

Depreciation and amortization expense for the years ended December 31, 2016, 2015 and 2014 was \$14.7 million, \$15.6 million and \$16.1 million, respectively.

### **Long-lived assets (other than goodwill)**

In accordance with guidance on “Accounting for the Impairment or Disposal of Long-Lived Assets” in the FASB Codification, the Company reviews its long-lived assets (other than goodwill) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When factors indicate that such costs should be evaluated for possible impairment, the Company assesses the recoverability of the long-lived assets (other than goodwill) by comparing the estimated undiscounted cash flows associated with the related asset or group of assets against their respective carrying amounts. The amount of an impairment charge, if any, is calculated based on the excess of the carrying amount over the fair value of those assets. Management believes assets were not impaired at December 31, 2016 and 2015.

### **Goodwill**

During the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to vertical segments. The company reassigned goodwill to the new reportable segment Healthcare and Life Sciences. In accordance with guidance on goodwill impairment in the FASB Codification, goodwill is evaluated for impairment at least annually. Management believes goodwill was not impaired at December 31, 2016 or 2015. The Company evaluated goodwill for impairment in the third quarter of each of 2016 and 2015.

### **Use of estimates**

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

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### **Foreign currency translation**

The financial statements of the Company's foreign subsidiaries use the currency of the primary economic environment in which they operate as its functional currency. Revenues and expenses of the foreign subsidiaries are translated to U.S. dollars at average period exchange rates. Assets and liabilities are translated to U.S. dollars at period-end exchange rates with the effects of these cumulative translation adjustments being reported as a separate component of accumulated other comprehensive loss in shareholders' deficit/equity. Transaction gains and losses are reflected within selling, general and administrative expenses in the consolidated statements of comprehensive income. During the years ended December 31, 2016, 2015 and 2014, foreign exchange gain of \$8.3 million, \$18.1 million and \$10.7 million were included in selling, general and administrative expenses, respectively.

### **Earnings per share**

Basic (loss) earnings per share are calculated by dividing net (loss) income by the weighted average number of shares outstanding during the applicable period. If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted earnings per share are adjusted retroactively for all periods presented to reflect that change in capital structure. If such changes occur after the close of the reporting period but before issuance of the financial statements, the per-share computations for that period and any prior-period financial statements presented are based on the new number of shares.

During 2014, the Company's Board of Directors authorized a two-for-one stock split of its outstanding common shares. On November 3, 2014, an additional common share was issued for each existing common share held by shareholders of record on October 20, 2014. Accordingly, all share and per share amounts for all periods presented in these consolidated financial statements and notes thereto, have been adjusted retroactively, where applicable, to reflect this stock split.

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

### **Vacation pay**

The accrual for unutilized leave balance is determined for the entire available leave balance standing to the credit of the employees at period-end. The leave balance eligible for carry-forward is valued at gross compensation rates and eligible for compulsory encashment at basic compensation rates.

The gross charge for unutilized earned leave was \$3.4 million, \$5.3 million and \$5.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The amounts accrued for unutilized earned leave were \$23.1 million and \$22.4 million as of December 31, 2016 and 2015, respectively, and are included within accrued payroll and related costs.

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### **Income taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities, along with any related valuation allowances are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in income in the period that includes the enactment date. The Company has not provided deferred taxes on the undistributed earnings as the earnings from subsidiaries are considered to be permanently reinvested outside the U.S.. The Company intends to continue to reinvest these earnings in international operations. If the Company decided at a later date to repatriate these earnings to the U.S., the Company would be required to provide for the net tax effects on these amounts.

### **Recently adopted accounting standards**

On November 20, 2015, the FASB issued Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes. Current GAAP requires the deferred taxes to be presented as a net current asset or liability and net non-current asset or liability. ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods with early adoption permitted. We have adopted this ASU 2015-17 retrospectively in our consolidated financial statements as of December 31, 2016. Accordingly, we reclassified the current deferred tax assets and liabilities to net non-current deferred tax assets and liabilities within each jurisdiction on our December 31, 2015 Consolidated Balance Sheet, which increased deferred income taxes and other non-current assets by \$8.15 million and increased other non-current liabilities by \$0.06 million and corresponding decrease in other current assets and accrued liabilities.

### **Recently issued accounting standards**

ASU 2014-09, Revenue from Contracts with Customers – Issued May 2014, was scheduled to be effective for Syntel beginning January 1, 2017, however on July 9, 2015, the FASB approved the proposal to defer the effective date of the ASU for public companies to January 1, 2018 with an option to elect to adopt the ASU as of original effective date. The new standard is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using U.S. generally accepted accounting principles (GAAP) and those using International Financial Reporting Standards (IFRS). The core principle of ASU 2014-09 is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On March 17, 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, and ASU 2016-12 Narrow Scope Improvements and Practical Expedients, which amended ASU 2014-09, Revenue from Contract from Customers (Topic 606). These amendments of this ASU provide additional clarification on criterion within Topic 606 as well as additional guidance for transition to the new revenue recognition criteria. These amendments will provide additional guidance on the application of and transition to the new revenue recognition standards.



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The new guidance also addresses the accounting for some costs to obtain or fulfill a customer contract and provides a set of disclosure requirements intended to give financial statement users comprehensive information about the nature, amount, timing, and uncertainty of revenues and cash flows arising from customer contracts. The requirements of this ASU and its impact on the Company are being evaluated. We have established a cross-functional coordinated implementation team to implement the standard update related to the recognition of revenue from contracts with customers. We are in the process of reviewing existing revenue contracts for evaluating the required changes in line with above standard. We are in the process of identifying and implementing changes to our processes to meet the standard's updated reporting and disclosure requirements. We are also evaluating the internal control changes, if any, during the implementation of the standard. A transition method for this ASU is being evaluated.

In January 2016, the FASB issued an update (ASU 2016-01) to the standard on financial instruments. The update significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2018. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. However, the specific guidance on equity securities without readily determinable fair value will apply prospectively to all equity investments that exist as of the date of adoption. Early adoption of certain sections of this update is permitted. The requirements of this ASU and its impact on the Company are currently being evaluated.

In February 2016, the FASB issued as update (ASU 2016-02) to the standard on Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for public business entities issuing financial statements for the annual periods beginning after December 15, 2018, and interim periods within those annual periods. The requirements of this ASU and its impact on the Company are currently being evaluated.

In March 2016, the FASB issued an update (ASU 2016-09) to the standard on Compensation- Stock Compensation as part of improvement and simplification which involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The requirements of this ASU are not expected to have material impact on Consolidated Financial Statements.

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In June 2016, the FASB issued an update on Financial Instruments—Credit Losses (ASU 2016-13) Measurement of Credit Losses on Financial Instruments which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model; and (ii) provides for recording credit losses on available-for-sale (AFS) debt securities through an allowance account. The update also requires certain incremental disclosures. The amendments in this update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The requirements of this ASU and its impact on the Company are currently being evaluated.

In August 2016, the FASB issued an update on Statement of Cash Flows (Topic 230)- Clarification of certain cash receipts and cash payments (ASU 2016-15) which requires the Company to present and classify certain cash receipts and cash payments in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The requirements of this ASU and its impact on the Company are currently being evaluated.

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory “. This update requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized when the intra-entity transfer occurs rather than deferring recognition of income tax consequences until the transfer was made with an outside party. ASU 2016-16 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted as of the beginning of the interim or annual reporting period. A modified retrospective approach should be applied. The Company does not expect that the adoption of this guidance will have a significant impact on the Company’s Consolidated Financial Statements.

In November 2016, the FASB issued an update on Statement of Cash Flows (Topic 230)—Restricted Cash (ASU 2016-18). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The requirements of this ASU and its impact on the Company are currently being evaluated.

In January 2017, the FASB issued an update (ASU 2017-04) to the standard on Intangibles—Goodwill and Other (Topic 350). To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. The amendments in this Update modify the concept of impairment from the

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condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. For public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The requirements of this ASU are not expected to have material impact on Consolidated Financial Statements.

### 3. Short-Term Investments

Short-term investments included the following at December 31, 2016 and 2015:

	2016	2015
	(In thousands)	
Investments in mutual funds at fair value	\$15,016	\$126,479
Term deposits with banks	6,598	413,566
<b>Total</b>	<b>\$21,614</b>	<b>\$540,045</b>

Information related to investments in mutual funds (primarily Indian Mutual Funds) is as follows at and for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
	(In thousands)		
Cost	\$ 14,882	\$126,243	\$180,143
Unrealized gain, net	134	236	6,699
Fair value	<u>\$ 15,016</u>	<u>\$126,479</u>	<u>\$186,842</u>
Gross realized gains	\$ 5,790	\$ 18,796	\$ 14,619
Proceeds on sales of mutual funds	299,208	304,083	305,298
Purchases of mutual funds	184,692	221,097	349,791

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### Held to maturity securities

Investments in held-to-maturity securities of the Company consist of investments in the units of FMPs of mutual funds in Indian subsidiaries.

Description	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
		(In thousands)	
Aggregate fair value of the investment	\$ —	\$ —	\$ 16,612
Less: Gross unrecognized holding gain	—	—	726
<b>Net carrying amount</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 15,886</b>

Information related to investments in term deposits with banks included the following for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
		(In thousands)	
Cost	\$ 6,598	\$413,566	\$466,625
Maturities of term deposits	\$621,824	\$486,651	\$445,717
Purchases of term deposits	223,904	446,768	583,341

### 4. Revenue Earned in Excess of Billings and Deferred Revenue

Revenue earned in excess of billings at December 31, 2016 and 2015 is summarized as follows:

	2016	2015
	(In thousands)	
Unbilled revenue for time-and-materials projects	\$20,828	\$22,171
Unbilled revenue for fixed-price projects, net of discounts	4,211	8,277
	<b>\$25,039</b>	<b>\$30,448</b>

Deferred revenue at December 31, 2016 and 2015 is summarized as follows:

	2016	2015
	(In thousands)	
Deferred revenue on uncompleted fixed-price development contracts	\$5,216	\$6,859
Other deferred revenue	2,757	857
	<b>\$7,973</b>	<b>\$7,716</b>

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### 5. Allowances for Doubtful Accounts

The movement in the allowance for doubtful accounts for the years ended December 31, 2016, 2015 and 2014 is summarized as follows:

	2016	2015	2014
	(In thousands)		
Balance, beginning of year	\$622	\$703	\$ 2,022
Provision	190	—	—
Write-offs, net of recoveries	(11)	(81)	(1,319)
Balance, end of year	<u>\$801</u>	<u>\$622</u>	<u>\$ 703</u>

### 6. Property and Equipment

Property and equipment at December 31, 2016 and 2015 is summarized as follows:

	2016	2015
	(In thousands)	
Office building	\$ 54,125	\$ 55,293
Computer equipment and software	55,614	54,951
Furniture, fixtures and other equipment	72,264	71,542
Vehicles	2,058	2,237
Leasehold improvements	7,536	8,058
Leasehold land	4,680	4,783
Residential property	1,602	1,637
Capital advances / work in progress	29,177	19,421
	<u>227,056</u>	<u>217,922</u>
Less accumulated depreciation and amortization	<u>120,580</u>	<u>112,146</u>
	<u>\$106,476</u>	<u>\$105,776</u>

### 7. Line of Credit and Term Loan

On May 23, 2013, Syntel entered into a Credit Agreement with Bank of America, N.A. for \$150 million in credit facilities consisting of a three-year term loan facility of \$60 million and a three-year revolving credit facility of \$90 million (the “Credit Agreement”). The maturity date of both the three-year term loan facility and the three-year revolving credit facility was May 23, 2016. The Credit Agreement was amended on May 9, 2016 (the “First Amendment Effective Date”) thereby extending the maturity date from May 23, 2016 to May 9, 2019. Further, by way of the amended Credit Agreement, an additional \$40 million for term loan facility and \$10 million for revolving credit facility was granted by Bank of America to Syntel (the “First Amendment” and together with the Credit Agreement, the “Amended Credit Agreement”). Thus, the total amount of the credit facility was \$200 million, consisting of a three-year term loan facility of \$100 million and a three-year revolving credit facility of \$100 million. The Amended Credit Agreement was guaranteed by two of the Company’s domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the “Guarantors”). In connection with the First Amendment, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

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The interest rates under the Amended Credit Agreement were, with respect to both the revolving credit facility and the term loan, (a) for the period beginning on the First Amendment Effective Date through and including the date prior to the first anniversary of the First Amendment Effective Date, (i) the Eurodollar Rate (as that term is defined in the Amended Credit Agreement) plus 1.50% with respect to Eurodollar Rate Loans (as that term is defined in the Amended Credit Agreement) and (ii) the Base Rate (as that term is defined in the Amended Credit Agreement) plus 0.50% with respect to Base Rate Loans (as that term is defined in the amendment to the Credit Agreement), (b) for the period beginning on the first anniversary of the First Amendment Effective Date through and including the date prior to the second anniversary of the First Amendment Effective Date, (i) the Eurodollar Rate plus 1.45% with respect to Eurodollar Rate Loans and (ii) the Base Rate plus 0.45% with respect to Base Rate Loans, and (c) for the period beginning on the second anniversary of the First Amendment Effective Date and continuing thereafter, (i) the Eurodollar Rate plus 1.40% with respect to Eurodollar Rate Loans and (ii) the Base Rate plus 0.40% with respect to Base Rate Loans.

During the year ended December 31, 2016, the Company fully repaid the revolving credit and term loan of \$190.0 million, and terminated the Amended Credit Agreement.

On September 12, 2016, the Company entered into a new credit agreement, as amended as of October 26, 2016, (“Senior Credit Facility”) with Bank of America, N.A, as administrative agent, L/C issuer and swing line lender, the other lenders party thereto, and Merrill, Lynch, Pierce, Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner for \$500 million in credit facilities consisting of a five-year term loan facility of \$300 million (the “Term Loan”) and a five-year revolving credit facility of \$200 million (the “Revolving Facility”). The maturity date of the Senior Credit Facility is September 11, 2021. The Revolving Facility allows for the issuance of letters of credit and swingline loans. The Senior Credit Facility is guaranteed by two of the Company’s domestic subsidiaries, SkillBay and Syntel Consulting (collectively, the “Guarantors”). In connection with the Senior Credit Facility, the Company and the Guarantors also entered into a related security and pledge agreement granting a security interest in the assets of the Company and the Guarantors, including, without limitation, a pledge of 65% of the equity interests in Syntel India.

The interest rates applicable to the Senior Credit Facility other than in respect of swing line loans will be LIBOR plus 1.50% or, at the option of the Company, the Base Rate (to be defined as the highest of (x) the Federal Funds Rate (as that term is defined in the Senior Credit Facility) plus 0.50%, (y) the Bank of America prime rate, or (z) LIBOR plus 1.00%) plus 0.50%. Each swingline loan shall bear interest at the Base Rate plus 0.50%. In no event shall LIBOR be less than 0% per annum.

As of December 31, 2016, the interest rates were 2.11% for the Term Loan of \$300 million, 2.11% and 2.20% for two portions of the Revolving Facility equaling \$160 million and \$40 million, respectively.

The Company has also hedged interest rate risk on the entire Term Loan of \$300 million by entering into a Pay Fixed and Receive Floating interest rate swap on November 30, 2016. The Company has designated this Interest rate swap (“IRS”) in a hedging relationship with the term loan. The IRS is recorded at fair value and a gain of \$0.5 million during the fourth quarter is recorded in “Accumulated other comprehensive income” with the corresponding debit in Other current assets and other long-term assets.

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With the interest rates charged on the Senior Credit Facility being variable, the fair value of the Senior Credit Facility approximates the reported value as of December 31, 2016, as it reflects the current market value.

The Term Loan provides for the principal payments as under:

Period		Payment amount per quarter
Beginning from	Until	(In millions)
December 31, 2016	September 30, 2017	3.750
October 31, 2017	September 30, 2018	5.625
October 31, 2018	June 30, 2021	7.500

During the three months ended December 31, 2016, no principal payment was made towards the term loan. \$3.750 million of principal was due to be paid on December 31, 2016 and the amount was paid on January 3, 2017 as the three day delay originated with the lender. However, the Company was still in compliance with loan covenants related to the payment schedule as of December 31, 2016.

The Senior Credit Facility requires compliance with certain financial ratios and covenants. As of December 31, 2016, the Company was in compliance with all financial covenants.

As of December 31, 2016 the outstanding balances of the Term Loan and Revolving Facility, including accrued interest, are \$299.9 million and \$199.9 million (net of \$0.9 million unamortized debt issuance cost), respectively.

Future scheduled payments on the Senior Credit Facility, at December 31, 2016 are as follows:

	Term Loan (In thousands) Principal Payments	Revolving Facility Principal Payments
<b>2017</b>	\$ 20,625	
<b>2018</b>	\$ 24,375	
<b>2019</b>	\$ 30,000	
<b>2020</b>	\$ 30,000	
<b>2021</b>	\$195,000	\$200,000

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### 8. Leases

#### Operating Lease

The Company leases certain facilities and equipment under operating leases. Current operating lease obligations are expected to be renewed or replaced upon expiration. Future minimum lease payments under all non-cancelable leases expiring beyond one year as of December 31, 2016 are as follows:

	(In thousands)
2017	\$ 3,268
2018	\$ 2,946
2019	\$ 1,825
2020	\$ 1,520
2021	\$ 1,230
Thereafter	\$ 55
	<b><u>\$10,844</u></b>

Total rent expense amounted to approximately \$10.7 million, \$11.3 million and \$10.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

### 9. Income Taxes

Income before income taxes for the Company's U.S. and foreign operations for the years ended December 31, 2016, 2015 and 2014 was as follows:

	2016	2015	2014
		(In thousands)	
U.S.	\$ 52,742	\$ 42,342	\$ 23,966
Foreign	220,643	284,859	294,907
	<b><u>\$273,385</u></b>	<b><u>\$327,201</u></b>	<b><u>\$318,873</u></b>

Income taxes for the years ended December 31, 2016, 2015 and 2014 consisted of the following:

	2016	2015	2014
		(In thousands)	
Current:			
Federal	\$ 65,636	\$14,521	\$ 8,904
State	3,192	2,639	1,686
City	533	439	281
Foreign	256,117	61,393	65,187
Total current provision	<b><u>325,478</u></b>	<b><u>78,992</u></b>	<b><u>76,058</u></b>
Deferred:			
Federal	(150)	(537)	(1,328)
State	(28)	(99)	(245)
City	(5)	(16)	(41)
Foreign	5,480	(3,665)	(5,311)
Total deferred expense (benefit)	<b><u>5,297</u></b>	<b><u>(4,317)</u></b>	<b><u>(6,925)</u></b>
<b>Total provision for income taxes</b>	<b><u>\$330,775</u></b>	<b><u>\$74,675</u></b>	<b><u>\$69,133</u></b>



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The components of net deferred tax assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
	(In thousands)	
Deferred tax assets		
Carry-forward losses of subsidiaries	\$ 7	\$ 53
Minimum alternate tax credit of subsidiaries	35,979	30,752
Property, plant and equipment	198	394
Accrued expenses and allowances	15,055	13,820
Valuation allowance	(9,167)	(5,454)
Total deferred tax assets	42,072	39,565
Deferred tax liabilities		
Provision for branch tax on dividend equivalent in India	(9,782)	(1,726)
Provision for tax on unrealized gains in India	(33)	(53)
Others	(258)	
Total deferred tax liabilities	(10,073)	(1,779)
<b>Net deferred tax assets</b>	<b>\$ 31,999</b>	<b>\$37,786</b>

The balance sheet classification of the net deferred tax asset is summarized as follows:

	2016	2015
	(In thousands)	
Deferred tax asset, non-current	42,072	39,565
Deferred tax liabilities, non-current	(10,073)	(1,779)
	<b>\$ 31,999</b>	<b>\$37,786</b>

Syntel's software development centers/units in India are located in Mumbai, Chennai, Pune and Gurugram. Software development centers/units enjoy favorable tax provisions due to their registration in Special Economic Zone (SEZ), as Export Oriented Unit (EOU) and as units located in Software Technologies Parks of India (STPI). Units registered with STPI, EOUs and certain units located in SEZ were exempt from payment of corporate income taxes for ten years of operations on the profits generated by these units or March 31, 2011, whichever was earlier. Certain units located in SEZ are eligible for 100% exemption from payment of corporate taxes for the first five years of operation and 50% exemption for the next two years and a further 50% exemption for another three years, subject to fulfillment of certain criteria laid down. New units in SEZ operational after April 1, 2005 are eligible for 100% exemption from payment of corporate taxes for the first five years of operation, 50% exemption for the next five years and a further 50% exemption for another five years, subject to fulfillment of criteria.

The Company's units located at SEEPZ Mumbai and the STPI/EOU units ceased to enjoy the tax exemption on March 31, 2011. Three SEZ units have completed their first five years of 100% exemption as of March 31, 2016. One SEZ unit located at Chennai has completed its first five years of 100% exemption as of March 31, 2015. The Company has started operations in KPO SEZs unit in Airoli, Navi Mumbai in the quarters ended June 30, 2015 and June 30, 2016, respectively.

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

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

The benefit of the tax holiday under Indian Income Tax was \$38.97 million, \$45.6 million and \$43.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

During the three months ended September 30, 2016, and after a comprehensive review of anticipated sources and uses of capital both domestically and abroad, as well as other considerations, the Board of Directors determined that it was in the best interests of the Company and its shareholders to declare a special cash dividend of fifteen dollars (\$15.00) per share. In conducting this evaluation, the Board of Directors considered, among other factors, the operational and financial objectives of the Company, long-term and short-term capital needs, the Company's projections on growth and working capital needs, planned uses of U.S. and foreign earnings, the available sources of liquidity in the U.S., and growth plans outside of the U.S. As part of this evaluation, the Company determined that certain amounts which had been previously designated for internal and external expansion and investment at its foreign subsidiaries were no longer required for these purposes. The special cash dividend was funded through a one-time repatriation of approximately \$1.03 billion (net of foreign income tax \$210 million paid outside of the U.S) of cash held by the Company's foreign subsidiaries and a portion of borrowings under the new Senior Credit Facility. In connection with the one-time repatriation, the Company recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) in the third quarter of 2016.

Other than the amounts affected by the one-time repatriation, the Company's accumulated foreign earnings are deemed to be permanently reinvested outside the United States and the Company has not provided for income taxes on such earnings. Management regularly evaluates foreign earnings to determine whether future foreign earnings that accumulate will be permanently invested outside the U.S. In conducting this evaluation, management considers, among other factors, the operational and financial objectives of the Company, long-term and short-term capital needs, the Company's projections on growth and working capital needs, planned uses of U.S. and foreign earnings, the available sources of liquidity in the U.S., and growth plans outside of the U.S. If in the future, management were to conclude that any portion of foreign earnings will not be permanently reinvested outside the U.S., this would result in an additional provision for income taxes, which could affect the Company's future effective tax rate. If the Company determines to repatriate all undistributed repatriable earnings of foreign subsidiaries as of December 31, 2016, the Company would have accrued taxes of approximately \$24.2 million.

For the year ended December 31, 2016, the Company has provided a tax charge of \$16.75 million related to repatriation and recorded liabilities for unrecognized tax benefits related to repatriation. The Company has also classified a deferred tax liability of \$1.73 million as unrecognized tax benefits related to repatriation.

The Company reversed a provision for tax of \$3.08 million for the quarter ended March 31, 2016 due to the expiration of the time limit with respect to a particular tax provision.

During the years ended December 31, 2016, 2015 and 2014, the effective income tax rate was 121.0%, 22.8% and 21.7%, respectively.

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The tax rate for the year ended December 31, 2016 was primarily impacted by a one-time repatriation. Where the Company recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) and reversal of unrecognized tax benefits of \$3.08 million. Without the above, the effective tax rate for the year ended December 31, 2016 would have been 23.0%.

The tax rate for the year ended December 31, 2015 was impacted by a favorable adjustments of \$1.10 million relating to the true up of tax provisions upon the finalization of the India tax computation and \$1.20 million relating to the finalization of state tax and local tax matters. The company has provided tax charges of \$0.84 million on account of valuation allowances against the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2015 would have been 23.3%.

The tax rate for the year ended December 31, 2014 was impacted by a favorable adjustment of \$1.20 million, relating to the true up of tax provisions, upon the finalization of the tax computation of Syntel India, which was finalized after setoff of unabsorbed inter-company expenses. Further, a \$0.86 million charge of tax has arisen on account of a tax dispute raised during the year. The Company has provided tax charges of \$1.63 million and \$0.88 million on account of valuation allowances against deferred tax assets recognized on investments and the minimum alternative tax. Without the above, the effective tax rate for the year ended December 31, 2014 would have been 21.1%.

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

Syntel Inc. and its subsidiaries file income tax returns in various tax jurisdictions. The Company is no longer subject to U.S. federal tax examinations by tax authorities for years before 2013 and for state tax examinations for years before 2012.

Syntel India, the Company's India subsidiary, has disputed tax matters for the financial years 1996-97 to 2013-14 pending at various levels of tax authorities. Financial year 2014-15 and onwards are open for regular tax examination by the Indian tax authorities. However, the tax authorities in India are authorized to reopen the already concluded tax assessments for financial years 2009-10 and onwards.

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The following table accounts for the differences between the actual effective tax rate and the statutory U.S. Federal income tax rate of 35% for the years ended December 31, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal Benefit	1.0%	0.6%	0.2%
City taxes	0.0%	0.0%	0.1%
Foreign effective tax rates different from U.S. Statutory Rate <sup>1</sup>	(13.0%)	(12.6%)	(14.2%)
Tax reserves	(1.0%)	(0.0%)	(0.1%)
Prior Year state tax payment	—	(0.4%)	0.0%
Valuation Allowance	—	0.2%	0.7%
Tax related to repatriation	99.0	—	—
<b>Effective income tax rate</b>	<u><b>121.0%</b></u>	<u><b>22.8%</b></u>	<u><b>21.7%</b></u>

1 The foreign jurisdiction that materially affects the effective income tax rate is India.

During the years ended December 31, 2016, 2015 and 2014, the effective income tax rates were 121.0%, 22.8% and 21.7%, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(in millions)	
	<u>2016</u>	<u>2015</u>
Balance as at January 1	\$ 50.24	\$ 40.47
Additions based on tax positions related to the current year	22.48	11.72
Additions based on tax positions for prior years	0.0	0.18
Reductions for tax positions of prior years	(3.08)	(0.14)
Foreign currency translation effect	(1.13)	(1.99)
Balance as at December 31	\$ 68.51	\$ 50.24
Income taxes paid, see below	(41.41)	(42.18)
Amounts, net of income taxes paid	<u>\$ 27.10</u>	<u>\$ 8.06</u>

The above table shows the unrecognized tax benefits that, if recognized, would affect the effective tax rate.

The Company has paid income taxes of \$41.41 million and \$42.18 million against the liabilities for unrecognized tax benefits of \$68.51 million and \$50.24 million, as at December 31, 2016 and 2015, respectively. The Company has paid the taxes in order to reduce the possible interest and penalties related to these unrecognized tax benefits.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as part of tax expense. During the years ended December 31, 2016 and December 31, 2015, the Company recognized a tax charge and tax reversal towards interest of approximately \$0.15 million and \$0.07 million, respectively.

The Company had accrued approximately \$1.45 million and \$1.33 million for interest and penalties as of December 31, 2016 and December 31, 2015, respectively.

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The Company's amount of net unrecognized tax benefits for the tax disputes of \$1.54 million could change in the next twelve months as litigation and global tax audits progress. At this time, due to the uncertain nature of this process, it is not reasonably possible to estimate an overall range of possible change.

Syntel has not provided for India Income Tax which are disputed and pending at various level (including potential tax dispute) of \$13.70 million for the financial year 1996-97 to December 31, 2016, which is after providing \$51.50 million as unrecognized tax benefits under ASC740. Indian tax exposures involve complex issues and may need an extended period to resolve the issues with the Indian income tax authorities. Syntel's management, after consultation with legal counsel, believes that the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

### **Branch Profit Tax**

Syntel India is subject to a 15% U.S. Branch Profit Tax (BPT) related to its effectively connected income in the United States, to the extent its U.S. taxable adjusted net income during the taxable year is not invested in the United States. The Company expected that U.S. profits earned on or after January 1, 2008 would be permanently invested in the U.S. Accordingly, effective January 1, 2008 to June 30, 2016, a provision for BPT was not required. The accumulated deferred tax liability of \$1.73 million as of December 31, 2007 continues to be carried forward.

As a result of the dividends declared during the third quarter of 2016, as of September 30, 2016, the Company expects that U.S. profits earned will not be permanently invested in the U.S. Accordingly, the Company has recorded a provision for additional BPT of \$8.05 million for the year ended December 31, 2016.

### **SERVICE TAX AUDIT**

Syntel India regularly files quarterly Service Tax refund applications and claims refunds of Service Tax on input services, which remain unutilized against a no service tax on export of services. As of December 31, 2016, Syntel Indian entities has not provided against Service tax refunds claims of \$3.24 million disputed by Service tax Department which are pending at various level.

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

### **Local Taxes**

As of December 31, 2016, the Company had a local tax liability provision of approximately \$0.4 million, equal to \$0.3 million net of federal tax benefit, relating to local taxes including employer withholding taxes, employer payroll expense taxes, business licenses, and corporate income taxes. As of December 31, 2015, the Company had a local tax liability provision of approximately \$1.1 million, equal to \$0.7 million net of tax, relating to local taxes including employer withholding taxes, employer payroll expense taxes, business license registrations, and corporate income taxes. The decrease in December 31, 2016 as compared December 31, 2015 is mainly on account of result of filing, payment, or settlement of such local taxes.

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

Minimum Alternate Tax (“MAT”) is payable on Book Income, including the income for which deduction is claimed under Section 10A and Section 10AA of the Indian Income Tax Act. The excess MAT over the normal tax liability is “MAT Credit”. MAT Credit can be carried forward for 10 years and set-off against future tax liabilities, if normal tax provisions are in excess of taxes payable under MAT. The Company estimated that the Company may not be able to utilize part of the MAT credit for two Indian subsidiaries. Accordingly, a valuation allowance of \$5.19 million was recorded against the accumulated MAT credit recognized as deferred tax assets. The MAT credit as of December 31, 2016 of \$30.78 million (net of valuation allowance of \$5.19 million) shall be utilized before March 31 of the following financial years and shall expire as follows:

<u>Year of Expiry of MAT Credit</u>	(In millions)
2017-18	\$ 0.19
2018-19	0.26
2019-20	0.95
2020-21	1.59
2021-22	0.78
2022-23	5.86
2023-24	6.94
2024-25	7.62
<b>2025-26</b>	9.80
<b>2026-27</b>	1.98
<b>Total</b>	<u>\$ 35.97</u>
<b>Less: Valuation allowance</b>	<u>(5.19)</u>
<b>Total (net of valuation allowance)</b>	<u><u>\$ 30.78</u></u>

### **India Budget Proposal 2017**

The Finance Bill 2017 was presented on February 1, 2017. These proposals include provisions that the MAT credit can be carried forward up to 15 years, as compared to the existing provision for the MAT credit to be carried forward up to 10 years. The Indian corporate tax rate would be reduced to 25%, as compared to the existing 30% for companies with annual turnover below INR 500 million (\$7.3 million). The proposal includes no other changes to corporate income tax rates outside of the changes included above.

If enacted, these proposals would have a one time tax benefit to Syntel of \$2.7 million. These tax benefits would be accounted in the quarter in which the aforesaid proposal is enacted.

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### 10. Earnings Per Share

The reconciliation of basic and diluted earnings per share for the years ended December 31, 2016, 2015 and 2014 is as follows:

	2016		2015		2014	
	Weighted-Average Shares Out-standing	Per Share	Weighted-Average Shares Out-standing	Per Share	Weighted-Average Shares Out-standing	Per Share
	(In thousands, except per share data)					
Basic earnings per share	84,146	\$(0.68)	83,982	\$ 3.01	83,785	\$ 2.98
Potential dilutive effect of restricted stock <sup>1</sup>	—	—	167	(0.01)	186	(0.01)
Diluted earnings per share	<u>84,146</u>	<u>\$(0.68)</u>	<u>84,149</u>	<u>\$ 3.00</u>	<u>83,971</u>	<u>\$ 2.97</u>

1. For calculating dilutive earning(loss) per share during the year ended December 31, 2016, potential dilutive effect of restricted stock of 103 units are not considered as they are antidilutive in view of current year loss.

### 11. Dividends

During the third quarter of 2016, the Board of Directors declared a special cash dividend of fifteen dollars (\$15.00) per share on outstanding common stock which was payable on October 3, 2016, to shareholders of record at the close of business on September 22, 2016. Accordingly, \$1.261 billion in dividends was paid on October 3, 2016. Further, it was resolved by the Board of Directors that restricted stock units granted to employee and directors prior to the dividend record date will receive an amount equivalent to the dividend when the applicable restriction on the restricted stock units lapses.

The special cash dividend was funded through a one-time repatriation of approximately \$1.03 billion (net of dividend distribution tax \$210 million paid outside the U.S) of cash held by the Company's foreign subsidiaries and a portion of borrowings under the new Senior Credit Facility. In connection with the one-time repatriation, where the Company has recognized a one-time tax expense of approximately \$270.6 million (net of foreign tax credits) in the third quarter of 2016.

The Company has not declared or paid any dividends in 2015 or 2014.

### 12. Stock Compensation Plans

#### *Share-Based Compensation*

The Company originally established a Stock Option and Incentive Plan in 1997 (the "1997 Plan"). On June 1, 2006, the Company adopted the Amended and Restated Stock Option and Incentive Plan (the "Amended Plan"), which amended and extended the 1997 Plan. Under the Amended Plan, a total of sixteen million shares of common stock (adjusted for the effects of the 2014 stock split) were reserved for issuance. The dates on which options or restricted stock units granted under the Amended Plan become first exercisable or have their restriction lapse are determined by the Compensation Committee of the Board of Directors, but generally occur over a four-year period from the date of grant. The term of any option may not exceed ten years from the date of grant. As of June 1, 2016, the Amended Plan terminated and no further awards may be made under the Amended Plan.

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On February 28, 2016, the Company's Board of Directors approved the adoption of the 2016 Incentive Plan (the "2016 Plan") subject to shareholder approval. On June 8, 2016 the Company's shareholders approved the 2016 Plan. The principal features of the 2016 Plan are substantially the same as those of the Amended Plan. Under the 2016 Plan, a total of sixteen million shares of common stock were reserved for issuance. The dates on which options or restricted stock units granted under the Amended Plan become first exercisable or have their restriction lapse are determined by the Compensation Committee of the Board of Directors, but for employees generally occur over a four-year period from the date of grant and for non-employee directors generally occur at the Company's next annual meeting of shareholders

On November 30, 2016, Company's Board of Directors and the Compensation Committee established a program for a one time grant of Restricted Stock Units ("RSUs") to certain senior management employees. The parameters of the program and the restrictions on the RSUs granted are consistent with the 2016 Incentive Plan approved by shareholders on June 8, 2016, except as follows:

1. The employee may purchase up to a specified number of shares of Syntel, Inc. common stock ("Common Stock") whose purchase price is equal to up to 25% of the employee's base salary ("Purchased Shares").
2. Upon proof of purchase of the Common Stock, the employee will receive a grant of RSUs equal to 25% of the number of the Purchased Shares (the "Grant").
3. The restriction period on 25% of the Grant will lapse on each of the first four anniversaries of the grant date.
4. The RSUs will be forfeited if the employee ceases to be an employee of the Company or if the employee does not retain Purchased Shares equal to four times the remaining RSUs from the Grant through the applicable restriction period.

No stock options were issued for the years ended December 31, 2016 and 2015 under either the Amended Plan or the 2016 Plan.

The Company accounts for share-based compensation based on the fair value of share-based payment awards on the date of grant. Fair value of share-based payment awards are calculated based on company's share prices which are quoted in market. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Statement of Comprehensive Income. Share-based compensation expense recognized as above for the years ended December 31, 2016, 2015 and 2014 was \$8.1 million (including charges for restricted stock units and a dividend equivalent), \$7.2 million and \$6.5 million, respectively, including a charge for restricted stock.

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

### ***Restricted Stock***

On different dates during the years ended December 31, 2016, 2015 and 2014, the Company issued restricted stock awards of 415,519, 135,440 and 293,904 (adjusted to account for the 2014 stock split), respectively, to its non-employee directors and some employees as well as to some employees of its subsidiaries. The restricted stock awards were granted to employees for their future services as a retention tool at a zero exercise price, vest in shares with regards to 25% of the awards issued on or after the first, second, third and fourth anniversary of the grant dates.



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During the third quarter of 2016, the Board of Directors declared a special cash dividend of fifteen dollars (\$15.00) per share on outstanding common stock which was payable on October 3, 2016, to shareholders of record at the close of business on September 22, 2016. Further, it was resolved by the Board of Directors that restricted stock units granted to employees and directors prior to the dividend record date will receive an amount equivalent to the dividend when the applicable restriction on the restricted stock units lapses. The special dividend resulted in a modification of the existing stock compensation plan. Accordingly, incremental compensation cost was measured as the excess, if any, of the fair value of the modified award over the fair value of the original award accounted on graded basis with the incremental expense being recognized over the remaining vesting period. As a result of the above, the Company has recorded an additional compensation cost of \$1.5 million during the year ended December 31, 2016.

The impact on the Company's results of operations of recording stock-based compensation (including impact of restricted stock) for the years ended December 31, 2016, 2015 and 2014 was as follows (in thousands):

Year Ended December 31,	2016	2015	2014
Cost of revenues	\$2,597	\$2,478	\$2,139
Selling, general and administrative expenses	4,054	4,719	4,318
	<u>\$6,651</u>	<u>\$7,197</u>	<u>\$6,457</u>

No cash was received from option exercises under all share-based payment arrangements for the years ended December 31, 2016, 2015 and 2014, respectively.

A summary of the activity for restricted stock awards granted under our stock-based compensation plans as of December 31, 2016, 2015 and 2014, respectively and changes during the years then ended is presented below, appropriately adjusted, to reflect the 2014 stock split:

	2016		2015		2014	
	Number Of Awards	Weighted Average Grant Date Fair Value	Number Of Awards	Weighted Average Grant Date Fair Value	Number Of Awards	Weighted Average Grant Date Fair Value
Unvested at January 1	465,290	\$ 41.47	564,314	\$ 37.37	501,292	\$ 28.64
Granted	415,519	\$ 20.57	135,440	\$ 46.73	293,904	\$ 42.79
Vested	(198,725)	\$ 39.10	(205,233)	\$ 34.40	(227,882)	\$ 25.03
Forfeited	(12,528)	\$ 43.77	(29,231)	\$ 36.38	(3,000)	\$ 44.90
<b>Unvested at December 31</b>	<b><u>669,556</u></b>	<b><u>\$ 29.16</u></b>	<b><u>465,290</u></b>	<b><u>\$ 41.47</u></b>	<b><u>564,314</u></b>	<b><u>\$ 37.37</u></b>

As of December 31, 2016, \$15.9 million of total remaining unrecognized stock-based compensation cost related to restricted stock awards is expected to be recognized over the weighted-average remaining requisite service period of 3.1 years.

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### **13. Commitments and Contingencies.**

As of December 31, 2016 and December 31, 2015, Syntel's subsidiaries have commitments for capital expenditures (net of advances) of \$33.0 million and \$29.0 million, respectively, primarily related to the technology campuses being constructed at Pune and Chennai in India.

Syntel's Indian subsidiaries' operations are carried out from their development centers/units in Mumbai forming part of a Special Economic Zone ("SEZ") and in Chennai and Pune, which are registered under the Software Technology Parks ("STP") scheme. Under these schemes, the registered units have export obligations, which are based on the formula provided by the notifications/circulars issued by the STP and SEZ authorities from time to time. The consequence of not meeting the above commitments would be a retroactive levy of import duty on items previously imported duty free for these units. Additionally, the respective authorities have rights to levy penalties for any defaults on a case-by-case basis. The Company is confident of meeting these obligations.

During the year December 31, 2016 \$0.75 million was held as a security deposit concerning a performance guarantee for certain leasehold improvements in Syntel Poland in favor of the lessor.

The Company is party to various legal actions arising in the ordinary course of business, including litigation and governmental and regulatory controls. The Company's estimates regarding legal contingencies are based on information known about the matters and its experience in contesting, litigating and settling similar matters. It is the opinion of management with respect to pending or threatened litigation matters that unfavorable outcomes are neither probable nor remote and that estimates of possible loss are not able to be made. Although actual amounts could differ from management's estimate, none of the actions are believed by management to involve future amounts that would be material to the Company's financial position or results of operations.

The Company estimates the costs associated with known legal exposures and their related legal expenses and accrues reserves for either the probable liability, if that amount can be reasonably estimated, or otherwise the lower end of an estimated range of potential liability. As at December 31, 2016, the Company has recorded a \$0.3 million liability for a litigation matter related contingency. During the year ended December 31, 2015, there was no accrual related to litigation.

### **14. Employee Benefit Plans**

The Company maintains a 401(k) retirement plan that covers all regular employees on Syntel's U.S. payroll. Eligible employees may contribute the lesser of 60% of their compensation or \$18,000, subject to certain limitations, to the retirement plan. The Company may make contributions to the plan at the discretion of the Board of Directors; however, through December 31, 2016, no Company contributions have been made.

Eligible employees on Syntel's Indian payroll receive benefits under the Provident Fund ("PF"), which is a defined contribution plan. Both the employee and the Company make monthly contributions equal to a specified percentage of the covered employee's salary. The Company has no further obligations under the plan beyond its monthly contributions. The contributions made to the fund are administered and managed by the Government of India. The Company's monthly contributions are expensed in the period they are incurred. Provident Fund Contribution expense recognized by Indian entities was \$5.90 million, \$6.50 million and \$4.70 million for the years ended December 31, 2016, 2015 and 2014, respectively.

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In accordance with the Payment of Gratuity Act, 1972 of India, the Indian subsidiary provides for gratuity, a defined retirement benefit plan (the “Gratuity Plan”) covering eligible employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement, death, incapacitation or termination of employment based on the respective employee’s salary and the tenure of employment. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation and are expensed in the period determined. The Gratuity Plan is a non-funded plan. The amounts accrued under this plan are \$13.6 million and \$12.3 million as of December 31, 2016 and 2015, respectively, and are included within current and other non-current liabilities, as applicable. Expense recognized by Indian entities under the Gratuity Plan was \$3.5 million, \$3.7 million and \$3.1 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The following table sets forth the funded status of the Gratuity Plan of the Company and the amounts recognized in the Company’s consolidated balance sheets and statements of comprehensive income.

	(In thousands)	
	2016	2015
<b>Accumulated benefit obligation</b>	<b>\$ 9,081</b>	<b>\$ 6,194</b>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of the year	\$12,349	\$12,057
Service cost	2,279	2,448
Interest cost	1,167	1,177
Actuarial loss/(gain)	900	(851)
Adjustments due to transfer of employees within the group	—	—
Benefits paid	(1,928)	(1,951)
Effect of exchange rate changes	(240)	(531)
<b>Projected benefit obligation at end of the year</b>	<b>\$14,527</b>	<b>\$12,349</b>
<b>Amounts recognized in the balance sheet consists of:</b>		
Provision for gratuity (included in total current liabilities)	\$ 1,899	\$ 387
Provision for gratuity (included in non-current liabilities)	8,099	8,050
	<b>\$ 9,998</b>	<b>\$ 8,437</b>

As of December 31, 2016 and December 31, 2015 amounts in accumulated other comprehensive loss:

Net actuarial loss	\$1,353	\$489
Net prior service cost	106	134
<b>Total accumulated other comprehensive loss</b>	<b>\$1,459</b>	<b>\$623</b>

Expected amortization out of comprehensive income in 2017 is \$0.06 million.

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### Reconciliation of net amount recognized

Net amount recognized as at beginning of the period	\$(12,349)	\$(12,057)
Company contributions	1,928	1,951
Net periodic benefit cost for the period	(3,509)	(3,734)
Amount recognized in accumulated other comprehensive loss	(863)	960
Adjustments on account of employees transferred	26	—
Foreign currency translation adjustment	240	531
Net amount recognized as at end of the period	(14,527)	(12,349)
Funded status of the plans	—	—
<b>Accrued benefit cost</b>	<b>\$(14,527)</b>	<b>\$(12,349)</b>
<b>The components of net gratuity costs are reflected below:</b>		
Service cost	\$ 2,279	\$ 2,448
Interest cost	1,167	1,177
Amortization of transition obligation	61	71
Amortization of net actuarial (gain)/loss	2	37
	<b>\$ 3,509</b>	<b>\$ 3,733</b>

### Weighted-average assumptions used to determine benefit obligations:

	<u>2016</u>	<u>2015</u>
Discount rate	7.75% per annum.	8.5% per annum
Long-term rate of compensation increase	11% per annum for first year, 10% for next five years and 7% thereafter	11% per annum for first year, 10% for next five years and 7% thereafter

### Weighted-average assumptions used to determine net periodic benefit cost:

	<u>2016</u>	<u>2015</u>
Discount rate	7.75% per annum	8.5% per annum
Long-term rate of compensation increase	11% per annum for first year, 10% for next five years and 7% thereafter	11% per annum for first year, 10% for next five years and 7% thereafter

### Cash Flows

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

For the year ended December 31,	<u>Expected contribution</u> (In thousands)
2017	\$ 2,784
2018	2,737
2019	2,740
2020	2,865
2021	2,882
2022–2026	11,825

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### 15. Segment Reporting

Effective the first quarter of 2014, as a result of the completion of organizational changes, the Company changed its basis of segmentation to vertical segments as follows:

- Banking and Financial Services
- Healthcare and Life Sciences
- Insurance
- Manufacturing
- Retail, Logistics and Telecom

For detailed discussion on each of these segments, please refer Note 1 on “Business” forming part of Notes to the Consolidated Financial Statements.

Syntel’s leadership evaluates the Company’s performance and allocates resources based on segment revenues and segment cost of revenues. Segment gross profit is defined as gross profit before Corporate Direct Costs.

The Company’s cost of revenues consists of costs directly associated with billable professionals in the U.S. and offshore, including salaries, payroll taxes, benefits, relocation costs, immigration costs, finder’s fees, trainee compensation and travel. Generally, the cost of revenues for each operating segment has similar characteristics and is subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating groups may affect revenue and cost of revenues to differing degrees.

#### Corporate Direct Costs

Certain expenses, for cost centers such as Centers of Excellence, Architecture Solutions Group, Research and Development, Cloud Computing, and Application Management, are not allocated to specific industry segments because management believes it is not practical to allocate such expenses to individual segments as they are not directly attributable to any specific segment. Accordingly, these expenses are separately disclosed as Corporate Direct Costs and adjusted only against Total Gross Profit.

In accordance with ASC 280 “Disclosures about Segments of an Enterprise and Related Information,” segment disclosures are presented below. Revenues from external customers and gross profit for the Banking and Financial Services; Healthcare and Life Sciences; Insurance; Manufacturing; and Retail, Logistics and Telecom segments for three years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015 (In thousands)	2014
Net Revenues:			
Banking and Financial Services	\$472,999	\$474,943	\$455,100
Healthcare and Life Sciences	155,970	157,970	147,424
Insurance	128,270	133,519	137,447
Manufacturing	44,420	41,154	27,622
Retail, Logistics and Telecom	164,891	161,026	143,836
	<u>\$966,550</u>	<u>\$968,612</u>	<u>\$911,429</u>
Gross Profit:			
Banking and Financial Services	183,530	188,152	193,916

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Healthcare and Life Sciences	62,466	68,822	67,289
Insurance	46,192	49,497	50,050
Manufacturing	13,091	13,111	8,136
Retail, Logistics and Telecom	68,113	69,505	63,262
<b>Total Segment Gross Profit</b>	<u>373,392</u>	<u>389,087</u>	<u>382,653</u>
Corporate Direct Cost	(2,567)	(5,086)	(5,086)
<b>Gross Profit</b>	<u>\$370,825</u>	<u>\$384,001</u>	<u>\$377,567</u>
Selling, general and administrative expenses	108,528	100,256	109,217
<b>Income from operations</b>	<u><b>\$262,297</b></u>	<u><b>\$283,745</b></u>	<u><b>\$268,350</b></u>

The Company's largest customer in 2016, 2015 and 2014 was American Express, which accounted for revenues in excess of 10% of total consolidated revenues. Revenue from this customer was approximately \$210.1 million, \$204.0 million and \$201.6 million, contributing approximately 22%, 21% and 22% of total consolidated revenues during 2016, 2015 and 2014, respectively. At December 31, 2016, 2015 and 2014, accounts receivable from this customer were \$24.3 million, \$31.8 million and \$19.0 million respectively. The revenue from American Express Corp. was generated in Banking and Financial Services segment.

The Company's second largest customer, State Street Bank, had revenues in excess of 10% of total consolidated revenues for the years 2016, 2015 and 2014. Revenue from this customer was approximately \$134.3 million, \$140.6 million and \$126.4 million, contributing approximately 14%, 15% and 14% of total consolidated revenues during 2016, 2015 and 2014, respectively. At December 31, 2016, 2015 and 2014, accounts receivable from this customer was \$10.9 million, \$16.6 million and \$11.3 million, respectively. The revenue from State Street Bank was generated in Banking and Financial Services segment.

The Company's third largest customer, Federal Express Corporation, had revenues in excess of 10% of total consolidated revenues for the year ended 2016, 2015 and 2014. Revenue from this customer was approximately \$119.9 million, \$120.1 million and \$105.0 million, contributing approximately 12%, 12% and 12% of total consolidated revenues during 2016, 2015 and 2014, respectively. At December 31, 2016, 2015 and 2014, accounts receivable from this customer was \$17.8 million, \$12.2 million and \$14.3 million, respectively. The revenue from Federal Express Corporation was generated in the Retail Logistics and Telecom segment.

## 16. Geographic Information

The Company's net revenues and long-lived assets, by geographic area, for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	(In thousands) 2015	2014
<b>Net revenues (1):</b>			
North America (2)	\$865,679	\$872,788	\$827,425
India	5,475	3,740	2,167
Europe (3)	92,899	89,088	77,821
Rest of the World	2,497	2,996	4,016
<b>Total</b>	<u><b>\$966,550</b></u>	<u><b>\$968,612</b></u>	<u><b>\$911,429</b></u>

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### **Long-lived assets (4):**

North America (2)	\$ 3,307	\$ 3,517	\$ 2,645
India	102,638	101,686	105,949
Europe (3)	632	374	71
Rest of the World	805	1,105	1,292
<b>Total</b>	<b><u><u>\$107,382</u></u></b>	<b><u><u>\$106,682</u></u></b>	<b><u><u>\$109,957</u></u></b>

### Notes for the Geographic Information Disclosure:

1. Net revenues are attributed to regions based upon customer location.
2. Primarily relates to operations in the United States.
3. Primarily relates to operations in the United Kingdom and Poland.
4. Long-lived assets include property and equipment, net of accumulated depreciation and amortization and goodwill.

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### 17. Selected Quarterly Financial Data (Unaudited)

Selected financial data by calendar quarter were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	(In thousands, except per share data)				
<b>2016</b>					
Net revenues	\$241,390	\$246,018	\$ 241,255	\$237,887	\$966,550
Cost of revenues	151,666	155,033	146,672	142,354	595,725
Gross profit	89,724	90,985	94,583	95,533	370,825
Selling, general and administrative expenses	29,677	18,265	29,526	31,060	108,528
Income from operations	60,047	72,720	65,057	64,473	262,297
Other income (expense), net	4,096	4,875	4,227	(2,110)	11,088
Income before income taxes	64,143	77,595	69,284	62,363	273,385
Income tax expense (1)	11,086	18,804	286,513	14,372	330,775
Net income/(loss)	\$ 53,057	\$ 58,791	\$(217,229)	\$ 47,991	\$(57,390)
Earnings/(loss) per share, diluted (a)	\$ 0.63	\$ 0.70	\$ (2.58)	\$ 0.57	\$ (0.68)
Weighted average shares outstanding, diluted	84,266	84,278	84,214	84,163	84,146
<b>2015</b>					
Net revenues	\$220,599	\$239,797	\$ 253,636	\$254,580	\$968,612
Cost of revenues	141,785	148,704	146,061	148,061	584,611
Gross profit	78,814	91,093	107,575	106,519	384,001
Selling, general and administrative expenses	35,382	21,728	15,121	28,025	100,256
Income from operations	43,432	69,365	92,454	78,494	283,745
Other income (expense), net	9,338	9,887	10,227	14,004	43,456
Income before income taxes	52,770	79,252	102,681	92,498	327,201
Income tax expense (2)	12,749	18,673	24,990	18,263	74,675
Net income	\$ 40,021	\$ 60,579	\$ 77,691	\$ 74,235	\$252,526
Earnings per share, diluted (a)	\$ 0.48	\$ 0.72	\$ 0.92	\$ 0.88	\$ 3.00
Weighted average shares outstanding, diluted	84,127	84,135	84,131	84,204	84,149

(a) Earnings per share for the quarter are computed independently and may not equal the earnings per share computed for the total year.

### 18. CONSOLIDATION OF A VARIABLE INTEREST ENTITY

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

The Company’s KPO services to State Street Bank and one other client are provided through the above joint venture between the Company and an affiliate of State Street Bank. Sales of KPO services only to these two clients represented approximately 11%, 12% and 13% of the Company’s total revenues for the years ended December 31, 2016, 2015 and 2014, respectively.



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### 19. FAIR VALUE MEASUREMENTS

The Company follows the guidance for fair value measurements and fair value option for financial assets and liabilities, which primarily relate to the Company's investments and forward contracts, Interest rate swap and other financial assets and liabilities.

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

Fair values of interest rate swaps are measured using standard valuation models using inputs that are readily available in public markets, or can be derived from observable market transactions, including LIBOR spot and forward rates.

The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table summarizes our financial assets measured at fair value on a recurring basis as of December 31, 2016:

	(In millions)			Total
	Level 1	Level 2	Level 3	
Short term investments				
Available for sale securities	\$ 15.0	\$ —	\$ —	\$15.0
Term deposits	\$ —	\$ 6.8	\$ —	6.8
Interest rate swaps	\$ —	\$ 0.5	\$ —	0.5
<b>Total assets measured at fair value</b>	<b>\$ 15.0</b>	<b>\$ 7.3</b>	<b>\$ —</b>	<b>\$22.3</b>

The following table summarizes our financial assets measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Short term investments				
Available for sale securities	\$126.5	\$ —	\$ —	\$126.5
Term deposits	\$ —	\$413.7	\$ —	413.7
<b>Total assets measured at fair value</b>	<b>\$126.5</b>	<b>\$413.7</b>	<b>\$ —</b>	<b>\$540.2</b>

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### 20. Term Deposits

The following table summarizes the term deposits with various banks outstanding as at December 31, 2016 and December 31, 2015.

<u>Balance Sheet Item</u>	(In millions)	
	As at December 31, 2016	As at December 31, 2015
Cash and cash equivalents	\$ —	\$ —
Short term investments	6.6	413.6
Non-current assets	0.2	0.1
<b>Total</b>	<b>\$ 6.8</b>	<b>\$ 413.7</b>

### 21. Other Income, Net

The following table represents the components of other income, net.

	(In thousands)		
	Years Ended December 31, 2016	2015	2014
Interest income on term deposits	\$ 9,695	\$26,751	\$34,308
Gain(loss)on sale of mutual funds,net	5,790	18,796	14,619
Gain(loss)on forward contracts,net	—	—	3,836
Interest Expense	(4,707)	(2,220)	(2,279)
Miscellaneous income	310	129	39
<b>Total</b>	<b>\$11,088</b>	<b>\$43,456</b>	<b>\$50,523</b>

### 22. RELATED PARTY TRANSACTIONS

There were no related party transactions in 2016, 2015 and 2014.

### 23. STOCK REPURCHASE PLAN

On November 14, 2016, the Board of Directors authorized a stock repurchase plan under which the Company may repurchase shares of common stock with a total value not to exceed approximately \$10 million.

The Company repurchased 510,923 shares of common stock with a total value of \$10 million at an average price of \$19.57 per share during fourth quarter of 2016.

Repurchases under the Company's new program were made in the open market or privately negotiated transactions or through a Rule 10b5-1 plan in compliance with Securities and Exchange Commission Rule 10b-18, subject to market conditions, applicable legal requirements, and other relevant factors. Any repurchased common stock will be available for use in connection with the Company's incentive plan and for other corporate purposes.

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### EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended Articles of Incorporation of the Registrant filed as an Exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, and incorporated herein by reference.
3.2	Bylaws of the Registrant filed as an Exhibit to the Registrant's Current Report on Form 8-K dated April 28, 2014, and incorporated herein by reference.
4.1	Registration Rights Agreement, dated December 8, 2006, filed as an Exhibit to the Registrant's Registration Statement on Form S-3/A dated January 3, 2007 and incorporated herein by reference.
10.1*	Amended and Restated Stock Option and Incentive Plan, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 1, 2006 and incorporated herein by reference.
10.2*	2016 Incentive Plan, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.3*	Form of Restricted Stock Unit Grant Agreement for Employees, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.4*	Form of Restricted Stock Unit Grant Agreement for Non-Employee Directors, filed as an Exhibit to the Company's Current Report on Form 8-K dated June 8, 2016 and incorporated herein by reference.
10.5*	Form of Special Program Restricted Stock Unit Grant Agreement for Employees.
10.6*	Form of Annual Performance Award, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
10.7*	Employment Agreement, dated October 18, 2001, between the Company and Bharat Desai, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
10.8*	Employment Agreement, dated October 18, 2001, between the Company and Daniel M. Moore, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated July 7, 2006 and incorporated herein by reference.
10.9*	Employment Agreement, dated March 5, 2009, between the Company and Anil Jain, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.

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- 10.10\* Employment Agreement, dated May 20, 2005, between the Company and Rakesh Khanna, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.11\* Employment Agreement, dated September 5, 2003, between the Company and Murlidhar Reddy, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.12\* Employment Agreement, dated October 13, 2008, between the Company and V. S. Raj, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference.
- 10.13\* Employment Agreement, dated August 3, 2009, between the Company and Raja Ray, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.
- 10.14\* Employment Agreement, dated March 15, 2010, between the Company and Prashant Ranade, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference.
- 10.15\* Employment Agreement, dated February 1, 2011, between the Company and Avinash Salelkar, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010, and incorporated herein by reference.
- 10.16\* Employment Agreement, dated May 23, 2011, between the Company and Sanjay Garg, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013, and incorporated herein by reference.
- 10.17\* Employment Agreement, dated July 18, 2014, between the Company and Rajiv Tandon, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014, and incorporated herein by reference.
- 10.18\* Employment Agreement, dated February 11, 2016, between the Company and Anil Agrawal filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference.
- 10.19\* Employment Agreement, dated February 11, 2008, between the Company and Rahul Aggarwal.
- 10.20\* Employment Agreement, dated June 9, 2009, between the Company and Ben Andradi.
- 10.21\* Employment Agreement, dated June 21, 2005, between the Company and Sujay Puthran.
- 10.22\* Employment Agreement, dated July 26, 2007, between the Company and Narendar Reddy.

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10.23	Shareholders Agreement effective February 1, 2012 by and between State Street International Holdings, Syntel Delaware, LLC, Syntel, Inc., and State Street Syntel Services (Mauritius) Limited, filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, and incorporated herein by reference.
10.24	Credit Agreement, dated September 12, 2016, between the Company and Bank of America, N.A., as administrative agent, L/C issuer and swing line lender, the other lenders party thereto, and Merrill, Lynch, Pierce Fenner & Smith Incorporated, as sole lead arranger and sole bookrunner, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 12, 2016, and incorporated herein by reference.
10.25	Security and Pledge Agreement, dated September 12, 2016, between the Company and Bank of America, N.A., in its capacity as administrative agent, filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 12, 2016, and incorporated herein by reference.
10.26	First Amendment to Credit Agreement, dated October 26, 2016, between the Company and Bank of America, N.A., as administrative agent, L/C issuer and swing line lender and the other lenders party thereto, filed as an Exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, and incorporated herein by reference.
14	Code of Ethical Conduct filed as an Exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\* Designates management contracts or compensation plans or arrangements for executive officers.