POWERSECURE INTERNATIONAL, INC.
Form S-3/A
May 26, 2010

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As filed with the Securities and Exchange Commission on May 26, 2010

Registration No. 333-166591

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

AMENDMENT NO. 2
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

POWERSECURE INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**84-1169358**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1609 Heritage Commerce Court
Wake Forest, North Carolina 27587
(919) 556-3056
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Christopher T. Hutter
Executive Vice President and Chief Financial Officer
1609 Heritage Commerce Court
Wake Forest, North Carolina 27587
(919) 556-3056
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:
Paul R. Hess, Esq.
Kegler, Brown, Hill & Ritter Co., L.P.A.
65 E. State Street, Suite 1800
Columbus, Ohio 43215
(614) 462-5400

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

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

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated May 26, 2010

PROSPECTUS

$70,000,000
POWERSECURE INTERNATIONAL, INC
Common Stock
Preferred Stock
Warrants
Units

We may from time to time offer and sell common stock, preferred stock, warrants, or any combination of these securities in units. We may offer these securities separately or together, in one or more offerings, series or classes and in amounts, at prices and on terms that we will determine at the time of an offering. In addition to the securities that we may offer, the selling stockholders may offer and sell up to 1,025,641 shares of our common stock from time to time under this prospectus. We will not receive any proceeds from the sale of common stock by the selling stockholders. The aggregate offering price of all securities sold under this prospectus will not exceed $70,000,000.

We and the selling stockholders may offer and sell these securities to or through underwriters, dealers or agents or directly to purchasers. The names of any underwriters, dealers or agents involved in the sale of the securities and any fees, commissions or discounts to be paid to them will be set forth in the applicable prospectus supplement.

This prospectus describes some of the general terms of these securities and the general manner in which we and the selling stockholders may offer them. When we or the selling stockholders offer and sell any of these securities, the specific terms of the securities offered, including the offering price of the securities, will be included in supplements to this prospectus. The prospectus supplements will also describe the specific manner in which we or the selling stockholders will offer these securities and may also add, update or change information contained in this prospectus. You should carefully read this prospectus and the applicable prospectus supplement, as well as the documents incorporated by reference herein or therein, before you purchase any of the securities offered hereby. This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

Our common stock is listed and traded on The NASDAQ Global Select Market under the symbol POWR. On May 25, 2010, the last sale price of our common stock as reported on The NASDAQ Global Select Market was $8.93 per share.

Investing in our securities involves significant risks. You should carefully read the section entitled Risk Factors beginning on page 6 of this prospectus and in the applicable prospectus supplement and in any of the documents we incorporate by reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is ___, 2010

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You should rely only on the information contained or incorporated by reference in this prospectus, any applicable prospectus supplement and any related free writing prospectus. Neither we nor the selling stockholders have authorized any other person to provide you with information that is different from the information contained or incorporated by reference in this prospectus, any applicable prospectus supplement or any related free writing prospectus. If any person does provide you with information that differs from information that is contained or incorporated by reference in this prospectus, any applicable prospectus supplement or any related free writing prospectus, you should not rely on it. Neither we nor the selling stockholders are making an offer to sell or are soliciting an offer to buy these securities in any jurisdiction where such offers or sales are not permitted. You should assume that the information in this prospectus, any applicable prospectus supplement or any related free writing prospectus is complete and accurate only as of the date on the front of the document and that any of the information that we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus, any applicable prospectus supplement or any free writing prospectus, or of any sale of a security.

This prospectus incorporates important business and financial information about us that is not included in or delivered with the prospectus. We will provide you without charge upon your request a copy of any documents incorporated by reference into this prospectus (other than exhibits to those documents that are not specifically incorporated by reference into those documents). You may request a copy of a document by writing or telephoning us at the following address:

PowerSecure International, Inc.
1609 Heritage Commerce Court
Wake Forest, North Carolina 27587
Attention: Investor Relations
Telephone: (919) 556-3056

To obtain timely delivery, you must request information no later than five business days before the date you must make your investment decision.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf registration process, we may from time to time offer and sell the securities, or combinations of the securities, described in this prospectus in one or more offerings in amounts, at prices and on terms that we determine at the time of the offering, up to a total dollar amount, including the resale of common stock by the selling stockholders, of $70,000,000.

This prospectus provides you with a general description of the securities that we may offer. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will contain more specific information about the terms of that offering and those securities. The information in the prospectus supplement (and in any related free writing prospectus that we may authorize to be provided to you) may add, update or change the information contained in this prospectus or in the documents that we have incorporated by reference into this prospectus. Before investing in any of the securities being offered under this registration statement, you should read carefully this prospectus, any applicable prospectus supplement and any related free writing prospectus, together with the information incorporated herein by reference as described under the heading Incorporation by Reference.

In addition, the selling stockholders may use this prospectus to offer and sell up to 1,025,641 shares of our common stock from time to time. We will not receive any proceeds from the sale of our common stock by the selling stockholders. The selling stockholders will deliver a supplement with this prospectus, to the extent appropriate, to update the information contained in this prospectus. The selling stockholders may sell their shares of common stock through any means described in the section entitled Plan of Distribution.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, will be filed or will be incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under the heading Where You Can Find Additional Information.

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POWERSECURE INTERNATIONAL, INC.

Who We Are

PowerSecure International, Inc., headquartered in Wake Forest, North Carolina, is a leading provider of Energy and Smart Grid Solutions to electric utilities and their commercial, institutional and industrial customers, and of Energy Services to oil and natural gas producers. We provide these customers with products and services in four strategic business areas:

Interactive Distributed Generation®,

Utility Infrastructure,

Energy Efficiency, and

Energy Services.

Our Energy and Smart Grid Solutions segment is operated through our largest wholly-owned subsidiary PowerSecure, Inc., which we refer to as our PowerSecure subsidiary. This segment includes three of our four strategic business areas: Interactive Distributed Generation®, Utility Infrastructure and Energy Efficiency. These three areas are focused on providing utilities and their commercial, institutional and industrial customers with products and services to help them generate, deliver and utilize electricity more efficiently and are intended to deliver strong returns on investment. This segment operates primarily out of our Wake Forest, North Carolina headquarters office, and its operations also include several satellite office and manufacturing facilities, the largest of which are in Raleigh, North Carolina, McDonough, Georgia, and Anderson, South Carolina.

Our Interactive Distributed Generation® business involves manufacturing, installing and operating electric generation equipment located at the facility where the power is used, including commercial, institutional, and industrial operations, generally on behalf of electric utilities. Our equipment provides a dependable backup power supply during power outages, and provides a more efficient and environmentally friendly source of power during high cost periods of peak power demand. Our Interactive Distributed Generation systems contain our proprietary electronic controls, which enable our systems to be monitored around the clock by our smart grid monitoring center, protecting our customers operations from power outages and their costs. Through our monitoring center, we also forecast utilities peak demand periods, and electronically deploy our systems during these periods to power the customers operations instead of drawing electricity from the utility grid. Our smart grid monitoring center ensures that our interactive distributed generation systems deliver more efficient and environmentally friendly power at optimal times and durations. This more efficient peak demand power supply benefits both the utility and the customer whose facility is being powered by the system. Our systems also enable utilities to delay new infrastructure investments for transmitting and distributing power, and minimize energy losses associated with moving electricity over long distances.

Our Utility Infrastructure business is focused on helping electric utilities design, build, upgrade and maintain infrastructure that enhances the efficiency of their grid systems. Our products and services include transmission and distribution system construction and maintenance, installation of advanced metering and efficient lighting, and emergency storm restoration. Additionally, we provide utilities with a wide range of engineering and design services, as well as consulting services for regulatory and rate design matters.

Our Energy Efficiency area is focused on providing energy solutions to commercial, institutional, and industrial customers that deliver strong returns on investment by reducing energy costs, improving their operations, and benefiting the environment. Our primary business in this area is our EfficientLights business, and our primary product is our EfficientLights LED-based, or light-emitting diode based, lights that reduce the energy and maintenance costs for refrigerated cases in grocery, drug, and convenience stores. Additionally, we are in the process of developing other LED-based lighting products, including additional in-store retail lighting, and LED-based street lights and security lights. Our other business in this area is our EnergyLite business, which designs and installs cost-effective energy improvement systems for general lighting, building controls and other facility upgrades.

Our Energy Services segment is operated through our two other principal operating subsidiaries, Southern Flow Companies, Inc., which we refer to as Southern Flow, and WaterSecure Holdings, Inc., which we refer to as WaterSecure. Our Southern Flow business provides oil and natural gas measurement services to customers involved in oil and natural gas production, transportation and processing, with a focus on the natural gas market.

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Southern Flow is headquartered in Lafayette, Louisiana, and provides these services through ten division offices located throughout the Gulf of Mexico, Southwest, Midwest and Rocky Mountain regions. WaterSecure owns approximately 40% of the equity interests in an unconsolidated business, Marcum Midstream 1995-2 Business Trust, which we refer to as MM 1995-2 or as our WaterSecure operations. Our WaterSecure operations provide water processing and disposal services for oil and natural gas producers in northeastern Colorado utilizing environmentally responsible technologies and processes.

In this prospectus, references to PowerSecure, we, us and our mean PowerSecure International, Inc. together wit its subsidiaries, and references to our PowerSecure subsidiary means PowerSecure, Inc. alone, unless we state otherwise or the context indicates otherwise.

We were incorporated in Delaware on April 5, 1991. On August 22, 2007, we changed our name to PowerSecure International, Inc. from Metretek Technologies, Inc., recognizing that the significant growth in the business operations of our PowerSecure subsidiary resulted in it becoming our core business and the business best positioned in the marketplace to lead our growth in the future. Our principal executive offices are located at 1609 Heritage Commerce Court, Wake Forest, North Carolina 27587, and our telephone number at those offices is (919) 556-3056. Our internet website address is www.powersecure.com. The contents of and the information on or accessible through our corporate website is not a part of, and is not incorporated into, this prospectus, other than the documents that we file with the SEC that are incorporated by reference into this prospectus, and any references to our website are intended to be an inactive textual references only.

Recent Developments

On April 6, 2010, we announced that we have launched an expansion of our LED lighting business through the formation and acquisition of a two-thirds controlling interest in Innovative Electronic Solutions Lighting, LLC, a Delaware limited liability company, which we refer to as IES , which acquired substantially all of the assets and business of a leading LED lighting development company, in order to accelerate the expansion of new LED lighting products and to capitalize on the growing marketplace for LED lighting. IES will design and manufacture new LED-based lighting products for commercial, industrial, and retail customers. The business of IES will include turn-key product development, design and manufacturing of solid state LED-based lights, including power drivers, light engines, and thermal management solutions.

IES commenced its business and operations by acquiring, on April 1, 2010, substantially all of the assets and business of Innovative Electronic Solutions, LLC, a North Carolina limited liability company, which conducted a solid state LED-based lighting design and manufacturing business. Our PowerSecure subsidiary owns two-thirds of the membership interests in, and controls the management of, IES. Our PowerSecure subsidiary contributed approximately $4.4 million to IES to fund the capitalization of IES and the acquisition by IES of substantially all of the assets and business of the seller as well as the assumption by IES of the seller s current liabilities. In connection with its sale and contribution of substantially all of its asset and business to IES, the seller received the remaining one-third of the membership interests in IES.

On April 30, 2010, our PowerSecure subsidiary, which previously owned two-thirds of the equity interests in EfficientLights, LLC, a Delaware limited liability company, exercised its option to purchase the one-third minority interest in EfficientLights. The minority interests in EfficientLights were previously owned by the founder, who is also the President, of EfficientLights and by five other key employees of EfficientLights. EfficientLights markets and sells LED-based lights that reduce the energy and maintenance costs for refrigerated cases in grocery, drug, and convenience stores, and is in the process of developing other LED-based lighting products, including additional in-store retail lighting, and LED-based street lights and security lights. As a result, EfficientLights has become a wholly-owned subsidiary of our PowerSecure subsidiary and there will no longer be a reduction in our consolidated net income due to the net income attributable to the noncontrolling interest. Our PowerSecure subsidiary acquired the minority interest in EfficientLights in exchange for 1,025,641 shares of our common stock, which had a value of $11,548,717, based on $11.26, the last sale price of our common stock on April 30, 2010 as reported on The NASDAQ Global Select Market. This prospectus covers the resale of those shares of our common stock by the former holders of the minority interest in EfficientLights. See Selling Stockholders below.

RISK FACTORS

Investing in our securities involves significant risks. Before making an investment decision, you should consider carefully the risks, uncertainties and other factors described in our most recent Annual Report on Form 10-K, as supplemented and updated by subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we have filed or will file with the SEC, and in documents which are incorporated by reference into this prospectus, as well as the risk factors and other information contained in or incorporated by reference into the applicable prospectus supplement and any related free writing prospectus.

If any of these risks were to occur, our business, affairs, prospects, assets, financial condition, results of operations and cash flows could be materially and adversely affected. If this occurs, the trading price of our securities could decline, and you could lose all or part of your investment. For more information about our SEC filings, please see Where You Can Find More Information and Documents Incorporated by Reference. See also Cautionary Note Regarding Forward-Looking Statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement and any related free writing prospectus and the documents incorporated by reference herein or therein contain forward-looking statements within the meaning of and made under the safe harbor provisions of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words may, could, should, would, will, project, intend, continue, believe, anticipate, estima plan, potential, opportunity and scheduled, variations of such words, and other comparable terminology and similar expressions are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about the following:

- our prospects, including our future business, revenues, expenses, net income, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, our targeted growth rate and our expectations about realizing the revenue in our backlog and in our sales pipeline;

- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the downturn in the economy and the adverse effects of the difficult credit markets on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;

- the effects of fluctuations in sales on our business, revenues, expenses, net income, margins, profitability, cash flow, liquidity, financial condition and results of operations;

- our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers requirements, and our ability to successfully develop and market new products, services, technologies and systems;

- our markets, including our market position or market share;

- our ability to successfully develop, operate, grow and diversify our operations and businesses;

- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;

- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;

the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;

industry trends and customer preferences and the demand for our products, services, technologies and systems;

the nature and intensity of our competition, and our ability to successfully compete in our markets;

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- business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships; and

- the effects on our business, financial condition and results of operations of litigation and other claims and proceedings that arise from time to time.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in Risk Factors above, as well as other risks, uncertainties and factors discussed elsewhere in this prospectus, in documents that we include as exhibits to the registration of which this prospectus is a part or incorporate by reference into this prospectus, and in other reports and documents we from time to time file with or furnish to the SEC and incorporate by reference in this prospectus. In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

Any forward-looking statements contained in this prospectus, any prospectus supplement or any free writing prospectus or in any document we incorporate by reference speak only as of the date of this prospectus, such prospectus supplement or free writing prospectus or such document incorporated by reference. We undertake no duty or obligation to update or revise any forward-looking statement or to publicly disclose any update or revision for any reason, whether as a result of changes in our expectations or the underlying assumptions, the receipt of new information, the occurrence of future or unanticipated events, circumstances or conditions or otherwise.

USE OF PROCEEDS

Unless we indicate otherwise in the applicable prospectus supplement, we intend to use the net proceeds from the sale of the securities offered by us under this prospectus and any prospectus supplement for general corporate purposes, including but not limited to working capital, capital expenditures, acquisitions, repayment of indebtedness and other business opportunities. We have not determined the amount of net proceeds to be used specifically for the foregoing purposes. Accordingly, management will have broad discretion in the application of any proceeds from the sale of securities offered in this prospectus. Pending any specific application, we may initially invest funds in short-term marketable securities or apply them to the reduction of short-term indebtedness.

We will not receive any of the proceeds from any sale of shares by any of the selling stockholders.

THE SECURITIES THAT MAY BE OFFERED

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplements, summarize the material terms and provisions of the various types of securities that we or the selling stockholders may offer. These descriptions are not meant to be complete. We will describe in the applicable prospectus supplement relating to any securities the particular terms of the securities offered by that prospectus supplement. If we indicate in the applicable prospectus supplement, the terms of the securities may differ from the terms we have summarized below. We will also include information in the prospectus supplement, where applicable, about material United States federal income tax considerations relating to the securities, and the securities exchange, if any, on which the securities will be listed.

We may offer and sell from time to time, in one or more primary offerings:

- common stock;

- preferred stock;

- warrants to purchase common stock and/or preferred stock; and

- units consisting of common stock, preferred stock and/or warrants in any combination.

The selling stockholders may from time to time offer our common stock for resale in one or more secondary offerings.

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This prospectus may not be used to consummate a sale of securities unless it is accompanied by a prospectus supplement.

DESCRIPTION OF COMMON STOCK

The following is a description of the general terms of our common stock and of certain provisions of our Second Amended and Restated Certificate of Incorporation, which we refer to as our restated certificate, and of our Amended and Restated Bylaws, which we refer to as our restated bylaws. This description is a summary only and not meant to be complete, but is qualified in its entirety by reference to the relevant provisions of the General Corporation Law of the State of Delaware, which we refer to as the DGCL, and to our restated certificate and of our restated bylaws. For more detailed information, you should refer to our restated certificate and our restated bylaws, which we have filed with the SEC and are available as described below under Where You Can Find More Information, and the DGCL.

General

Under our restated certificate, we are authorized to issue 25,000,000 shares of common stock, par value $.01 per share. As of May 26, 2010, 18,250,041 shares of common stock were issued and outstanding.

Voting Rights, Dividends and Other Rights

The holders of our common stock are entitled to one vote for each share in the election of directors and on all other matters submitted to a vote of the stockholders. The holders of our common stock do not have cumulative voting rights in the election of directors or any preemptive rights to purchase or subscribe for our securities. Our common stock is not convertible into any other securities and is not subject to redemption by us. All outstanding shares of our common stock are, and any additional shares of our common stock that we may issue under this prospectus will upon issuance be, fully paid and non-assessable.

Subject to the rights of the holders of any shares of preferred stock then outstanding, the holders of our common stock are entitled to receive ratably such dividends and other distributions, if any, as may be declared from time to time by our board out of funds legally available for that purpose.

In the event of the liquidation, dissolution or winding-up of our affairs, the holders of our common stock will be entitled to share ratably in our net assets that are remaining after payment or provision for payment of all of our debts and obligations and after payment of any liquidation preferences to the holders of any shares of preferred stock then outstanding.

The rights of holders of our common stock are subject to and may be adversely affected by the rights, preferences and privileges of the holders of shares of any series of preferred stock that we may issue in the future.

Listing

Our common stock is listed on The NASDAQ Global Select Market under the symbol POWR.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

Anti-Takeover Provisions

Certain provisions of Delaware law, our restated certificate and restated bylaws, and our stockholder rights plan discussed below could discourage, delay or prevent a proxy contest or other change in control or a change in management. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board and in the policies formulated by the board and to discourage certain types of transactions that may involve an actual or threatened change of control of us. These provisions are also designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights.

Delaware Business Combinations Statute. We are a Delaware corporation and are subject to the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in

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a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. For purposes of Section 203, a business combination is defined broadly to include a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder, and, subject to certain exceptions, an interested stockholder is a person who, together with such person s affiliates and associates, owns (or, within three years prior, did own) 15% or more of the corporation s voting stock.

Blank Check Preferred Stock. Our restated certificate authorizes the issuance of up to 3,500,000 shares of preferred stock, par value $0.01 per share, of which 2,000,000 shares of preferred stock were not designated as of the date of this prospectus. The board has the authority, without further approval of the stockholders, to issue and determine the powers, preferences and relative, participating, optional or other special rights of each series of preferred stock, and any qualifications, limitations or restrictions thereof, including, without limitation, the voting rights, dividend rate, conversion or exchange rights, redemption rights and price (including sinking fund provisions) and liquidation preference. The board can issue shares of preferred stock in one or more series and fix the number of shares constituting any such series and the designation thereof. The rights and preferences of any series of preferred stock that we issue in the future could adversely affect the voting power and ownership interest of holders of our common stock. See Description of Preferred Stock below.

Classified Board of Directors and Limitation on Removal of Directors. Our restated certificate provides that our board is divided into three classes, each serving staggered three-year terms, so that only approximately one-third of the directors are elected at each annual meeting of stockholders. All directors elected to our classified board will serve until the election and qualification of their respective successors or their earlier resignation or removal. The board is authorized to create new directorships and to fill such positions so created and is permitted to specify the class to which any such new position is assigned. The person filling such position would serve for the term applicable to that class. The board (or its remaining members, even if less than a quorum) is also empowered to fill vacancies on the board occurring for any reason for the remainder of the term of the class of directors in which the vacancy occurred. Members of the board may be removed only for cause and only by the affirmative vote of the holders of a majority of shares entitled to vote at an election of directors.

Advance Notice Provisions for Stockholder Proposals and Stockholder Nominations of Directors. Our restated bylaws contain provisions requiring that, in order for nominations to the board or for other business to be properly brought by a stockholder before a meeting of stockholders, the stockholder must first have given timely notice of the proposal in writing to our Secretary. Generally, for an annual meeting, a stockholder s notice must be delivered not less than 90 days nor more than 120 days prior to the anniversary of the previous year s annual meeting, provided if the date of the annual meeting is not within 30 days before or after such anniversary date, notice by the stockholder must be delivered not later than the 90th day prior to such annual meeting or, if later, the tenth day following the day on which public disclosure of the date of the annual meeting was first made. The notice must set forth specific information regarding the proposing stockholder, the proposed business or director nominee and such other information, and the stockholder must follow the procedures, specified in the restated bylaws. Such requirements in our restated bylaws are in addition to the requirements set forth in the rules and regulations of the SEC under the Exchange Act. If it is determined that a nomination or other business was not properly brought before a meeting in accordance with our restated bylaw provisions, such business will not be conducted and such nominee will be disregarded at the meeting.

Special Meetings of Stockholders. Special meetings of the stockholders may be called only by our Chairman of the board, our President or by our Secretary at the request in writing of a majority of our board. Business to be transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice of the special meeting.

No Stockholder Action by Written Consent. Our restated certificate and our restated bylaws require that any action required or permitted to be taken by the stockholders must be taken at a duly called meeting of the stockholders and may not be taken by written consent without a meeting.

Size of the Board. Our restated bylaws provide that the number of directors which shall constitute the whole board shall be fixed from time to time by the board, provided it shall be not less than four nor more than nine.

Filling Board Vacancies. Under our restated bylaws, any vacancy and any newly created directorships resulting from any increase in the authorized number of directors will be filled by a majority of the remaining directors, even if less than a quorum, and the director so chosen will hold office until the election of the class of directors for such directorship.

Super-Majority Stockholder Vote Required for Certain Actions. The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to authorize a merger, consolidation, sale of all or substantially all assets or similar transaction or to amend a corporation s certificate of incorporation or bylaws, unless the corporation s certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our restated certificate requires the affirmative vote of the holders of not less than 80% of our outstanding voting shares in order for us to consolidate or merge with or into another corporation, to cause a combination or majority share acquisition, to sell, transfer or otherwise dispose of all or substantially all of our assets or to dissolve, unless two-thirds of our board approves that action or transaction. In addition, our restated certificate provides that our restated certificate and our restated bylaws can only be amended or repealed by the affirmative vote of the holders of not less than 80% of our outstanding voting shares, unless two-thirds of our board approves such amendment or repeal.

Other Provisions in our Restated Certificate. Our restated certificate contains other provisions that could have the effect of discouraging, delaying or preventing a third party from attempting to acquire us. For example, our restated certificate contains a fair price provision that sets minimum price requirements for potential acquirers under certain conditions. In addition, our restated certificate contains anti-greenmail provisions which limit our ability to repurchase shares of common stock from significant stockholders.

Stockholder Rights Plan. Our board has adopted a stockholder rights plan, through an amended and restated rights agreement. The rights plan may have the effect of delaying, deterring, or preventing changes in our management or control of us, which may discourage potential acquirers who otherwise might wish to acquire us without the consent of the board. Under the rights plan, if a person or group acquires 15% or more of our common stock, all holders of rights (other than the acquiring stockholder) may, upon payment of the purchase price then in effect (which is currently $15.00 per right), purchase common stock having a value of twice the purchase price. In the event that we are involved in a merger or other similar transaction where we are not the surviving corporation, all holders of rights (other than the acquiring stockholder) shall be entitled, upon payment of the then in effect purchase price, to purchase common stock of the surviving corporation having a value of twice the purchase price. The rights are redeemable by us for $0.01 per right, and will expire on November 30, 2011, unless we extend the terms of the rights agreement or we earlier redeem or exchange the rights.

Limitation of Liability and Indemnification of Officers and Directors. Our restated certificate and restated bylaws contain provisions permitted under the DGCL eliminating the personal liability of our directors for monetary damages resulting from breaches of their fiduciary duty, except in circumstances involving wrongful acts, such as the breach of a director s duty of loyalty or acts or omissions that involve intentional misconduct or a knowing violation of law. In addition, our restated certificate and restated bylaws contain provisions requiring us to indemnify our directors and officers to the fullest extent permitted by the DGCL. We have also entered into indemnification agreements with our directors and executive officers providing them with broad rights of indemnification to the fullest extent permitted by law.

DESCRIPTION OF PREFERRED STOCK

We are authorized to issue up to 3,500,000 shares of preferred stock, par value $0.01 per share, of which 1,000,000 shares are designated as Series B and intended for a previous private placement, 500,000 shares are designated as Series C and reserved for issuance under our rights plan, and 2,000,000 shares are undesignated and available for issuance as blank check preferred stock. As of May 26, 2010, no shares of our preferred stock were outstanding.

The following description of the general terms of our preferred stock is a summary only and not meant to be complete, but is qualified in its entirety by reference to our restated certificate and to the certificate of designations relating to any new series of preferred stock we offer hereunder. For more detailed information, you should refer to our restated certificate, which we have filed, and to one or more certificates of designations related to any new series of preferred stock we offer under this prospectus, which prior to offering hereunder we will file, with the SEC as described below and are or will be available as provided under Where You Can Find More Information.

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Our board is authorized, without stockholder approval, to issue shares of our preferred stock from time to time in one or more series and to fix and designate the powers, preferences and relative, participation, optional or other special rights, and any qualifications, limitations or restrictions, of each series of preferred stock, including any:

- voting rights;
- dividend rate;
- conversion or exchange rights;
- redemption rights and price (including sinking fund provisions); and
- liquidation preferences.

Our board may fix the number of shares constituting any series and the designations of these series. The powers, preferences and relative, participation, optional or other special rights, and any qualifications, limitations or restrictions, of each series will be fixed by a certificate of designation relating to each series. If we issue shares of any series of preferred stock under this prospectus, the prospectus supplement relating to each series will specify the terms of the preferred stock, including, if applicable, the following:

- the maximum number of shares in the series and the distinctive designation;
- the terms on which dividends will be paid, if any;
- the terms on which the shares may be redeemed, if at all;
- the liquidation preference, if any;
- the terms of any retirement or sinking fund for the purchase or redemption of the shares of the series;
- the terms and conditions, if any, on which the shares of the series will be convertible into, or exchangeable for, shares of any other class or classes of capital stock;
- the voting rights, if any, on the shares of the series; and
- any or all other preferences and relative, participating, operational or other special rights or qualifications, limitations or restrictions of the shares.

DESCRIPTION OF WARRANTS

The following description, together with the additional information we may include in any applicable prospectus supplement, summarizes the material terms and provisions of the warrants that we may offer under this prospectus and the related warrant agreements and warrant certificates. While the terms summarized below will apply generally to any warrants that we may offer, we will describe the particular terms of any series of warrants in more detail in the applicable prospectus supplement. If we so indicate in the prospectus supplement, the terms of any warrants offered under that prospectus supplement may differ from the terms described below. Specific warrant agreements will contain additional important terms and provisions and will be incorporated by reference as an exhibit to the registration statement which includes this prospectus.

General

We may issue warrants to purchase shares of our common stock or our preferred stock, or a combination thereof, in one or more series. We may issue warrants independently or together with other securities, and the warrants may be attached to or separate from these securities.

Each series of warrants will be evidenced by warrant certificates that we will issue under a separate warrant agreement. We may enter into each warrant agreement with a warrant agent. We will indicate the name and address of any warrant agent in the applicable prospectus supplement relating to a particular series of warrants.

If we issue warrants pursuant to this prospectus, we will describe in the applicable prospectus supplement the terms of each series of warrants, including, as applicable, the following:

- the title of the warrants;
- the offering price for the warrants, if any;
- the aggregate number of warrants offered;

- the designation, number and terms of the securities purchasable upon exercise of the warrants;
- if the warrants are issued as a unit with another security, the date, if any, on and after which the warrants and the related securities will be separately transferable;
- the exercise price of the warrants;
- the dates or periods during which the warrants are exercisable;
- any minimum or maximum amount of warrants that may be exercised at any one time;
- the designation and terms of any securities with which the warrants are issued;
- the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreement and the warrants;
- the terms of any rights to redeem or call the warrants;
- any provisions for changes to or adjustments in the exercise price or the number of securities issuable upon exercise of the warrants;
- any terms, procedures and limitations relating to the transferability, exchange or exercise of the warrants;
- the manner in which the warrant agreement and warrants may be modified;
- the federal income tax consequences of holding or exercising the warrants; and
- any other specific terms, preferences, rights or limitations of or restrictions on the warrants.

Before exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or the right to exercise voting rights, if any.

Exercise of Warrants

Each warrant will entitle the holder to purchase the securities that we specify at the exercise price that we describe in the applicable prospectus supplement. Unless we otherwise specify in the applicable prospectus supplement, holders of the warrants may exercise the warrants at any time up to 5:00 P.M. New York City time on the expiration date that we set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Holders of the warrants may exercise the warrants by delivering the warrant certificate representing the warrants to be exercised together with specified information, and paying the required amount to the warrant agent in immediately available funds, as provided in the applicable prospectus supplement. We will set forth in the warrant certificate and in the applicable prospectus supplement the information that the holders of the warrants will be required to deliver to the warrant agent upon exercise of the warrants.

Upon receipt of the required payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will issue and deliver the securities purchasable upon such exercise. If fewer than all of the warrants represented by the warrant certificate are exercised, then we will issue a new warrant certificate for the remaining amount of warrants. If we so indicate in the applicable prospectus supplement, holders of the warrants may surrender securities as all or part of the exercise price for warrants.

Enforceability of Rights By Holders of Warrants

Each warrant agent will act solely as our agent under the applicable warrant agreement and will not assume any obligation or relationship of agency or trust with any holder of any warrant. A single bank or trust company may act as warrant agent for more than one issue of warrants. A warrant agent will have no duty or responsibility in case of any default by us under the applicable warrant agreement or warrant, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of warrants may, without the consent of the related warrant agent or the holder of any other warrants, enforce by appropriate legal action its right to exercise, and to receive the securities purchasable upon exercise of, its warrants.

DESCRIPTION OF UNITS

We may issue units consisting of one or more shares of common stock, shares of preferred stock and/or warrants in any combination. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

If we issue any units pursuant to this prospectus, we will describe in the applicable prospectus supplement the terms of and other information relating to such units, including, as applicable, the following:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- any applicable material U.S. Federal income tax consequences;
- the terms of any unit agreement governing the units; and
- any provisions for the issuance, payment, settlement, transfer or exchange of the units or of the securities comprising the units.

The provisions described in this section, as well as those described under Description of Common Stock , Description of Preferred Stock and Description of Warrants, will apply to each unit, as applicable, and to any common stock, preferred stock or warrant included in each unit.

SELLING STOCKHOLDERS

In addition to covering the offer and sale of securities by us, this prospectus covers the offer and resale by the selling stockholders of up to 1,025,641 shares of our common stock. As used in this prospectus, the term selling stockholders includes each of the selling stockholders listed in the table below, and any donees, pledgees, transferees or other successors-in-interest selling shares received after the date of this prospectus from a selling stockholder as a gift, pledge or other non-sale related transfer.

As described above under PowerSecure International, Inc. Recent Developments, on April 30, 2010 we issued 1,025,641 shares of our common stock to the founder, who is the President, of EfficientLights, and to five other key employees of EfficientLights who owned membership interests in EfficientLights, who are the selling stockholders listed below, in a private placement in connection with our acquisition of the minority interest in EfficientLights, which thereafter became a wholly-owned subsidiary of our PowerSecure subsidiary. We previously owned two-thirds of the membership interests in EfficientLights, and we exercised our right and option, under the operating agreement of EfficientLights, to acquire the remaining one-third membership interest from the selling stockholders listed below in exchange for the issuance of shares of our common stock.

The following table sets forth:

- the name of each of the selling stockholders;
- the number of shares of our common stock beneficially owned by each such selling stockholder as of May 26, 2010;
- the number of shares of our common stock being offered for the account of such selling stockholder under this prospectus, and
- the number of shares of our common stock beneficially owned by each selling stockholder upon completion of this offering, assuming all shares offered under this prospectus are sold.

The information in the table below is based solely on information supplied to us by the selling stockholders, and we have not independently verified such information. Each of the selling stockholders may sell all, some or none of the shares offered under this prospectus. We do not know how long the selling stockholders will hold their shares before selling them, and we currently have no agreements, arrangements or understandings with any selling stockholders regarding the sale of any of the shares. Mr. Beatenbough is the President, and the other selling stockholders are employees, of our EfficientLights subsidiary. Except as described in the foregoing sentence and

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other than as a result of the ownership of our shares, none of the selling stockholders has held any position, office or other material relationship with us or any of our affiliates within the past three years.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering (1)(2) Number	Percent	Shares Being Registered For Sale	Shares Beneficially Owned After Offering(2)(3)__ Number	Percent
Bryan Beatenbough	820,512	4.5	820,512	0	0
Wesley Mize	102,564	*	102,564	0	0
Ryan Haley	51,282	*	51,282	0	0
Patrick Barbee	20,613	*	20,513	100	*
Jeff Purcell	15,425	*	15,385	40	*
Glenn Crump	15,385	*	15,385	0	0

* Represents less than 1% of the outstanding shares of our common stock.

(1) Except as otherwise indicated, each selling stockholder named in the table has sole voting and investment power with respect to all common stock beneficially owned by such stockholder. Beneficial ownership is determined in accordance with Rule 13d-3(d) promulgated by the SEC under the Exchange Act.

(2) The percentages shown are

calculated based on 18,250,041 shares of common stock outstanding as of May 26, 2010.

(3) There is no assurance that the selling stockholders will sell all or any portion of the shares being registered for sale. For purposes of this table, we have assumed that, upon completion of the offering, the selling stockholders will have sold all of the shares covered by this prospectus and will not have acquired beneficial ownership of any additional shares.

We will pay all expenses of the registration of the shares of common stock to be offered by the selling stockholders under this prospectus including, without limitation, SEC filing fees and expenses and compliance with state securities laws, except that the selling stockholders will pay any underwriting discounts and selling commissions incurred by them in connection with such sales. We will indemnify the selling stockholders against liabilities, including liabilities under the Securities Act. We may be indemnified by the selling stockholders against civil liabilities, including liabilities under the Securities Act, which may arise from any written information furnished to us by the selling stockholders specifically for use in this prospectus.

PLAN OF DISTRIBUTION

We and the selling stockholders may sell the offered securities from time to time pursuant to underwritten public offerings, negotiated transactions, block trades or a combination of these methods. We and the selling stockholders may sell the securities being offered hereby in one or more of the following ways from time to time:

- to or through underwriters or dealers;
- through agents;
- directly to purchasers; or

- through a combination of any of these methods.

We and the selling stockholders may distribute securities from time to time in one or more transactions:

- at a fixed offering price or prices, which may be changed;
- at market prices prevailing at the time of sale;
- at prices related to prevailing market prices; or
- at negotiated prices.

The prospectus supplement will include the following information as to each offering of securities hereunder:

- the terms of the offering;
- the names of any underwriters, dealers or agents;

the name or names of any managing underwriter or underwriters;

the purchase price or public offering price of the securities;

the net proceeds to us or the selling stockholders from the sale of the securities;

any over-allotment options under which underwriters may purchase additional securities from us;

any delayed delivery arrangements;

any underwriting discounts, commissions and other items constituting underwriters compensation;

any discounts or concessions allowed or reallowed or paid to dealers; and

any commissions paid to agents.

Sales Through Underwriters or Dealers

If underwriters are used in the sale of securities, the underwriters will acquire the securities for their own account and may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer the securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless the prospectus supplement otherwise provides, the obligations of the underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all of the securities offered by the prospectus supplement if they purchase any of them, other than securities covered by any over-allotment option. Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may change from time to time. We or the selling stockholders may use underwriters with whom we or they have a material relationship. We will describe in the prospectus supplement, naming the underwriter, the nature of any such relationship.

During and after an offering through underwriters, the underwriters may purchase and sell the securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, which means that selling concessions allowed to syndicate members or other broker-dealers for the offered securities sold for their account may be reclaimed by the syndicate if the offered securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered securities, which may be higher than the price that might otherwise prevail in the open market. If commenced, the underwriters may discontinue these activities at any time.

If dealers are used in the sale of securities, we and any selling stockholders will sell the securities to them as principals. The dealers may then resell those securities to the public at varying prices determined by the dealers at the time of resale. The dealers participating in any sale of the securities may be deemed to be underwriters within the meaning of the Securities Act with respect to any sale of those securities. We will include in the applicable prospectus supplement the names of the dealers and the terms of the transaction.

Direct Sales and Sales Through Agents

We or any selling stockholders may sell the securities directly to purchasers. In that case, no underwriters or agents would be involved. We or any selling stockholders may also sell the securities through agents designated from time to time. Any agent involved in the offer or sale of the securities and any commissions payable to the agent will be disclosed in the applicable prospectus supplement. Unless the applicable prospectus supplement states otherwise, any agent will act on a reasonable best efforts basis for the period of its appointment.

We or any selling stockholders may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act with respect to any sale of those securities. We will describe the terms of any sales of these securities in the prospectus supplement.

Remarketing Arrangements

Offered securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for us. Any remarketing firm will be identified and the terms of its agreements, if any, with us and its compensation will be described in the applicable prospectus supplement. Remarketing firms may be deemed to be underwriters, as that term is defined in the Securities Act, in connection with the securities remarketed.

Delayed Delivery Contracts

If indicated in the prospectus supplement, we or any selling stockholders may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase securities from us at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The prospectus supplement will describe the commission payable for solicitation of those contracts.

Additional Provisions Applicable to Selling Stockholders

The selling stockholders are subject to the applicable provisions of the Exchange Act and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares of common stock offered in this prospectus by the selling stockholders. The anti-manipulation rules under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities for the particular securities being distributed for a period of up to five business days before the distribution. The restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities for the shares.

Instead of selling the shares of common stock under this prospectus, the selling stockholders also may resell all or a portion of their shares of common stock in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of that rule, or pursuant to other available exemptions from the registration requirements of the Securities Act.

Derivative Transactions

We or the selling stockholders may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the prospectus supplement, including in short sale transactions. If so, the third parties may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of (704) (0.1) (239) (0.1)

Net income

$51,597   19.3% $37,273   19.7% $93,884   18.3% $73,707   20.3%

Depreciation

$7,854   2.9% $6,013   3.2% $14,972   2.9% $12,023   3.3%

Deferred stock-based compensation

227   0.1   403   0.2   344   0.1   638   0.3

(1) Inclusive of stock-based compensation expenses of $Nil and $137 thousand during the three months ended September 30, 2005 and 2004 respectively, and $Nil and $368 thousand

during the six months ended September 30, 2005 and 2004 respectively in the IT services segments.

(2) Inclusive of stock-based compensation expenses of $227 thousand and $266 thousand during the three months ended September 30, 2005 and 2004 respectively, and $344 thousand and $270 thousand during the six months ended September 30, 2005 and 2004 respectively, in the IT services segments.

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Comparison of unaudited results for the six months ended September 30, 2005 and the unaudited results for the six months ended September 30, 2004

Revenues. Our revenues increased by 41.2% to $513.9 million during the six months ended September 30, 2005 from $363.9 million during the six months ended September 30, 2004. This revenue growth of $150.0 million during the six months ended September 30, 2005 was primarily the result of an increase in business both from existing customers and new customers. Revenues from existing customers increased by 38.0% to $468.5 million during the six months ended September 30, 2005 from $339.5 million during the six months ended September 30, 2004. Revenues from new customers increased by 86.1% to $45.4 million during the six months ended September 30, 2005 from $24.4 million during the six months ended September 30, 2004. We added 63 and 52 customers including 5 and 8 from the Fortune Global 500 and Fortune U.S. 500 list during the six months ended September 30, 2005 and 2004, respectively.

During the six months ended September 30, 2005, revenues from consulting and enterprise business solutions has grown by $78.8 million, revenues from application development and maintenance has increased by $54.2 million, followed by extended engineering solutions and infrastructure management services, which grew by $10.0 million and $5.1 million, respectively. In terms of percentage growth during the six months ended September 30, 2005 over six months ended September 30, 2004, revenues from consulting and enterprise business solutions has grown by 65.2%, application development and maintenance services has grown by 26.9%, extended engineering solutions and infrastructure management services have grown by 41.8% and 34.2% respectively.

Revenues from IT services (excluding inter-segment revenues) provided on a time-and-materials basis decreased to 63.7% during the six months ended September 30, 2005 from 67.4% during the six months ended September 30, 2004. Revenues from IT services provided on a fixed-price basis increased to 36.3% during the six months ended September 30, 2005 from 32.6% during the six months ended September 30, 2004. The increase during the six months ended September 30, 2005 for fixed-price contracts is primarily due to the shift in customer preference regarding type of contracts from time-and-material to fixed-price.

The onsite revenues increased as a result of new engagements in consulting and enterprise business solutions during the six months ended September 30, 2005, and the need for extensive interactions with customers in the early stages of new engagements to understand their business needs and create the relevant processes before we move the appropriate portion of the work offshore. Revenues from new customers increased by 86.1% to $45.4 million during the six months ended September 30, 2005 from $24.4 million during the six months ended September 30, 2004.

Of the total increase of $150.0 million in total revenue during the six months ended September 30, 2005, $89.0 million increased in North America followed by $37.3 million in Europe and $17.0 million in rest of the world. Revenue in India increased by $6.4 million and in Japan by $258 thousand. Our increased business in North America and Europe was due to new customers and additional business from existing customers.

Cost of Revenues. Cost of revenues increased by 47.6% to $329.8 million during the six months ended September 30, 2005 from $223.5 million during the six months ended September 30, 2004. Cost of revenues represented 64.2% of revenues during the six months ended September 30, 2005 and 61.4% during the six months ended September 30, 2004. This increase by $106.3 million was attributable primarily to increases in associate compensation and benefits expenses, traveling expenses, communication expenses, and other expenses, attributable largely to an overall increase in our business during this period. Associate compensation and benefits expenses increased by 50.1% to $263.7 million, or 51.3% of revenues during the six months ended September 30, 2005 from $175.7 million, or 48.3% of revenues during the six months ended September 30, 2004. The increase in the associate compensation and benefits is due to: (i) increase in the total number of technical associates by 5,647 to 22,762 as of September 30, 2005 from 17,115 as of September 30, 2004. (ii) increase in number of onsite technical associates by 1,118 to 4,952 as of September 30, 2005 from 3,834 as of September 30, 2004 for which we pay a higher compensation; (iii) salary incentives amounting to $13.8 million given to technical associates during the six months ended September 30, 2005 as compared to $2.9 million during the six months ended September 30, 2004. Salary incentives increased primarily due to introduction of new incentive scheme by the company during the six months ended September 30, 2005, and (iv) increase of approximately $1.6 million of the Citisoft deferred consideration and funding to Employee Benefit Trust accounted as compensation expense relating to employees of Citisoft. Traveling expenses increased 16.1% to $19.5 million, or 3.8% of revenues, during the six months ended September 30, 2005

from $16.8 million, or 4.6% of revenues, during the six months ended September 30, 2004. This increase was primarily due to increase in the number of travels resulting from increase in the number of technical associates. Communication expenses increased 120.6% to $6.6 million, or 1.3% of revenues during the six months ended September 30, 2005 from $3.0 million, or 0.8% of revenues during the six months ended September 30, 2004. The increase in communication expenses was primarily due to increase in the business operations. Depreciation expenses increased by 26.0% to $12.6 million, or 2.5% of revenues, during the six months ended September 30, 2005 from $10.0 million, or 2.8% of revenues during the six months ended September 30, 2004. The increase in depreciation expenses was primarily due to purchase of premises, equipment and other assets during the period. Other expenses comprised mainly of rent, power and fuel and maintenance expenses. Other expenses increased by 54.2% to $27.5 million, or 5.3% of revenues, during the six months ended September 30, 2005 from $17.8 million, or 4.9% of revenues during the six months ended September 30, 2004.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 33.6% to $86.2 million during the six months ended September 30, 2005 from $64.5 million during the six months ended September 30, 2004. Selling, general and administrative expenses represented 16.8% of revenues during the six months ended September 30, 2005 and 17.7% of revenues during the six months ended September 30, 2004. This increase of $21.7 million during the six months ended September 30, 2005 was a result primarily of increase in associate compensation and benefits for non-technical associates, communication expenses, traveling expenses and sales and marketing expenses. Associate compensation and benefits increased 58.5% to $46.6 million, or 9.1% of revenues, during the six months ended September 30, 2005 as compared to $29.4 million or 8.1% of revenues during the six months ended September 30, 2004 primarily on account of increase in the number of non-technical associates to 1,644 as of September 30, 2005 from 1,146 as of September 30, 2004, and salary incentives amounting to $10.5 million given to non-technical associates during the six months ended September 30, 2005 as compared to $2.5 million during the six months ended September 30, 2004. Salary incentives increased primarily due to introduction of new incentive scheme by the company during the six months ended September 30, 2005. Traveling expenses increased 80.9% to $8.5 million, or 1.7% of revenues during the six months ended September 30, 2005 from $4.7 million or 1.3% of revenue during the six months ended September 30, 2004. Traveling expenses increased primarily due to increase in travels by our non- technical associates. Professional charges increased by 16.0% to $5.8 million, or 1.1% of revenues during the six months ended September 30, 2005 from $5.0 million or 1.4% of revenue during the six months ended September 30, 2004. Stock-based compensation expense increased 27.4% to $344 thousand, or 0.1% of revenues during the six months ended September 30, 2005 from $270 thousand, or 0.1% of revenues during the six months ended September 30, 2004. Depreciation expenses increased 9.5% to $2.3 million, or 0.5% of revenues during the six months ended September 30, 2005 from $2.1 million, or 0.6% of revenues during the six months ended September 30, 2004. Other expenses comprised primarily of depreciation, marketing, rent, power and fuel and maintenance expenses. Other expenses increased by 1.0% to $19.6 million or 3.8% of revenues during the six months ended September 30, 2005 from $19.4 million, or 5.3% of revenues during the six months ended September 30, 2004. These increases were partially offset by decrease in communication expenses by 16.2% to $3.1 million or 0.6% of revenues during the six months ended September 30, 2005 from $3.7 million or 1.0% revenues during the six months ended September, 30 2004.

Operating income. Our operating income was $97.8 million for the six months ended September 30, 2005, representing an increase of 28.9% over the operating income of $75.9 million for the six months ended September 30, 2004. As a percentage of revenues, operating income decreased to 19.0% for the six months ended September 30, 2005 from 20.9% for the six months ended September 30, 2004. This decrease in operating income as a percentage of revenue was due to (i) increase in the associate compensation and benefits expenses to 60.4% of revenue during the six months ended September 30, 2005 from 56.3% of revenues, during the six months ended September 30, 2004, (ii) increase in the communication expenses to 1.9% of revenue during the six months ended September 30, 2005 from 1.8% of revenues, during the six months ended September 30, 2004 and (iii) offset by decrease in the traveling, depreciation and other expenses as percentage of revenues.

Interest income. Interest income increased to $12.8 million during the six months ended September 30, 2005 representing an increase of 21.9% from $10.5 million during the six months ended September 30, 2004, primarily due to increase in investments in bank deposits to $408.6 million as of September 30, 2005 from $314.0 million as of September 30, 2004.

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Gain/(loss) on foreign exchange transactions. During the six months ended September 30, 2005 and the six months ended September 30, 2004, 78.5% and 82.2% respectively, of our revenues were generated in U.S. dollars. As at September 30, 2005, the Indian rupee depreciated to Rs.43.94 against Rs.43.62 at March 31, 2005, whereas the Indian rupee depreciated to Rs.45.91 as at September 30, 2004 against Rs.43.40 as at March 31, 2004. However, the average exchange rate of Indian rupee to U.S. dollar during the six months ended September 30, 2005 was Rs.43.57 against Rs.45.50 during the six months ended September 30, 2004. As a result, loss on foreign exchange transactions was $568 thousand during the six months ended September 30, 2005 as compared to a gain of $6.0 million during the six months ended September 30, 2004.

Other expenses, net. Other expenses, net were $77 thousand during the six months ended September 30, 2005, representing a decrease of 98.6% from $5.4 million during the six months ended September 30, 2004. The decrease is primarily on account of gain on forward and options contracts amounting to $77 thousand during the six months ended September 30, 2005 as compared to a loss of $5.2 million during the six months ended September 30, 2004.

Income taxes. Income taxes were $15.2 million during the six months ended September 30, 2005, representing an increase of 17.8% from $12.9 million during the six months ended September 30, 2004. This increase was primarily due to increase in tax of $0.9 million relatable to our branches located outside India. The expiry of tax exemption benefit for two of our STP units in Hyderabad resulted in increase in income taxes by $1.3 million during the six months ended September 30, 2005.

Equity in earnings/(losses) of associated companies, net of taxes. Equity in losses of associated companies was $704 thousand during the six months ended September 30, 2005 as compared to $239 thousand during the six months ended September 30, 2004. Equity in losses of Sify and CA Satyam amounted to $893 thousand and $47 thousand respectively during the six months ended September 30, 2005 as compared to $552 thousand and $70 thousand respectively during the six months ended September 30, 2004. These losses were partially offset by equity in profit of Satyam Venture amounting to $236 thousand during the six months ended September 30, 2005 as compared to $383 thousand during the six months ended September 30, 2004.

Net income. As a result of the foregoing, our net income was $93.9 million for the six months ended September 30, 2005, representing an increase of 27.4% over net income of $73.7 million for the six months ended September 30, 2004. As a percentage of total revenues, net income decreased to 18.3% for the six months ended September 30, 2005 from 20.3% for the six months ended September 30, 2004.

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Comparison of unaudited results for the three months ended September 30, 2005 and the unaudited results for the three months ended September 30, 2004

Revenues. Our revenues increased by 41.8% to $267.8 million during the three months ended September 30, 2005 from $188.9 million during the three months ended September 30, 2004. This revenue growth of $78.9 million during the three months ended September 30, 2005 was primarily the result of an increase in business both from existing customers and new customers. Revenues from existing customers increased by 38.3% to $244.3 million during the three months ended September 30, 2005 from $176.6 million during the three months ended September 30, 2004. Revenues from new customers increased by 91.1% to $23.5 million during the three months ended September 30, 2005 from $12.3 million during the three months ended September 30, 2004. We added 32 and 27 customers including 1 and 5 from the Fortune Global 500 and Fortune U.S. 500 list during the three months ended September 30, 2005 and 2004, respectively.

During the three months ended September 30, 2005, revenues from consulting and enterprise business solutions has grown by $41.5 million, revenues from application development and maintenance has increased by $29.8 million, followed by extended engineering solutions and managed infrastructure and technology services, which grew by $4.6 million and $2.2 million, respectively. In terms of percentage growth during the three months ended September 30, 2005 over three months ended September 30, 2004, revenues from consulting and enterprise business solutions has grown by 63.7%, application development and maintenance services has grown by 29.3%, extended engineering solutions and infrastructure management services have grown by 36.8% and 28.2% respectively.

Revenues from IT services (excluding inter-segment revenues) provided on a time-and-materials basis decreased to 65.6% during the three months ended September 30, 2005 from 66.8% during the three months ended September 30, 2004. Revenues from IT services from fixed-price basis increased to 34.4% during the three months ended September 30, 2005 from 33.2% during the three months ended September 30, 2004. The increase during the three months ended September 30, 2005 for fixed-price contracts is primarily due to the shift in customer preference regarding type of contracts from time-and-material to fixed-price.

The Onsite revenues increased during the three months ended September 30, 2005 as a result of new engagements in consulting and enterprise business solutions during the three months ended September 30, 2005, and the need for extensive interactions with customers in the early stages of new engagements to understand their business needs and create the relevant processes before we move the appropriate portion of the work offshore. Revenues from new customers increased by 91.1% to $23.5 million during the three months ended September 30, 2005 from $12.3 million during the three months ended September 30, 2004.

Of the total increase of $78.9 million in total revenue during the three months ended September 30, 2005, $42.2 million increased in North America followed by $21.7 million in Europe and $10.3 million in rest of the world. Revenue in India increased by $4.3 million and increased in Japan by $0.4 million. Our increased business in North America and Europe was due to new customers and additional business from existing customers.

Cost of Revenues. Cost of revenues increased by 45.6% to $170.7 million during the three months ended September 30, 2005 from $117.2 million during the three months ended September 30, 2004. Cost of revenues represented 63.7% of revenues during the three months ended September 30, 2005 and 62.0% during the three months ended September 30, 2004. This increase by $53.5 million was attributable primarily to increases in associate compensation and benefits expenses, traveling expenses, communication expenses and other expenses, attributable largely to an overall increase in our business during this period. Associate compensation and benefits expenses increased by 45.5% to $135.0 million, or 50.4% of revenues during the three months ended September 30, 2005 from $92.8 million, or 49.1% of revenues during the three months ended September 30, 2004. The increase in the associate compensation and benefits is due to: (i) increase in the total number of technical associates by 5,647 to 22,762 as of September 30, 2005 from 17,115 as of September 30, 2004 (ii) increase in number of onsite technical associates by 1,118 to 4,952 as of September 30, 2005 from 3,834 as of September 30, 2004 for which we pay a higher compensation; (iii) salary incentives amounting to $5.9 million given to technical associates during the three months ended September 30, 2005 as compared to $1.5 million during the three months ended September 30, 2004. Salary incentives increased primarily due to introduction of new incentive scheme by the company, and (iv) increase of approximately $1.0 million of the Citisoft deferred consideration and funding to Employee Benefit Trust accounted as compensation expense relating to employees of Citisoft. Traveling expenses increased 17.6% to $10.0 million, or

3.7% of revenues, during the three months ended September 30, 2005 from $8.5 million, or 4.5% of revenues, during the three months ended September 30, 2004. This increase was primarily due to increase in the number of travels resulting from increase in the number of technical associates. Communication expenses increased 153.3% to $3.8 million or 1.4% of revenues during the three months ended September 30, 2005 from $1.5 million during the three months ended September 30, 2004. The increase in communication expenses was primarily due to increase in the business operations. Depreciation expenses increased by 34.0% to $6.7 million, or 2.5% of revenues, during the three months ended September 30, 2005 from $5.0 million during the three months ended September 30, 2004. The increase in depreciation expenses was primarily due to purchase of premises, equipment and other assets during the period. Other expenses comprised mainly of rent, power and fuel and maintenance expenses. Other expenses increased 64.1% to $15.1 million, or 5.6% of revenues, during the three months ended September 30, 2005 from $9.2 million during the three months ended September 30, 2004.

Selling, general and administrative expenses. Selling, general and administrative expenses increased 38.0% to $45.4 million during the three months ended September 30, 2005 from $32.9 million during the three months ended September 30, 2004. Selling, general and administrative expenses represented 17.0% of revenues during the three months ended September 30, 2005 and 17.4% of revenues during the three months ended September 30, 2004. This increase of $12.5 million during the three months ended September 30, 2005 was a result primarily of increase in associate compensation and benefits for non-technical associates, communication expenses, traveling expenses and sales and marketing expenses. Associate compensation and benefits increased 53.0% to $23.1 million, or 8.6% of revenues, during the three months ended September 30, 2005 as compared to $15.1 million or 8.0% of revenues during the three months ended September 30, 2004 primarily on account of increase in the number of non-technical associates to 1,644 as of September 30, 2005 from 1,146 as of September 30, 2004, and salary incentives amounting to $4.4 million given to non-technical associates during the three months ended September 30, 2005 as compared to $0.9 million during the three months ended September 30, 2004. Salary incentives increased primarily due to introduction of new incentive scheme by the company. Traveling expenses increased 76.0% to $4.4 million, or 1.7% of revenues during the three months ended September 30, 2005 from $2.5 million or 1.3% of revenue during the three months ended September 30, 2004. Traveling expenses increased primarily due to increase in travels by our non-technical associates. Professional charges increased 84.2% to $3.5 million, or 1.3% of revenues during the three months ended September 30, 2005 from $1.9 million, or 1.0% of revenues during the three months ended September 30, 2004. Marketing expenses increased 14.3% to $3.2 million, or 1.2% of revenues during the three months ended September 30, 2005 from $2.8 million, or 1.5% of revenues during the three months ended September 30, 2004. Depreciation expenses increased 20.0% to $1.2 million, or 0.4% of revenues during the three months ended September 30, 2005 from $1.0 million, or 0.5% of revenues during the three months ended September 30, 2004. Other expenses comprised primarily of rent, power and fuel and maintenance expenses. Other expenses increased by 12.5% to $8.1 million or 3.0% of revenues during the three months ended September 30, 2005 from $7.2 million, or 3.8% of revenues during the three months ended September 30, 2004. These increases were partly offset by decrease in communication expenses by 23.8% to $1.6 million or 0.6% of revenues during the three months ended September 30, 2005 from $2.1 million or 1.1% revenues during the three months ended September, 30 2004.

Operating income. Our operating income was $51.7 million for the three months ended September 30, 2005, representing an increase of 33.2% over the operating income of $38.8 million for the three months ended September 30, 2004. As a percentage of revenues, operating income decreased to 19.3% for the three months ended September 30, 2005, from 20.5% for the three months ended September 30, 2004. This decrease in operating income as a percentage of revenue was due to (i) increase in the associate compensation and benefits expenses to 59.0% of revenue during the three months ended September 30, 2005 from 57.1% of revenues during the three months ended September 30, 2004, (ii) increase in the communication expenses to 2.0% of revenue during the three months ended September 30, 2005 from 1.9% of revenues during the three months ended September 30, 2004 and (ii) offset by decrease in the traveling, depreciation and other expenses as percentage of revenues.

Interest income. Interest income increased to $6.5 million during the three months ended September 30, 2005 representing an increase of 25% from $5.2 million during the three months ended September 30, 2004 primarily due to increase in investments in bank deposits to $408.6 million as of September 30, 2005 from $314.0 million as of September 30, 2004.

Gain/(loss) on foreign exchange transactions. During the three months ended September 30, 2005 and the three months ended September 30, 2004, 76.1% and 82.4% respectively, of our revenues were generated in U.S. dollars.

The average exchange rate of Indian rupee to U.S. dollar during the three months ended September 30, 2005 was Rs.43.61 against Rs.46.14 during the three months ended September 30, 2004. As at September 30, 2005, the Indian rupee depreciated to Rs.43.94 against 43.51 as at June 30, 2005. At September 30, 2004, the rupee appreciated to Rs.45.91 against Rs.45.99 in March 31, 2004. As a result, gain on foreign exchange transactions was $2.2 million during the three months ended September 30, 2005 as compared to a loss of $878 thousand during the three months ended September 30, 2004.

Other income/(expenses), net. Other expenses, net ware $1.6 million during the three months ended September 30, 2005, as compared to other income of $579 thousand during the three months ended September 30, 2004. This is primarily on account of loss on forward and options contracts amounting to $1.6 million during the three months ended September 30, 2005 as compared to a loss of $733 thousand during the three months ended September 30, 2004.

Income taxes. Income taxes were $6.7 million during the three months ended September 30, 2005, representing an increase of 6.3% from $6.3 million during the three months ended September 30, 2004. The expiry of tax exemption benefit for two of our STP units in Hyderabad resulted in increase in income taxes by $0.8 million during the three months ended September 30, 2005. This increase was offset by decrease in income taxes of $0.4 million relatable to our branches located outside India.

Equity in earnings/(losses) of associated companies, net of taxes. Equity in losses of associated companies was $208 thousand during the three months ended September 30, 2005 as compared to $113 thousand during the three months ended September 30, 2004. Equity in losses of Sify and CA Satyam amounted to $346 thousand and $26 thousand respectively during the three months ended September 30, 2005 as compared to $241 thousand and $41 thousand respectively during the three months ended September 30, 2004. These losses were partially offset by equity in profit of Satyam Venture amounting to $164 thousand during the three months ended September 30, 2005 as compared to $169 thousand during the three months ended September 30, 2004.

Net income. As a result of the foregoing, our net income was $51.6 million for the three months ended September 30, 2005, representing an increase of 38.3% over net income of $37.3 million for the three months ended September 30, 2004. As a percentage of total revenues, net income decreased to 19.3% for the three months ended September 30, 2005 from 19.7% for the three months ended September 30, 2004.

Liquidity and Capital Resources

Net cash provided by operating activities

Net cash provided by operating activities was $94.1 million and $67.1 million during the six months ended September 30, 2005 and 2004, respectively.

During the six months ended September 30, 2005, non-cash adjustments to reconcile the $93.9 million net income to net cash used in operating activities consisted primarily of depreciation and amortization expense of $15.3 million and increase in net accounts receivable and unbilled revenues. Net accounts receivable and unbilled revenues increased by $29.0 million primarily as a result of an increase in our revenues. Other assets increased by $15.7 million primarily on account of interest accrued on bank deposits amounting to $9.7 million and increase in other deposits by $6.3 million. Accounts payable and accrued expenses increased by $32.4 million primarily on account of accrued compensation and benefits of $11.8 million and increase in provision for gratuity and unutilized leave by $6.6 million.

During the six months ended September 30, 2004, non-cash adjustments to reconcile the $73.7 million net income to net cash used in operating activities consisted primarily of depreciation expense of $12.0 million. Net accounts receivable and unbilled revenues increased by $35.8 million primarily as a result of an increase in our revenues and increase in the collection period. Accounts payable and accrued expenses increased by $26.5 million primarily on account of (i) recognition of loss of $3.0 million on outstanding forward and options contracts and (ii) increase in taxes by $5.6 million and increase in sub-contracting charges payable by $5.2 million.

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Net cash used in investing activities

Net cash used in investing activities was $39.9 million and $17.1 million during the six months ended September 30, 2005 and 2004, respectively.

Net cash used in investing activities during the six months ended September 30, 2005 increased by $22.8 million primarily due to payment of consideration for the acquisition of Citisoft Plc amounting to $12.1 million net of cash acquired, advance payment for acquisition of Knowledge Dynamics amounting to $1.8 million and increase in purchases of premises, plant and equipment to $26.2 million during the six months ended September 30, 2005 from $17.6 million during the six months ended September 30, 2004 due to purchase of premises and equipment, primarily infrastructure, computers and other equipment associated with the expansion of new facilities at Bangalore, Chennai, Hyderabad and Vishakapatnam.

Net cash provided by/(used in) financing activities

Net cash used in financing activities was $3.4 million and $6.3 million during the six months ended September 30, 2005 and 2004 respectively.

During the six months ended September 30, 2005, $24.2 million was raised from financing activities, primarily from issuance of associate stock options of $16.3 million and $6.8 million from long term debts by Nipuna. We used cash in repayment of loan amounting to $1.3 million as compared to $848 thousand during the six months ended September 30, 2004. Cash dividends paid amounted to $25.2 million during the six months ended September 30, 2005 as compared to $21.6 million during the six months ended September 30, 2004.

As of September 30, 2005, we had cash and cash equivalents of $179.0 million, rupee denominated loans of Satyam Associate Trust of $1.7 million secured by our shares held by the Satyam Associate Trust, U.S. dollar denominated loans of Nipuna amounting to $6.7 million and other outstanding loans of $4.3 million with maturities ranging from one to three years. As of September 30, 2005, we had an unused line of credit of $16.8 million from banks and unused non-funded lines of credit of $13.0 million from banks.

The following table describes our outstanding credit facilities as of September 30, 2005.

Loan Type	Lenders	Amount outstanding	Interest (per annum)	Computation method
		(dollars in thousands)		
Rupee loan of Satyam Associates Trust	Cholamandalam	$ 1,676	10.75%	Fixed
Working capital term loan	BNP Paribas	5,690	6 month LIBOR +0.95%	Floating
External commercial borrowing	BNP Paribas	1,001	6 month LIBOR +0.95%	Floating
Export packing credit	BNP Paribas	1,549	6 month LIBOR +0.25%	Floating
Other loans	Various other parties	2,761	3.0%-14.5%	Fixed
Total		**$ 12,677**		

We anticipate capital expenditures of approximately $50.0 million during fiscal 2006, principally to finance construction of new facilities in our offshore centers, expand facilities in offshore centers in India and establish offsite centers outside India. We believe that existing cash and cash equivalents and funds generated from operations will be sufficient to meet these requirements. However, we may significantly alter our proposed capital expenditures plans and accordingly, may require additional financing to meet our requirements. In either case, we cannot assure you that additional financing will be available at all or, if available, that such financing will be obtained on terms favorable to us or that any additional financing will not be dilutive to our shareholders.

We have guaranteed payment of all sums payable by Nipuna to its two strategic investors, Olympus Capital and Intel Capital, upon redemption of the $20 million preference shares in Nipuna held by them. These preference shares are to be mandatorily redeemed or converted into equity shares no later than June 2007, if Nipuna achieves certain targets for revenues and profits by March 31, 2006. If these targeted revenues and profits are not achieved along with other triggering events, the investors have an option to either redeem the preference shares or convert them. Although certain triggering events for early redemption as per the agreement have occurred during the period January 2004 to December 2004, the investors waived their right of early redemption. If not earlier converted, these preference shares

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are redeemable on maturity in June 2007 at a redemption premium, which could range in between 7.5% to 13.5% per annum.

In addition, depending upon certain triggering events, we may be required to subscribe to US$20 million in convertible debentures of Nipuna which would be convertible upon the election of Nipuna into ordinary shares at any time. On January 6, 2005, Nipuna obtained a credit facility from a bank for long-term borrowings up to US$20 million with an interest of 0.95% above a six-month LIBOR. Satyam Computer Services has given a corporate guarantee to the bank for the borrowing. As per the terms of the facility, Nipuna was required to draw the funds prior to September 30, 2005 and Nipuna has got a further extension upto December 31, 2005. The borrowing is repayable in 3 years from each draw down of the borrowing. As of September 30, 2005, Nipuna has availed $6.7 million under the above arrangement. We expect that we will not be required to subscribe to the convertible debenture described above.

The following table sets forth our contractual obligations and commitments to make future payments as of September 30, 2005 (unaudited). The following table excludes our accounts payable, accrued operating expenses and other current liabilities which are payable in normal course of operations. We believe that the conversion of the Nipuna preference shares is more probable than redemption and therefore have not included such redemption and the redemption premium payable, if redeemed as per the terms of the agreement, in the following table.

	Payments due as at September 30, 2005,				
	Within 1 year	**1-3 years**	**3-5 years**	**After 5 years**	**Total**
	(dollars in thousands)				
Long-term debt	$ 3,072	$ 1,365	6,691		$ 11,128
Operating leases	4,253	4,506	840	649	10,248
Unconditional purchase obligations:					
Other commercial commitments	10,841				10,841
Bank guarantees	3,413	2,854	494	2,388	9,149
Letters of credit	8				8
Gratuity Plan	621	1,547	2,753	8,020	12,941
Citisoft deferred and earn-out consideration and EBT funding [1]	7,963	15,927			23,890
Total contractual cash obligations	**$ 30,140**	**$ 26,165**	**$ 14,177**	**$ 7,723**	**$ 78,205**

(1) The deferred and earn-out consideration and the further funding of EBT are based on fulfillment of certain conditions.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments in bank deposits and cash generated from operations will satisfy our working capital needs, capital expenditures, investment requirements, stock repurchases, commitments, and other liquidity requirements associated with our existing operations through at least the next 12 months. In addition, there are no transactions, arrangements, and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of our requirements for capital resources.

Off-Balance Sheet Arrangements

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

Stock-based Compensation

We have three associate stock option plans: our Associated Stock Option Plan, or ASOP, established in May 1998; our Associated Stock Option Plan B, or ASOP B, established in May 1999; and our Associated Stock Option Plan ADS, or ASOP ADS, established in May 1999. We also have the Employee Stock Option Plan, or ESOP, established by Nipuna in April 2004.

ASOP

We account for the ASOP as a fixed plan in accordance with Accounting Principles Board, or APB, Opinion No. 25. Under U.S. GAAP, the difference between the exercise price and the market price on the date the warrants are granted to associates is required to be recognized as a non-cash compensation charge and amortized over the vesting period of the equity shares underlying the warrants. Under U.S. GAAP, in the six months ended September 30, 2005 and 2004, we recognized deferred stock-based compensation of $423 thousand and $1,303 thousand, and amortized and charged to earnings $353 thousand and $665 thousand during the six months ended September 30, 2005 and 2004 respectively.

ASOP B

The ASOP B is substantially similar to the ASOP and is administered by the compensation committee of our board of directors. The SEBI guidelines define the exercise price as the price payable by the employee for exercising the option granted to him in pursuance of the stock option plan. In determining the exercise price, we opted for the higher of (a) the closing price of the shares on the date of the meeting of the compensation committee convened to grant the stock options, on the stock exchange where highest volumes are traded, or (b) the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange on which the shares of the company are listed. Under U.S. GAAP, in the six months ended September 30, 2005 and 2004, we recognized deferred stock-based compensation of $(9) thousand and $(28) thousand, and amortized and charged to earnings $(9) thousand and $(27) thousand during the six months ended September 30, 2005 and 2004 respectively.

ASOP ADS

Under ASOP ADS, we periodically issue grants to eligible associates to purchase ADSs. We account for the ASOP ADS as a fixed option plan.

Nipuna ESOP

Under the Nipuna ESOP, options were granted at fair value to associates as determined by an independent valuer as of the date of grant. We account for the Nipuna ESOP as a fixed option plan. We expect that the exercise prices of options granted in the future under the plan will not be less than the fair market value.

Effect of recently issued accounting pronouncement

On December 16, 2004, the FASB issued FAS 123R, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*, that addressed the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and require that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of income. The standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the year of adoption (plus unvested awards at the date of adoption) be expensed over the vesting period. In addition, the statement encourages the use of the binomial approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements.

The revised FAS 123R as issued by FASB will have a significant impact on our consolidated statement of income as Satyam Computer Services, our subsidiaries and our associated companies will be required to expense the fair value of our stock option grants rather than expensing the intrinsic value of stock options as is our current practice. FAS 123R will be applicable to Satyam for annual periods beginning after June 15, 2005 and currently we have not determined which transition method we will use and have not estimated the likely impact.

In June 2005, the FASB issued FAS 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 . The Statement applies to all voluntary changes in accounting principle,

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and changes the requirements for accounting for and reporting of a change in accounting principle. This statement requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement. The adoption of this statement does not have a material impact on Satyam s operating results or financial position.

Effects of Inflation

India has experienced relatively high rates of inflation in the past however it has not had a significant effect on our results of operations and financial condition to date.

Exchange Rates

The following table sets forth, for each of the months indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last day of each month during each of such months for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	**Month end**	**Average**	**High**	**Low**
		(Rupees)		
April-04	44.52	43.89	44.52	43.40
May-04	45.42	45.18	45.57	44.55
June-04	45.99	45.50	46.21	44.94
July-04	46.40	46.06	46.45	45.66
August-04	46.35	46.32	46.40	46.21
September-04	45.91	46.05	46.35	45.81
October-04	45.30	45.74	45.87	45.30
November-04	44.47	45.03	45.40	44.47
December-04	43.27	43.85	44.52	43.27
January-05	43.60	43.62	43.82	43.35
February-05	43.57	43.58	43.73	43.28
March-05	43.62	43.59	43.70	43.44
April-05	43.48	43.64	43.72	43.48
May-05	43.62	43.41	43.62	43.21
June-05	43.51	43.52	43.71	43.44
July-05	43.40	43.43	43.59	43.05
August-05	44.00	43.55	44.00	43.36
September-05	43.94	43.85	43.98	43.75

Risk Management Policy

Our functional currency is the Indian rupee; however we transact a major portion of our business in U.S. dollars and other currencies and accordingly face foreign currency exposure from our sales in the United States and elsewhere and from our purchases from overseas suppliers in U.S. dollars and other currencies. Accordingly, we are exposed to substantial risk on account of adverse currency movements in global foreign exchange markets. The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future.

We manage risk on account of foreign currency fluctuations through treasury operations. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations

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by hedging the risk to achieve greater predictability and stability. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; specifying authority and responsibility of the personnel involved in executing, monitoring and controlling such transactions.

We purchase foreign exchange forward and options contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in U.S. dollars. We enter into foreign exchange forward and options contracts where the counter party is generally a bank. We consider the risks of non-performance by the counter party as non- material. These foreign exchange forward and options contracts mature between one and nine months. These contracts do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. Any derivative that is either not a designated hedge, or is so designated but is ineffective per SFAS No. 133, is marked to market and recognized in earnings.

The following table gives details in respect of our outstanding foreign exchange forward and options contracts:

	As at September 30,	
	2005	**2004**
	Amount	**Amount**
	(dollars in thousands)	
Aggregate contracted principal amounts of contracts outstanding:		
Forward contracts	$ 105,500	$ 87,750
Options contracts	136,500	
Total	**$ 242,000**	**$ 87,750**
Balance sheet exposure:		
Forward contracts	$ (80)	$ (2,995)
Options contracts	(863)	
Total	**$ (943)**	**$ (2,995)**

As of September 30, 2005, we had outstanding foreign exchange forward and options contracts worth $242.0 million with maturity dates between one and nine months to cover the risks of U.S. dollar to rupee fluctuations.

Using sensitivity analysis, a hypothetical 1% increase in the value of the Indian rupee against all other currencies would decrease the balance sheet exposure by $1.1 million in the six months ended September 30, 2005 and by $1.6 million in fiscal 2005 while a hypothetical 1% decrease in the value of the Indian rupee against all other currencies would increase the balance sheet exposure by $1.1 million in the six months ended September 30, 2005 and $1.6 million in fiscal 2005.

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Gains/(losses) on foreign exchange forward and options contracts included under the head other income/(expense) in the statement of income are as stated below:

	Three months ended September 30,		Six months ended September 30,	
	2005	2004	2005	2004
	Amount	Amount	Amount	Amount
	(dollars in thousands)			
Forward contracts	$ (699)	$ 733	$ 208	$ (5,175)
Options contracts	(877)		(131)	
Total	**$ (1,576)**	**$ 733**	**$ 77**	**$ (5,175)**

Foreign Currency Transactions/Translation

During the six months ended September 30, 2005 and 2004, 78.5% and 82.2%, respectively, of our total revenues were generated in U.S. dollars. A significant amount of our expenses were incurred in Indian rupees and the balance was primarily incurred in U.S. dollars, European currencies and Japanese yen. Our functional currency and the functional currency for our subsidiaries located in India is the Indian rupee; however, U.S. dollars and Sterling pounds are the functional currencies of our foreign subsidiaries located in the United States and the United Kingdom respectively. The translation of such foreign currencies into U.S. dollars (our reporting currency) is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using monthly simple average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of shareholders equity.

We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in Indian rupees. Consequently, our results of operations will be affected to the extent the rupee appreciates/depreciates against the U.S. dollar.

The average exchange rate of Indian rupee to U.S. dollar during the six months ended September 30, 2005 was Rs.43.57 against Rs.45.50 during the six months ended September 30, 2004. As at September 30, 2005, the Indian rupee depreciated to Rs.43.94 against Rs.43.62 at March 31, 2005, whereas the Indian rupee depreciated to Rs.45.91 as at September 30, 2004 against Rs.43.40 as at March 31, 2004. As a result, loss on foreign exchange transactions was $568 thousand during the six months ended September 30, 2005 as compared to a gain of $6.0 million during the six months ended September 30, 2004.

Risk Factors

Any investment in our ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this Quarterly Report, before you decide to buy our ADSs. If any of the following risks actually occur, our company could be seriously harmed. In any such case, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.

Risks Related to Our Overall Operations

Our revenues and profitability are difficult to predict and can vary significantly from period to period which could cause our share price to decline significantly.

Our revenues and profitability have grown rapidly in recent years and may fluctuate significantly in the future from period to period. Therefore, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of our future performance. The quarterly fluctuation of revenues is primarily because we derive our revenues from fees for services generated on a project-by-project basis. Our projects vary in size, scope and duration. For example, we have some projects that employ several people for only a few weeks and we have other projects that employ over 100 people for six months or more. A customer that accounts for a significant portion of our revenue in a particular period may not account for a similar portion of our revenue in future periods. In addition, customers may cancel contracts or defer projects at any time for a number of different reasons. Furthermore, increasing wage pressures, employee attrition, pressure on billing rates, the time and expense needed to train and productively utilize new employees and changes in the proportion of services rendered offshore can affect our profitability in any period. There are also a number of factors, other than our performance, that are not within our control that could cause fluctuations in our operating results from period to period. These include (i) the duration of tax holidays or tax exemptions and the availability of other Government of India incentives; (ii) currency fluctuations, particularly when the rupee appreciates in value against the U.S. dollar, since the majority of our revenues are in U.S. dollars and a significant part of our costs are in rupees; and (iii) other general economic and political factors. As a result, our revenues and our operating results in a particular period are difficult to predict, may decline in comparison to corresponding prior periods regardless of the strength of our business. If this were to occur, the share price of our equity shares and our ADSs would likely decline significantly.

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

We have experienced significant growth in recent periods. Our total revenues for the six months ended September 30, 2005 increased by 41.2% as compared to the six months ended September 30, 2004, and in fiscal 2005 our total revenues increased by 40.1% as compared to fiscal 2004. As of September 30, 2005, we had 24,406 employees (including employees of Nipuna), whom we refer to as associates, worldwide as compared to 18,261 associates as of September 30, 2004. In addition, we are continuing our geographical expansion. We have five offshore facilities in India and 15 overseas facilities located in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States. In addition, we have 17 sales and marketing offices located in Canada, Germany, Italy, the Netherlands, Spain, Sweden, United Kingdom and United States and 14 sales and marketing offices located in the rest of the world.

We expect our growth to place significant demands on our management and other resources and to require us to continue to develop and improve our operational, financial and other internal controls, both in India and elsewhere. In particular, continued growth increases the challenges involved in:

- recruiting and retaining sufficiently skilled technical, marketing and management personnel;
- providing adequate training and supervision to maintain our high quality standards;
- preserving our culture and values and our entrepreneurial environment; and

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

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

The current economic environment, pricing pressure and rising wages in India have negatively impacted our revenues and operating results.

Spending on IT in most parts of the world has recently increased after a two-year decreasing trend due to a challenging global economic environment. We do experience pricing pressures from our customers, which can negatively impact our operating results. If economic growth slows, our utilization and billing rates for our associates could be adversely affected which may result in lower gross and operating profits.

Wage costs in India, including in the IT services industry, have historically been significantly lower than wage costs in the United States and Europe for comparably skilled professionals, which has been one of our competitive advantages. However, large companies are establishing offshore operations in India, resulting in wage pressures for Indian companies, which may prevent us from sustaining this competitive advantage and may negatively affect our profit margins. Wages in India are increasing at a faster rate than in the United States, which could result in increased cost of IT professionals, particularly project managers and other mid-level professionals. In addition, India has shown the highest average wage increases in the Asia-Pacific region in 2004, particularly in the technology sector. We may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive with other employers, or seek to recruit in other low labor cost jurisdictions to keep our wage costs low. Compensation increases may result in a material adverse effect on our financial performance.

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

The IT services market is characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new product and service offerings to meet customer needs and complement our offerings of end-to-end IT services. For example, we have invested significant resources in research and development efforts, such as in our enterprise business solution laboratory and grid computing laboratory, in order to continually develop capabilities to provide new services to our customers. Should we fail to develop such capabilities on a timely basis to keep pace with the rapidly changing IT market or if the services or technologies that we develop are not successful in the marketplace, our business and profitability will suffer and it is unlikely that we would be able to recover our research and development costs. Moreover, products, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

Our revenues are highly dependent on customers primarily located in the United States and customers concentrated in certain industries, and economic slowdowns or factors that affect the economic health of the United States and our customers industries may affect our business.

In the six months ended September 30, 2005 and in fiscal 2005 and 2004, approximately 66.6%, 68.3% and 73.3% respectively, of our total revenues were derived from the North America, primarily the United States. For the same periods, we earned 28.9%, 29.2%, and 32.0% of our IT revenues from the manufacturing industry and 18.7%, 17.8%, and 18.3% of our IT revenues from the banking and finance industry respectively. If the current economic recovery in the United States does not continue, our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the growth of the manufacturing or banking and finance industries, or significant consolidation in these industries, or other industry segments on which we focus, may reduce the demand for our services and negatively affect our revenues and profitability.

Recently, some countries and organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs. In the United States, in particular, there has been increasing political and media attention on these issues following the growth of offshore outsourcing. Any changes in existing laws or the enactment of new legislation restricting offshore outsourcing may adversely impact our ability to do business in the

United States, which is the largest market for our services. In the last two years, some U.S. states have proposed legislation restricting government agencies from outsourcing their back office processes and IT solutions work to companies outside the United States or have enacted laws that limit or discourage such outsourcing. Such laws restrict our ability to do business with U.S. government-related entities. It is also possible that U.S. private sector companies working with these governmental entities may be restricted from outsourcing projects related to government contracts or may face disincentives if they outsource certain projects. Any of these events could adversely affect our revenues and profitability.

We face intense competition in the IT services and BPO markets which could prevent us from attracting and retaining customers and could reduce our revenues.

The markets for IT services and BPO are rapidly evolving and highly competitive, and we expect that competition will continue to intensify. We face competition in India and elsewhere from a number of companies, including:

- consulting firms such as Accenture, BearingPoint, Capgemini and Deloitte Consulting;
- divisions of large multinational technology firms such as Hewlett-Packard and IBM;
- IT outsourcing firms such as Computer Sciences Corporation, Electronic Data Systems and IBM Global Services; and
- offshore IT services firms such as Infosys Technologies Limited, Tata Consultancy Services Limited and Wipro Limited.

We also compete with software firms such as Oracle and SAP, service groups of computer equipment companies, in-house IT departments of large corporations, programming companies and temporary staffing firms. Nipuna, through which we provide BPO services, faces competition from firms like Progeon Limited and Wipro BPO, formerly known as Wipro Spectramind.

In addition, we have agreed not to compete with Nipuna as part of the investor rights and securities subscription agreements which we have entered into with Nipuna s two other investors. Pursuant to these agreements, we and our affiliates are restricted from engaging in activities that are or could directly or indirectly be competitive with the business of Nipuna. Such activities include among others providing BPO, soliciting existing or prospective customers of Nipuna to obtain the services offered by Nipuna from other service providers and investing in companies engaged in the same or similar business as Nipuna. These non-compete restrictions apply until the investors redeem all of their preference shares in Nipuna or their equity interest in Nipuna falls below 5% after an initial public offering. As a consequence, we currently offer and plan to continue to offer BPO services only through Nipuna. We cannot assure you that these non-compete restrictions will not adversely affect our ability to attract and retain customers in this competitive market or that they will not adversely affect our revenues.

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A significant part of our competitive advantage has historically been the cost advantage relative to service providers in the United States and Europe. Since wage costs in this industry in India are presently increasing at a faster rate than those in the United States and Europe, our ability to compete effectively will become increasingly dependent on our reputation, the quality of our services and our expertise in specific markets. Many of our competitors have significantly greater financial, technical and marketing resources and generate greater revenues than us, and we cannot assure you that we will be able to compete successfully with such competitors and will not lose existing customers to such competitors. We believe that our ability to compete also depends in part on a number of factors outside our control, including the ability of our competitors to attract, train, motivate and retain highly skilled technical associates, the price at which our competitors offer comparable services and the extent of our competitors responsiveness to customer needs.

Our revenues are highly dependent upon a small number of customers.

We derive a significant portion of our revenues from a limited number of corporate customers. In the six months ended September 30, 2005 and fiscal 2005 and 2004, our largest customer together with its affiliates, accounted for 9.2%, 10.8% and 14.3% respectively, of our total revenues. In the six months ended September 30 2005 and fiscal 2005 and 2004, our second largest customer accounted for 5.1%, 7.4% and 9.9% respectively, of our total revenues. In the six months ended September 30, 2005 and fiscal 2005 and 2004, our five largest customers accounted for 25.2%, 29.2% and 36.4% respectively, of our total revenues. The volume of work performed for specific customers is likely to vary from year to year, particularly since we are usually not the exclusive outside service provider for our customers.

There are a number of factors other than our performance that could cause the loss of a customer and that may not be predictable. In certain cases, we have significantly reduced the services provided to a customer when the customer either changed its outsourcing strategy by moving more work in-house or replaced its existing software with packaged software supported by the licensor. Some customers could also potentially develop competing offshore IT centers in India and as a result, work that may otherwise be outsourced to us may instead be performed in-house. Reduced technology spending in response to a challenging economic or competitive environment may also result in lower revenues or loss of a customer. If we lose one of our major customers or one of our major customers significantly reduces its volume of business with us, our revenues and profitability could be reduced.

Our fixed-price contracts expose us to additional risks, many of which are beyond our control, which may reduce the profitability of these contracts.

As a core element of our business strategy, we offer a portion of our services on a fixed-price basis, along-with a time-and-materials basis. In the six months ended September 30, 2005 and in fiscal 2005, and 2004, we derived 36.3%, 34.2% and 31.7% respectively, of our IT services revenues from fixed-price contracts. Although we use our software engineering processes and past project experience to reduce the risks associated with estimating, planning and performing fixed-price projects, we bear the risk of cost overruns, completion delays and wage inflation in connection with these projects. We may also have to pay damages to our customers for completion delays. Many of these project risks may be beyond our control. Our failure to accurately estimate the resources and time required for a project, future wage inflation and currency exchange rates, or our failure to complete our contractual obligations within the time frame committed could reduce the profitability of our fixed-price contracts.

Our customers may terminate projects before completion or choose not to renew contracts, many of which are terminable at will, which could adversely affect our profitability.

Our contracts with customers do not commit our customers to provide us with a specific volume of business and can typically be terminated by our customers with or without cause, with little or no advance notice and without penalty. Any failure to meet a customer s expectations could result in a cancellation or non-renewal of a contract. Additionally, our contracts with customers are typically limited to a specific project and not any future work. A number of our multi-year contracts are due for renewal in the coming fiscal year, and we cannot assure you that our customers will choose to renew such contracts for a similar or longer duration, on terms as favorable as their current terms or at all. Other than our performance, there are also a number of factors not within our control that could cause the loss of a customer. Our customers may demand price reductions, change their outsourcing strategy by moving more work in-house or to one of our competitors, or replace their existing software with packaged software supported by licensors, any of which could reduce our revenue and profitability.

A number of our customer contracts are conditioned upon our performance, which, if unsatisfactory, could result in less revenues than previously anticipated.

We are considering the viability of introducing performance-based or variable-pricing contracts. Should we increase our use of value-based pricing terms, it will become more difficult for us to predict the revenues we will receive from our customer contracts, as such contracts would likely contain a higher number of contingent terms for payment of our fees by our customers. Our failure to meet contract goals or a customer s expectations in such performance-based contracts may result in lower revenues, and a less profitable or an unprofitable engagement.

Some of our multi-year customer contracts contain certain provisions which, if triggered, could result in lower future revenues and profitability under the contract.

Some of our multi-year customer contracts contain benchmarking provisions, most favored customer clause and/or provisions restricting personnel from working on projects of our customers competitors. Benchmarking provisions allow a customer in certain circumstances to request a benchmark study prepared by an agreed upon third-party comparing our pricing, performance and efficiency gains for delivered contract services with that of an agreed list of other service providers for comparable services. Based on the results of the benchmarking study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the services we provide or to reduce the pricing for services to be performed under the balance term of the contract, which may result in lower future revenues and profitability under the contract.

Most favored customer clauses generally provide that if, during the term of the contract, we were to offer similar services to any other customers on terms and conditions more favorable than those provided in such contract, we would be obligated to offer equally favorable terms and conditions to the customer. As pricing pressures increase, some customers may demand price reductions or other pricing incentives. Any pricing reduction agreed to in a subsequent contract may require us to offer equally favorable terms to other customers with whom we have a most favored contract under the remaining term of contracts with those customers which may result in lower future revenues and profitability.

A number of our customer contracts provide that, during the term of the contract and for a certain period thereafter ranging from six to twelve months, we may not provide similar services to any of their competitors using the same personnel. This restriction may hamper our ability to compete for and provide services to customers in the same industry, which may result in lower future revenues and profitability.

We may be unable to attract skilled professionals in the competitive labor market.

Our ability to execute projects and to obtain new customers depends largely on our ability to attract, train, motivate and retain highly skilled technical associates, particularly project managers, project leaders and other senior technical personnel. We believe that there is significant competition for technical associates who possess the skills needed to perform the services that we offer. An inability to hire and retain additional qualified personnel will impair our ability to bid for or obtain new projects and to continue to expand our business. Also, we cannot assure you that we will be able to assimilate and manage new technical associates effectively. In the six months ended September 30, 2005 and fiscal 2005 and 2004, we experienced associate attrition in the IT services segment at a rate of 16.2%, 16.5% and 17.5% respectively. Any increase in our attrition rates, particularly the attrition rate of experienced software engineers, project managers and project leaders, could harm our growth strategy. We cannot assure you that we will be successful in recruiting and retaining a sufficient number of replacement technical associates with the requisite skills to replace those technical associates who leave. Further, we cannot assure you that we will be able to redeploy and retrain our technical associates to keep pace with continuing changes in evolving technologies and changing customer preferences. Should we be unable to successfully recruit, retain, redeploy or retrain our technical associates, we may become less attractive to potential customers and may fail to satisfy the demands of existing customers, which would result in a decrease in revenues and profitability.

We dedicate significant resources to develop international operations which may be more difficult to manage and operate.

In addition to our offshore IT centers in India, we have established IT centers in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States and plan to open additional international facilities. Because of our limited experience in managing and operating facilities outside of India, we are subject to additional risks related to our international expansion strategy, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with local conditions or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture.

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

As of September 30, 2005 we had contractual commitments of approximately $10.8 million for capital expenditures, and we estimate spending $50.0 million in fiscal 2006. We may encounter cost overruns or project delays in connection with new facilities. These expansions will significantly increase our fixed costs. If we are unable to grow our business and revenues proportionately, our profitability will be reduced.

Restrictions on immigration may affect our ability to compete for and provide services to customers in the United States and in other countries, which could hamper our growth and cause our revenues to decline.

The vast majority of our employees are Indian nationals. Most of our projects require a portion of the work to be completed at the customer s location which is typically outside India. The ability of our associates to work in the United States, Europe and in other countries outside India depends on the ability to obtain the necessary visas and work permits. As of September 30, 2005, the majority of our associates located outside India were in the United States and held either H-1B visas, allowing the employee to remain in the United States during the term of the work permit and work as long as he or she remains an employee of the sponsoring firm, or L-1 visas, allowing the employee to stay in the United States only temporarily. Although there is no limit to new L-1 visas, there is a limit to the aggregate number of new H-1B visas that the U.S. Citizenship and Immigration Services, or CIS, may approve in any government fiscal year. In 2000, the United States temporarily increased the annual limit for H-1B visas to 195,000; however, this increase expired in 2003 and the limit was returned to 65,000 annually. Further, in response to the terrorist attacks in the United States, the CIS has increased its level of scrutiny in granting new visas. This may, in the future, also lead to limits on the number of L-1 visas granted. The recent 2005 Appropriations Bill further precludes foreign companies from obtaining L-1 visas for employees with specialized knowledge: (1) if such employees will be stationed primarily at the worksite of another company in the U.S. and the employee will not be controlled and supervised by his employer, or (2) if the placement is essentially an arrangement to provide labor for hire rather than in connection with the employee s specialized knowledge. Immigration laws in the United States may also require us to meet certain levels of compensation and to comply with other legal requirements including labor certifications as a condition to obtaining or maintaining work visas for our associates working in the United States. The CIS announced on October 1, 2004 that it had received on the first day of the new government fiscal year sufficient applications to fill up all 65,000 visas that were available for the year. In November 2004, the United States Congress passed a measure that would increase the number of available H-1B visas for 2004 to 85,000. Pursuant to

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this legislation, in May 2005, the federal officials increased the H1-B visa quota by 20,000 visas which are available only to skilled workers who possess a Master s or higher degree from educational institutions in the United States.

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

We may engage in acquisitions, strategic investments, strategic partnerships or alliances or other ventures that may or may not be successful.

We may acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to enhance our business. It is possible that we may not be able to identify suitable acquisitions targets and candidates for strategic investments or partnerships, or if we do identify such targets or candidates, we may not be able to complete those transactions on terms commercially acceptable to us, or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

If we acquire a company, we could have difficulty in assimilating that company s personnel, operations, technology and software. In addition, the key personnel of the acquired company may decide not to work for us. In some cases, we could have difficulty in integrating the acquired products, services or technologies into our operations. These difficulties could disrupt our ongoing business, distract our management and employees and increase our expenses.

As of the date of this document, we have no agreements or understanding to enter into any material acquisition, investment, partnership, joint venture or alliance.

We may make strategic investments in early-stage technology start-up companies in order to gain experience in or exploit niche technologies. However, our investments may not be successful. The lack of profitability of any of our investments could have a material adverse effect on our operating results.

System failure could disrupt our business.

To deliver our services to our customers, we must maintain a high speed network of satellite, fiber optic and land lines and an active voice and data communications 24 hours a day between our main offices in Hyderabad, our other IT centers in India and globally and the offices of our customers worldwide. Any systems failure or a significant lapse in our ability to transmit voice and data through satellite and telephone communications could result in lost customers and curtailed operations which would reduce our revenue and profitability.

We may be liable to our customers for damages caused by disclosure of confidential information or system failure.

We are often required to collect and store sensitive or confidential customer and consumer data. Many of our customer agreements do not limit our potential liability for breaches of confidentiality. If any person, including any of our employees, penetrates our network security or misappropriates sensitive data, we could be subject to significant liability from our customers or from our customers clients for breaching contractual confidentiality provisions or privacy laws. Unauthorized disclosure of sensitive or confidential customer and consumer data, whether through breach of our computer systems, system failure or otherwise, could damage our reputation and cause us to lose customers. Many of our contracts involve projects that are critical to the operations of our customers businesses and provide benefits which may be difficult to quantify. Any failure in a customer s system or breaches of security could result in a claim for substantial damages against us, regardless of our alleged responsibility for such failure. Generally, we attempt to limit our contractual liability for consequential damages in rendering our services, however these limitations on liability may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. In respect of some of our contracts, we sub-contract a part of the work to certain sub-contractors. We are liable to our customers for any breach or non-performance by our sub-contractors under the sub-contracts. We maintain general liability insurance coverage, including coverage for errors and omissions; however this coverage may not continue to be available on reasonable terms and may be unavailable in sufficient amounts to cover one or more large claims. Further, an insurer might disclaim coverage as to any future claim. A successful assertion of one or more large claims against us that exceeds our available insurance coverage or results in changes in our insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirement, could adversely affect our operating results and profitability.

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

We are highly dependent on the senior members of our management team. Our future performance will be affected by any disruptions in the continued service of these persons. We do not maintain key man life insurance for any of the senior members of our management team or other key personnel, except for our chief executive officer. Competition for senior management in our industry is intense, and we may not be able to retain such senior management personnel or attract and retain new senior management personnel in the future. The loss of any member of our senior management team or other key personnel may have a material adverse effect on our business, results of operations and financial condition.

Our insiders are significant shareholders, are able to control the election of our board and may have interests which conflict with those of our shareholders or holders of our ADSs.

Our executive officers and directors, together with members of their immediate families, beneficially owned, in the aggregate approximately 8.66% of our outstanding equity shares as of September 30, 2005. As a result, acting together, this group has the ability to exercise significant control over most matters requiring our shareholders approval, including the election and removal of directors and significant corporate transactions. These insider shareholders may exercise control even if they are opposed by our other shareholders. Without the consent of these insider shareholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third parties) that may be viewed as beneficial to the Company and all of the shareholders.

Our financial results are impacted by the financial results of entities that we do not control.

As of September 30, 2005, we have a significant, non-controlling interests in Sify, Satyam Venture Engineering Services Private Limited, or Satyam Venture, and CA Satyam ASP Private Limited, or CA Satyam, that are accounted for under U.S. GAAP using the equity method of accounting. Under this method, we are obligated to report as Equity in earnings (losses) of associated companies, net of taxes a pro-rata portion of the financial results of any such company in our statement of operations even though we do not control such company but have the ability to exercise certain influence over their operating and financial policies. Thus, our reported results of operations can be significantly higher or lower depending on the results of Sify, Satyam Venture and CA Satyam or other companies in which we may make similar investments even though we may have only a limited ability to influence their activities. We may also be required to record additional impairment charges in their carrying value if we deem the investment to be impaired due to adverse events, many of which are outside of our control, on their business, results of operations and financial condition in future periods. Currently, we make estimates in the preparation of financial statements including the utility of goodwill. Changes in such estimates resulting from events, many of which are outside of our control, may result in the impairment of goodwill which would negatively impact our net income under U.S. GAAP. Such impact on net income may result in a reduction of the market value of our shares. Our financial statements do not reflect any amortization of goodwill in the six months ended September 30, 2005 and 2004 respectively.

The value of our interest in Sify and our subsidiaries may decline.

As of September 30, 2005, we held 11,182,600 equity shares of Sify, representing 31.6% of its outstanding shares. Sify s ADSs are listed for trading on the Nasdaq National Market under the symbol SIFY ; however, we do not know whether Sify will be able to retain this listing in the future. The market price of Sify s ADSs has been highly volatile, ranging from a high of $452 per ADS to a low of $0.88 per ADS from its initial public offering in October 1999 through September 30, 2005, and may continue to fluctuate widely. Any decline in the market price of Sify s

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ADSs is likely to cause the value of the equity shares of Sify which we hold to decline. We hold our interest in Sify in the form of equity shares for which there is no market and our ability to convert these equity shares into ADSs is restricted. Under a shareholders agreement to which we are a party, mergers, acquisitions and sales of substantially all the assets of Sify require the approval of two other Sify shareholders, Softbank Asia Infrastructure Fund, or SAIF, and VentureTech Solutions Private Ltd., or VentureTech. Sify has not been profitable since its incorporation and may continue to incur significant losses and negative cash flows in the future. In addition, our Nipuna subsidiary has experienced losses during each year since its inception and it is likely that it will continue to experience such losses in the future. Our recently acquired majority-owned subsidiary, Citisoft, may also incur losses and may have adverse effect on our operating results.

Stock-based compensation expenses may significantly reduce our net income under U.S. GAAP.

Although Satyam has suspended, except in certain cases, all new grants of stock options as of April 1, 2005, our reported income under U.S. GAAP has been and will continue to be affected by the grant of warrants or options under our various employee benefit plans. Under the terms of our existing plans, some of which have outstanding obligations to grant options in future, employees are typically granted warrants or options to purchase equity shares at a substantial discount to the current market value. These grants require us to record non-cash compensation expenses under currently applicable U.S. GAAP, amortized over the vesting period of the warrants or options. Depending on the market value or fair value of our equity shares on the dates the outstanding grants were made and future grants are made, amortization of deferred stock-based compensation may contribute to reducing our operating income and net income under U.S. GAAP. Our subsidiaries and associated companies also have stock option schemes which have and will continue to generate stock-based compensation expenses and have and will reduce our operating income and net income.

Our earnings will be adversely affected once we change our accounting policies with respect to the expensing of stock options.

Currently we account for share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, and have adopted the pro forma disclosure provisions of the Statement of Financial Accounting Standard, or SFAS No. 123, *Accounting for Stock-Based Compensation*. On December 16, 2004, the FASB issued FAS 123R, *Share-Based Payment*, *an amendment of FASB Statements No. 123 and 95*, which requires that such transactions be accounted for using a fair-value-based method and recognized as expenses in our consolidated statement of operations. As of the required effective date, the standard requires that the modified prospective method be used, which requires that the fair value of new awards granted from the beginning of the year of adoption (plus unvested awards at the date of adoption) be expensed over the vesting period. In addition, the statement encourages the use of the binomial approach to value stock options, which differs from the Black-Scholes option pricing model that we currently use in the footnotes to our consolidated financial statements. Many companies have or are in the process of changing their accounting policies to expense the fair value of stock options. This change in the accounting policy with respect to the treatment of employee stock option grants will adversely affect our earnings and will have a significant impact on our consolidated statement of operations as we will be required to expense the fair value of our stock option grants rather than expensing the intrinsic value of stock options as is our current practice. FAS 123R will be applicable to Satyam for annual periods beginning after June 15, 2005 and currently we have not determined which transition method we will use and have not estimated the likely impact that FAS 123R will have on our results of operations.

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

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new U.S. Securities and Exchange Commission, or SEC, regulations, the NYSE, rules, Securities and Exchange Board of India, or SEBI, rules, and Indian stock market listing regulations are creating uncertainty for companies like ours. These new or changed laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors audit of that assessment requires the commitment of significant financial and managerial resources. We consistently assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. While we do not anticipate any material weaknesses or significant deficiencies, our independent auditors may be unable to issue unqualified attestation reports on management s assessment on the operating effectiveness of our internal controls over financial reporting.

Additionally, under revised corporate governance standards adopted by The Stock Exchange, Mumbai, or the BSE, and The National Stock Exchange of India Limited, or the NSE, which we collectively refer to as the Indian Stock Exchanges, we must comply with additional standards by December 31, 2005. These standards include a certification by our chief executive officer and chief financial officer that they have evaluated the effectiveness of our internal control systems and that they have disclosed to our auditors and our audit committee any deficiencies in the design or operation of our internal controls of which they may become aware, as well as any steps taken or proposed to resolve the deficiencies.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the new laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic issuer, which may, among other things, limit the information available to holders of our securities.

As a foreign private issuer, we are subject to requirements under the Securities Act of 1933, as amended, or Securities Act, and the Securities Exchange Act of 1934, as amended, or Exchange Act, which are different from the requirements applicable to domestic U.S. issuers. For example, our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act and the rules thereunder with respect to their purchases and sales of our ordinary shares and/or ADSs. The periodic disclosure required of foreign private issuers is more limited than the periodic disclosure required of domestic U.S. issuers and therefore there may be less publicly available information about us than is regularly published by or about U.S. public companies in the United States.

Terrorist attacks or a war could adversely affect our business, results of operations and financial condition.

Terrorist attacks, such as the attacks of September 11, 2001 in the United States, and other acts of violence or war, such as the continuing conflict in Iraq, have the potential to have a direct impact on our customers. To the extent that such attacks affect or involve the United States, our business may be significantly impacted, as the majority of our revenues are derived from customers located in the United States. In addition, such attacks may make travel more

difficult, may make it more difficult to obtain work visas for many of our associates who are required to work in the United States, and may effectively curtail our ability to deliver our services to our customers. Such obstacles to operate our business may increase our expenses and negatively affect the results of our operations. Many of our customers visit several IT services firms, including their offshore facilities, prior to reaching a decision on vendor selection. Terrorist threats, attacks or war could make travel to our facilities more difficult for our customers and may delay, postpone or cancel decisions to use our services.

Risks Related to Investments in Indian Companies

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

The Government of India has recently taken actions to curtail or eliminate tax benefits that we have historically benefited from.

The statutory corporate income tax rate in India is currently 30.0%. This tax rate is presently subject to a 10.0% surcharge. The amount of tax and surcharge payable is further subject to a 2.0% education cess, resulting in an effective tax rate of 33.66%. We benefit from tax incentives provided to software entities such as an exemption from payment of Indian corporate income taxes until the earlier of fiscal 2009 or 10 consecutive years of operations for software development facilities designated as Software Technology Parks, or STP units. The benefits of this tax incentive have historically resulted in our effective tax rate being well below statutory rates. The exemption for our STP units was reduced from 100% to 90% for the fiscal 2003, and is expected to expire between fiscal 2006 and fiscal 2010. Exemption for two of our STP units in Hyderabad expired during the six months ended September 30, 2005. We also earn certain other foreign income and domestic income, which is taxable irrespective of the above tax exemption.

All facilities registered in the exemption program before March 31, 2001, which include all of our existing facilities in India and registrations for two new facilities which have not yet been constructed, will continue to benefit from this program under present law. Over time, as we construct additional facilities, however, the overall benefits of this tax program to our company will decrease with a consequential increase in our effective tax rate. When our tax holidays expire or terminate, our tax expense will materially increase, reducing our profitability. We cannot assure you as to what action the present or future governments of India will take regarding tax incentives for the IT industry.

In addition, the Finance Minister of India has introduced a fringe benefits tax that is levied on employers. Employers are required to pay fringe benefit tax of 30% (plus applicable surcharge and cess) on the value of the fringe benefits or privileges that are provided or deemed to be provided to employees on a collective, rather than individual, basis. This tax scheme or adoption of similar proposals will increase our expenses which in turn may affect our profitability.

Foreign investment restrictions under Indian law may adversely impact the value of our ADSs, including, for example, restrictions that limit your ability to reconvert equity shares into ADSs, which may cause our equity shares to trade at a discount or premium to the market price of our ADSs.

Our equity shares are listed and traded on the Indian Stock Exchanges, and they may trade on these stock exchanges at a discount or premium to the ADSs traded on the NYSE, in part because of restrictions on foreign ownership of the underlying shares.

Our ADSs are freely convertible into our equity shares under the deposit agreement governing their issuance, or the Deposit Agreement. The Reserve Bank of India, or RBI, prescribes fungibility regulations permitting, subject to compliance with certain terms and conditions, the reconversion of equity shares to ADSs provided that such equity shares are purchased from an Indian Stock Exchange through stock brokers and the actual number of ADSs outstanding after such reconversion is not greater than the original number of ADSs outstanding. If you elect to surrender your ADSs and receive equity shares, you will only be able to trade those equity shares on an Indian Stock Exchange and, under present law, it is unlikely you will be permitted to reconvert those equity shares to ADSs.

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Additionally, investors who exchange ADSs for the underlying equity shares and are not holders of record will be required to declare to us details of the holder of record, and the holder of record will be required to disclose the details of the beneficial owner. Any investor who fails to comply with this requirement may be liable for a fine of up to Rs.1,000 for each day such failure continues. Such restrictions on fungibility of the underlying equity shares to ADSs may cause our equity shares to trade at a discount or premium to the ADSs.

The sale of equity shares underlying the ADSs by a person not resident in India to a resident of India does not require the prior approval of the RBI, provided such sales are effected through the Indian Stock Exchanges. Any sale of such underlying equity shares by a person not resident in India to a resident of India outside of the Indian Stock Exchanges can, however, be completed without prior RBI approval, provided such equity shares are transferred based on a pricing formula established by the Indian foreign exchange laws which set a maximum price requirement for sale of such equity shares.

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

South Asia has from time to time experienced instances of civil unrest and hostilities among neighboring countries, including between India and Pakistan. In recent years there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir and along the India-Pakistan border. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a perception that investments in Indian companies involve higher degrees of risk. This, in turn, could have a material adverse effect on the market for securities of Indian companies, including our equity shares and our ADSs, and on the market for our services. In addition, as an international company, our offshore and onsite operations may be impacted by natural disasters such as earthquakes, tsunamis, floods, disease and health epidemics. In December 2004, certain parts of India were severely affected by a tsunami triggered by an earthquake in the Indian Ocean, and in October 2005, certain parts of northern India, Pakistan and Afghanistan were severely devastated by a major earthquake. Though our operations were not affected by these disasters, we cannot guarantee that in the future our operations will not be affected by the effect such natural disasters may have on the economies of India and other countries in the region.

Political instability could seriously harm business and economic conditions in India generally and our business in particular.

During the past decade, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. Nevertheless, the role of the Indian central and state governments in the Indian economy as producers, consumers and regulators has remained significant. The general elections in 2004 for the lower house of the Indian Parliament resulted in no party winning an absolute majority and a coalition government has been formed. We cannot assure you that these liberalization policies will continue in the future. Government corruption scandals and protests against privatization could slow down the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India s economic liberalization and deregulation policies could disrupt business and economic conditions in India generally and our business in particular.

Currency exchange rate fluctuations may affect the value of our ADSs and our financial condition.

Our functional currency is the Indian rupee, although we transact a major portion of our business in U.S. dollars and several other currencies and accordingly face foreign currency exposure through our sales in the United States and elsewhere and purchases from overseas suppliers in U.S. dollars and other currencies. Historically, we have held a substantial majority of our cash funds in rupees. Accordingly, changes in exchange rates may have a material adverse effect on our revenues, other income, cost of services sold, gross margin and net income, which may in turn have a negative impact on our business, operating results and financial condition.

The exchange rate between the rupee and the U.S. dollar has changed substantially in recent years and may fluctuate substantially in the future. In the six months ended September 30, 2005, and fiscal 2005 and fiscal 2004, our U.S. dollar-denominated revenues represented 78.5%, 81.8% and 84.5%, respectively, of our total revenues. We

expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in rupees. Consequently, our results of operations will be adversely affected to the extent that the rupee appreciates against the U.S. dollar. Depreciation of the rupee will result in foreign currency translation losses in respect of foreign currency borrowings, if any.

We have sought to reduce the effect of exchange rate fluctuations on our operating results by purchasing foreign exchange forward and options contracts to cover a portion of outstanding accounts receivable. As of September 30, 2005 and 2004, we had outstanding forward and options contracts in the amount of $242 million and $87.8 million, respectively. This increase is primarily attributable to our decision to actively hedge our foreign currency exposure given the recent volatility of the Indian rupee against the U.S. dollar. We may not be able to purchase contracts adequate to insulate ourselves from foreign exchange currency risks. Additionally, the policies of the RBI may change from time to time which may limit our ability to hedge our foreign currency exposures adequately.

Fluctuations in the exchange rate between the rupee and the U.S. dollar will also affect the U.S. dollar conversion by our Depositary of any cash dividends paid in rupees on the equity shares represented by the ADSs. In addition, fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of our equity shares on the Indian Stock Exchanges. As a result, these fluctuations are likely to affect the prices of our ADSs. These fluctuations will also affect the dollar value of the proceeds a holder would receive upon the sale in India of any equity shares withdrawn from our Depositary under the deposit agreement. We cannot assure you that holders of ADSs will be able to convert rupee proceeds into U.S. dollars or any other currency or with respect to the rate at which any such conversion could occur. In addition, our market valuation could be seriously harmed by the devaluation of the rupee if U.S. investors analyze our value based on the U.S. dollar equivalent of our financial condition and results of operations.

Our ability to acquire companies organized outside India as part of our growth strategy depends on the approval of the Government of India and/or the RBI and failure to obtain this approval could negatively impact our business.

We have developed a growth strategy based on, among other things, expanding our presence in existing and new markets and selectively pursuing joint venture and acquisition opportunities. Foreign exchange laws in India presently permit Indian companies to acquire or invest in foreign companies without any prior governmental approval if the transaction amount does not exceed 100% of the net worth of the foreign company as of the date of its most recent audited balance sheet. If consideration for the transaction is paid out of the proceeds of an American Depositary Receipt, or ADR, or Global Depositary Receipt, or GDR, sale, Indian exchange control laws do not impose any investment limits. Acquisitions in excess of the 100% net worth threshold require prior RBI approval. It is possible that any required approval from the RBI may not be obtained. Our failure to obtain approvals for acquisitions of companies organized outside India may restrict our international growth, which could negatively affect our business and prospects.

If we are unable to protect our intellectual property rights, or if we infringe on the intellectual property rights of others, our business may be harmed.

The laws of India do not protect intellectual property rights to the same extent as the laws in the United States. Further, the global nature of our business makes it difficult for us to control the ultimate destination of our products and services. The misappropriation or duplication of our intellectual property could curtail our operations or reduce our profitability.

We rely upon a combination of non-disclosure and other contractual arrangements and copyright, trade secret and trademark laws to protect our intellectual property rights. Ownership of software and associated deliverables created for customers is generally retained by or assigned to our customers, and we do not retain an interest in such software and deliverables.

We have applied for the registration of Satyam and other related marks as trademarks in India, the United States and in other jurisdictions where we carry on business. We currently require our technical associates to enter into non-disclosure and assignment of rights agreements to limit use of, access to and distribution of confidential and proprietary information. We cannot assure you that the steps taken by us in this regard will be adequate to prevent

misappropriation of confidential and proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

Although we believe that our services and products do not infringe upon the intellectual property rights of others, we cannot assure you that such a claim will not be asserted against us in the future. Assertion of such claims against us could result in litigation, and we cannot assure you that we would prevail in such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party on reasonable commercial terms.

We expect that the risk of infringement claims against us will increase if more of our competitors are able to obtain patents for software products and processes. Any such claims, regardless of their outcome, could result in substantial cost to us and divert management s attention from our operations. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any infringement claim or litigation against us could therefore result in substantial costs and diversion of resources.

Indian laws limit our ability to raise capital outside India and may limit the ability of others to acquire us, which could prevent us from operating our business or entering into a transaction that is in the best interests of our shareholders.

Presently, Indian technology companies such as ours are able to raise capital outside of India without the prior approval of any Indian governmental authority through an ADR or GDR issuance or an issuance of convertible debt securities, subject with respect to convertible debt issuances to a limit of $500 million in any fiscal year. Changes to Indian foreign exchange laws may create restrictions on our capital raising abilities. For example, a limit on the foreign equity ownership of Indian technology companies may constrain our ability to seek and obtain additional equity investment by foreign investors. In addition, these restrictions, if applied to us, may prevent us from entering into certain transactions, such as an acquisition by a non-Indian company, which might otherwise be beneficial for us and the holders of our equity shares and ADSs.

Conditions in the Indian securities market may affect the price or liquidity of our equity shares and our ADSs.

The Indian securities markets are smaller and more volatile than securities markets in more developed economies. The Indian stock exchanges have in the past experienced substantial fluctuations in the prices of listed securities and the price of our equity shares has been especially volatile. The high and low prices of our shares on the BSE from fiscal 2001 until the latest practicable date are set forth in the table below.

	High		Low	
Fiscal Year	**Rs.**	**$ equivalent**	**Rs.**	**$ equivalent**
2001	902.0	19.3	179.0	3.8
2002	331.2	6.8	111.0	2.3
2003	291.9	6.1	175.1	3.7
2004	391.0	9.0	127.3	2.9
2005	442.0	10.1	250.0	5.7
2006 (through September 30, 2005)	566.0	12.9	364.4	8.3

On September 30, 2005, the closing price of our shares on the BSE was Rs.560.1 ($12.7). For comparison purposes, these prices have been adjusted to give effect to our August 25, 2000 five-for-one stock split. The prices of our shares have been translated into U.S. dollars based on the noon-buying rate as certified by the Federal Reserve Bank of New York on the last date of each period presented.

The Indian Stock Exchanges have also experienced problems that have affected the market price and liquidity of the securities of Indian companies. These problems have included temporary exchange closures, the suspension of stock exchange administration, broker defaults, settlement delays and strikes by brokers. In addition, the governing bodies of the Indian Stock Exchanges have, from time to time, restricted securities from trading, limited price movements and restricted margin requirements. Moreover, from time to time, disputes have occurred between listed companies and stock exchanges and other regulatory bodies, which in some cases may have had a negative effect on market sentiment. Similar problems could occur in the future and, if they do, they could harm the market price and liquidity of our equity shares and our ADSs.

It may be difficult for you to enforce any judgment obtained in the United States against us or our affiliates.

We are incorporated under the laws of the Republic of India. Many of our directors and key managerial personnel and some of the experts named in this document reside outside the United States. In addition, virtually all of our assets and the assets of many of these persons are located outside the United States. As a result, you may be unable to:

(i) effect service of process upon us outside India or these persons outside the jurisdiction of their residence; or

(ii) enforce against us in courts outside of India or these persons outside the jurisdiction of their residence, judgments obtained in United States courts, including judgments predicated solely upon the federal securities laws of the United States.

We have been advised by our Indian counsel, Crawford Bayley & Co., that the United States and India do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be enforceable in India. However, the party in whose favor such final judgment is rendered may bring a new suit in a competent court in India based on a final judgment which has been obtained in the United States. If and to the extent Indian courts were of the opinion that fairness and good faith so required, it would, under current practice, give binding effect to the final judgment which had been rendered in the United States unless such a judgment was founded on a claim which breached the laws of India.

You may be subject to Indian taxes arising out of capital gains on the sale of the underlying equity shares.

Generally, capital gains, whether short-term or long-term, arising from the sale of the underlying equity shares in India are subject to Indian capital gains tax. For the purpose of computing the amount of capital gains subject to tax, Indian law specifies that the cost of acquisition of the equity shares will be deemed to be the share price prevailing on the BSE or the NSE on the date the Depositary advises the custodian to redeem receipts in exchange for underlying equity shares. The period of holding of such equity shares, for determining whether the gain is long-term or short-term, commences on the date of the giving of such notice by our Depositary to the custodian. With effect from October 1, 2004, any gains realized on the sale of listed equity shares held for more than 12 months to an Indian resident, or a non-resident investor in India, will not be subject to Indian capital gains tax if the securities transaction tax has been paid on the transaction. Investors are advised to consult their own tax advisors and to consider carefully the potential tax consequences of an investment in our ADSs.

There may be less company information available in Indian securities markets than securities markets in other countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets and the activities of investors, brokers and other participants and that of markets in the United States and other developed economies. SEBI is responsible for improving disclosure and other regulatory standards for the Indian securities markets. SEBI has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed economies.

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Risk Related to our ADSs and our Trading Market

Historically, our ADSs have traded at a significant premium to the trading prices of our underlying equity shares, a situation which may not continue.

Historically, our ADSs have traded on the NYSE at a substantial premium to the trading prices of our underlying equity shares on the Indian Stock Exchanges. We believe that this price premium has resulted from the relatively small portion of our market capitalization represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs, and an apparent preference for some investors to trade U.S. dollar-denominated securities. Further, over time, some of the restrictions on the issuance of the ADSs imposed by Indian law have been relaxed and we expect that other restrictions may be relaxed in the future. As a result, the historical premium enjoyed by ADSs as compared to equity shares may be reduced or eliminated due to our sponsored ADS offering or similar transactions in the future, a change in Indian law permitting further conversion of equity shares into ADSs or changes in investor preferences.

You may be restricted in your ability to exercise preemptive rights under Indian law and thereby may suffer future dilution of your ownership position.

Under the Companies Act, 1956 of India, or the Companies Act, a company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages before the issuance of any new equity shares, unless the preemptive rights have been waived by adopting a special resolution by holders of three-fourths of the shares which are voted on the resolution. As U.S. holders of ADSs represent 19.97% of our outstanding equity shares as at September 30, 2005, you may be unable to exercise preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended, or the Securities Act, is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any given registration statement as well as the perceived benefits of enabling the holders of our ADSs to exercise their preemptive rights and any other factors that we deem appropriate to consider at the time the decision must be made. We may elect not to file a registration statement relating to preemptive rights otherwise available by law to you. In the case of future issuances, the new securities may be issued to our Depositary, which may sell the securities for your benefit. The value, if any, our Depositary would receive upon the sale of such securities cannot be predicted. To the extent that you are unable to exercise preemptive rights granted in respect of the equity shares represented by your ADSs, your proportional interests in our company would be reduced.

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

At our request, our Depositary will mail to you any notice of shareholders meeting received from us together with information explaining how to instruct our Depositary to exercise the voting rights of the securities represented by ADSs. If our Depositary timely receives voting instructions from you, it will endeavor to vote the securities represented by your ADSs in accordance with such voting instructions. However, the ability of our Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to our Depositary in a timely manner. Securities for which no voting instructions have been received will not be voted.

Under Indian law, subject to the presence in person at a shareholder meeting of persons holding equity shares representing a quorum, all resolutions proposed to be approved at that meeting are voted on by a show of hands unless a shareholder present in person and holding at least 10% of the total voting power or on which an aggregate sum of not less than Rs.50,000 has been paid-up, at the meeting demands that a poll be taken. Equity shares not represented in person at the meeting, including equity shares underlying ADSs for which a holder has provided voting instructions to our Depositary, are not counted in a vote by show of hands. As a result, only in the event that a shareholder present at the meeting demands that a poll be taken will the votes of ADS holders be counted. Securities for which no voting instructions have been received will not be voted on a poll.

As a foreign private issuer, we are not subject to the SEC s proxy rules, which regulate the form and content of solicitations by U.S.-based issuers of proxies from their shareholders. To-date, our practice has been to provide advance notice to our ADS holders of all shareholder meetings and to solicit their vote on such matters through our Depositary, and we expect to continue this practice. The form of notice and proxy statement that we have been using does not include all of the information that would be provided under the SEC s proxy rules.

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

We cannot predict the extent to which an active, liquid public trading market for our ADSs will exist. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. The lack of an active, liquid trading market could result in the loss of market makers, media attention and analyst coverage. If there is no longer a market for our equity shares, or if we fail to continue to meet eligibility requirements, we may be required to delist from the NYSE and this may cause our share prices to decrease significantly. In addition, if there is a prolonged decline in the price of our equity shares, we may not be able to issue equity securities to fund our growth, which would cause us to limit our growth or to incur higher cost funding, such as short-term or long-term debt.

Liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although you are entitled to withdraw the equity shares underlying the ADSs from our Depositary at any time, there is no public market for our equity shares in the United States.

The future sales of securities by our company or existing shareholders may harm the price of our ADSs or our equity shares.

The market price of our ADSs or our equity shares could decline as a result of sales of a large number of ADSs or equity shares or the perception that such sales could occur. Such sales also might make it more difficult for us to sell ADSs or equity securities in the future at a time and at a price that we deem appropriate. As of September 30, 2005, we had an aggregate of equity shares outstanding of 320,684,002 (excluding 1,281,340 equity shares held by the Satyam Associate Trust), which includes underlying equity shares of 64,300,704 represented by 32,150,352 ADSs. In addition, as of September 30, 2005, we had outstanding options to purchase approximately 8,819,918 of our equity shares. All ADSs are freely tradable, other than ADSs purchased by our affiliates. The remaining equity shares outstanding may be sold in the United States only pursuant to a registration statement under the Securities Act or an exemption from the registration requirements of the Securities Act, including Regulation S.

Forward-looking statements contained in this Quarterly Report may not be realized.

We have included statements in this document which contain words or phrases such as may, will, will likely result, believe, expect, will continue, anticipate, estimate, intend, plan, contemplate, seek to, future, ob should and similar expressions or variations of such expressions, that are forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to implement our strategy and our growth and expansion.

In addition, other factors that could cause results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to, general economic and political conditions in India, Southeast Asia, and other countries which have an impact on our business activities, changes in Indian and foreign laws, regulations and taxes, changes in competition and other factors beyond our control, including the factors described in this Risk Factors section. We do not intend to update any of the forward-looking statements after the date of this Quarterly Report to conform such statements to actual results.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our currency, maturity and interest rate information relative to our short-term and long-term debt are disclosed in Note 11 Borrowings to our consolidated financial statements.

The table below provides information about our financial instruments that are sensitive to changes in interest rates and foreign currencies as of the dates shown. Weighted average variable rates were based on average interest rates applicable to the loans. The information is presented in U.S. dollars, which is our reporting currency, based on the applicable exchange rates as of the relevant period end. Actual cash flows are denominated in various currencies, including U.S. dollars and Indian rupees.

	As at September 30,			
	2005		2004	
	Total recorded		Total recorded	
	Amount	Fair value	Amount	Fair value
	(dollars in thousands)			
Debt:				
Variable rate short term debt	$ 1,549	$ 1,549		
Average interest rate	5.55%			
Variable rate long term debt	$ 6,691	$ 6,691		
Average interest rate	7.55%			
Fixed rate long-term debt	$ 4,437	$ 4,427	$ 4,449	$ 4,461
Average interest rate	8.21%		8.87%	

Limitations: *Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.*

We also face market risk relating to foreign exchange rate fluctuations, principally relating to the fluctuation of U.S. dollar to Indian rupee exchange rate. Our foreign exchange risk principally arises from accounts payable to overseas vendors. This risk is partially mitigated as we have receipts in foreign currency from overseas customers and hold balances in foreign currency with overseas banks.

During the six months ended September 30, 2005 and fiscal 2005, 96.3% and 96.6% respectively, of our revenues were generated outside of India. Using sensitivity analysis, a hypothetical 10% increase in the value of the Indian rupee against all other currencies would decrease revenue by 2.1%, or $11.0 million, in the six months ended September 30, 2005, 1.8%, or $14.5 million, in fiscal 2005 while a hypothetical 10% decrease in the value of the Indian rupee against all other currency would increase revenue by 2.1%, or $11.0 million, in the six months ended September 30, 2005, 1.8%, or $14.5 million, in fiscal 2005. In the opinion of management, a substantial portion of this fluctuation would be offset by expenses incurred in local currencies. As a result, a hypothetical 10% movement of the value of the Indian rupee against all other currencies in either direction would have impacted our earnings before interest and taxes by $11.0 million in the six months ended September 30, 2005, and $14.5 million in fiscal 2005 respectively.

In the opinion of management, a substantial portion of this fluctuation would be offset by expenses incurred in local currencies. As a result, the hypothetical movement described above of the value of the Indian rupee against all other currencies in either direction would have impacted our earnings before interest and taxes by $11.0 million in the six months ended September 30, 2005 and $14.5 million in fiscal 2005.

As of September 30, 2005, we had approximately $172.7 million of non-Indian rupee denominated cash and cash equivalents.

Item 4: Controls and Procedures

Not applicable.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Satyam and its subsidiaries on a consolidated basis are not currently a party to any material legal proceedings.

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

In May 2001, we completed an offering of 16,675,000 ADSs (representing 33,350,000 equity shares) at a price of $9.71 per ADS. We received approximately $150.6 million in cash, net of underwriting discounts, commissions and other offering costs. Our Securities Act registration statement on Form F-1 with respect to the offering was declared effective by the Securities and Exchange Commission on May 14, 2001 (Registration No. 333-13464). As of September 30, 2005, approximately $90.6 million of these proceeds has been used for prepayment of loans ($26.9 million); strategic investments in our subsidiaries ($30.4 million); development of facilities and infrastructure ($7.7 million) and working capital and general corporate purposes ($25.6 million). We intend to use the balance of the net proceeds to fund expansion of our existing facilities and communication network in different locations in India and outside India; to develop new facilities within and outside India; to invest in joint ventures and other strategic investments; and for working capital and general corporate purposes. None of the net proceeds from our ADS offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any persons owning ten percent or more of any class of our equity securities, or any affiliates.

Item 3. Default Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

(i) Our board of directors resolved on July 29, 2005 to appoint Prof. M. Ram Mohan Rao, Dean, Indian School of Business, Hyderabad as an independent director. Prof. M. Ram Mohan Rao holds office until our next Annual General Meeting, at which time he will be eligible for re-election.

Professor M. Rammohan Rao is the Dean of the Indian School of Business, Hyderabad, India. Dean Rao has a PhD in Industrial Administration from the Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania, USA. He completed two Masters Degrees - Master of Science in Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania, and Master of Engineering (Industrial), Cornell University, New York. Dean Rao is renowned worldwide for his research and teaching capabilities. As a Research Fellow, Dean Rao was associated with the International Institute of Management, Science Center, Berlin, Germany, and the International Center for Management Sciences, Center for Operations Research and Econometrics, University Catholique de Louvain, Belgium. He also conducted research at the Operations Research Group, United States Steel Corporation, Applied Research Laboratory, Monroeville, Pennsylvania.

(ii) Effective from July 29, 2005, our audit committee has been reconstituted with the following independent directors:

(a) Mr. V P Rama Rao

(b) Dr (Mrs.) Mangalam Srinivasan

(c) Prof. M. Ram Mohan Rao

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Item 6. Exhibits and Reports

99.1 Press Release of the Company concerning financial results dated October 20, 2005.

99.2 Summary of Financial Results of the Company for the quarter and half-year ended September 30, 2005, dated October 19, 2005.

99.3 Investor Link News Update of the Company dated October 20, 2005.

99.4 Unconsolidated/standalone financial statements for the quarter and half-year ended September 30, 2005 under Indian GAAP (audited).

99.5 Consolidated financial statements for the quarter and half-year ended September 30, 2005 under Indian GAAP (unaudited).

99.6 Consolidated financial statements for the Six months ended September 30, 2005 under US GAAP (unaudited).

SIGNATURE

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

Satyam Computer Services Ltd.

By: G.Jayaraman
Name: G. Jayaraman
Title: Vice President (Corporate Affairs)
&
Company Secretary

Date: October 27, 2005

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