

# 2006

## ANNUAL REPORT



## iGATE CORPORATION

iGATE Corporation (Nasdaq: IGTE) is the first fully integrated technology and operations firm with a global services model. We enable clients to optimize their business through a combination of process investment strategies, technology leverage and business process outsourcing. Services include consulting, enterprise data management and data warehousing, business intelligence and analytics, system design, system development, system integration, package evaluation and implementation, re-engineering and maintenance. iGATE Corporation also offers IT Professional Services.

iGATE services more than 300 clients across five continents. Clients rely on iGATE for high quality service, responsiveness and cost-effective global reach.

**Quality:**

CMM Level 5, Sig Sigma, BS 7799 and COBIT certifications

**Value:**

Through our Global Delivery Centers in India, China and North America

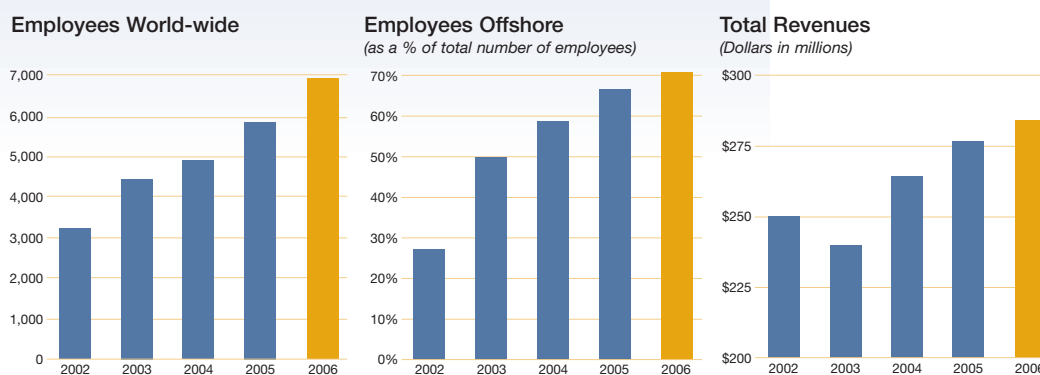
**Expertise:**

6,900 Business and IT Professionals

**Experience:**

2,000+ Projects Completed

## FINANCIAL HIGHLIGHTS



Year ended December 31

*Dollars in thousands, except per share data*

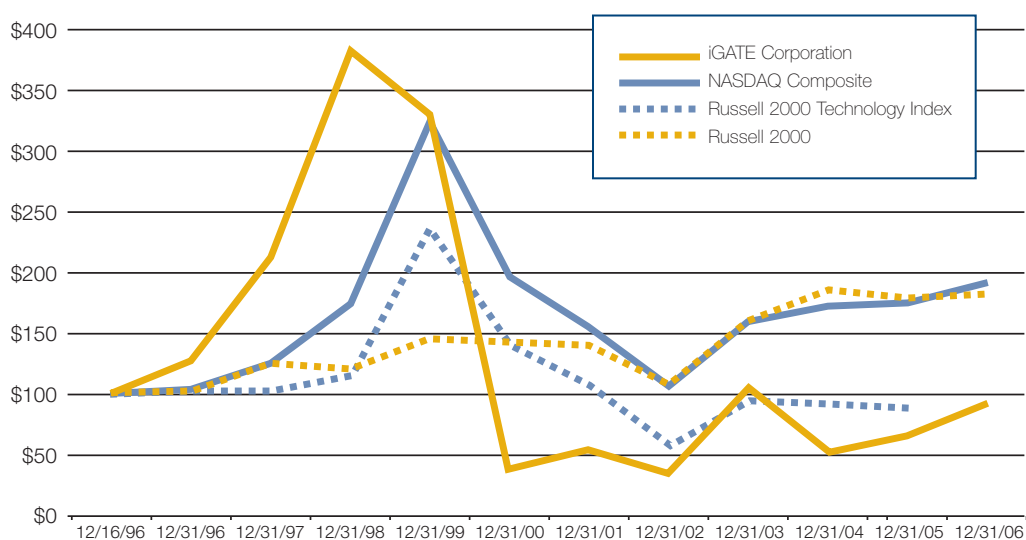
	2002	2003	2004	2005	2006
Revenues	\$ 250,851	\$ 240,634	\$ 264,585	\$ 275,992	<b>\$ 283,588</b>
Gross Profit	77,604	68,980	67,008	70,882	<b>73,376</b>
(Loss) income from Operations	(25,036)	(4,560)	(17,261)	3,880	<b>6,818</b>
Net (Loss) income	(27,491)	(9,020)	(18,211)	6,969	<b>8,704</b>
Diluted Net (loss) income per Share	\$ (0.54)	\$ (0.17)	\$ (0.35)	\$ 0.13	<b>\$ 0.16</b>
Cash and Cash Equivalents	\$ 56,793	\$ 36,133	\$ 28,201	\$ 45,837	<b>\$ 52,154</b>
Investments	51,188	39,582	35,863	30,798	<b>31,826</b>
Total Assets	188,940	180,940	180,232	177,474	<b>190,774</b>
Long-Term Debt	—	—	—	—	<b>—</b>
Total Shareholders' Equity	\$ 117,149	\$ 122,135	\$ 111,700	\$ 117,672	<b>\$ 133,351</b>

Safe Harbor Statements under the Private Securities Litigation Reform Act of 1995: Some of the statements in this publication that are not historical facts are forward-looking statements. These forward-looking statements include statements concerning our plans, strategies, intentions and beliefs and are sometimes indicated by such words as believes, plans, hopes, expects, anticipates, or similar expressions. These statements are based on the information currently available to iGATE and the company assumes no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. These risks include, but are not limited to, the level of market demand for the services of iGATE and our partner companies, the highly-competitive market conditions that could cause our customers to reduce spending for our services, our ability to create, acquire, and build new businesses, our ability to attract and retain qualified personnel, currency fluctuations and market conditions in India and elsewhere around the world, and other risks that are described in more detail in our filings with the Securities and Exchange Commission.

Front cover: iGATE's Bangalore Campus

## STOCK PERFORMANCE CHART

The following graph shows a comparison of the cumulative total return on the Company's Common Stock during the period commencing on December 16, 1996, the date of the Company's initial public offering and ended December 31, 2006, with the cumulative total return during such period for (i) the NASDAQ Composite Index and (ii) the Russell 2000 Index. The comparison assumes \$100 was invested on December 16, 1996 in the Company's stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. Shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns. In prior year's proxies and from the date of the Company's initial public offering, the Russell 2000 Technology Index ("Technology Index") was utilized as a comparative benchmark. As of December 31, 2006, the Technology Index was no longer published. As a result, the Company has included performance benchmarks for the Russell 2000 Index to replace the Technology. The Technology Index performance will be included through December 31, 2005 for comparative purposes. Total cumulative return for the Russell 2000 Index has been included commencing from the date of the Company's initial public offering through December 31, 2006.



The Common Stock is currently traded in the NASDAQ NATIONAL MARKET tier of THE NASDAQ STOCK MARKET under the SYMBOL "IGTE".

	NASDAQ Composite	Russell 2000 Technology	iGATE Corporation	Russell 2000 Index
December 16, 1996	\$ 100	\$ 100	\$ 100	\$ 100
Year ended December 31, 1996	102	102	127	103
Year ended December 31, 1997	125	103	212	125
Year ended December 31, 1998	174	115	382	120
Year ended December 31, 1999	323	237	330	144
Year ended December 31, 2000	196	141	38	138
Year ended December 31, 2001	155	109	55	139
Year ended December 31, 2002	106	59	35	109
Year ended December 31, 2003	159	96	105	159
Year ended December 31, 2004	173	92	54	186
Year ended December 31, 2005	175	90	65	178
Year ended December 31, 2006	192	—	92	181

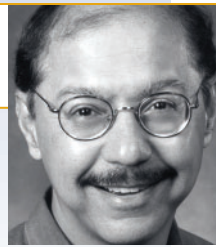
## DEAR iGATE SHAREHOLDER:

We are very pleased to report another successful year, building on last year's solid performance improvement. After returning our business to profitability in 2005, we established goals of accelerating revenue growth, increasing the number of large corporate clients, improving gross and operating profit margins and controlling our discretionary costs. During the year, we made significant progress on each of these goals.

Consolidated revenues for the year ended December 31, 2006, increased 15% to \$283.6 million, excluding revenues from our Canadian staffing operation that was sold in November 2005. This was our strongest annual revenue growth rate in more than 7 years. The revenue growth was driven largely by a 23% revenue increase at our offshore services subsidiary, iGate Global Solutions (iGS), to \$169.6 million from \$138 million in 2005. Our iGS subsidiary reached an all-time high revenue level in the 2006 fourth quarter, making the period its eighth consecutive quarter of sequential revenue growth.

Our offshore subsidiary added 27 new clients during the year, of which 13 were large Global 2000 companies. At the end of the year, iGS

**The President of Carnegie Mellon addressing employees at our Bangalore campus.**



**Sunil Wadhvani**  
Co-Chairman and  
Chief Executive Officer



**Ashok Trivedi**  
Co-Chairman  
and President

*Operating profits  
for 2006 reached their  
highest level in more  
than seven years...*

had 29 clients that generated at least one million dollars in annual revenue, compared with 19 at the end of 2005.

Gross profit margin for the year improved, despite implementation of FAS 123R related to

the expensing of stock options and an annual wage increase at our iGS subsidiary.

Operating profits for 2006 reached their highest level in more than seven years and operating profit margins improved more than 70% compared to last year. Consolidated operating income increased 76% to \$6.8 million in 2006 compared with \$3.9 million in 2005.

The improvement was principally the result of containing discretionary costs and realizing the significant operating leverage created by our



solid revenue growth. We have become a more efficient organization as our selling, general and administrative costs are at their lowest levels in many years, despite our accelerating revenue growth.

Net income for 2006 increased 25% to \$8.7 million compared with \$7.0 million in 2005, our highest reported annual net income level since 1999.

Our cash flow remained strong in 2006, as we generated \$14.5 million in cash flow from operations, due largely to better working capital management as we reduced Days Sales Outstanding (DSOs) to 67 days

at year-end 2006 compared with 73 days at year-end 2005.

A hallmark of our business strategy has always been to maintain a strong balance sheet. As of December 31, 2006, we had \$84 million in cash and short-term investments and no outstanding borrowings.

During the year, we continued to add the resources necessary to sustain our revenue growth. As such, our total employee base grew 17% to 6,900 at the end of 2006 compared with 5,900 at the end of 2005.

*...we have added 68 new iGS clients, 39 of which are among the 2000 largest companies in the world.*



## iGATE GLOBAL SOLUTIONS (IGS)

**W**orking with large global companies is a core element of iGS's strategy because these companies offer significantly greater revenue growth opportunities. Over the past two years, we have added 68 new iGS clients, 39 of which are among the 2000 largest companies in the world.

This strategy led to the steady financial performance improvements at iGS during the year. iGS reported sequential revenue growth in each quarter of 2006; more importantly, the year-over-year quarterly revenue growth rate accelerated in each quarter and averaged nearly 23% per quarter.

Operating profit at iGS steadily improved during the second half of 2006 and, excluding a \$2.5 million restructuring charge recovery, reached \$3.4 million in the fourth quarter of 2006, an all-time record level. Excluding the restructuring charge recovery, 2006 annual operating profits also improved for the second consecutive year and more than doubled to \$4.3 million

compared with \$2.0 million in 2005. In addition to the significant growth in operating profits, this business segment also generated \$10.9 million in cash flow from operations during the year.

*...quarterly revenue  
growth rate accelerated  
in each quarter and  
averaged nearly  
23% per quarter.*

We continue to invest in both infrastructure and resources to meet the growing demand for our offshore services. Our iGS subsidiary recently completed Phase III of its Whitefield technology campus in Bangalore, India while also

expanding other service centers. Our India-based physical facilities now exceed 775,000 square feet.

Although we are very encouraged by the recent trends at our iGS subsidiary and the robust industry growth expectations, recruiting employees in a very competitive environment remains a challenge. We believe that this segment of our business will also have to consistently add large global customers in order to sustain its growth.



**The Vice Chairman of Royal Bank at the inauguration of our newest facility in Bangalore.**

## iGATE PROFESSIONAL SERVICES (IPS)

**O**ur iGate Professional Services (IPS) business segment remains an important part of our business platform. This segment provides iGate with stable revenue streams, above industry average profit margins, and generates consistent, reliable operating cash flows.

During the year, we added 12 new significant clients, while improving gross margins by 150 basis points above the 2005 levels. The IPS segment also launched RPOworldwide, a subsidiary providing offshore-based recruitment outsourcing services to large global companies.

*...we added 12 new significant clients, while improving gross margins*

Since its fourth-quarter inception, RPOworldwide has started doing business with 12 clients.

This new offshore-based recruitment outsourcing service is based on our intent to position IPS to take advantage of recent market trends. Large companies, facing intense competition for talented IT, engineering, financial and other professionals, are also significantly stretching their internal human resource departments, leaving less time for these departments to search for available professional talent.



iPS, through its newly-formed subsidiary, RPOworldwide, offers a range of offshore-based services that help clients increase the efficiency and effectiveness of their employee recruiting process. RPOworldwide services include identifying employee candidates, appropriate candidate screening to ensure technical and other client required parameters, compensation package negotiation, candidate preparation to ensure smooth workplace integration, and maintaining a data base of employment metrics on thousands of candidates. RPOworldwide currently has approximately 200 recruiters operating from centers in India, Eastern Europe and Central America.

Despite completion of a large project for a major bank during the year and the consequent ramp down of this effort, revenues at iPS increased 4% to \$112.5 million in 2006 (excluding the 2005 revenue contribution from the Canadian staffing operation which was sold in November 2005). Gross profit margin at the segment also improved to 23.0% in 2006 compared with 21.5% in 2005.

iPS generated \$10.0 million in operating profit and \$11.0 million in cash flow from operations in 2006.



iGate's contact center facility  
in Noida near New Delhi.

## 2007 OUTLOOK

**W**e continue to believe that the markets for Information Technology and Business Process Outsourcing (BPO) services in India are in their early stages, and that significant revenue and profit growth opportunities remain ahead of us.

The global market for IT and BPO services is estimated to be \$300 billion, and the demand for offshore services is projected to grow 25% annually. These market conditions bode well for our continued and sustainable revenue and profit growth.

Our long-term goals are to be a leading offshore services provider with a stable core business in IT services supplemented by higher-value and more profitable specialty services in areas such as Mortgage Services, Data Management, Software Testing and Recruitment.

Our key goals for 2007 include more aggressively growing our offshore revenues by pursuing major projects with the world's largest companies; increasing the penetration of our higher-value services; continuing to improve our gross and operating margins; and continuing to control discretionary costs.

We are confident that the dedication and hard work of our employees will help us prosper in today's challenging global environment.

We want to sincerely thank our employees for their dedication and ongoing commitment to our organization and our customers and shareholders for their continuing support.



Sunil Wadhvani  
*Co-Chairman and Chief Executive Officer*



Ashok Trivedi  
*Co-Chairman and President*



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2006

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

Commission File Number 000-21755

**iGATE CORPORATION**

(Exact name of registrant as specified in its charter)

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

**25-1802235**  
(I.R.S. Employer  
Identification No.)

**1000 Commerce Drive**  
**Suite 500**  
**Pittsburgh, PA**  
(Address of principal executive offices)

**15275**  
(Zip Code)

**Registrant's telephone number, including area code: (412) 506-1131**

**Securities registered pursuant to Section 12(b) of the Act: Common Stock, \$.01 par value**

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006 (based on the closing price of such stock as reported by NASDAQ on such date) was \$141,038,636.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of February 28, 2007 was 53,066,806 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement, prepared for the Annual Meeting of Shareholders scheduled for May 31, 2007 to be filed with the Commission are incorporated by reference into Part III of this report.

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**iGATE CORPORATION**  
**2006 FORM 10-K**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I</b>	
ITEM 1. BUSINESS .....	1
ITEM 1A. RISK FACTORS .....	6
ITEM 1B. UNRESOLVED STAFF COMMENTS .....	12
ITEM 2. PROPERTIES .....	12
ITEM 3. LEGAL PROCEEDINGS .....	13
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS .....	13
<b>PART II</b>	
ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES .....	14
ITEM 6. SELECTED FINANCIAL DATA .....	15
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS .....	17
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK .....	35
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA .....	36
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE .....	76
ITEM 9A. CONTROLS AND PROCEDURES .....	76
<b>PART III</b>	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE .....	78
ITEM 11. EXECUTIVE COMPENSATION .....	78
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS .....	78
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE .....	78
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES .....	78
<b>PART IV</b>	
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES .....	79
SIGNATURES .....	85



## PART I

### ITEM 1. BUSINESS

#### Overview

This Annual Report on Form 10-K (“Annual Report”) contains statements that are not historical facts and that constitute “forward-looking statements” within the meaning of such term under the Private Securities Litigation Reform Act of 1995. These forward-looking statements include our financial growth and liquidity projections as well as statements concerning our plans, strategies, intentions and beliefs concerning our business, cash flows, costs and the markets in which we operate. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects” and similar expressions are intended to identify certain forward-looking statements. These forward-looking statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements. While we cannot predict all of the risks and uncertainties, they include, but are not limited to, our ability to predict our financial performance, the level of market demand for our services, the highly-competitive market for the types of services that we offer, the impact of competitive factors on profit margins, market conditions that could cause our customers to reduce their spending for our services, our ability to create, acquire and build new businesses and to grow our existing businesses, our ability to attract and retain qualified personnel, our ability to reduce costs and conserve cash, currency fluctuations and market conditions in India and elsewhere around the world, political and military tensions in India and South Asia, changes in generally accepted accounting principles and/or their interpretation and other risks that are discussed in the section of Item 1A of this Annual Report entitled “Risk Factors” and in other sections of this Annual Report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)”.

Unless otherwise indicated or the context otherwise requires, all references in this report to “iGATE”, the “Company”, “us”, “our”, or “we” are to iGATE Corporation, a Pennsylvania corporation, and its consolidated subsidiaries. iGATE Corporation, formerly named iGATE Capital Corporation, through its operating subsidiaries, is a worldwide provider of Information Technology (“IT”) and offshore outsourcing Services to large and medium-sized organizations. These services include client/server design and development, conversion/migration services, offshore outsourcing, enterprise resource planning (“ERP”) package implementation and integration services, software development and applications maintenance outsourcing.

#### Website Access to SEC Reports

The Company’s website is <http://www.igatecorp.com>. The Company’s Annual Report, Quarterly Reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Investors page of the Company’s website as soon as reasonably practicable after the reports are filed electronically with the Securities and Exchange Commission.

#### Business Overview

The use of offshore outsourcing for IT and Business Process Outsourcing (“BPO”) has emerged as a global trend in numerous countries and industries. Our clients recognize that offshore outsourcing is an effective way to provide high quality and cost-effective IT and BPO services.

The Company does not sell, lease or otherwise market any computer software or hardware and 100% of the Company’s revenues are derived from the sale of information technology and BPO services. IT services which we deliver using our offshore centers include software application development services and maintenance, implementation and support of enterprise application and data management and integration. We believe that we deliver to our clients high quality solutions at a substantial savings by using our global pool of highly talented people.

Going forward, our principal strategy is to offer offshore-based IT and BPO services to our clients in various industries. Some of our current service offerings are non-IT related and include services as diverse as call

centers, clinical trials management, and mortgage and claims processing. We may continue to expand our BPO service offerings through acquisitions and strategic relationships and internal initiatives. We believe that such services can be or are being performed offshore, at savings as high as 50% over U.S. labor and infrastructure costs.

The iGATE Professional Services (“iPS”) segment provides a variety of client-managed and supervised IT staffing services. These service offerings include design, development and maintenance of custom applications as well as implementation, integration and support of enterprise packaged applications such as ERP and customer relationship management (“CRM”) software provided by third party vendors such as SAP, Oracle and PeopleSoft.

## **Business Developments**

During the fourth quarter of 2006, iGATE Global Solutions Limited (“iGS”), our majority-owned Indian subsidiary extended its Global Preferred Partnership status with General Electric Company (“GE”) through the end of 2009.

On April 24, 2006, iGS entered into a Master Services Agreement with LoanPro, LLC (“LoanPro”) to perform offshore mortgage servicing. In conjunction with this agreement, iGS acquired a 5% ownership interest in LoanPro for a nominal amount with the option to acquire up to an additional 55% of LoanPro beginning on July 1, 2006. iGS exercised this option on July 1, 2006 and acquired the additional 55% of LoanPro. In the third quarter of 2006, iGS consolidated LoanPro’s operations into the iGATE Solutions segment. iGS has loaned \$1.1 million to LoanPro as of February 28, 2007. The loan pays 6% interest and is due in 2009.

## **Reportable Financial Segments**

We segment our business according to our service offerings. Our approach reflects the way we and our chief operating decision makers analyze and manage our businesses. The composition of segments and measure of segment profitability is consistent with that used by our management. Please refer to segment reporting in Note 16 to our Consolidated Financial Statements which details the financial results of each principal business segment as well as revenues and assets by geographic region.

The following are brief descriptions of each of our segments.

### *iGATE Solutions*

The iGATE Solutions segment’s (“iGATE Solutions”) service offerings include outsourcing of IT and BPO services using an onsite / offshore delivery model. The terms “on-site” and “offshore” will be used during our discussions of iGATE Solutions’ operations in our MD&A. Onsite refers to work performed in the U.S. for our clients. Offshore refers to work performed in India for our clients. The ratio of onsite/offshore work performed has a significant impact on iGATE Solutions profitability. Our iGATE Solutions segment is more profitable when a higher percentage of work is performed in India (“offshore”), due to lower labor costs. This delivery model helps clients achieve greater cost effectiveness. The operations of iGS are included in the iGATE Solutions Segment.

IT services offered include enterprise data management and data warehousing, business intelligence and analytics, design, development, system integration, package evaluation and implementation, re-engineering and maintenance.

BPO services offered include call center services and transaction processing services. The call center services are offered to clients in several industries and are not industry specific. The transaction processing services offered are focused on the mortgage banking, insurance and capital market industries, except for the

delivery of finance and accounting functions such as accounts payable which can be performed for clients across all industries.

iGATE Solutions has offshore development centers (“ODCs”) located in Bangalore, Hyderabad, Chennai, Delhi, and Pune, India. The centers can deliver both near shore (“work performed primarily at the client site”) and offshore services, dependent upon customer location and expectations. iGATE Solutions operates in India, Canada, the U.S., Europe, Singapore, Malaysia, Japan and Australia.

The iGATE Solutions segment revenues are derived through iGS. Our iGATE Solutions segment has approximately 5,820 employees.

The majority of our clients in the iGATE Solutions segment have headquarters in the U.S. and operate internationally. The operations of iGS are included in the iGATE Solutions segment.

The iGATE Solutions segment markets its service offerings to large and medium-sized organizations. Certain contracts are based upon a fixed price with payment based upon deliverables and/or project milestones reached. Certain contracts are time-and-materials based where contract payments are based on the number of consultant hours worked on the project. Customers typically have the right to cancel contracts with minimal notice. Certain contracts with no stated deliverables, with a designated workforce assigned, recognize revenues on a straight-line basis over the life of the contract. Contracts with deliverables or project milestones can provide for certain penalties if the deliverables or project milestones are not met within contract timelines.

The iGATE Solutions segment services customers in a wide range of industries. The segment’s largest customer is GE which accounted for 30%, 35% and 37% of its revenues for the years ended December 31, 2006, 2005 and 2004, respectively. iGS recently renewed its Global Preferred Partnership status with GE through 2009.

#### *iGATE Professional Services*

The iPS segment provides a variety of client-managed and supervised IT staffing services. These service offerings include design, development and maintenance of custom applications as well as implementation, integration and support of enterprise packaged applications such as ERP and CRM software provided by third party vendors such as SAP, Oracle and PeopleSoft.

The iPS segment markets its services to application development managers and information technology directors within prospective customers’ companies. The iPS segment also responds to requests for proposals in order to obtain preferred vendor status to secure long-term engagement relationships. iPS contracts provide for payments on a time-and-materials basis, based on the number of consultant hours worked on the project. Clients typically have the right to cancel contracts with minimal notice.

The iPS segment serves a wide variety of customers in numerous industries in the U.S. The segment’s largest customers are TEKsystems, Inc. and International Business Machine Corporation (“IBM”) which account for approximately 13% and 11% of iPS revenues in 2006. The segment’s largest customers in 2005 and 2004 were IBM and Wachovia Bank, which accounted for approximately 22% and 11% of iPS revenues in 2005 compared to 23% and 13% in 2004. iPS has approximately 1,000 employees.

#### *iGATE Shared Services (formerly “iGATE Corporate”)*

The iGATE Shared Services segment includes the operations iGATE Clinical Research International Inc., formerly known as iGATE Clinical Research Management, Inc., iGATE Clinical Research International Private Ltd., corporate and other unallocated costs. iGATE Clinical Research International Inc. and iGATE Clinical Research International Private Ltd. contract with pharmaceutical companies to conduct offshore clinical trials on

their behalf. These entities are excluded from the above segments due largely to their dissimilar service offerings and certain economic characteristics. This segment has approximately 80 employees.

### **Accounting Policies**

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 to the notes to the Consolidated Financial Statements. We evaluate segment performance based upon profit or loss from operations. We do not allocate income taxes, other income or expense, equity in losses of affiliated companies, minority interest and loss on venture investments and affiliated companies. In addition, we account for inter-segment sales and transfers at current market prices. All inter-segment sales have been eliminated in consolidation.

### **Seasonality**

Our operations are generally not affected by seasonal fluctuations. However, our consultants' billable hours are affected by national holidays and vacation policies, which vary by country and by operating company.

### **Competition**

The IT services and offshore outsourcing services industries are highly competitive, and are served by numerous global, national, regional and local firms. Primary competitors in the IT industry include participants from a variety of market segments, including the major consulting firms, systems consulting and implementation firms, Internet services and consulting companies, applications software firms, India based offshore outsourcing companies, service groups of computer equipment companies, general management consulting firms, programming companies and temporary staffing firms. We believe that the principal competitive factors in the IT services and offshore outsourcing markets include the range of services offered, size and scale of service provider, global reach, technical expertise, responsiveness to client needs, speed in delivery of IT solutions, quality of service and perceived value. Competition for acquisition candidates, as well as for clients and strategic relationships, may also develop among subsidiaries of iGATE or between iGATE and one or more of our operating subsidiaries or other companies in which we have equity investments.

## Our Partner Companies and Affiliates

The following is a listing as of February 28, 2007 of all of our principal operating subsidiaries and affiliates, including the percentage of our ownership in each of these companies:

<u>Subsidiary</u> <u>www.igatecorp.com</u>	<u>Segment</u> <u>www.igatecorp.com</u>	<u>Business Description</u>	<u>Percentage</u> <u>Owned by iGATE</u>
iGATE Mastech, Inc.	iGATE Professional Services	Custom application and design services	100%
Global Financial Services of Nevada, Inc.	iGATE Professional Services	Co-managed projects—U.S.	100%
jobcurry Systems Private, Ltd.	iGATE Professional Services	Worldwide recruiting	100%
iGATE Clinical Research International Private Limited	iGATE Shared Services	Offshore clinical research	95%
iGATE Clinical Research International Inc.	iGATE Shared Services	Clinical Research—U.S.	100%
iGS www.igate.com	iGATE Solutions	Offshore outsourcing services	81.8%
Symphoni Interactive, LLC	iGATE Solutions	Application development for financial services industry	81.8%
Quintant(1)	iGATE Solutions	Offshore business services provisioning	81.8%
AquaRegia Ltd.(1)	iGATE Solutions	Offshore enterprise application services	81.8%
CIBER India Pvt. Ltd.(1)	iGATE Solutions	Software services and IT outsourcing	81.8%
LoanPro(1)	iGATE Solutions	Mortgage processing services	49%
Software AG (India) Private Ltd.(1)	iGATE Solutions	Application development and professional services	41%

(1) Ownership adjusted for minority interest ownership by iGS shareholders.

All of our ownership positions set forth in the chart in this Item 1 have been calculated based on the issued and outstanding common stock or membership interests, as the case may be, of each company/entity, assuming the issuance of common stock on the conversion or exercise of preferred stock and convertible notes, but excluding the effect of unexercised options, warrants and unvested restricted stock, except for the Quintant acquisition discussed more fully in the Notes to the Consolidated Financial Statements.

## Intellectual Property Rights

We rely upon a combination of nondisclosure and other contractual arrangements and trade secrets, copyright and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our employees and limit the distribution of proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

Generally, all software that we develop in connection with a client engagement is typically assigned to the client.

## **Human Resources**

Our success depends in large part on our ability to attract, develop, motivate and retain highly skilled IT professionals. We recruit in a number of countries, including India, the United States, Canada, Bulgaria, the United Kingdom, Singapore, Australia and the Philippines. We advertise in newspapers and trade magazines. In addition, our employees are a valuable recruiting tool and are actively involved in referring new employees and screening candidates for new positions.

We have a focused retention strategy that includes career planning, training, benefits and an incentive plan. Our benefits package includes subsidized health insurance, a 401(k) plan, group life insurance and a long-term disability plan. We intend to continue to use stock options and restricted stock grants as part of our recruitment and retention strategy. We also have a training infrastructure. We train employees on a variety of platforms and help them transition from legacy to advanced architecture skills by providing cross-platform training in new technologies. We have implemented an Intranet to allow our employees to access our courseware and computer-based training modules via the Internet so that the training is available to all employees worldwide at their individual convenience and pace.

At December 31, 2006, iGATE (including its operating subsidiaries) had approximately 6,900 non-unionized employees comprised of approximately 6,280 IT professionals (including subcontractors) and approximately 620 individuals working in sales, recruiting, general and administrative roles. As of December 31, 2006, approximately 39% of our U.S. workforce was working under H-1B temporary work permits in the United States. We believe that our relationships with our employees are good.

## **ITEM 1A. RISK FACTORS**

### **Our New Business Strategy is Unproven**

In 2003, we significantly reorganized our business to reflect our business strategy to increase the focus of our offshore delivery business in India and to expand our offshore business to BPO services, including non-IT related BPO services, and there is no guarantee that this reorganization will be successful. The success of our new business strategy depends in part on the ability of the iGATE companies to work collaboratively, share information and leverage their collective resources to optimize strategic opportunities and our ability to effectively identify non-IT related BPO services and deliver cost effective solutions. We cannot be certain that this strategy will improve our performance, and it is possible that the strategy will detract from our performance. If we cannot convince potential strategic partners of the value of our business model, our ability to acquire new companies and businesses may be adversely affected and our strategy for continued growth may not succeed.

### **Recruitment and Retention of IT Professionals**

Our business involves the delivery of professional services and is labor-intensive. Our success depends upon our ability to attract, develop, motivate and retain highly skilled IT professionals and project managers who possess the technical skills and experience necessary to deliver our services. Qualified IT professionals are in demand worldwide and are likely to remain a limited resource for the foreseeable future. There can be no assurance that qualified IT professionals will be available to us in sufficient numbers, or that we will be successful in retaining current or future employees. Failure to attract or retain qualified IT professionals in sufficient numbers may have a material adverse effect on our business, operating results and financial condition. Historically, we have done much of our recruiting outside of the countries where the client work is performed. Accordingly, any perception among our IT professionals, whether or not well founded, that our ability to assist them in obtaining temporary work visas and permanent residency status has been diminished, could lead to significant employee attrition.

## **Government Regulation of Offshore Outsourcing**

Recently, some organizations have expressed concerns about a perceived association between offshore outsourcing and the loss of jobs in the United States. Within the last 12 months, some U.S. states have enacted legislation restricting government agencies from outsourcing their back office processes and IT solutions work to companies outside the United States. It is also possible that U.S. private sector companies that work with these states may be restricted from outsourcing their work related to government contracts. We currently do not have significant contracts with U.S. federal or state government entities, however, there can be no assurance that these restrictions will not extend to private companies, such as our clients. Any changes to existing laws or the enactment of new legislation restricting offshore outsourcing may adversely impact our ability to do business in the United States, particularly if these changes are widespread.

## **Government Regulation of Immigration**

We recruit IT professionals on a global basis and, therefore, must comply with the immigration laws in the countries in which we operate, particularly the United States. As of December 31, 2006, approximately 39% of our U.S. workforce were working under H-1B temporary work permits in the United States. Statutory law limits the number of new H-1B petitions that may be approved in a fiscal year, and if we are unable to obtain H-1B visas for our employees in sufficient quantities or at a sufficient rate for a significant period of time, our business, operating results and financial condition could be adversely affected. On October 1, 2003, the H-1B visa annual quota reverted to 65,000 from 195,000 because the increase in the “American Competitiveness in the Twenty-First Century Act” was for a three-year period. As a result, the quota for fiscal year 2004 was exhausted in mid-February of 2004. The quota for fiscal year 2005 was fully allocated in early October of 2004. The quota for fiscal year 2006 was reached on October 1, 2005.

On December 8, 2004, the President signed the “H-1B Reform Act of 2004”. This legislation provides for up to an additional 20,000 H-1B visas per year provided that the H-1B worker possesses at least a Masters degree awarded by a U.S. college or university. Historically, the iGATE operating companies have hired few H-1B workers with this educational profile.

The “H-1B Reform Act of 2004” also reinstated the “H-1B Dependent” attestations and the penalties for their noncompliance. The legislation also reinstated the special H-1B training-filing fee and increased the amount to \$1,500 and created a new \$500 fraud detection and prevention fee.

In recent years, approximately 99% of our H-1B hires were not subject to the annual quota because they were already in the U.S. in H-1B visa status with another employer. As a result, the negative impact on recruiting of the exhaustion of the fiscal years 2004—2006 H-1B quotas was not substantial. However, unless Congress substantially increases the annual H-1B quota, the pool of H-1B workers in the U.S. who were charged against previous years’ quotas will decline. Such a development would make H-1B worker recruiting more difficult. Absent positive legislation, in the long-term the pool of available H-1B workers in the U.S. that are not subject to the annual quota may eventually be depleted.

## **Variability of Quarterly Operating Results**

The revenues and operating results of many of the iGATE companies are subject to significant variations from quarter to quarter depending on a number of factors, including the timing and number of client projects commenced and completed during the quarter, the number of working days in a quarter, employee hiring, attrition and utilization rates and the mix of time-and-materials projects versus proportional performance and maintenance projects during the quarter. Certain of the iGATE companies recognize revenues on time-and-materials projects as the services are performed, while revenues on proportional performance projects are recognized using the proportional performance method. Certain contracts with no stated deliverables, with a designated workforce assigned, recognize revenues on a straight-line basis over the life of the contract. Although proportional performance projects have not contributed significantly to revenues and profitability to date,

operating results may be adversely affected in the future by cost overruns on proportional performance projects. Because a high percentage of the expenses of many of the iGATE companies are relatively fixed, variations in revenues may cause significant variations in operating results. Additionally, the iGATE companies periodically incur cost increases due to both the hiring of new employees and strategic investments in infrastructure in anticipation of future opportunities for revenue growth.

### **Increasing Significance of Non-U.S. Operations and Risks of International Operations**

Our international consulting and offshore software development depend greatly upon business immigration and technology transfer laws in those countries, and upon the continued development of technology infrastructure. There can be no assurance that our international operations will be profitable or support our growth strategy. The risks inherent in our international business activities include:

- unexpected changes in regulatory environments;
- foreign currency fluctuations;
- tariffs and other trade barriers;
- difficulties in managing international operations; and
- the burden of complying with a wide variety of foreign laws and regulations.

Our failure to manage growth, attract and retain personnel, manage major development efforts, profitably deliver services, or a significant interruption of our ability to transmit data via satellite, could have a material adverse impact on our ability to successfully maintain and develop our international operations and could have a material adverse effect on our business, operating results and financial condition.

### **Exposure to Regulatory and General Economic Conditions in India**

Our subsidiary iGS utilizes offshore software development centers based in Bangalore, Chennai, Hyderabad, Pune and Noida, India. iGS also operates recruiting and training centers in India. The Indian government exerts significant influence over its economy. In the recent past, the Indian government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in certain sectors of the economy, including the technology industry. Certain of these benefits that directly affect us include, among others, tax holidays (temporary exemptions from taxation on operating income), liberalized import and export duties and preferential rules on foreign investment and repatriation. To be eligible for certain of these tax benefits, we must continue to meet certain conditions. A failure to meet such conditions in the future could result in the cancellation of the benefits. There can be no assurance that such tax benefits will be continued in the future at their current levels. Changes in the business or regulatory climate of India could have a material adverse effect on our business, operating results and financial condition.

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

### **Risks Associated with Covenants in Certain Financing Instruments**

On September 14, 2006 we renewed our \$35.0 million unsecured credit facility (“the PNC Facility”) with PNC Bank, N.A (“PNC”) for 365 days. The PNC Facility contains restrictive covenants that require us to meet certain financial criteria on a quarterly basis. We may not be able to continue to satisfy the financial covenants in

these documents. If we cannot satisfy such covenants and we are not able to renegotiate the terms and conditions thereof, we may not have access to funds under the PNC Facility. Currently, the most restrictive covenant is the obtainment of Tangible Net Worth of at least \$100 million. In addition, the PNC Facility requires that we maintain an aggregate of \$35 million in domestic cash and cash equivalents at all times during the term of the PNC Facility and maintain a liquidity ratio of not less than 1.5 to 1.0. The liquidity ratio is the sum of domestic cash and accounts receivable divided by total liabilities. iGS cannot borrow funds under the PNC Facility.

### **Intense Competition in the IT and Offshore Outsourcing Services Industries**

The IT and offshore outsourcing services industries are highly competitive and served by numerous global, national, regional and local firms. Primary competitors include participants from a variety of market segments, including the major consulting firms, systems consulting and implementation firms, India based offshore outsourcing services, applications software firms, service groups of computer equipment companies, specialized interest consulting firms, programming companies and temporary staffing firms. Many of these competitors have substantially greater financial, technical and marketing resources and greater name recognition than we have. There are relatively few barriers to entry into our markets and we may face additional competition from new entrants into our markets. In addition, there is a risk that clients may elect to increase their internal resources to satisfy their applications solutions needs. Further, the IT services industry is undergoing consolidation, which may result in increasing pressure on margins. These factors may limit our ability to increase prices commensurate with increases in compensation. There can be no assurance that we will compete successfully with existing or new competitors in the IT and offshore outsourcing services markets.

### **iGATE Companies May Compete with Each Other**

iGATE Companies may compete with each other for customers, talented employees and strategic relationships and for acquisition opportunities in the IT and offshore outsourcing services industries. Such competition may make it more difficult or costly for iGATE Corporation or other iGATE companies to enter into strategic relationships, negotiate acquisitions or conduct business.

### **Risks Related to Inability to Acquire Additional Businesses**

We plan to gradually continue to expand our operations through the acquisition of, or investment in, additional businesses and companies. We may be unable to identify businesses that complement our strategy for growth. If we do succeed in identifying a company with such a business, we may not be able to proceed to acquire the company, its relevant business or an interest in the company for many reasons, including:

- a failure to agree on the terms of the acquisition or investment;
- incompatibility between the Company and the management of the company which we wish to acquire or invest;
- competition from other potential acquirors;
- a lack of capital to make the acquisition or investment; and
- the unwillingness of the company to partner with us.

If we are unable to continue acquiring and investing in attractive businesses, our strategy for growth may not succeed.

### **Risks Related to Completed Acquisitions**

There can be no assurance that we will be able to profitably manage additional businesses or successfully integrate any acquired businesses without substantial expenses, delays or other operational or financial problems. Further, acquisitions may involve a number of special risks, including diversion of management's attention,

failure to retain key acquired personnel, unanticipated events or circumstances and legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on our business, operating results and financial condition. Client satisfaction or performance problems at a single acquired firm could have a material adverse impact on our reputation as a whole. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. Our failure to manage our acquisition strategy successfully could have a material adverse effect on our business, operating results and financial condition.

### **Risks Associated with Capital Markets**

We currently hold interests in non wholly-owned companies. While we generally do not anticipate selling such interests, if we were to divest all or part of them, we might not receive maximum value for these interests. With respect to such entities with publicly traded stock, we may be unable to sell our interest at then quoted market prices. Furthermore, for those entities that do not have publicly traded stock, the realizable value of our interest may ultimately prove to be lower than the carrying value currently reflected in our Consolidated Financial Statements. Due to market conditions, it may be difficult for private companies in which we have invested to undertake public offerings.

### **Impairment Analysis May Lead to Recognition of Losses**

The carrying amount of the goodwill on our balance sheet was \$11 million as of December 31, 2006. We periodically assess the potential impairment of our long-lived assets, such as goodwill, as appropriate. If, as a result of such an assessment, we were to determine that the carrying amount of this goodwill was not recoverable, we would reduce the carrying amount in the period in which the determination was made. Any reduction would result in the recognition of a one-time impairment loss, which would have an adverse effect on our financial results in the period in which the loss was recognized.

The carrying amount of our investments in unconsolidated affiliates was \$1.4 million as of December 31, 2006. If we were to determine that the value of such investments had declines judged to be permanent or other than temporary, we would reduce the carrying amount of the investments. Any reduction would result in the recognition of a one-time impairment loss, which would have an adverse effect on our financial results in the period in which the loss was recognized.

### **Concentration of Revenues; Risk of Termination**

Our revenues are highly dependent on clients primarily located in the United States, as well as clients concentrated in certain industries, and economic slowdowns, changes in U.S. law and other restrictions or factors that affect the economic health of these industries may affect our business. In the year ended December 31, 2006, approximately 85% of our revenues were derived from North America. Consequently, if our clients reduce or postpone their IT spending significantly, this may lower the demand for our services and negatively affect our revenues and profitability. Further, any significant decrease in the growth of the financial services or other industry segments on which we focus may reduce the demand for our services and negatively affect our revenues and profitability.

We have in the past derived, and may in the future derive, a significant portion of our revenues from a relatively limited number of clients. Our five largest clients represented approximately 38%, 42% and 46% of revenues for the years ended December 31, 2006, 2005 and 2004, respectively. In the years ended December 31, 2006, 2005 and 2004, GE accounted for 18%, 18% and 19% of our revenues, respectively. Most of our projects are terminable by the client without penalty. An unanticipated termination of a major project could result in the loss of substantial anticipated revenues and could require us to maintain or terminate a significant number of unassigned IT professionals, resulting in a higher number of unassigned IT professionals and/or significant termination expenses. The loss of any significant client or project could have a material adverse effect on our business, operating results and financial condition.

## **Rapid Technological Change; Dependence on New Solutions**

The IT and offshore outsourcing services industries are characterized by rapid technological change, evolving industry standards, changing client preferences and new product introductions. Our success will depend in part on our ability to develop IT solutions that keep pace with industry developments. There can be no assurance that we will be successful in addressing these developments on a timely basis or that, if these developments are addressed, we will be successful in the marketplace. In addition, there can be no assurance that products or technologies developed by others will not render our services noncompetitive or obsolete. Our failure to address these developments could have a material adverse effect on our business, operating results and financial condition.

A significant number of organizations are attempting to migrate business applications to advanced technologies. As a result, our ability to remain competitive will be dependent on several factors, including our ability to develop, train and hire employees with skills in advanced technologies. Our failure to hire, train and retain employees with such skills could have a material adverse impact on our business. Our ability to remain competitive will also be dependent on our ability to design and implement, in a timely and cost-effective manner, effective transition strategies for clients moving to advanced architectures. Our failure to design and implement such transition strategies in a timely and cost-effective manner could have a material adverse effect on our business, operating results and financial condition.

## **Dependence on Principals**

Our success is highly dependent on the efforts and abilities of our executive management: Sunil Wadhvani and Ashok Trivedi, the Co-Chairman and Chief Executive Officer of iGATE Corporation and the Co-Chairman and President of iGATE Corporation, Phaneesh Murthy, Chief Executive Officer of iGS and Steve Shangold, Chief Executive Officer of iGATE Mastech, Inc. Although each executive has entered into employment agreements containing noncompetition, nondisclosure and nonsolicitation covenants, these contracts do not guarantee that they will continue their employment with us or that such covenants will be enforceable. The loss of the services of either of any of these key executives for any reason could have a material adverse effect on our business, operating results and financial condition.

## **Risk of Preferred Vendor Contracts**

We are party to several “preferred vendor” contracts and we are seeking additional similar contracts in order to obtain new or additional business from large or medium-sized clients. Clients enter into these contracts to reduce the number of vendors and obtain better pricing in return for a potential increase in the volume of business to the preferred vendor. While these contracts are expected to generate higher volumes, they generally result in lower margins. Although we attempt to lower costs to maintain margins, there can be no assurance that we will be able to sustain margins on such contracts. In addition, the failure to be designated a preferred vendor, or the loss of such status, may preclude us from providing services to existing or potential clients, except as a subcontractor, which could have a material adverse effect on our business, operating results and financial condition.

## **Risks Associated with Intellectual Property Rights**

Our success depends in part upon certain methodologies and tools we use in designing, developing and implementing applications systems and other proprietary intellectual property rights. We rely upon a combination of nondisclosure and other contractual arrangements and trade secrets, copyright and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our employees and limit distribution of proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of 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 do not infringe on the intellectual property rights of others and that we have all rights necessary to utilize the intellectual property employed in our business, we are subject to the risk of litigation alleging infringement of third-party intellectual property rights. Any claims, whether or not meritorious, could:

- be expensive and time-consuming to defend;
- cause significant installation delays;
- divert management's attention and resources; and/or
- require us to enter into royalty or licensing arrangements, which may not be available on acceptable terms, or may not be available at all.

A successful claim of product infringement against us or our failure or inability to license the infringed or similar technology could have a material adverse effect on our business, financial condition and results of operations.

**Fixed-Price Projects**

We undertake certain projects billed on a fixed-price basis. We recognize revenue from these contracts on a proportional performance basis, which is different from our principal method of billing, the time-and-materials basis. Failure to complete such projects within budget would expose us to risks associated with cost overruns, which could have a material adverse effect on our business, operating results and financial condition.

**Potential Liability to Clients**

Many of our engagements involve projects that are critical to the operations of our clients' businesses and provide benefits that may be difficult to quantify. Although we attempt to contractually limit our liability for damages arising from errors, mistakes, omissions or negligent acts in rendering our services, there can be no assurance that our attempts to limit liability will be successful. Our failure or inability to meet a client's expectations in the performance of our services could result in a material adverse change to the client's operations and therefore could give rise to claims against us or damage our reputation, adversely affecting our business, operating results and financial condition.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Information regarding the principal properties owned and leased by the Company and its subsidiaries as of December 31, 2006 is set forth below:

<u>Location</u>	<u>Segment</u>	<u>Principal Use</u>	<u>Approximate Square Footage</u>
Pittsburgh, Pennsylvania . . .	iGATE Shared Services /iPS	Corporate headquarters, management administration, human resources, sales, and marketing	30,000
Chennai, India . . . . .	iGATE Solutions	iGS offshore development center	100,000
Bangalore, India . . . . .	iGATE Solutions	iGS Whitefield campus and offshore development center	334,000
Hyderabad, India . . . . .	iGATE Solutions	iGS offshore development center	63,000
Noida, India . . . . .	iGATE Solutions	iGATE Global Process Outsourcing Ltd.	80,000

iGS leases approximately 98,000 square feet of office space in the Indian cities of Bangalore, Chennai and Mumbai from the principal shareholders of iGATE. Refer to Related Party Transactions Note 18 to notes to Consolidated Financial Statements for further discussion.

In addition to the properties listed above, the Company and its subsidiaries lease sales offices in many IT services markets in the United States and throughout the world. These locations allow the Company to respond quickly to the needs of its clients and to recruit qualified IT professionals in these markets.

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

In the ordinary course of our business, we are involved in a number of lawsuits and administrative proceedings. While uncertainties are inherent in the final outcome of these matters, Company management believes, after consultation with legal counsel, that the disposition of these proceedings should not have a material adverse effect on our financial position, results of operations or cash flows. Certain proceedings are more fully discussed in Contingencies Note 9 to our Consolidated Financial Statements.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of shareholders during the fourth quarter of 2006.

## PART II

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

Our Common Stock is traded on the NASDAQ National Market under the ticker symbol "IGTE". The following table sets forth, for the periods indicated, the range of high and low closing sale prices for iGATE Corporation Common Stock as reported on the NASDAQ National Market.

	<u>High</u>	<u>Low</u>
<b>2006</b>		
First Quarter .....	\$6.72	\$4.70
Second Quarter .....	7.25	5.63
Third Quarter .....	6.16	3.74
Fourth Quarter .....	\$6.89	\$4.97
<b>2005</b>		
First Quarter .....	\$4.63	\$3.66
Second Quarter .....	4.41	3.46
Third Quarter .....	4.08	3.44
Fourth Quarter .....	\$5.01	\$3.50

On February 28, 2007, we had 155 registered holders of record of our Common Stock.

We are prohibited from paying dividends under the PNC Facility. See Credit Facilities Note 7 to our Consolidated Financial Statements.

We currently have no program regarding the purchase of our Common Stock.

## ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Income Statement Data(1):					
Revenues(2) . . . . .	\$283,588	\$275,992	\$264,585	\$240,634	\$250,851
Gross margin(3) . . . . .	73,376	70,882	67,008	68,980	77,604
Gain on sale of land . . . . .	—	—	(3,615)	—	—
Restructuring (recovery) charges(4) . . . . .	(3,062)	(481)	5,805	604	4,232
Goodwill impairment(5) . . . . .	—	—	—	—	25,964
Income (loss) from operations . . . . .	6,818	3,880	(17,261)	(4,560)	(25,036)
Other income (expense), net . . . . .	3,992	(275)	1,374	1,560	1,463
Equity in income (losses) of affiliated companies . . . . .	317	338	(335)	(99)	—
Minority interest . . . . .	(752)	(261)	(677)	(312)	(441)
Gain on deconsolidation of subsidiary . . . . .	—	—	—	—	7,086
Gain on sale of stock of subsidiary . . . . .	—	5,549	—	—	—
Gain (loss) on venture investments and affiliated companies, net(6) . . . . .	578	(2,149)	—	(28)	(7,610)
Income (loss) before income taxes . . . . .	10,953	7,082	(16,899)	(3,439)	(24,538)
Income tax provision (benefit) . . . . .	2,249	113	5,130	2,179	(339)
Income (loss) from continuing operations . . . . .	8,704	6,969	(22,029)	(5,618)	(24,199)
Income (loss) from discontinued operations, net of income taxes(1) . . . . .	—	—	3,818	(3,402)	(3,292)
Net income (loss) . . . . .	\$ 8,704	\$ 6,969	\$ (18,211)	\$ (9,020)	\$ (27,491)
Earnings (loss) from continuing operations per share . . . . .	0.16	0.13	(0.42)	(0.11)	(0.47)
Earnings (loss) from discontinued operations per share . . . . .	—	—	0.07	(0.07)	(0.06)
Net earnings (loss) per common share, basic and diluted . . . . .	\$ 0.16	\$ 0.13	\$ (0.35)	\$ (0.17)	\$ (0.54)
Weighted average common shares, basic . . . . .	52,939	52,530	52,721	51,697	51,304
Weighted average common shares, diluted . . . . .	53,278	52,734	52,721	51,697	51,304
Balance Sheet Data:					
Cash and cash equivalents . . . . .	\$ 52,154	\$ 45,837	\$ 28,201	\$ 36,133	\$ 56,793
Short-term investments . . . . .	31,826	30,798	35,863	39,582	51,188
Working capital(7) . . . . .	113,387	102,327	93,846	101,293	116,184
Total assets . . . . .	190,774	177,474	180,232	180,940	188,940
Total shareholders' equity . . . . .	\$133,351	\$117,672	\$111,700	\$122,135	\$117,149

- (1) In June 2004, we sold our subsidiary located in Sydney, Australia, iGATE Australia Pty. Ltd. (“iGATE Australia”). In April 2004, we sold our subsidiary located in Edinburgh, Scotland, Direct Resources Scotland Ltd. (“DRI”). As required under accounting rules, dispositions are presented as discontinued operations, net of applicable statutory taxes.
- (2) In 2002, the Company adopted the provisions of (“EITF”) Issue No. 01-14, *Income Statement Characterization of Reimbursement* (“EITF 01-14”) and now accounts for billable expenses as a component of both revenue and cost of revenues.
- (3) Effective January 1, 2003, we began to classify costs for consultants not being utilized (i.e. “bench costs”) as cost of revenues. In the prior year, these costs were classified as selling, general and administrative

("S,G&A") costs. The prior period was reclassified to reflect the changes to our segment reporting and our classification of bench costs.

- (4) In 2006, we reversed \$0.6 million of our 2001 restructuring reserve. In 2006, we also reversed \$2.5 million of our 2004 restructuring reserve related to our United Kingdom operation. In 2005, we sold Canada, and reversed \$0.5 million of previously recorded restructuring charges that we associated with our 2001 and 2004 Canada restructurings. In 2004, we incurred \$5.8 million in connection with our restructuring of our United Kingdom and Canadian operations. In 2003, we revised our restructuring estimates and incurred an additional \$0.6 million in connection with our 2002 restructuring plan. In 2002, we incurred \$4.2 million in connection with a restructuring plan.
- (5) In 2002, we incurred \$26.0 million in total charges related to goodwill impairments consisting of \$24.3 million in our iGATE Solutions reporting unit and \$1.7 million in our iPS reporting unit.
- (6) In 2006, we sold our investment in Brainbench for \$0.6 million. In 2005, we recorded an impairment charge on our investment in Concours in the amount of \$2.4 million, which was offset by a gain of \$0.3 million on the remaining shares of stock of ScanSoft (f/n/a Speechworks, Inc.). The fiscal year ended 2002 included the impairment charges of various venture and other investments in the amount of \$7.6 million.
- (7) Working capital represents current assets less current liabilities.

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

### **Overview**

iGATE Corporation, formerly named iGATE Capital Corporation, through its operating subsidiaries, is a provider of IT and offshore outsourcing services to large and medium-sized organizations. From inception and through February 2000, we conducted the majority of our business under the name of Mastech Corporation through our wholly owned subsidiary Mastech Systems Corporation, a Pennsylvania corporation that was formed in July 1986.

In March 2000, we transferred substantially all of the assets of Mastech Systems Corporation to subsidiary operating companies.

The Company does not sell, lease or otherwise market any computer software or hardware and 100% of the Company's revenues are derived from the sale of information technology and BPO services. Our operating subsidiaries provide clients with a source for a broad range of IT applications solutions and offshore outsourcing services including: client/server design and development, conversion/migration services, ERP package implementation and integration services, software development services and applications maintenance outsourcing.

### **Critical Accounting Policies**

The following explains our most critical accounting policies. See Note 1 to our Consolidated Financial Statements set forth on pages 45 to 51 of this Form 10-K for a complete description of our significant accounting policies.

#### *Revenue Recognition*

We recognize revenue on time-and-materials contracts as the services are performed. Time-and-materials contracts typically bill at an agreed upon hourly rate. Revenue is earned when our consultants are working on projects. Revenue recognition is negatively impacted by holidays and consultant vacation and sick days. We also have fixed price arrangements with certain customers. A price for an entire project is agreed upon for a predetermined fee before the project starts. We recognize revenues on fixed-price contracts using the proportional performance method. We prepare a budget for each fixed price project, and based upon the budget that we prepare, we estimate what our costs should be. We determine performance by comparing the actual cost of work performed to date to the estimated total cost for each contract. We recognize revenue based upon costs incurred by our consultants during the period. The Company follows this revenue recognition method for fixed-price contracts because there is a direct and consistent relationship between the service patterns and services provided to the customer and the direct costs incurred to provide such services. If our cost estimates indicate a loss on a particular fixed price contract, we record a provision for the estimated loss without regard to the stage of completion. Changes in job performance, conditions and estimated profitability may result in revisions to costs and revenues and are recognized in the period in which the changes are identified. Certain contracts with no stated deliverables, with a designated workforce assigned, recognize revenues on a straight-line basis over the life of the contract. Revenue on these contracts is ratable and predetermined based upon the negotiated contract.

#### *Accounts Receivable and Allowance for Uncollectible Accounts*

We extend credit to clients based upon management's assessment of their creditworthiness. The majority of our revenues (and the resulting accounts receivable) are from large companies and major systems integrators.

Unbilled receivables represent amounts recognized as revenues for the periods presented based on services performed in accordance with the terms of client contracts that will be invoiced in subsequent periods.

We review accounts receivable periodically to determine the probability of loss. The allowance for uncollectible accounts is determined using the combination of the specific identification method for balances deemed uncollectible, as well as judgments made by us based upon historical and expected charge-off experience. If the financial condition of our customers deteriorates or if economic conditions worsen, additional allowances may be necessary, which may impact earnings.

### *Investments*

The Company accounts for its investments in marketable equity securities in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”). The Company has determined that certain of its investments in marketable equity securities are classified as available-for-sale and recorded at fair value, utilizing the investments’ closing price at each reporting period. These investments are recorded on the balance sheet at market value, with the unrealized gains or losses, net of tax, reported as a component of accumulated other comprehensive income in the Consolidated Statement of Shareholders’ Equity and Comprehensive Income (Loss). The unrealized gain or loss is the difference between the Company’s original cost for an investment and the investment’s fair value at each reporting period. Realized gains or losses on securities sold are calculated using the specific identification method.

If management determines that an investment in available for sale securities has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

In evaluating these factors above, management presumes a decline in value to be other-than-temporary if the market price of the security is 20% or more below the investment’s cost basis for a period of six months or more (the “20% criteria”). However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.). Additionally, there may be instances where impairment losses are recognized even if the 20% criteria is not satisfied (e.g., plan to sell the security in the near term and the fair value is below the Company’s cost basis).

For investments accounted for using the cost or equity method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of an investment. This list is not all inclusive and management weighs all quantitative factors in determining if an other-than-temporary decline in value of an investment has occurred. In 2005, the Company recorded an impairment of \$2.5 million on its investment in Concours, Inc. There were no impairments recorded in 2006 or in 2004.

### *Goodwill and Intangible Assets*

Goodwill is the excess of purchase price over the value of the net assets acquired. Goodwill is assessed for impairment at least annually or as triggering events occur. In making this assessment, we rely on a combination of factors including operating results, business plans, economic projections, anticipated cash flows and our current market value. There are inherent uncertainties related to these factors and management’s judgment in applying them to the analyses of goodwill impairment. Under SFAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Estimated fair values of reporting units underlying the segments were estimated using either a discounted cash flow methodology, recent comparable

transactions or a combination thereof. For further discussions, see Note 5 to our Consolidated Financial Statements.

#### *Stock Based Compensation*

We recognize compensation expense for all stock-based awards, using a fair value approach as prescribed in SFAS No. 123R *Share Based Payments*. The impact of the adoption is more fully described in Note 11 to our Consolidated Financial Statements.

#### *Income Taxes*

We record an estimated liability for income and other taxes based on what we determine will likely be paid in the various tax jurisdictions in which we operate. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters, including the resolution of the tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, we consider future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, we would adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

#### **Use of Estimates in the Preparation of Financial Statements**

The preparation of our financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. All of the estimates that we make in preparing our financial statements are in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from our estimates, which could impact our earnings.

**Results of Operations of Our Operating Segments: iGATE Solutions, iPS and iGATE Shared Services for the Year Ended December 31, 2006 as Compared to the Year Ended December 31, 2005:**

	Year Ended December 31, 2006			Total
	iGATE Solutions	iGATE Professional Services	iGATE Shared Services(1)	
	(Dollars in thousands)			
External revenues	\$169,570	\$112,476	\$ 1,542	\$283,588
Cost of revenues	122,694	86,594	924	210,212
Gross margin	46,876	25,882	618	73,376
Selling, general and administrative	42,587	16,459	10,574	69,620
Restructuring recovery	(2,507)	(555)	—	(3,062)
Income (loss) from operations	<u>\$ 6,796</u>	<u>\$ 9,978</u>	<u>\$ (9,956)</u>	<u>\$ 6,818</u>
Other income, net			3,992	3,992
Minority interest			(752)	(752)
Gain on venture investments and affiliated companies			578	578
Equity in income of affiliated companies			317	317
(Loss) income before income taxes			<u>\$ (5,821)</u>	<u>\$ 10,953</u>

	Year Ended December 31, 2005			Total
	iGATE Solutions	iGATE Professional Services	iGATE Shared Services(1)	
	(Dollars in thousands)			
External revenues	\$138,032	\$136,775	\$ 1,185	\$275,992
Cost of revenues	97,108	107,354	648	205,110
Gross margin	40,924	29,421	537	70,882
Selling, general and administrative	38,948	17,173	11,362	67,483
Restructuring recovery	—	(481)	—	(481)
Income (loss) from operations	<u>\$ 1,976</u>	<u>\$ 12,729</u>	<u>\$(10,825)</u>	<u>\$ 3,880</u>
Other expense, net			(275)	(275)
Minority interest			(261)	(261)
Gain on sale of stock of subsidiary			5,549	5,549
Loss on venture investments and affiliated companies, net			(2,149)	(2,149)
Equity in income of affiliated companies			338	338
(Loss) income before income taxes			<u>\$ (7,623)</u>	<u>\$ 7,082</u>

(1) Shared Services activities include general corporate expenses, interest income and expense, equity in losses of unconsolidated affiliates, minority interest, loss from joint ventures and restructuring charges not identified to a specific segment, and other unallocated charges. The Company evaluates segments based on income (loss) from operations. Since certain administrative and other operating expenses or income sources have not been allocated to the operating business segments, this basis is not necessarily a measure computed in accordance with generally accepted accounting principles and it may not be comparable to other companies.

**Results of Operations of our Operating Segments: iGATE Solutions, iPS and iGATE Shared Services for the Year ended December 31, 2006 as Compared to the Year ended December 31, 2005:**

Effective January 1, 2006, we recast our segments to include the operations of jobcurry Ltd. as part of the iGATE Professional Services segment due to their service offerings being more consistent with those offered by

iGate Professional Services. Previously, jobcurry Ltd. was included in the iGATE Shared Services segment. All prior periods have been reclassified to reflect the change to our segment reporting.

#### *iGATE Solutions*

Revenues for iGATE Solutions for the year ended December 31, 2006 were \$169.6 million, an increase of \$31.6 million or 22.8%, as compared to \$138.0 million for the year ended December 31, 2005. Our revenue increase is directly attributable to a combination of new customer wins and increased business with our recurring customers. Our onsite/offshore ratio improved as our customers continue to move portions of the work previously done in the U.S. to India, resulting in increases in billable hours in India. Our acquisition of LoanPro contributed \$1.2 million to our total revenues for the year ended December 31, 2006.

The gross margin as a percentage of sales (“gross margin percentage”) for iGATE Solutions was 27.6% for the year ended December 31, 2006, as compared to 29.6% for the year ended December 31, 2005. The decrease in our gross margins was due to annual employee salary increases for iGS employees that occurred during the year both in India and the U.S. and approximately \$1.8 million of stock compensation expense incurred in conjunction with our adoption of SFAS 123(R). Direct costs associated with our acquisition of LoanPro totaled \$1.9 million for the year ended December 31, 2006, which also negatively impacted our gross margins.

Selling, general and administrative expenses (“S,G&A”) include all costs that are not directly associated with our iGATE Solutions segment’s revenue generating consultants. S,G&A expenses include employee costs, corporate costs and facilities costs. Employee costs include administrative salaries and related employee benefits, travel, recruiting and training costs. During the year ended December 31, 2006 we also recorded stock based compensation expense incurred as a result of our adoption of SFAS 123(R), which is included in employee costs. Corporate costs include costs such as legal, accounting and outside consulting fees. Facilities costs include rent, depreciation, amortization of intangible assets related to prior year acquisitions and communications costs. S,G&A costs for the year ended December 31, 2006 were \$42.6 million or 25.1% of revenues, as compared to \$38.9 million or 28.2% of revenues for the year ended December 31, 2005. Our acquisition of LoanPro contributed \$0.6 million of S,G&A costs during the year ended December 31, 2006.

Our net employee cost increased approximately \$1.8 million for the year ended December 31, 2006 as compared to the year ended December 31, 2005, mainly due to annual salary increases, other employee related costs and stock based compensation expense related to our adoption of SFAS 123(R). Our net corporate cost increased approximately \$1.4 million for the year ended December 31, 2006 due to increases in bad debt expense and legal and accounting costs. Our net facilities costs increased \$0.5 million mainly due to increases in depreciation and non-capital equipment expenditures on our new campus in Whitefield and increases in rent expense.

During the year, we recovered \$2.5 million of restructuring costs originally recorded in 2004 that relate to an office lease in the UK. We were able to obtain a tenant to assume the UK lease through a sublease agreement. These recovered costs were not considered as part of our discussion of S,G&A costs.

Operating income percentage was 4.0% for the year ended December 31, 2006 and 1.4% for the year ended December 31, 2005 as increases in revenues as well as our restructuring recovery in 2006 were somewhat offset by decreases in gross margins.

#### *iGATE Professional Services (“iPS”)*

Revenues for iPS for the year ended December 31, 2006 were \$112.5 million, a decrease of \$24.3 million or 18.0%, as compared to \$136.8 million for the year ended December 31, 2005. iPS sold its Canadian staffing operations in November 2005. The Canadian staffing operations’ sales for the year ended December 31, 2005 were \$29.0 million. For comparative purposes, iPS’ revenues for the year of 2006, without the impact of the

Canadian staffing operations for the year of 2005, would have increased \$4.7 million as overall demand for our staffing services has remained consistent for the periods presented.

Gross margin percentage for iPS was 23.0% for the year ended December 31, 2006, as compared to 21.5% for the year ended December 31, 2005. For comparative purposes, iPS' gross margin percentage for the year ended December 31, 2005, without the impact of the Canadian staffing operations would have been 22.0%. The contributing factors to the increased margin were savings in business travel and higher utilization of salaried employees versus subcontracted labor.

S,G&A include all costs that are not directly associated with our iPS segment's revenue generating consultants. S,G&A expenses include employee costs, corporate costs and facilities costs. Employee costs include administrative salaries and related employee benefits, travel, recruiting and training costs. During the year ended December 31, 2006 we also recorded stock based compensation expense incurred as a result of our adoption of SFAS 123(R), which is also included in employee costs. Corporate costs include costs such as legal, accounting and outside consulting fees. Facilities costs include rent, depreciation and amortization of intangible assets related to prior year acquisitions and communications costs. S,G&A costs for the year ended December 31, 2006 were \$15.9 million or 14.1% of revenues, as compared to \$16.7 million or 12.2% of revenues for the year ended December 31, 2005. For the year ended December 31, 2005 the impact of the Canadian staffing operations consisted of employee costs of \$3.5 million and facilities costs of \$0.6 million.

Our net employee cost without the \$3.5 million impact of costs of the Canadian staffing operations in 2005 increased approximately \$1.9 million for the year ended December 31, 2006 mainly due to increases in temporary help and stock based compensation expense incurred related to our adoption of SFAS 123(R). Our net corporate costs increased \$0.8 million for the year ended December 31, 2006. The increase was due primarily to a \$1.1 million reserve established for a contingent liability wage dispute regarding the payment of overtime compensation on one specific project. These costs were offset primarily by the recovered restructuring costs which are discussed below. Our facilities costs without the \$0.3 million impact of costs of the Canadian staffing operations in 2005 increased \$0.2 million for the year ended December 31, 2006, due to increases in depreciation and communications costs.

During the years ended December 31, 2006 and 2005, we recovered \$0.6 million and \$0.5 million, respectively, of restructuring costs that were recorded in prior years. The 2006 amount was a result of a bankruptcy settlement and the amount for 2005 was due to the sale of our Canadian staffing operation. These recovered costs were not considered as part of our discussion of S,G&A costs.

Operating income percentage was 8.9% for the year ended December 31, 2006 and 9.3% for the year ended December 31, 2005. The Canadian staffing operations contributed approximately 1.4% of operating income for the year ended December 31, 2005. Operating income percentage decreased mainly due to decreases in overall revenues.

#### *iGATE Shared Services (formerly "iGATE Corporate")*

Revenues for iGATE Shared Services for the year ended December 31, 2006 were \$1.5 million, an increase of \$0.4 million from revenues of \$1.1 million for the comparable year ended December 31, 2005. This increase in revenue over the comparable period was due to increases in clinical studies in iGATE Clinical Research International ("ICRI").

Gross margin percentage was 40.1% for the year ended December 31, 2006, as compared to 45.3% for the year ended December 31, 2005. Direct costs increased in anticipation of increased clinical studies. Delays in these studies negatively impacted our gross margin percentage.

S,G&A costs were \$10.6 million for the year ended December 31, 2006, as compared to \$11.3 million for the year ended December 31, 2005. Our S,G&A costs decreased mainly due to lower accounting and legal costs in 2006 due to a more efficient compliance effort related to Section 404 of the Sarbanes-Oxley Act. ICRI's S,G&A expenses increased \$0.5 million in 2006 mainly due to employee and salary related costs. These increases were offset by \$1.2 million of decreased costs mainly due to lower accounting and legal costs in 2006 as a result of a more efficient compliance effort related to Section 404 of the Sarbanes-Oxley Act.

### **Other Income (Expense) Components**

Other income, net for the year ended December 31, 2006, totaled \$4.1 million, compared to \$3.2 million for the year ended December 31, 2005. The following paragraphs discuss significant components of other income (expense) and changes within each of the years presented.

In 2006, our net interest income totaled \$3.2 million as compared to \$1.9 million for 2005. The increase was due to increased investment yields as well as increases in invested cash during 2006 as our cash flows increased during 2006, allowing us to invest additional cash. In 2006, we recognized \$0.5 million of unfavorable foreign currency translation losses related to our intercompany debt with India which was offset by \$1.2 million of favorable mark to market recoveries on our ineffective hedges. In 2005, we recognized \$0.5 million of unfavorable foreign currency translation losses related to our intercompany debt with India and \$1.2 million of unfavorable mark to market losses on our ineffective hedges. Currently, our hedging activities do not meet the minimum requirements for effective hedge accounting treatment under current accounting rules. As a result, we must recognize any unrealized gains or losses as current period income or loss. In 2005, we recognized miscellaneous expense of \$0.3 million and had no significant miscellaneous expense in 2006.

In 2006, we sold our investment in Brainbench for \$0.6 million. Also in 2006, we recognized an additional \$0.3 million of gain related to the sale of our Canadian operations as certain working capital estimates made as part of the original sales price were finalized. In 2005, we recognized a \$5.5 million gain related to the sale of our Canadian operations.

In 2005, we recorded an impairment charge of our investment in Concours of \$2.5 million and recognized a \$0.3 million gain on our sale of ScanSoft (f/k/a Speechworks) stock. These gain and losses are included as a component of Gain /loss) on Venture Investments and Affiliated Companies in the Consolidated Statement of Operations.

We recognized income on affiliated companies of \$0.3 million for the year ended December 31, 2006 as compared to \$0.3 million for the year ended December 31, 2005. All activity in 2006 was related to our investment in the Software AG joint venture. Our activity for the year ended December 31, 2005 was related to our investments in the CIBER and Software AG joint ventures. We acquired majority ownership of the CIBER joint venture in November 2005.

Minority interest expense was \$0.8 million for the year ended December 31, 2006 and relates to the minority interest portion of the income of iGS. Minority interest expense was \$0.3 million for the year ended December 31, 2005 also related to the income of iGS.

### **Income Taxes**

Federal income taxes calculated at the U.S. statutory rate were \$3.8 million for 2006. State income taxes which totaled \$0.3 million for 2006 were calculated using a blended statutory rate, and are net of federal income tax benefit. Our income tax provision was \$ 2.3 million at an effective rate of 20.5% for the year ended December 30, 2006.

Several items caused variations from our statutory tax provision. iGS is eligible to claim a tax holiday on the majority of its operating income through 2009. The tax holiday resulted in a benefit of \$2.7 million for the year ended December 31, 2006. iGS's non-operating income, such as interest income, is not included in the tax holiday, and has been considered as part of our income tax provision.

Other variations typically arise because certain expenses or benefits recorded to our financial statements are either limited or disallowed when calculating our income tax provision. Amortization expense in the amount of \$0.1 million related to our prior acquisitions was not deducted when calculating our income tax provision. Also, certain expenses such as meals and entertainment and executive compensation are limited for income tax purposes. Other expenses such as minority interest expense are not deductible at all. Approximately \$0.5 million of these expenses were not deducted when calculating our income tax provision. In addition to the limited or disallowed items discussed above, the tax provision was favorably impacted by the utilization of UK net operating losses not recognized previously, and by valuation allowances provided against certain deductions for which the recognition of the corresponding tax benefit is unlikely. The utilization of the UK net operating losses resulted in a direct tax benefit approximating \$0.9 million. The deductions offset by valuation allowances include net operating losses realized by the U.S. Branch operations of iGATE Global Solutions Limited, capital losses realized from the disposition of certain subsidiary and equity investments, and accruals for deferred compensation. The aggregate impact of these other variations on the Company's effective tax rate was an unfavorable \$1.1 million.

Federal income taxes calculated at the U.S. statutory rate were \$2.5 million for 2005. State income taxes which totaled \$0.2 million for 2005 were calculated using a blended statutory rate, and are net of federal income tax benefit. Our income tax provision was \$0.1 million at an effective rate of 1.6% for the year ended December 30, 2005.

Several items caused variations from our statutory income tax provision. iGS is eligible to claim a tax holiday on the majority of its operating income through 2009. During the year ended December 31, 2005, iGS's tax provisions totaled \$0.7 million, mainly due to tax expense calculated on non-operating income items. iGS's non-operating income, such as interest income and a gain on the sale of land, is not included in the tax holiday, and has been considered as part of our income tax provision.

In addition, on April 11, 2005, the Joint Committee on Taxation advised that the Internal Revenue Service examination of our income tax returns for the years 1999, 2000 and 2001 has been completed, which resulted in a \$2.2 million income tax benefit recognized for the year ended December 31, 2005. We also recognized an income tax benefit in the amount of \$6.9 million due to our ability to utilize capital losses that were recorded in prior years. Other variations typically arise because certain expenses or benefits recorded to our financial statements are either limited or disallowed when calculating our tax provision. Amortization expense in the amount of \$0.1 million related to our prior acquisitions was not deducted when calculating our income tax provision. Also, certain expenses such as meals and entertainment and executive compensation are limited for income tax purposes. Approximately \$0.9 million of these expenses were not deducted when calculating our income tax provision. In addition to the limited or disallowed items discussed above, valuation allowances have been provided against certain deductions for which the recognition of the corresponding tax benefit is unlikely. These deductions include net operating losses realized by the U.S. Branch operations of iGATE Global Solutions Limited, capital losses realized from the disposition of certain subsidiary and equity investments, and accruals for deferred compensation. The aggregate impact of these variations on the Company's effective tax rate was an unfavorable \$4.8 million.

**Results of Operations of Our Operating Segments: iGATE Solutions, iPS and iGATE Shared Services for the Year Ended December 31, 2005 as Compared to the Year Ended December 31, 2004:**

Effective April 1, 2004, we recast our segments to include the operations of Global Financial Services, Inc. (“GFS”) as part of the iPS segment. Previously, GFS was included in the iGATE Solutions segment. All prior periods have been reclassified to reflect the change to our segment reporting. The following discussion also compares our operating segments without the operations of iGATE Australia Pty Ltd. and Direct Resources Ltd., which are being treated as discontinued operations. Prior to their sale in 2004 both entities were part of our iPS operating segment.

	<b>Year Ended December 31, 2005</b>			
	<b>iGATE Solutions</b>	<b>iGATE Professional Services</b>	<b>iGATE Shared Services(1)</b>	<b>Total</b>
	(Dollars in thousands)			
External revenues . . . . .	\$138,032	\$136,775	\$ 1,185	\$275,992
Cost of revenues . . . . .	97,108	107,354	648	205,110
Gross margin . . . . .	40,924	29,421	537	70,882
Selling, general and administrative . . . . .	38,948	17,173	11,362	67,483
Restructuring recovery . . . . .	—	(481)	—	(481)
Income (loss) from operations . . . . .	<u>\$ 1,976</u>	<u>\$ 12,729</u>	\$(10,825)	<u>\$ 3,880</u>
Other expense, net . . . . .			(275)	(275)
Minority interest . . . . .			(261)	(261)
Gain on sale of stock of subsidiary . . . . .			5,549	5,549
Loss on venture investments and affiliated companies, net . . . . .			(2,149)	(2,149)
Equity in income of affiliated companies . . . . .			338	338
(Loss) income before income taxes . . . . .			<u>\$ (7,623)</u>	<u>\$ 7,082</u>

	<b>Year Ended December 31, 2004</b>			
	<b>iGATE Solutions</b>	<b>iGATE Professional Services</b>	<b>iGATE Shared Services(1)</b>	<b>Total</b>
	(Dollars in thousands)			
External revenues . . . . .	\$131,484	\$132,439	\$ 662	\$264,585
Cost of revenues . . . . .	92,329	104,637	611	197,577
Gross margin . . . . .	39,155	27,802	51	67,008
Selling, general and administrative . . . . .	55,197	17,601	9,281	82,079
Gain on sale of land . . . . .	(3,615)	—	—	(3,615)
Restructuring charges . . . . .	4,896	909	—	5,805
(Loss) income from operations . . . . .	<u>\$ (17,323)</u>	<u>\$ 9,292</u>	\$ (9,230)	<u>\$ (17,261)</u>
Other income, net . . . . .			1,374	1,374
Minority interest . . . . .			(677)	(677)
Equity in losses of affiliated companies . . . . .			(335)	(335)
Loss before income taxes . . . . .			<u>\$ (8,868)</u>	<u>\$ (16,899)</u>

(1) Shared Services activities include general corporate expenses, interest income and expense, equity in losses of unconsolidated affiliates, minority interest, loss from joint ventures and restructuring charges not identified to a specific segment, and other unallocated charges. The Company evaluates segments based on income (loss) from operations. Since certain administrative and other operating expenses or income sources have not been allocated to the operating business segments, this basis is not necessarily a measure computed in accordance with generally accepted accounting principles and it may not be comparable to other companies.

### *iGATE Solutions*

Revenues for iGATE Solutions for the year ended December 31, 2005 were \$138.0 million, an increase of \$6.5 million or 5.0%, as compared to \$131.5 million for the year ended December 31, 2004. Our revenue increase was directly attributable to a combination of new customer wins and increased business with our recurring customers. Our customers continued to move portions of the work we used to do for them in the U.S. to India, resulting in increases in billable hours and consultant utilization in India. As a result, we added approximately 1,000 offshore consultants. In addition, we were also able to increase our billing rates both in the U.S. and India.

The gross margin as a percentage of sales (“gross margin percentage”) for iGATE Solutions was 29.6% for the year ended December 31, 2005, as compared to 29.8% for the year ended December 31, 2004. The decrease in our gross margins was primarily due to increased labor costs in India.

Selling, general and administrative expenses (“S,G&A”) include all costs that are not directly associated with our iGATE Solutions segment’s revenue generating consultants. S,G&A expenses include administrative salaries and related employee benefits, recruiting and training costs, rent, depreciation and amortization, as well as communications and facilities costs. Also included in S,G&A costs are certain compensation charges incurred as a result of the Quintant transaction and amortization of acquired intangible assets related to acquisitions within iGS. S,G&A costs for the year ended December 31, 2005 were \$38.9 million or 28.2% of revenues, as compared to \$55.2 million or 42.0% of revenues for the year ended December 31, 2004.

In 2004, approximately \$12.1 million of S,G&A costs related to one-time compensation costs incurred in conjunction with the Quintant transaction modification. These modifications required us to accelerate certain compensation costs in 2004. S,G&A costs decreased \$4.1 million net of the 2004 one-time costs for the year ended December 31, 2005 as compared to December 31, 2004. Significant items that contributed to the decrease were decreases in salaries and other employees costs of \$3.5 million. Approximately \$1.6 million of the \$3.5 million savings was directly attributable to the acceleration of compensation costs associated with the Quintant transaction modification. In 2005, travel and related costs decreased approximately \$0.6 million, as more work was performed in India requiring less consultant overseas travel. Bad debt expense net of recoveries, decreased by \$1.1 million in 2005 due to improved collection activity. These costs savings were offset by increases in outside services of \$0.7 million related to ERP Systems upgrades and Sarbanes-Oxley costs during 2005 and net facilities costs increases of \$0.4 million mainly attributable to our Whitefield campus in Bangalore, India.

Additional operating items included costs associated with a termination of leased office space in the U.K. in the amount of \$4.9 million and during the year ended December 31, 2004, we sold a tract of land in India and realized a gain of \$3.6 million. There were no such operating items in 2005.

Operating income as a percentage of sales (“operating income percentage”) for the year ended December 31, 2005 was 1.4%, as compared to an operating loss percentage of 13.2% for the year ended December 31, 2004. Our operating income for the current period was due to decreases in S,G&A costs.

### *iGATE Professional Services (“iPS”)*

Revenues for iPS for the year ended December 31, 2005 were \$136.8 million, an increase of \$4.4 million or 3.3%, as compared to \$132.4 million for the year ended December 31, 2004. Overall demand for our staffing services increased for the period as we continued to see favorable trends in the IT services market.

Gross margin percentage for iPS was 21.5% for the year ended December 31, 2005, as compared to 21.0% for the year ended December 31, 2004. The contributing factors to the increased margin were savings in business travel and higher utilization of salaried employees versus subcontracted labor.

S,G&A costs for the year ended December 31, 2005 were \$17.2 million or 12.6% of revenues, as compared to \$17.6 million or 13.3% of revenues for the year ended December 31, 2004. Bad debt expense net of recoveries, decreased by \$2.7 million in 2005 due to significant improvements in collection activities and billing procedures. This was offset by approximately \$3.3 million of expenses related to increases in administrative headcount and legal fees incurred with H1-B Visa filings as we continued to increase our consultant headcount in the U.S.

In conjunction with the sale of Canada in 2005, we recovered approximately \$0.5 million of previously recorded restructuring charges. In 2004, additional operating items included \$0.9 million of costs associated with a termination of leased office space in Canada.

Operating income percentage was 9.3% for the years ended December 31, 2005 and 7.0% for the year ended December 31, 2004. Operating income increased for the year ended December 31, 2005 due to increased gross margins, recoveries of bad debt expense, restructuring recovery charges and decreases in overall spending.

#### *iGATE Shared Services (formerly "iGATE Corporate")*

Revenues for iGATE Shared Services for the year ended December 31, 2005 were \$1.2 million, an increase of \$0.5 million from revenues of \$0.7 million for the comparable year ended December 31, 2004. This increase in revenue over the comparable period was due to increases in clinical studies in ICRI.

Gross margin percentage was 45.3% for the year ended December 31, 2005, as compared to 7.7% for the year ended December 31, 2004. Increases in the revenues for ICRI positively impacted our gross margin percentage, as direct costs remained consistent for each period presented.

S,G&A costs were \$11.4 million for the year ended December 31, 2005, as compared to \$9.3 million for the year ended December 31, 2004. Our S,G&A costs increased due to higher accounting and legal costs in 2005 due to our compliance efforts related to Section 404 of the Sarbanes-Oxley Act.

#### **Other Income (Expense) Components**

Interest income for the year ended December 31, 2005 was \$2.1 million, an increase of \$1.2 million as compared to \$0.9 million in 2004. The increase was due to increased investment yields and operating cash flow in 2005.

Interest expense for the year ended December 31, 2005 was \$0.2 million, an increase of \$0.1 million as compared to \$0.1 million in 2004. Interest expense for both years is related to discounted liabilities for an employment agreement and for restructuring costs. During 2005, we were assessed \$0.1 million of interest expense related to various state tax audits.

Other expense, net for the year ended December 31, 2005 totaled \$2.2 million, compared to other income of \$0.6 million for the year ended December 31, 2004. Other expense for 2005 consisted of unfavorable foreign currency translation losses of \$0.5 million related to our intercompany debt with India, unfavorable mark to market losses on our ineffective hedges of \$1.2 million and miscellaneous expense of \$0.3 million. Conversely, in 2004, other income, net of \$0.6 million consisted of favorable foreign currency translation gains of \$0.2 million related to our intercompany debt with India and \$0.4 million of miscellaneous income.

We recognized income on affiliated companies of \$0.3 million for the year ended December 31, 2005, as compared to a loss of \$0.3 million for the year ended December 31, 2004. All activity in 2005 and 2004 was related to our investments in the CIBER and Software AG joint ventures.

Minority interest expense was \$0.3 million for the year ended December 31, 2005 and relates to the income of iGS and ICRI. Minority interest expense was \$0.7 million for the year ended December 31, 2004 and included the income of iGS and the losses of ICRI.

In 2005, we recorded an impairment charge on our investment in Concours of \$2.5 million and recognized a \$0.3 million gain on our sale of ScanSoft (f/k/a Speechworks) stock. These gain and losses are included as a component of Gain (loss) on Venture Investments and Affiliated Companies in the Consolidated Statement of Operations.

In 2005 we sold our wholly owned Canadian subsidiary iGATE Mastech Ltd. recognizing a gain of \$5.5 million.

## **Income Taxes**

Federal income taxes calculated at the U.S. statutory rate were \$2.5 million for 2005. State income taxes which totaled \$0.2 million for 2005 were calculated using a blended statutory rate, and are net of federal income tax benefit. Our income tax provision was \$0.1 million at an effective rate of 1.6% for the year ended December 30, 2005.

Several items caused variations from our statutory income tax provision. iGS is eligible to claim a tax holiday on the majority of its operating income through 2009. During the year ended December 31, 2005, iGS's tax provisions totaled \$0.7 million, mainly due to tax expense calculated on non-operating income items. iGS's non-operating income, such as interest income and a gain on the sale of land, is not included in the tax holiday, and has been considered as part of our income tax provision.

In addition, on April 11, 2005, the Joint Committee on Taxation advised that the Internal Revenue Service examination of our income tax returns for the years 1999, 2000 and 2001 has been completed, which resulted in a \$2.2 million income tax benefit recognized for the year ended December 31, 2005. We also recognized an income tax benefit in the amount of \$6.9 million due to our ability to utilize capital losses that were recorded in prior years. Other variations typically arise because certain expenses or benefits recorded to our financial statements are either limited or disallowed when calculating our tax provision. Amortization expense in the amount of \$0.1 million related to our prior acquisitions was not deducted when calculating our income tax provision. Also, certain expenses such as meals and entertainment and executive compensation are limited for income tax purposes. Approximately \$0.9 million of these expenses were not deducted when calculating our income tax provision. In addition to the limited or disallowed items discussed above, valuation allowances have been provided against certain deductions for which the recognition of the corresponding tax benefit is unlikely. These deductions include net operating losses realized by the U.S. Branch operations of iGATE Global Solutions Limited, capital losses realized from the disposition of certain subsidiary and equity investments, and accruals for deferred compensation. The aggregate impact of these variations on the Company's effective tax rate was an unfavorable \$4.8 million.

Federal income tax benefits calculated at the U.S. statutory rate were (\$5.9) million for the year ended December 31, 2004. State income taxes which totaled \$0.3 million for 2004 were calculated using a blended statutory rate, and are net of federal income tax benefit. Our income tax provision was \$5.1 million at an effective rate of (30.4%) for the year ended December 30, 2004.

Several items caused variations from our statutory income tax provision. iGS is eligible to claim a tax holiday on the majority of its operating income through 2009. The tax holiday resulted in a benefit of \$4.4 million for the year ended December 31, 2004. iGS's non-operating income, such as interest income, is not included in the tax holiday, and has been considered as part of our income tax provision.

Other variations typically arise because certain expenses or benefits recorded to our financial statements are either limited or disallowed when calculating our tax provision. We recognized an income tax benefit in the amount of \$2.8 million mainly due to our ability to utilize capital losses that were recorded in prior years. Amortization expense in the amount of \$0.2 million related to our prior acquisitions was not deducted when calculating our income tax provision. Also, certain expenses such as meals and entertainment and executive

compensation are limited for income tax purposes. Approximately \$0.8 million of these expenses were not deducted when calculating our income tax provision. In addition to the limited or disallowed items discussed above, valuation allowances have been provided against certain deductions for which the recognition of the corresponding tax benefit is unlikely. These deductions include deferred compensation and net operating losses realized by the U.S. Branch operations of iGS, and capital losses realized from the disposition of certain subsidiary and equity investments. The impact of the deferred compensation adjustment on the Company's effective tax rate was \$5.8 million. The aggregate impact of the other variations was \$2.3 million.

### **Liquidity and Capital Resources**

Working capital decreased \$7.0 million for the year ended December 31, 2006. While our accounts receivable increased to \$53.3 million at December 31, 2006 from \$49.5 million at December 31, 2005, our days sales outstanding decreased to 67 days at December 31, 2006 from 73 days at December 31, 2005.

At December 31, 2006, we had cash and short-term investments of \$52.2 million and \$31.8 million, respectively, as compared to cash and short-term investments of \$45.8 million and \$30.8 million, respectively, at December 31, 2005. Short-term investments at December 31, 2006 and December 31, 2005 consisted mainly of highly liquid short-term investments. Our focus has been liquidity along with the preservation of our principal holdings.

Cash provided by operations is anticipated to be adequate to fund capital expenditures and other business needs over the next 12 months.

#### *Cash from Operations*

Cash provided by operations was \$14.5 million for the year ended December 31, 2006. Factors contributing to our cash provided by operations were net income of \$8.7 million for the period, offset by unfavorable changes in working capital items of \$7.0 million which included an increase to our accounts receivable balances of \$3.2 million and unfavorable changes to other working capital items of \$3.8 million. During 2006, significant noncash items totaled \$12.8 million and included depreciation and amortization, stock based compensation expense related to our adoption of SFAS 123(R), bad debt expense, minority interest, equity gains, deferred taxes, restructuring recovery, gains on derivative instruments and net gains on venture investments and affiliated companies.

Cash provided by operations was \$14.0 million for the year ended December 31, 2005. Factors contributing to our cash provided by operations were net income of \$7.0 million offset by changes in working capital items of \$2.9 million that included a decrease to our accounts receivable balances of \$3.9 million offset by unfavorable changes to other working capital items of \$6.8 million. Significant noncash items during the year ended December 31, 2005 totaled \$9.9 million and included depreciation and amortization, stock based compensation expense related to stock options granted at a discount, bad debt expense, minority interest, equity gains, deferred taxes, and net gains on venture investments.

Cash used by operations was \$7.8 million for the year ended December 31, 2004. Factors contributing to our use of cash were net losses of \$18.2 million for 2004 and changes in working capital items of \$9.4 million which included an increase to our accounts receivable balances of \$15.6 million, offset by favorable changes to other working capital items of \$6.2 million. Significant noncash items during the year ended December 31, 2004 totaled \$22.6 million and included depreciation and amortization, stock based compensation expense related to the acquisition of Quintant, bad debt expense, minority interest, equity gains, deferred taxes, and net gains on venture investments. Cash provided by our discontinued operations totaled \$2.8 million for 2004.

### *Investing Activities*

Cash used in investing activities for the year ended December 31, 2006 was \$9.9 million, as compared to cash provided by investing activities of \$2.7 in 2005 and cash used of \$0.9 million in 2004. We generated cash in 2005 due to a number of divestitures which are discussed below.

Our capital expenditures were \$10.0 million, \$12.2 million and \$14.9 million for the years ended December 31, 2006, 2005 and 2004, respectively. Significant portions of capital expenditures in all three years presented were due to expansion of our Whitefield campus located in India.

We acquired cash of \$0.3 million as part of our acquisition of an additional 55% of the equity LoanPro for the year ended December 31, 2006. We made no acquisitions in 2005. In 2004, we purchased Saint Life for \$0.6 million in cash and invested \$1.6 million in our two joint ventures, CIBER and Software AG.

In 2006 we sold our remaining interest in Brainbench for \$0.6 million. In 2005, we sold our Canadian Staffing operation for net cash proceeds of \$9.3 million. We also sold our remaining shares of Scansoft for \$0.7 million. In 2004, we sold our Australian operations and Direct Resources Inc. for net cash proceeds of \$7.2 million. We also sold a tract of land in India for \$4.8 million.

We have increased our short-term investment portfolios by approximately \$0.8 million for the year ended December 31, 2006 and decreased our portfolios by \$4.9 million and \$4.3 million for the years ended December 31, 2005 and 2004, respectively. In 2006, we have been able to increase our short term investments due to increases in cash. In 2005 and 2004, we used our short term investments for capital additions for our Whitefield campus in India.

### *Financing Activities*

Cash provided by financing activities was \$1.9 million, \$0.9 million and \$3.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. Sources of cash related to stock option exercises were \$1.9 million, \$1.2 million and \$1.9 million in 2006, 2005 and 2004, respectively. These sources of cash were partially offset in 2006 and 2005 by vehicle lease costs of \$0.1 million and \$0.3 million, respectively. In 2004, we issued 220,783 shares of iGS stock to Concours for proceeds of \$1.1 million. Tax benefits recognized in conjunction with the adoption of SFAS 123(R) in 2006 were \$0.3 million.

The PNC Facility was renewed on September 14, 2006 for 365 days. Our borrowing availability under the PNC Facility is \$35.0 million and is unsecured. As part of our agreement with PNC, we are required to maintain domestic cash and cash equivalents and short-term investments of at least \$35.0 million, maintain net tangible worth of at least \$100 million and maintain a liquidity ratio of not less than 1.5 to 1.0. The liquidity ratio is the sum of domestic cash and accounts receivable divided by total liabilities. We have no outstanding borrowings on the PNC Facility at December 31, 2006.

### *Restructurings*

We restructured our businesses in 2005, 2004, 2002 and 2001. As a result of these restructurings, we will be required to make cash payments in future years. The nature of the payments and the reasons for the restructurings are discussed more fully in Note 6 to the Consolidated Financial Statements. The following table details the cash payments that we will be required to make in the future years:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>
	(Dollars in thousands)					
Leases costs of office closure . . . . .	<u>\$497</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

Unless otherwise discussed, we did not use our cash reserves for any other significant financing or investing activities, with the exception of cash being transferred from money-market accounts or other short-term investments (purchases of \$20.9 million and sales of \$20.1 million), certain capital expenditures that were incurred during the normal course of business (net additions of \$10.0 million) and the exercise of employee stock options of \$1.9 million.

### Contractual Obligations

As part of our acquisition of ICRI, we may be required to fund their existing operations for a total amount of up to \$3.0 million, based upon mutually agreed upon operating needs. We funded \$0.5 million of this requirement in 2006, \$0.3 million and \$0.5 million in 2005 and 2004, respectively.

We also have financial commitments related to existing leases on our occupied space. Our commitments are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>
	(Dollars in thousands)					
Leases .....	<u>\$3,490</u>	<u>\$2,591</u>	<u>\$1,539</u>	<u>\$1,070</u>	<u>\$817</u>	<u>\$994</u>

We are nearing completion of Phase III of our campus located in Bangalore, and this facility should be ready for occupancy in April 2007. Total estimated costs of the project will approximate \$7.5 million. Phase I was completed in February 2005 and Phase II was completed in December 2005. We have funded the project through a combination of available cash reserves and short-term investments.

#### *Off-Balance Sheet Arrangements*

We do not have any off-balance arrangements.

#### *Market Risk Factors*

We are exposed to market risks from adverse changes in foreign exchange rates, interest rates, especially the Indian Rupee (“Rupee”). We do not engage in speculative or leveraged transactions, nor do we hold or issue financial instruments for trading purposes.

#### *Foreign Exchange Rate Sensitivity*

iGS’s cash flow and earnings are subject to fluctuations due to exchange rate variation between the Rupee and USD. This foreign currency risk exists based upon the nature of the iGS’s operations. The majority of iGS’s customers and revenue are U.S. based, which provides an inherent foreign currency risk between USD and Rupee exchange rates.

We attempt to limit our exposure to changing Rupee rates mainly through financial market transactions. These transactions may include entering into forward or option contracts to hedge existing exposures. The instruments are used to reduce risk by essentially creating offsetting currency exposures. The following table presents information related to foreign currency contracts held by the Company:

**LIST OF OUTSTANDING HEDGE TRANSACTIONS ON DECEMBER 31, 2006**

	<u>Maturity Date Ranges</u>	<u>Strike Price at Rupee Rate Ranges</u>	<u>Amount</u>	<u>Option</u>	<u>Net Unrealized Gains/(Losses) December 31, 2006</u>
					<u>(Dollars in Thousands)</u>
<b>FORWARD CONTRACTS</b>					
From:	January 29, 2007	45.00			
To:	May 31, 2007	45.69			
Subtotal . . . . .			<u>\$20,858</u>		<u>\$310</u>
<b>CURRENCY OPTION CONTRACTS</b>					
From:	January 2, 2007	44.40	\$ 1,000	Buy/Sell Put	
To:	January 2, 2007	44.77	\$ 2,000	Buy/Sell Call	
Subtotal . . . . .			<u>\$ 3,000</u>		<u>\$ 12</u>
<b>PRINCIPAL SWAPS</b>					
	March 30, 2007		\$ 978 USD 1,500 SGD		\$ (2)
	March 30, 2007		\$ 659 USD 500 EURO		\$—
	March 30, 2007		\$ 4,740 USD 5,500 CAD		\$—
Subtotal . . . . .					<u>\$ (2)</u>
Total . . . . .					<u>\$320</u>

The net unrealized gains/(losses) were calculated using a Rupee exchange rate of 44.111.

As of December 31, 2006, iGS's forward contracts to hedge intercompany cash flows will mature within one year. As each contract matures, iGS will receive Rupees at the contracted ("strike price") rate while delivering the USD equivalent of Rupees at the prevailing Rupee exchange rate. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in current period earnings in "other income and expense". At December 31, 2006 these option contracts did not meet qualifying criteria to receive hedge accounting and, as such, iGS appropriately recorded an asset for the net unrealized gain of \$0.3 million. For the year ended December 31, 2006, iGS recognized a gain of \$0.6 million. For the year ended December 31, 2005, iGS recognized a loss of (\$1.0) million.

As of December 31, 2006, iGS's option contracts to hedge intercompany cash flows will mature within one year. As each contract matures and dependent upon prevailing Rupee exchange rates, iGS will either buy USDs at each contracted "put" strike price or sell USDs at each contracted "call" strike price. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which

do not qualify for hedge accounting are recorded in current period earnings in other income and expense. At December 31, 2006 these forward contracts did not meet qualifying criteria to receive hedge accounting and, as such, iGS appropriately recorded an asset for the net unrealized gain of less than \$0.1 million. For the year ended December 31, 2006, iGS recognized a gain of \$0.9 million. For the year ended December 31, 2005, iGS recognized loss of (\$0.6) million.

As of December 31, 2006, iGS's principal swaps to hedge intercompany debt from iGS to the Company will mature within one year. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in current period earnings in other income and expense. At December 31, 2006, the principal swaps to hedge intercompany debt did not meet qualifying criteria to receive hedge accounting. For the year ended December 31, 2006, iGS recognized a loss of (\$0.3) million. For the year ended December 31, 2005, iGS recognized a gain of \$0.2 million.

Substantially all of the Company's foreign affiliates' financial instruments are denominated in their respective functional currencies. (See Note 3 to the Consolidated Financial Statements.)

#### *Interest Rate Sensitivity*

The Company is exposed to changes in interest rates primarily as a result of its investing activities used to maintain liquidity and fund business operations. The nature and amount of the Company's long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors.

#### *Effect of Hypothetical 10% Fluctuation In Market Prices*

Our primary net foreign currency exposure is the Rupee ("INR"). The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates.

As of December 31, 2006, the potential gain or loss in the fair value of the Company's outstanding foreign currency contracts assuming hypothetical 5%, 2% and 1% fluctuations in currency rates would be approximately:

	Valuation given X% decrease in Rupee / USD rate			Fair Value as of December 31, 2006	Valuation give X% increase in Rupee / USD rate		
	(5%)	(2%)	(1%)		1%	2%	5%
Rupee to USD rate . . . . .	41.906	43.229	43.670	44.111	44.552	44.993	46.317
Derivative Instruments . . . . .	\$ 1.8	\$ 0.9	\$ 0.6	\$ 0.3	\$ 0.0	\$ (0.3)	\$ (1.2)

However, it should be noted that any change in the fair value of the contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. In relation to currency contracts, this hypothetical calculation assumes that each exchange rate would change in the same direction relative to the USD.

#### **Inflation**

We do not believe that inflation had a significant impact on our results of operations for the periods presented. On an ongoing basis, we attempt to minimize any effects of inflation on our operating results by controlling operating costs and whenever possible, seeking to insure that billing rates reflect increases in costs due to inflation.

For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each period end. Statement of Operations accounts are translated at the average exchange rate prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of other comprehensive income (loss). Realized gains and losses from foreign currency transactions are included in net loss for the periods presented. Exchange rate transaction gains (losses) did not have a significant impact on operations for the year ended December 31, 2006.

### **Seasonality**

Our operations are generally not affected by seasonal fluctuations. However, our consultants' billable hours are affected by national holidays and vacation policies, which vary by country and by operating company.

### **Economic Trends and Outlook**

Recent reporting data that focused on worldwide IT spending indicates that the IT industry is expected to grow 6% year-over-year to total approximately \$800 billion through 2009.

We are committed to the BPO market so evidenced by our construction of our Whitefield campus, and our 2004 acquisitions that focused on serving the BPO market. We believe we have the necessary infrastructure in place to take advantage of our opportunities in the BPO market.

### **Recently Issued Accounting Standards**

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No.48, "Accounting for Uncertainty in Income Taxes (as amended)" ("FIN 48"), an interpretation of SFAS 109. Fin 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is recognition: The enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect of the provision of this statement on its Consolidated Financial Statements.

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157 "Fair Value Measurements" ("FASB 157"). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company is currently evaluating the effect of the provision of this statement on its Consolidated Financial Statements.

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

Short-term investments are invested in highly liquid securities such as money market funds and certain corporate bonds with maturities of one year or less, and marketable equity securities. These securities are generally classified as available for sale and consequently, are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income (loss), net of tax. We have also invested in one privately held company (Air2Web), which can still be considered in the development stage. This type of investment has an inherent risk as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire remaining investment in this company.

The Company's cash flow and earnings are subject to fluctuations due to exchange rate variation. Foreign currency risk exists by nature of the Company's global operations. The Company sells its services in a number of locations around the world, and hence foreign currency risk is diversified.

When appropriate, the Company may attempt to limit its exposure to changing foreign exchange rates through both operational and financial market actions. These actions may include entering into forward contracts to hedge existing exposures. The instrument is used to reduce risk by essentially creating offsetting currency exposure.

Substantially all of the Company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material.

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

The Financial Statements and Supplementary Data required by this item are filed as part of this Form 10-K. See Index to Consolidated Financial Statements on page 38 of this Form 10-K.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying Consolidated Financial Statements of iGATE Corporation and subsidiaries have been prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts based on management's best estimates and judgments.

The Company's Consolidated Financial Statements for the year ended December 31, 2006 have been audited by BDO Seidman LLP, Independent Registered Public Accounting Firm, whose report thereon appears on page 39 of this Form 10-K.

The Board of Directors pursues its responsibility for the Company's financial reporting and accounting practices through its Audit Committee, all of the members of which are independent directors. The Audit Committee's duties include recommending to the Board of Directors the Independent Registered Public Accounting Firm to audit the Company's financial statements, reviewing the scope and results of the independent accountants activities and reporting the results of the committee's activities to the Board of Directors. The Independent Registered Public Accounting Firm has met with the Audit Committee in the presence of management representatives to discuss the results of their audit work. The Independent Registered Public Accounting Firm has direct access to the Audit Committee.

Sunil Wadhvani  
Co-Chairman, Chief Executive Officer, and Director

Michael J. Zugay  
Senior Vice-President and Chief Financial Officer

**iGATE CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<u>Page</u>
Reports of Independent Registered Public Accounting Firms .....	39
Consolidated Balance Sheets as of December 31, 2006 and 2005 .....	41
Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004 .....	42
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2006, 2005 and 2004 .....	43
Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 .....	44
Notes to Consolidated Financial Statements .....	45

## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
iGate Corporation  
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of iGate Corporation as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2006. We have also audited the accompanying Schedule II, Valuation of Qualifying Accounts for each of the two years in the period ended December 31, 2006. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and schedule referred to above present fairly, in all material respects, the financial position of iGate Corporation at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited the adjustments to the 2004 financial statements to retrospectively apply the realignment of reporting segments as described in Note 16. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2004 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance of the 2004 financial statements taken as a whole.

As discussed in Note 11 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, as of January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of iGate Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 13, 2007 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP  
Milwaukee, Wisconsin  
March 13, 2007

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of iGATE Corporation:

In our opinion, the consolidated statements of operations, shareholders' equity and comprehensive loss and cash flows for the year ended December 31, 2004, before the effects of the adjustments to retrospectively reflect the change in the composition of reportable segments described in Note 16, present fairly, in all material respects, the results of operations and cash flows of iGate Corporation and its subsidiaries for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America (the 2004 financial statements before the effects of the adjustments discussed in Note 16 are not presented herein). In addition, in our opinion, the financial statement schedule for the year ended December 31, 2004 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit, before the effects of the adjustments described above, of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the change in the composition of reportable segments described in Note 16 and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

/s/ PRICEWATERHOUSECOOPERS LLP

Pittsburgh, Pennsylvania

April 29, 2005

**iGATE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>At December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands, except per share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,154	\$ 45,837
Short-term investments	31,826	30,798
Accounts receivable, net of allowance for uncollectible accounts of \$1,090 and \$1,776, respectively	43,035	39,456
Unbilled receivables	10,343	10,023
Employee advances	1,126	1,140
Prepaid and other current assets	6,574	6,097
Prepaid income taxes	380	1,060
Deferred income taxes	1,111	1,058
Total current assets	146,549	135,469
Investments in unconsolidated affiliates	1,398	1,050
Land, building, equipment and leasehold improvements, at cost:		
Land and building	10,983	9,976
Equipment	56,476	53,088
Leasehold improvements	4,489	3,138
	71,948	66,202
Less—accumulated depreciation	(42,081)	(37,663)
Net land, building, equipment and leasehold improvements	29,867	28,539
Goodwill	11,014	8,851
Intangible assets, net	1,946	3,565
Total assets	\$190,774	\$177,474
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,997	\$ 5,958
Accrued payroll and related costs	17,966	16,304
Accrued income taxes	646	—
Other accrued liabilities	8,591	8,163
Restructuring reserve	497	2,355
Deferred revenue	465	362
Total current liabilities	33,162	33,142
Restructuring reserve	—	2,422
Other long-term liabilities	406	422
Deferred income taxes	9,483	9,718
Total liabilities	43,051	45,704
Minority interest	14,372	14,098
Shareholders' equity:		
Preferred Stock, without par value: 20,000,000 shares authorized, 1 share of Series A Preferred Stock held in treasury in 2006 and 2005, respectively	—	—
Common Stock, par value \$0.01 per share: 100,000,000 shares authorized, 54,021,670 and 53,756,638 shares issued at December 31, 2006 and 2005, respectively	540	538
Additional paid-in capital	167,626	162,278
Accumulated deficit	(21,037)	(29,741)
Deferred compensation	—	(1,119)
Common Stock held in treasury, at cost, 990,102 shares at December 31, 2006 and 2005, respectively	(14,714)	(14,714)
Accumulated other comprehensive income	936	430
Total shareholders' equity	133,351	117,672
Total liabilities and shareholders' equity	\$190,774	\$177,474

The accompanying notes are an integral part of these Consolidated Financial Statements.

**iGATE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands, except per share data)		
Revenues .....	\$283,588	\$275,992	\$264,585
Cost of revenues .....	<u>210,212</u>	<u>205,110</u>	<u>197,577</u>
Gross margin .....	73,376	70,882	67,008
Selling, general and administrative .....	69,620	67,483	82,079
Gain on sale of land .....	—	—	(3,615)
Restructuring (recovery) charges .....	<u>(3,062)</u>	<u>(481)</u>	<u>5,805</u>
Income (loss) from operations .....	6,818	3,880	(17,261)
Interest income .....	3,311	2,123	901
Interest expense .....	(121)	(204)	(143)
Other income (expense), net .....	802	(2,194)	616
Equity in income (losses) of affiliated companies .....	317	338	(335)
Minority interest .....	(752)	(261)	(677)
Gain on sale of stock of subsidiary .....	—	5,549	—
Gain (loss) on venture investments and affiliated companies, net .....	<u>578</u>	<u>(2,149)</u>	<u>—</u>
Income (loss) before income taxes .....	10,953	7,082	(16,899)
Income tax expense .....	<u>2,249</u>	<u>113</u>	<u>5,130</u>
Income (loss) from continuing operations .....	8,704	6,969	(22,029)
Income from discontinued operations, net of income taxes .....	<u>—</u>	<u>—</u>	<u>3,818</u>
Net income (loss) .....	<u>\$ 8,704</u>	<u>\$ 6,969</u>	<u>\$ (18,211)</u>
Net earnings (loss) per common share, basic:			
Earnings (loss) from continuing operations .....	\$ 0.16	\$ 0.13	\$ (0.42)
Earnings from discontinued operations .....	<u>—</u>	<u>—</u>	<u>0.07</u>
Net earnings (loss)—basic .....	<u>\$ 0.16</u>	<u>\$ 0.13</u>	<u>\$ (0.35)</u>
Net earnings (loss) per common share, diluted:			
Earnings (loss) from continuing operations .....	\$ 0.16	\$ 0.13	\$ (0.42)
Earnings from discontinued operations .....	<u>—</u>	<u>—</u>	<u>0.07</u>
Net earnings (loss)—diluted .....	<u>\$ 0.16</u>	<u>\$ 0.13</u>	<u>\$ (0.35)</u>
Weighted average common shares, basic .....	<u>52,939</u>	<u>52,530</u>	<u>52,721</u>
Weighted average common shares, diluted .....	<u>53,278</u>	<u>52,734</u>	<u>52,721</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.



**iGATE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operations:			
Net income (loss) .....	\$ 8,704	\$ 6,969	\$(18,211)
Adjustments to reconcile net income (loss) to cash provided (used) by operations:			
(Income) from discontinued operations, net of tax .....	—	—	(3,818)
Depreciation and amortization .....	10,851	10,915	8,720
Gain on sale of stock of subsidiary .....	—	(5,549)	—
Gain on sale of land .....	—	—	(3,615)
Gain on other investments .....	(108)	(206)	—
Realized and unrealized (gain) loss on derivative instruments .....	(1,547)	1,263	—
Bad debt (recovery) expense .....	286	(949)	2,735
Deferred income taxes, net .....	(522)	1,017	2,972
Gain (loss) on venture investments and affiliated companies, net .....	(578)	2,149	—
Loss on impairment of property and equipment .....	—	—	373
Equity in (income) losses of affiliated companies .....	(317)	(338)	335
Minority interest .....	752	261	677
Stock issued to employees .....	—	—	1,331
Discount on stock sold to employees .....	—	606	1,811
Amortization of deferred compensation .....	4,009	815	7,293
Working capital items excluding effects of divestitures:			
Accounts receivable and unbilled receivables .....	(3,239)	3,909	(15,565)
Employee advances .....	36	167	689
Prepaid and other current assets .....	(360)	(822)	1,320
Accounts payable .....	(1,154)	1,248	(590)
Accrued and other current liabilities .....	2,325	(4,865)	8,042
Restructuring reserves .....	(4,751)	(2,273)	(2,891)
Deferred revenue .....	94	(274)	(369)
Net cash flows provided (used) by continuing operations .....	14,481	14,043	(8,761)
Cash flows (used) provided by discontinued operations .....	—	(88)	1,002
Net cash flows provided (used) by operating activities .....	14,481	13,955	(7,759)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to equipment and leasehold improvements, net .....	(9,978)	(12,199)	(14,934)
Purchases of investments .....	(20,889)	(22,347)	(36,359)
Sales of investments .....	20,108	27,288	40,689
Sales of investments in unconsolidated affiliates .....	578	678	—
Investments in unconsolidated affiliates .....	—	—	(1,612)
Acquisitions, net of cash acquired .....	286	—	(648)
Proceeds from sale of land .....	—	—	4,780
Proceeds from sale of affiliates, net of cash .....	—	9,310	7,180
Net cash flows (used) provided by investing activities .....	(9,895)	2,730	(904)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments on secured financing .....	(78)	(301)	—
Proceeds from issuance of stock by subsidiary .....	—	—	1,092
Net proceeds from exercise of stock options .....	1,936	1,166	1,880
Net cash flows provided by financing activities .....	1,858	865	2,972
Effect of currency translation .....	(127)	86	(2,241)
Net change in cash and cash equivalents .....	6,317	17,636	(7,932)
Cash and cash equivalents, beginning of year .....	45,837	28,201	36,133
Cash and cash equivalents, end of year .....	\$ 52,154	\$ 45,837	\$ 28,201
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Cash payments for income taxes .....	\$ 283	\$ 1,218	\$ 576
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Unrealized gain (loss) on investments and derivative instruments .....	\$ 320	\$ (1,237)	\$ (194)
Capitalized leases .....	\$ 343	\$ 301	\$ 769

The accompanying notes are an integral part of these Consolidated Financial Statements.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2006 AND 2005**

**1. Summary of Significant Accounting Policies**

*(a) Nature of Business*

iGATE Corporation (the “Company”) is a worldwide provider of information technology (“IT”) and offshore outsourcing services to large and medium-sized organizations.

*(b) Principles of Consolidation*

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company accounts for investments in businesses in which it owns between 20% and 50% of equity or otherwise acquires management influence using the equity method as prescribed by Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Investments in which the Company acquires less than a 20% interest, or in which the Company does not acquire management influence, are accounted for using the cost method of accounting or, if publicly traded, as available-for-sale securities.

*(c) Uses of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*(d) Reclassifications*

Certain amounts in previously issued financial statements were reclassified to conform to 2006 presentations.

*(e) Cash and Cash Equivalents*

Cash and cash equivalents are defined as cash and highly liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value.

*(f) Short-Term Investments*

Short-term investments consist of money market funds and corporate bonds and are stated at cost which approximates fair value.

*(g) Accounts Receivable and Unbilled Receivables*

The Company extends credit to clients based upon management’s assessment of their creditworthiness. Substantially all of the Company’s revenues (and the resulting accounts receivable) are from Global 2000 companies, major systems integrators and governmental agencies.

Unbilled receivables represent amounts recognized as revenues for the periods presented based on services performed in accordance with the terms of client contracts that will be invoiced in subsequent periods.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

*(h) Allowance for Uncollectible Accounts*

Accounts receivables are reviewed periodically to determine the probability of loss. The allowance for uncollectible accounts is determined using the combination of the specific identification method for balances deemed uncollectible, as well as judgments made by the Company based upon historical and expected charge-off experience.

*(i) Employee Advances*

Employees can be advanced up to \$2,500 at the discretion of the Company. Normally, advances are based upon financial need at date of hire. Advances are deducted from the employees salary over a six-month period or until paid in full.

*(j) Investments in Unconsolidated Affiliates*

The Company accounts for its investments in marketable equity securities in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS 115”). The Company has determined that certain of its investments in marketable equity securities are classified as available-for-sale and recorded at fair value, utilizing the investments closing price at each reporting period. These investments are recorded on the balance sheet at market value, with the unrealized gains or losses, net of tax, reported as a component of accumulated other comprehensive income in the Consolidated Statement of Shareholders’ Equity and Comprehensive Income (Loss). The unrealized gain or loss is the difference between the Company’s original cost for an investment and the investment’s fair value at each reporting period. Realized gains or losses on securities sold are calculated using the specific identification method.

If management determines that an investment in available for sale securities has sustained an other-than-temporary decline in its value, the investment is written down to its fair value, by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

In evaluating these factors above, management presumes a decline in value to be other-than-temporary if the market price of the security is 20% or more below the investment’s cost basis for a period of six months or more (the “20% criteria”). However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.). Additionally, there may be instances where impairment losses are recognized even if the 20% criteria is not satisfied (e.g., plan to sell the security in the near term and the fair value is below the Company’s cost basis). No such impairment losses were incurred in 2006 or 2005 or 2004.

For investments accounted for using the cost or equity method of accounting, management evaluates information (e.g., budgets, business plans, financial statements, etc.) in addition to quoted market price, if any, in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financings at an amount below the cost basis of an investment. This list is not all inclusive and management weighs all

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

quantitative factors in determining if an other-than-temporary decline in value of an investment has occurred. In 2005, the Company recorded an impairment of \$2.5 million on its investment in Concours, Inc. There were no impairments recorded in 2006 or 2004.

*(k) Land, Building, Equipment and Leasehold Improvements*

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives. Upon disposal, assets and related accumulated depreciation are removed from the Company's accounts and the resulting gains and losses are reflected in loss from operations in the Consolidated Statements of Operations. Repairs and maintenance are charged to expense as incurred. Improvement and betterments that extend the useful life of an asset are capitalized.

The estimated useful lives of depreciable assets are as follows:

Building . . . . .	25 years
Laptop Computers . . . . .	18 months
Equipment . . . . .	3–5 years
Leasehold Improvements . . . . .	Shorter of the life of the improvement or lease term ranging from 3 to 10 years

*(l) Goodwill and Intangible Assets*

Goodwill is the excess of purchase price over the value of the net assets acquired but will be subject to an annual impairment assessment of their carrying value, or more frequently if circumstances change. Under SFAS 142, *Goodwill and Other Intangible Assets*, goodwill and intangibles with indefinite useful lives are no longer amortized but will be subject to, at a minimum, an annual impairment assessment of their carrying value. Under SFAS 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Estimated fair values of reporting units underlying the segments were estimated using either a discounted cash flow methodology, recent comparable transactions or a combination thereof. There were no impairments for the years presented.

The cost of other acquired intangibles is amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives of intangible assets are as follows:

Intellectual property . . . . .	3–5 years
Customer relationships . . . . .	3–6 years
Beneficial employment contracts . . . . .	2–4 years

The Company assesses the carrying value of its long-lived assets, including land, building, equipment and leasehold improvement and amortizable intangible assets, whenever economic events or changes in circumstances indicate that the carrying values of the assets may not be recoverable. Long-lived assets are considered to be impaired when the sum of the undiscounted expected future net operating cash flows is less than the carrying values of the related assets.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

*(m) Income Taxes*

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The Company has evaluated its deferred tax asset and has recorded a valuation allowance where appropriate.

Historically, the government of India has provided incentives, in the form of tax holidays, to encourage foreign investment. Under the Indian Income Tax Act, 1961, the Company's Indian subsidiary is eligible to claim a tax holiday for 10 consecutive assessment years on profits derived from the export of software services from divisions registered under the Software Technology Parks at Bangalore, Chennai and Pune. The benefits of the holiday began to expire for certain of the units in 2005.

The Company has not provided for U.S. deferred income taxes or foreign withholding tax on basis differences in its non-U.S. subsidiaries of \$4.8 million that result primarily from undistributed earnings the Company intends to reinvest indefinitely. Determination of the deferred income tax liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

*(n) Minority Interest*

Minority interest represents the proportionate share of outside equity holders. At December 31, 2006 and 2005, the Company had outside equity holders for the following Companies:

	Percentage Outside Ownership	
	2006	2005
iGATE Global Solutions Ltd. ("iGS") . . . . .	18.2%	18.4%
Quintant, Inc. (Quintant) . . . . .	18.2%	18.4%
iGATE Clinical Research International Private Ltd. ("ICRI") . . . . .	5%	5%
LoanPro . . . . .	49.0%	—

iGS is a publicly held Company in India. All outside shareholders may vote.

*(o) Disclosures about Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that fair value:

*Cash and short-term investments*—The carrying amount approximates market value.

*Accounts receivable*—The carrying amount approximates market.

*Revolving credit facility*—The carrying amount approximates market value. The outstanding balance is reflected at its outstanding face value, excluding unpaid accrued interest at an interest rate range, dependent upon the level of borrowings, at the lesser of the current LIBOR rate +1.00% to +2.50% or the Prime rate +0.50%, calculated on a per annum basis.

*Accounts payable*—The carrying amount approximates market.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

*(p) Derivatives Instruments and Hedging Activities*

The Company uses derivative financial instruments for the purpose of hedging currency, price, and interest rate exposures, which exist as part of ongoing business operations. The Company carries derivative instruments on the balance sheet at fair value, determined by reference to quoted market prices. Derivatives are included in other assets and other liabilities based on the instrument's fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it. The cash flows related to derivative instruments are classified in the consolidated statements of cash flows within operating activities as a component of other items, net.

The Company recorded \$1.5 million in other income in 2006 and \$1.3 million in other expense in 2005 related to its foreign currency hedging transactions.

*(q) Stock-Based Employee Compensation*

The Company recognizes compensation expense for all stock-based awards, using a fair value approach as prescribed in SFAS No. 123(R) *Share Based Payments*. The impact of the adoption is more fully described in Note 11 Stock Based Compensation.

*(r) Currency Translation Adjustment*

For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Statement of Operations accounts are translated at the average exchange rate prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of other comprehensive loss. Gain and losses from foreign currency transactions are included in other income (expense), net for the periods presented.

Foreign exchange gains or losses on intercompany loans from the Company to its operating subsidiaries are recorded as a component of other income if payment is expected in the foreseeable future based upon mutually agreed upon payment terms.

*(s) Revenue Recognition*

The Company recognizes revenue on time-and-materials contracts as the services are performed. Revenue is earned when the Company's consultants are working on projects. Revenue recognition is negatively impacted by national holidays and consultant vacation and sick days. Revenues on fixed-price contracts are recognized using the proportional performance method. Performance is determined by relating the actual cost of work performed to date to the estimated total cost for each contract and revenue is recognized based upon costs incurred by the Company's consultants during the period. The Company follows this revenue recognition method for fixed-price contracts because there is a direct and consistent relationship between the service patterns and services provided to the customer and the direct costs incurred to provide such services. If the Company's cost estimates indicate a loss on a particular fixed-price contract, we record a provision for the estimated loss without regard to the stage of completion. Changes in job performance, conditions and estimated profitability may result in revisions to costs and revenues and are recognized in the period in which the changes are identified. Contracts with deliverables or project milestones recognize revenue as the deliverables or project milestones are achieved. Contracts with deliverables or project milestones can provide for certain penalties if the deliverables or project milestones are

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

not met within contract timelines. Certain maintenance type contracts with no stated deliverables, with a designated workforce assigned, recognize revenues on a straight-line basis over the life of the contract, which are typically one year in duration. Revenue on these contracts is ratable and predetermined based upon the negotiated contract.

In certain client situations, where the nature of the engagement requires it, we utilize the services of other companies in our industry. If these services are provided under an arrangement whereby we agree to retain only a fixed portion of the amount billed to the client to cover our management and administrative costs, we classify the amount billed to the client as subcontractor revenue. These revenues, however, are recorded on a gross versus net basis because we retain credit risk and are the primary obligor to our client. All revenue derived from services provided by our employees or other independent contractors who work directly for us are recorded as direct revenue.

*(t) Software Implementation Costs*

The Company accounts for costs incurred for its own information systems upgrades in accordance with Statement of Position 98-1 (SOP 98-1) “*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*”. SOP 98-1 requires that both internal and external costs incurred during the preliminary project stage should be charged to operations as incurred. Such costs incurred during the application development stage should be capitalized; training costs incurred in this stage should, however, be expensed. Costs of upgrades and enhancements should be capitalized (but only during the application development stage) if it is probable that the expenditures will result in added functionality for the software. During the post-implementation/operation stage, training costs (both internal and external) and maintenance costs should be charged to operations.

*(u) Issuance of Stock by Subsidiaries*

All issuances of subsidiary stock options or restricted stock and stock compensation expense recorded in accordance with SFAS 123(R) are treated as equity transactions.

*(v) Acquisitions*

The Company’s acquisitions are accounted for using the purchase method. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair market value of the net assets acquired is recorded as goodwill. For all acquisitions, operating results are included in the Consolidated Statements of Operations since the dates of the acquisitions. See Note 12 for additional information.

*(w) Discontinued Operations*

The Company adopted SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” (“SFAS 144”) effective January 1, 2002. This standard establishes accounting and reporting requirements for the impairment or disposal of long-lived assets. The Company applied the provisions of SFAS 144 related to the sale of its Australian (“Australia”) and Direct Resources International (“DRI”) subsidiaries in 2004.

Management’s plan to divest and the divestures both occurred within the same period for reporting purposes. Australia and DRI were classified in the Consolidated Financial Statements as discontinued operations. The balance sheet amounts and statement results were reclassified to discontinued operations for both the

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

Balance Sheet and Statement of Operations presentation. The discontinued operations on the Statement of Operations were reported, net of applicable statutory taxes and net of gains on the sales of Australia and DRI. Additionally, segment information does not include the results of businesses classified as discontinued operations.

*(x) Net Income per Share*

The Company calculates net income per share based on the weighted average number of common shares outstanding and restricted shares included in this calculation are determined using the treasury stock method.

*(y) Recently Issued Accounting Standards*

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No.48, “Accounting for Uncertainty in Income Taxes (as amended)” (“FIN 48”), an interpretation of SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with this Interpretation is a two-step process. The first step is recognition: The enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect of the provision of this statement on its Consolidated Financial Statements.

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157 “Fair Value Measurements” (“FASB 157”). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company is currently evaluating the effect of the provision of this statement on its Consolidated Financial Statements.

**2. Restricted Cash and Investments**

The Company has short-term investments consisting of money market funds and corporate bonds that totaled \$31.8 million and \$30.8 million at December 31, 2006 and 2005, respectively. Approximately \$6.8 million and \$5.8 million of these funds at December 31, 2006 and 2005 are to be used exclusively by iGS due to Indian governmental restrictions.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

The Company had compensating balances classified on the Consolidated Balance Sheet as short-term investments which consisted of money market funds that totaled \$25.0 million at December 31, 2005 related to its 2005 Credit Facility. There were no restrictions on cash in 2006, when the Company's Credit Facility was renewed. The Credit Facility is more fully discussed in Note 7.

**3. Derivative Instruments and Hedging Activities**

Summarized below are derivatives instruments consisting of foreign exchange contracts and a principal only SWAP agreement at December 31, 2006. Fair values are based on quoted market prices at prevailing exchange rates and other available market information.

**LIST OF OUTSTANDING HEDGE TRANSACTIONS ON DECEMBER 31, 2006**

	<u>Maturity Date Ranges</u>	<u>Strike Price at Rupee Rate Ranges</u>	<u>Amount</u>	<u>Option</u>	<u>Net Unrealized Gains/(Losses) December 31, 2006</u>
(Dollars in Thousands)					
<b>FORWARD CONTRACTS</b>					
From:	January 29, 2007	45.00			
To:	May 31, 2007	45.69			
Subtotal .....			<u>\$20,858</u>		<u>\$310</u>
<b>CURRENCY OPTION CONTRACTS</b>					
From:	January 2, 2007	44.40	\$ 1,000	Buy/Sell Put	
To:	January 2, 2007	44.77	\$ 2,000	Buy/Sell Call	
Subtotal .....			<u>\$ 3,000</u>		<u>\$ 12</u>
<b>PRINCIPAL SWAPS</b>					
	March 30, 2007		\$ 978 USD 1,500 SGD		\$ (2)
	March 30, 2007		\$ 659 USD 500 EURO		\$—
	March 30, 2007		\$ 4,740 USD 5,500 CAD		\$—
Subtotal .....					<u>\$ (2)</u>
Total .....					<u>\$320</u>

The net unrealized gains/(losses) were calculated using a Rupee Exchange rate of 44.111.

As of December 31, 2006, iGS's forward contracts to hedge intercompany cash flows will mature within one year. As each contract matures, iGS will receive Rupees at the contracted ("strike price") rate while delivering the USD equivalent of Rupees at the prevailing Rupee exchange rate. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in current period earnings in "other income and expense". At December 31, 2006 these option contracts did not meet qualifying criteria to receive hedge accounting and, as such, iGS appropriately recorded an asset for the net unrealized gain of \$0.3 million. For the year ended

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

December 31, 2006, iGS recognized a gain of \$0.6 million. For the year ended December 31, 2005, iGS recognized a loss of (\$1.0) million.

As of December 31, 2006, iGS's option contracts to hedge intercompany cash flows will mature within one year. As each contract matures and dependent upon prevailing Rupee exchange rates, iGS will either buy USDs at each contracted "put" strike price or sell USDs at each contracted "call" strike price. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in current period earnings in other income and expense. At December 31, 2006 these option contracts did not meet qualifying criteria to receive hedge accounting and, as such, iGS appropriately recorded an asset for the net unrealized gain of less than \$0.1 million. For the year ended December 31, 2006, iGS recognized a gain of \$0.9 million. For the year ended December 31, 2005, iGS recognized a loss of (\$0.6) million.

As of December 31, 2006, iGS's principal swaps to hedge intercompany debt from iGS to the Company will mature within one year. Contracts that meet qualifying criteria are accounted for as foreign currency cash flow hedges. Accordingly, the effective portion of gains and losses is deferred as a component of other comprehensive loss and is recognized in earnings at the time the hedged item affects earnings. Any gains and losses due to hedge ineffectiveness or related to contracts which do not qualify for hedge accounting are recorded in current period earnings in other income and expense. At December 31, 2006, the principal swaps to hedge intercompany debt did not meet qualifying criteria to receive hedge accounting. For the year ended December 31, 2006, iGS recognized a loss of (\$0.3) million. For the year ended December 31, 2005, iGS recognized a gain of \$0.2 million.

Substantially all of the Company's foreign affiliates' financial instruments are denominated in their respective functional currencies. Accordingly, exposure to exchange risk on foreign currency financial instruments is not material.

**4. Investments in Unconsolidated Affiliates**

The Company's investments in unconsolidated affiliates, and its percentage of ownership interests, are presented at December 31, 2006, 2005 and 2004, respectively. The investments are grouped by the applicable method of accounting. All ownership interests set forth on the table have been calculated based on the issued and outstanding common stock of each entity, assuming the issuance of common stock on the conversion or exercise of preferred stock and convertible notes, but excluding the effect of unexercised options and warrants.

	<b>Percentage Owned</b>		
	<b>December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Cost method of accounting:</b>			
Air2Web, Inc. (Air2Web)**	7%	14%	14%
Peopleclick, Inc.***	1%	1%	1%
The Concours Group****	4%	4%	4%
<b>Equity method of accounting:</b>			
Software AG (India) Private Ltd.	41%	41%	40%

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

- \*\* During 2003 and 2002, the Company recorded impairment charges against its investment in Air2Web due to the Company's belief that there was an other-than-temporary decline in the value of the security. In addition, the Company's investments in Ordercare, Inc. ("Ordercare"), Bluewater Information Convergence, Inc. ("Bluewater"), Brainbench, Inc. ("Brainbench"), Xpede, Inc. ("Xpede") and Escend Technologies, Inc. ("Escend") have been impaired in prior periods to reflect the Company's belief that no return on capital will be realized.
- \*\*\* On August 19, 2002, itiliti, a company that was acquired in 2001, sold its assets and liabilities to Peopleclick, Inc. ("Peopleclick") for approximately 3% of Peopleclick's outstanding common stock. The Company has a \$0 basis in its itiliti shares and has continued to assign a \$0 basis to its investment in itiliti. Prior to the August 2002 sale of Peopleclick, the Company owned 49% of itiliti.
- \*\*\*\* During the fourth quarter of 2005, the Company recorded an impairment charge related to its investment in Concours.

*Carrying Value and Cost Basis of Investments in Unconsolidated Affiliates*

The following table summarizes the Company's investments in unconsolidated affiliates as of December 31, 2006 and 2005. Ownership interests are classified according to applicable accounting methods.

	December 31, 2006		December 31, 2005	
	Carrying Value	Cost Basis	Carrying Value	Cost Basis
	(Dollars in thousands)			
Equity method of accounting . . . . .	\$ 808	\$ 191	\$ 472	\$ 172
Cost method of accounting . . . . .	590	3,020	578	3,020
	\$1,398	\$3,211	\$1,050	\$3,192

All equity method investments are deemed to be immaterial to the financial operations of the Company.

*Loss on Venture Investments and Affiliated Companies*

In 2005, the Company sold its remaining shares of ScanSoft realizing a gain of approximately \$0.3 million. The Company evaluated its investment in Concours and based upon their evaluation recorded an impairment charge on their investment in the amount of \$2.5 million. The Company's evaluation considered Concours' operating results, operating cash flow as well as future operating budgets and forecasts.

*Equity in Income of Affiliated Companies*

The Company incurred equity income related to the Software AG joint venture of \$0.3 million in 2006 and income of \$0.3 million in 2005 related to the CIBER and Software AG joint ventures.

*Gain on Sale of Stock of Subsidiaries*

On November 15, 2005, the Company sold its wholly owned affiliate, iGATE Mastech Ltd. ("Canada") for total net proceeds of \$9.3 million. On the closing date, the Company received \$8.4 million in net cash and \$0.9 million in the form of a promissory note and an escrow account that was to be paid once certain conditions subsequent to closing were met. Subsequent to the closing date the Company received \$0.5 million of the escrow funds. The outstanding

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

promissory note to the Company is \$0.4 million. The promissory note is included in the Company's other assets section of its Consolidated Balance Sheet. The Company recognized a gain on the sale of stock of its subsidiaries in the amount of \$5.5 million. The sale of Canada was not a material disposition and did not require pro-forma disclosure.

*Components of Other Comprehensive Loss on Available for Sale Securities*

The following table summarizes the Company's changes in other comprehensive loss on available for sale securities as of December 31, 2006, 2005 and 2004 (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross unrealized (loss) gain .....	\$—	\$—	\$(122)
Reclassification adjustment for gains realized in net income .....	—	(65)	(121)
Taxes allocated to unrealized (gain) loss .....	—	\$—	49
Change in other comprehensive income .....	<u>\$—</u>	<u>\$(65)</u>	<u>\$(194)</u>

**5. Goodwill and Intangible Assets**

The following tables present the reconciliation of changes in the carrying value of goodwill and amortizable intangible assets for the years ended December 31, 2006 and 2005 (in thousands):

	<u>iGATE Solutions</u>	<u>iGATE Professional Services</u>	<u>iGATE Corporate</u>	<u>Consolidated</u>
Goodwill at December 31, 2004 .....	\$ 8,609	\$216	\$573	\$ 9,398
Foreign currency translation effect .....	(547)	—	—	(547)
Goodwill at December 31, 2005 .....	8,062	216	573	8,851
Acquisitions .....	1,874	—	—	1,874
Foreign currency translation effect .....	289	—	—	289
Goodwill at December 31, 2006 .....	<u>\$10,225</u>	<u>\$216</u>	<u>\$573</u>	<u>\$11,014</u>

	<u>December 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Gross Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Amount</u>	<u>Accumulated Amortization</u>
<b>Amortizable intangible assets:</b>				
Intellectual property .....	\$ 570	\$ 570	\$ 570	\$ 437
Customer relationships .....	6,642	4,936	6,642	3,882
Employment contracts .....	1,720	1,480	1,720	1,105
Other costs .....	314	314	314	257
Total .....	<u>\$9,246</u>	<u>\$7,300</u>	<u>\$9,246</u>	<u>\$5,681</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

Amortization expense related to identifiable intangible assets was \$1.6 million, \$2.4 million and \$2.3 million for the years ended December 31, 2006, 2005 and 2004, respectively. Estimated annual amortization for the years ended December 31, 2007 through 2009 is shown below (in thousands):

2007 .....	\$943
2008 .....	\$694
2009 .....	\$309

**6. Restructuring Charges**

In 2006, the Company recovered \$0.6 million related to its 2001 restructuring.

In 2004, the Company restructured its Canadian and United Kingdom operations. The Company incurred \$0.9 million of early exit costs associated with its Toronto, Canada office. The Company incurred approximately \$4.9 million related to the closing of its Red Brigade Ltd. office in Bracknell, UK, which was comprised of \$4.6 million of early exit costs associated with the closing and \$0.3 million of non cash charges related to write-offs of leasehold improvements associated with the leased property. In 2005, the Company sold its Canadian operation and recovered \$0.5 million of costs that were previously recorded as restructuring expenses. In 2006, the Company recovered \$2.5 million related to its United Kingdom restructuring.

The components of the restructuring charges and the restructuring accrual at December 31, 2006, 2005 and 2004 are as follows:

(in thousands)	Accrued December 31, 2003	Charged to Expense	Asset Write- downs	Foreign Currency Translation Effect	Cash Expenditures	Accrued December 31, 2004
2004 lease costs of office closure . . . .	\$ —	\$5,288	\$ —	\$236	\$ (170)	\$5,354
2004 fixed assets write-downs . . . . .	—	373	(373)	—	—	—
2004 severance and related items . . . .	—	144	—	—	(144)	—
2003 severance and related items . . . .	80	—	—	—	(80)	—
2002 lease costs of office closure . . . .	1,481	—	—	—	(1,099)	382
2001 severance, bonus and related items . . . . .	1,805	—	—	14	(1,209)	610
2001 lease costs of office closure . . . .	1,292	—	—	20	(189)	1,123
Total . . . . .	<u>\$4,658</u>	<u>\$5,805</u>	<u>\$(373)</u>	<u>\$270</u>	<u>\$(2,891)</u>	<u>\$7,469</u>

(in thousands)	Accrued December 31, 2004	Credited to Expense	Asset Write- downs	Foreign Currency Translation Effect	Cash Expenditures	Accrued December 31, 2005
2004 lease costs of office closure . . . .	\$5,354	\$(386)	\$—	\$(417)	\$ (692)	\$3,859
2002 lease costs of office closure . . . .	382	—	—	—	(314)	68
2001 severance, bonus and related items . . . . .	610	—	—	—	(610)	—
2001 lease costs of office closure . . . .	1,123	(95)	—	(2)	(176)	850
Total . . . . .	<u>\$7,469</u>	<u>\$(481)</u>	<u>\$—</u>	<u>\$(419)</u>	<u>\$(1,792)</u>	<u>\$4,777</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

(in thousands)	Accrued December 31, 2005	Credited to Expense	Asset Write- downs	Foreign Currency Translation Effect	Cash Expenditures	Accrued December 31, 2006
2004 lease costs of office closure . . . .	\$3,859	\$(2,507)	\$—	\$471	\$(1,326)	\$497
2002 lease costs of office closure . . . .	68	—	—	—	(68)	—
2001 lease costs of office closure . . . .	850	(555)	—	—	(295)	—
Total . . . . .	<u>\$4,777</u>	<u>\$(3,062)</u>	<u>\$—</u>	<u>\$471</u>	<u>\$(1,689)</u>	<u>\$497</u>

**7. Credit Facilities**

On September 14, 2006, the Company renewed its credit facility (“Renewed Facility”) with PNC Bank N.A. (“PNC”). The Renewed Facility provides a maximum loan amount of \$35.0 million and is unsecured. The provisions of the Renewed Facility requires the Company to maintain domestic cash and cash equivalents and short-term investments of at least \$35.0 million, maintain net tangible worth of at least \$100.0 million and maintain a liquidity ratio of not less than 1.5 to 1.0. The liquidity ratio is the sum of domestic cash and accounts receivable divided by total liabilities. The Company had letters of credit outstanding in the amount of \$0.4 million and \$0.4 million on the Renewed Facility as of December 31, 2006 and 2005, respectively.

**8. Commitments**

*Lease Commitments*

The Company rents certain office facilities and equipment under noncancelable operating leases, which provide for the following future minimum rental payments as of December 31, 2006:

	Outside Parties	Related Parties	Total Amount
	(dollars in thousands)		
Period ending December 31,			
2007 . . . . .	\$ 3,514	\$473	\$ 3,987
2008 . . . . .	2,310	281	2,591
2009 . . . . .	1,539	—	1,539
2010 . . . . .	1,070	—	1,070
2011 . . . . .	817	—	817
Thereafter . . . . .	994	—	994
Total . . . . .	<u>\$10,244</u>	<u>\$754</u>	<u>\$10,998</u>

Rental expense was approximately \$6.2 million, \$6.6 million and \$6.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

*Other Commitments*

The Company negotiated a severance bonus for a key executive in connection with a restructuring plan in 2001. At December 31, 2001, the Company recorded a liability in the amount of \$2.4 million, which was the present value of the future obligation under the agreement. The interest rate used to discount the liability was 5.75%. The Company paid the executive \$0.9 million, \$1.3 million and \$1.0 million, in 2006, 2005 and 2004, respectively, as part of the agreement. The Company ultimately paid the executive \$4.0 million through the expiration of the agreement on October 1, 2006.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

As part of the Company's acquisition of a 95% interest in ICRI, the Company may be required to fund their existing operations for an amount up to \$3.0 million, based upon mutually agreed upon operating needs. The Company funded \$0.5 million, \$0.3 million and \$0.5 million in 2006, 2005 and 2004 respectively, and may be required to fund ICRI operations in 2007 and in subsequent years.

The Company is nearing completion of Phase III of its campus located in Bangalore and this facility should be ready for occupancy in April 2007. Total estimated costs of the project will approximate \$7.5 million. Phase I was completed in February 2004 and Phase II was completed in December 2005. The Company has funded the project through a combination of available cash reserves and short-term investments.

**9. Contingencies**

In the ordinary course of our business, the Company is involved in a number of lawsuits and administrative proceedings. While uncertainties are inherent in the final outcome of these matters, Company management believes, after consultation with legal counsel, that the disposition of these proceedings should not have a material adverse effect on our financial position, results of operations or cash flows.

iGS has entered in to a service agreement with a customer that provides the customer the option to take an equity stake in iGS for up to 5% of iGS's outstanding voting shares. The customer may purchase iGS shares solely at their discretion and must notify iGS of their intention to purchase within thirty days of the purchase.

**10. Employee Benefit Plan**

The Company has an Employee Retirement Savings Plan (the "Retirement Plan") under Section 401(k) of the Internal Revenue Code that covers substantially all U.S. based salaried employees. Eligible employees may contribute up to 15% of eligible compensation, subject to limits in the Internal Revenue Code. The Retirement Plan does not provide for any Company matching contributions.

**11. Stock Based Compensation**

*Modified Quintant Transaction Structure*

On August 10, 2004, the Company modified the terms of the acquisition agreement dated as of August 21, 2003 relating to its acquisition of Quintant Inc. ("Initial Quintant Transaction Structure"), and entered into a new agreement with the founders and principal shareholders of Quintant ("Modified Quintant Transaction Structure").

In conjunction with the Modified Quintant Transaction Structure, the Company was required to accelerate its recognition of unearned compensation expense in the amount of \$5.1 million, which consisted of \$3.1 million related to the cancellation of 2.1 million shares of Company restricted stock and \$2.0 million related to the cancellation of \$0.00 exercise price stock options. In addition, the Company recognized \$0.5 million of compensation expense related to iGS shares purchased at a discount by the Quintant Co-Founders. At December 31, 2005, the Company had \$1.0 million of deferred compensation to be recognized over future periods. These costs were recorded as part of the iGATE Solutions segments.

On August 25, 2004, the Company issued 455,924 common shares to two key employees of Quintant and cancelled 103,222 of stock options issued on August 21, 2003, at \$0.00 exercise price. The closing price of the Company's Common Stock at the date of issuance was \$2.92. The Company recorded compensation expense in the amount of \$1.3 million related to the issuance of shares and \$0.3 million related to the canceling of stock options. These costs were recorded as part of iGATE Solutions segment.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

Deferred compensation in the amount of \$10.5 million was recorded in conjunction with the August 21, 2003 acquisition of Quintant, which is more fully described in Note 12. The deferred compensation included 2.1 million shares of iGATE restricted stock, 0.6 million iGATE options granted at a \$0.00 exercise price, 0.1 million iGATE options granted at a \$3.78 exercise price, and 0.8 million of iGS options granted at a discount from market value to continuing Quintant employees. As noted above, portions of the deferred compensation were accelerated and recognized in 2004.

The iGATE restricted stock, which was granted to key employees of Quintant, was valued based upon the closing price of the Company's stock at August 20, 2003, which was \$4.89 per share. Deferred compensation was being recognized over a weighted average vest period of four years. Deferred compensation not including accelerated compensation expense recognized for the years ended December 31, 2004 and 2003 was approximately \$0.9 million and \$0.9 million, respectively, for the restricted stock.

All options issued at \$0.00 exercise price and \$3.78 exercise price were valued based upon the closing price of the Company stock at the date of grant. Deferred compensation was being recognized ratably over a four year vesting period. Deferred compensation not including accelerated compensation expense recognized for the year ended December 31, 2004 and 2003 was approximately \$0.6 million and \$0.4 million, respectively, for these options.

On August 20, 2003, 0.3 million iGS options were issued at a \$2.18 exercise price with a market value of \$5.11 per share on the same date. On August 22, 2003, 0.5 million iGS options were issued at \$2.53 exercise price with a market value of \$5.39 on the same date. Deferred compensation is being recognized ratably over a four year vesting period. Deferred compensation recognized for the years ended December 31, 2005, 2004 and 2003, respectively, was approximately \$0.7 million, \$0.6 million and \$0.2 million for these options.

***Other Stock Transactions***

On October 1, 2004, the Company awarded 0.1 million shares of restricted Company Common Stock to a key executive as part of his employment agreement. These shares vest ratably over a two year period with a compensation charge equal to the fair value of the shares awarded at date of grant. Had compensation costs for these shares been determined consistent with SFAS 123, net loss and loss per share for the year ended December 31, 2004 would have increased by approximately \$0.3 million or less than \$0.01 per share. Deferred compensation recognized for these shares for the year ended December 31, 2005, and 2004, respectively was approximately \$0.1 million and less than \$0.1 million.

***iGATE Corporation Stock Option Plans***

**Stock Based Compensation**

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), which requires compensation costs related to share-based transactions, including employee share options, to be recognized in the financial statements based on fair value. SFAS No. 123(R) revised SFAS No. 123, as amended, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective transition method. Under this transition method, the compensation cost recognized beginning January 1, 2006 includes compensation cost for (i) all share-based payments granted prior to, but not yet vested

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (ii) all share-based payments granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation cost is generally recognized ratably over the requisite service period or the retirement date for retirement eligible employees, if earlier. Prior period amounts have not been restated.

As a result of the adoption of SFAS No. 123(R), the Company's results for the year ended December 31, 2006 include share-based compensation expense of \$4.0 million. The total stock-based compensation cost has been included in the Consolidated Statements of Operations within direct costs of \$1.8 million and within selling, general and administrative expenses of \$2.2 million. The Company has recognized a related tax benefit associated with its share-based compensation arrangements for totaling \$0.1 million.

Prior to January 1, 2006, the Company accounted for stock-based compensation plans in accordance with the provisions of APB Opinion No. 25, as permitted by SFAS No. 123, and accordingly did not recognize compensation expense for the issuance of options with an exercise price equal to or greater than the market price at the date of grant. The Company did recognize \$0.8 million and \$14.3 million of compensation expense for the years ended December 31, 2005 and 2004, respectively, related to a restricted stock grant and discounted stock options. Had the fair value based method as prescribed by SFAS No. 123 been applied by the Company, the effect on net income and earnings per share for the years ended December 31, 2005 and 2004 would have been as follows (\$ in thousands, except per share data):

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Net income (loss), as reported . . . . .	\$ 6,969	\$(18,211)
Add: Deferred compensation expense reported in earnings . . . . .	815	14,296
Less: Total stock-based employee compensation expense determined under fair value method for all awards and deferred compensation expense . . . . .	<u>(2,385)</u>	<u>(15,076)</u>
Proforma net income (loss) . . . . .	<u>\$ 5,399</u>	<u>\$(18,991)</u>
Earnings (loss) per share:		
Basic and diluted		
As reported . . . . .	<u>\$ 0.13</u>	<u>\$ (0.35)</u>
Pro forma . . . . .	<u>\$ 0.10</u>	<u>\$ (0.36)</u>

***iGATE Corporation Stock Incentive Plans***

During 2000, the Company adopted the Second Amended and Restated Stock Incentive Plan (the "Plan"). The Plan provided that up to 14.7 million shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. At December 31, 2005, there were 10.2 million shares of common stock available for issuance under the Plan. This plan expired by its terms on November 3, 2006.

On May 25, 2006, the 2006 iGATE Corporation Stock Incentive Plan (the "2006 Plan" and together with the Plan, the "iGATE Plans") was approved by the Company's shareholders. This 2006 Plan replaced the Company's expired Plan and is substantially similar to it. Revisions were made primarily to address changes in applicable law since 2000. The 2006 Plan provides that up to 14.7 million shares of the Company's common stock shall be allocated for issuance to officers, employees, directors and consultants of the Company and its subsidiaries. At December 31, 2006, there were 14.1 million shares of common stock available for issuance under the 2006 Plan.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

A summary of the stock option and restricted stock activity is presented below:

<u>iGATE Stock Incentive Plan</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Options outstanding at December 31, 2003 .....	2,857,215	\$ 8.02		
Granted .....	565,000	3.28		
Exercised .....	(178,173)	2.39		
Lapsed and forfeited .....	(669,723)	10.36		
Options outstanding at December 31, 2004 .....	2,574,319	\$ 6.75		
Granted .....	204,500	3.98		
Exercised .....	(254,190)	3.34		
Lapsed and forfeited .....	(323,422)	6.44		
Options outstanding at December 31, 2005 .....	2,201,207	\$ 6.93		
Granted .....	100,000	5.41		
Exercised .....	(250,032)	3.47		
Lapsed and forfeited .....	(364,917)	9.99		
Options outstanding at December 31, 2006 .....	<u>1,686,258</u>	\$ 6.68	5.7	\$ 4.3
Options vested and expected to vest at December 31, 2006 .....	<u>1,671,761</u>	\$ 6.70	4.2	\$ 4.3
Options exercisable at December 31, 2006 .....	<u>1,127,663</u>	\$ 8.06	4.6	\$ 2.6

<u>iGATE Stock Incentive 2006 Plan</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Options outstanding at December 31, 2005 .....	—	—		
Granted .....	15,000	\$ 6.00		
Exercised .....	—	—		
Lapsed and forfeited .....	—	—		
Options outstanding at December 31, 2006 .....	<u>15,000</u>	\$ 6.00	9.6	\$—
Options vested and expected to vest at December 31, 2006 .....	<u>15,000</u>	\$ 6.00	9.6	\$—
Options exercisable at December 31, 2006 .....	<u>—</u>	—	—	\$—

<u>iGATE Stock Incentive 2006 Plan</u>	<u>Restricted Stock</u>	<u>Weighted Average Fair Value</u>
Unvested at December 31, 2005 .....	—	\$ —
Granted .....	571,000	4.27
Vested .....	—	—
Lapsed and forfeited .....	—	—
Unvested at December 31, 2006 .....	<u>571,000</u>	\$4.27
Available for future grants of options and restricted stock .....	<u>14,114,000</u>	

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

During 2006, the Company granted 0.6 million shares of performance based restricted stock. Each share is earned only after certain financial targets are met. Each performance target is assessed yearly over a four year to five year period, at which time the shares will be awarded upon achievement of the yearly target. If the performance targets are not met, the shares that were to be awarded for the performance year will be cancelled. If the performance target is achieved, the shares are issued to the recipient. These shares are voting but are subject to forfeiture if performance targets are not achieved or in the event of termination.

During 2006, 2005 and 2004, options covering a total of 0.1 million shares, 0.2 million shares and 0.6 million shares, respectively, of Common Stock were granted under the Plan. Options generally expire ten years from the date of grant or earlier if an option holder ceases to be employed or associated by the Company for any reason.

Compensation expense associated with the performance based grants that continue to vest based upon future performance is measured based on the grant-date fair value of iGATE common stock. Compensation expense is recognized ratably over the performance period based upon the Company's estimated achievement of the established performance criteria. Compensation expense is only recognized for those awards that are expected to vest, which is estimated based upon the assessment of both the probability that the performance criteria will be achieved and current period and historical forfeitures.

The total intrinsic value of options exercised during 2006 and 2005 was \$0.6 million and \$0.2 million, respectively. The fair value of stock options vested during 2006, 2005 and 2004 was \$0.8 million, \$1.1 million and \$1.1 million, respectively. The income tax benefit classified as a financing cash inflow for 2006, 2005 and 2004 was \$0.1 million, less than \$0.1 million and \$0.3 million, respectively.

In 2006, the Company recognized \$0.9 million of compensation expense associated with the iGATE stock incentive plan in the Company's Condensed Consolidated Statements of Operations. As of December 31, 2006, approximately \$3.4 million of unrecognized compensation cost is expected to be recognized for the unvested shares. This expense is expected to be recognized over a weighted-average period of 1.9 years.

**iGATE Stock Options Outstanding at December 31, 2006:**

Options Outstanding				Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 1.875–\$ 1.875	5,000	4.24	\$ 1.875	5,000	\$ 1.875
1.930– 1.930	301,531	4.75	1.930	261,531	1.930
2.010– 2.850	25,000	5.53	2.500	23,125	2.474
2.960– 2.960	235,563	7.64	2.960	117,437	2.960
3.550– 3.680	172,500	8.00	3.656	2,500	3.630
3.700– 4.110	196,988	5.99	3.932	165,269	3.901
4.190– 5.410	194,975	8.79	4.867	44,725	4.924
5.580– 6.000	182,657	7.06	5.629	121,032	5.597
9.000– 15.875	229,768	2.18	13.777	229,768	13.777
17.020– 33.125	157,276	1.79	21.978	157,276	21.978
<u>\$ 1.875–\$33.125</u>	<u>1,701,258</u>	<u>5.72</u>	<u>\$ 6.675</u>	<u>1,127,663</u>	<u>\$ 8.063</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

iGATE options outstanding and exercisable at December 31, 2005 were 2.2 million and 1.5 million, respectively, at prices ranging from \$1.875 to \$33.125 per share. iGATE options outstanding and exercisable at December 31, 2004 were 2.6 million and 1.5 million, respectively, at prices ranging from \$1.875 to \$33.125 per share.

In addition, iGATE Global Solutions Limited, the Company's majority-owned Indian subsidiary ("iGS") also maintains its own stock option plans. iGS's stock option plans were approved by its Boards of Directors and are discussed below.

***iGS Stock Option Plans***

iGS maintains two employee stock option plans herein referred to as "Plan 1" and "Plan 2" and collectively as the "iGS Plans". The iGS Plans are administered by a committee appointed by the Board of Directors of iGS. Plan 1 provides for the issuance of a maximum of 3.0 million shares of iGS common stock and Plan 2 provides for the issuance of a maximum of 4.5 million shares of iGS common stock. Options to purchase iGS common stock are typically granted at the prevailing market values for each of the iGS Plans.

Options for each of the above iGS Plans generally vest over a four year period and expire ten years from the date of grant or earlier if an option holder ceases to be employed with iGS, iGS's holding company or any iGS subsidiary companies.

<u>iGATE Global Solutions Stock Option Plan 1</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Options outstanding at December 31, 2003 . . . . .	2,695,316	\$2.77		
Granted . . . . .	—	—		
Exercised . . . . .	(275,717)	2.59		
Lapsed and forfeited . . . . .	(582,976)	2.97		
Options outstanding at December 31, 2004 . . . . .	1,836,623	\$2.68		
Granted . . . . .	112,750	5.21		
Exercised . . . . .	(137,495)	2.45		
Lapsed and forfeited . . . . .	(319,244)	4.97		
Options outstanding at December 31, 2005 . . . . .	1,492,634	\$3.11		
Granted . . . . .	713,585	4.70		
Exercised . . . . .	(293,180)	2.30		
Lapsed and forfeited . . . . .	(766,362)	4.41		
Options outstanding at December 31, 2006 . . . . .	<u>1,146,677</u>	\$3.42	7.2	\$5.1
Options vested and expected to vest at December 31, 2006 . . . .	<u>1,108,524</u>	\$3.39	7.3	\$4.6
Options exercisable at December 31, 2006 . . . . .	<u>762,066</u>	\$3.05	4.3	\$5.0

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

<u>iGATE Global Solutions Stock Option Plan 2</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Options outstanding at December 31, 2003 .....	1,078,586	\$5.59		
Granted .....	1,447,550	5.47		
Exercised .....	—	—		
Lapsed and forfeited .....	(533,801)	5.57		
Options outstanding at December 31, 2004 .....	1,992,335	\$5.60		
Granted .....	1,705,150	3.93		
Exercised .....	(5,153)	4.87		
Lapsed and forfeited .....	(730,098)	5.34		
Options outstanding at December 31, 2005 .....	2,962,234	\$4.68		
Granted .....	—	—		
Exercised .....	(20,330)	2.50		
Lapsed and forfeited .....	(1,872,163)	5.18		
Options outstanding at December 31, 2006 .....	<u>1,069,741</u>	\$4.34	8.0	\$3.8
Options vested and expected to vest at December 31, 2006 ...	<u>1,015,771</u>	\$4.37	8.2	\$3.4
Options exercisable at December 31, 2006 .....	<u>525,688</u>	\$4.94	7.7	\$3.0

iGS also maintains an employee restricted stock unit plan herein referred to as “RSU Plan”. The RSU Plan is administered by the Compensation Committee appointed by the Board of Directors of iGS. The RSU Plan is a separate plan set up in partial modification of the above iGS Plans and provides for the issuance of a maximum of 3.0 million shares of iGS common stock. These restricted stock units are granted at a \$0.09 strike price.

Restricted stock unit grants for the RSU Plan generally vest over a four year period and expire twelve years from the date of grant or earlier if a holder ceases to be employed by or associated with iGS for any reason.

On October 10, 2006, iGS exchanged approximately 1.75 million of iGS employee stock options for approximately 0.5 million of iGS restricted stock units. The proposed exchange was approved by iGS’s Board on October 10, 2006. The exchange was not mandatory and was solely the prerogative of each employee. At the date of the exchange the iGS closing stock price was \$4.20.

The fair value of restricted stock unit grants was estimated using the prevailing market value of iGS common stock at the date of grant. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. A forfeiture rate is also applied to the estimated compensation cost of the granted restricted stock units. Forfeitures are estimated based on voluntary termination behavior, as well as an analysis of actual option forfeitures.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

<u>iGATE Global Solutions Restricted Stock Unit Plan</u>	<u>Restricted Stock Units</u>	<u>Weighted Average Fair Value</u>
Unvested at December 31, 2005 .....	—	—
Granted .....	919,077	\$5.19
Exercised .....	—	—
Lapsed and forfeited .....	<u>(44,931)</u>	5.19
Unvested at December 31, 2006 .....	<u>874,146</u>	\$5.19
Available for future grants of options and restricted stock units .....	<u><u>3,453,708</u></u>	

Total available stock options and/or restricted units to be granted for all of the iGS Plans combined cannot exceed 7.5 million shares.

The total intrinsic value of options exercised during 2006 and 2005 was \$0.4 million and \$0.4 million, respectively. The fair value of stock options vested during 2006, 2005 and 2004 was \$3.3 million, \$2.9 million and \$2.6 million, respectively.

In 2006, the Company recognized \$3.1 million of compensation expense associated with the iGS stock option plans in the Company's Condensed Consolidated Statements of Operations. As of December 31, 2006, approximately \$7.7 million of unrecognized compensation cost is expected to be recognized for the unvested shares. This expense is expected to be recognized over a weighted-average period of 1.5 years.

**iGATE Global Solutions Stock Options Outstanding at December 31, 2006 Plan 1:**

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Range of Exercise Price</u>	<u>Options</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
\$ 2.270–\$ 2.270	167,894	5.99	\$2.270	166,299	\$2.270
2.290– 4.540	838,696	7.33	3.330	527,136	3.010
4.560– 6.800	140,087	7.91	5.320	68,631	5.240
<u>\$ 2.270–\$ 6.800</u>	<u>1,146,677</u>	<u>7.21</u>	<u>\$3.420</u>	<u>762,066</u>	<u>\$3.050</u>

**iGATE Global Solutions Stock Options Outstanding at December 31, 2006 Plan 2:**

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Range of Exercise Price</u>	<u>Options</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
\$ 2.270–\$ 2.270	428,649	8.42	\$2.270	130,866	\$2.270
4.560– 6.800	489,342	7.83	5.300	281,345	5.310
6.810– 9.070	151,750	7.06	7.080	113,477	7.080
<u>\$ 2.270–\$ 9.070</u>	<u>1,069,741</u>	<u>7.96</u>	<u>\$4.340</u>	<u>525,688</u>	<u>\$4.940</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

The fair value of each option grant under the iGATE Plans and iGS Plans was estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of either the iGATE or iGS common stock and implied volatility derived from exchange traded options. The average expected life was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. The risk-free interest rate for each of the iGATE Plans was based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The risk-free rate for each of the iGS Plans was based on an equivalent Indian risk-free rate. Forfeitures are estimated based on voluntary termination behavior, as well as an analysis of actual option forfeitures. The weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

<u>Year Ended December 31, 2006</u>	<u>iGATE</u>	<u>iGS</u>
Weighted average fair values of options granted during 2006 .....	\$ 3.17	\$ 2.60
Risk-free interest rate .....	4.65%	7.00%
Expected dividend yield .....	0.0%	0.5%
Expected life of options .....	4.5 years	5 years
Expected volatility rate .....	66.5%	61.8%
<u>Year Ended December 31, 2005</u>	<u>iGATE</u>	<u>iGS</u>
Weighted average fair values of options granted during 2005 .....	\$ 2.76	\$ 3.01
Risk-free interest rate .....	4.00%	4.00%
Expected dividend yield .....	0.0%	0.0%
Expected life of options .....	5 years	4 years
Expected volatility rate .....	85.4%	63.8%
<u>Year Ended December 31, 2004</u>	<u>iGATE</u>	<u>iGS</u>
Weighted average fair values of options granted during 2004 .....	\$ 3.28	\$ 6.40
Risk-free interest rate .....	3.5%	3.4%
Expected dividend yield .....	0.0%	0.0%
Expected life of options .....	5 years	4 years
Expected volatility rate .....	89.8%	75.5%

**12. Acquisitions**

The following paragraphs describe each of the acquisitions made by the Company during 2006, 2005 and 2004. Descriptions regarding each acquisition will vary dependent upon the complexity of the transaction and materiality and are presented in chronological order. Unless otherwise noted, pro-forma disclosure regarding these purchases have not been provided because they are not material to the operations of the Company.

The Company has calculated each purchase price allocation in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. All purchase price allocations have been finalized at December 31, 2006. All amortizable intangible assets acquired consist of intellectual property, beneficial employment contracts and customer relationships. Please refer to Note 5 for information pertaining to amortization expense.

On April 24, 2006, iGS entered into a Master Services Agreement with LoanPro, LLC (“LoanPro”) to perform offshore mortgage servicing. In conjunction with this agreement, iGS acquired a 5% ownership interest

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

in LoanPro for a nominal amount with the option to acquire up to an additional 55%. iGS exercised this option on July 1, 2006 and acquired the additional 55% of LoanPro for a nominal amount. In the third quarter of 2006, iGS consolidated LoanPro's operations into the iGATE Solutions segment. iGS has loaned \$1.1 million to LoanPro as of February 28, 2007. The loan pays 6% interest and is due in 2009. Assets acquired were insignificant and did not require a purchase price allocation. Proforma disclosure was also not required due to immateriality.

During the fourth quarter of 2005, iGS purchased the remaining 51% interest of CIBER, India Pvt. Ltd., ("CIBER"), an India-based joint venture originally started in 2003 by Ciber, Inc. and iGS, for a nominal amount. The acquisition was deemed to be immaterial not requiring pro-forma disclosure. Assets acquired were insignificant and did not require a purchase price allocation.

In the fourth quarter of 2004, the Company acquired the remaining 10% of ICRI it did not own from the University of Pittsburgh Cancer Institute Cancer Services ("UPCI"). Pursuant to the transaction, ICRI transferred certain clinical research related study agreements to UPCI for the remaining 10% ownership, whose value was immaterial.

On August 10, 2004, the Company modified the terms of the acquisition agreement dated as of August 21, 2003 relating to its acquisition of Quintant Inc. ("Initial Quintant Transaction Structure"), and entered into a new agreement with the founders and principal shareholders of Quintant ("Modified Quintant Transaction Structure"). The principal reasons that the Quintant acquisition structure was modified were (a) to have the Quintant co-founders more closely aligned to the stock value of iGS, rather than the Company's common stock, and (b) to simplify the ownership structure of Quintant whereby Quintant will be owned 100% by iGS, rather than the original ownership structure where Quintant was jointly owned by iGS and iGATE.

Under the terms of the Modified Quintant Transaction Structure, the Company was required to accelerate compensation expense, which is more fully discussed in Note 11, and to pay the Quintant Co-Founders an additional \$3.9 million in cash consisting of \$3.2 million paid to Quintant's Indian Co-Founder and \$0.7 million paid in aggregate to the four Quintant Co-Founders. The costs associated with the Modified Quintant Transaction Structure did not affect the Company's original purchase price allocation, which is discussed below.

All costs incurred as part of the Modified Quintant Transaction Structure were recorded as compensation expense in the period incurred and are included in the Company's Consolidated Statements of Operations as part of iGATE Solutions segment.

### **13. Discontinued Operations**

In 2004, the Company sold two international staffing company subsidiaries, iGATE Australia Pty Ltd. ("iGATE Australia"), headquartered in Sydney, Australia, and Direct Resources Scotland Ltd., ("DRI") located in Edinburgh, Scotland (the "Dispositions"). In accordance with SFAS 144, these businesses are classified as discontinued operations.

The sale of iGATE Australia was a stock for cash transaction and was completed on June 2, 2004. The Company sold DRI customer and contractor agreements for cash on April 1, 2004. For the year ended December 31, 2004, both operations combined had approximately \$20.5 million in revenues with operating income of approximately \$0.1 million. The purchase price received in cash for both transactions was approximately \$9.8 million.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

The following table details selected financial information for the businesses included within discontinued operations (dollars in thousands).

	<u>2004</u>
Revenues .....	\$20,540
Income from operations .....	115
Gain on sale of operations .....	3,749
Income before income taxes .....	3,864
Income tax expense .....	46
Income from discontinued operations .....	<u>\$ 3,818</u>

**14. Income Taxes**

The components of income (loss) from continuing operations before income taxes, as shown in the accompanying Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2006, 2005 and 2004:

	<u>December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(Dollars in Thousands)		
Income (loss) before income taxes:			
Domestic .....	\$ (357)	\$4,460	\$(16,135)
Foreign .....	11,310	2,622	(764)
Income (loss) before income taxes .....	<u>\$10,953</u>	<u>\$7,082</u>	<u>\$(16,899)</u>

The provision (benefit) for income taxes from continuing operations, as shown in the accompanying Consolidated Financial Statements, consisted of the following for the years ended December 31, 2006, 2005 and 2004:

	<u>December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
	(Dollars in Thousands)		
Current provision(benefit) :			
Federal .....	\$ 1,648	\$(2,239)	\$(1,344)
State .....	479	300	15
Foreign .....	410	1,123	3,352
Total current provision (benefit) .....	<u>2,537</u>	<u>(816)</u>	<u>2,023</u>
Deferred provision (benefit):			
Federal .....	(1,213)	(3,791)	(4,935)
State .....	(182)	(519)	(804)
Foreign .....	14	463	790
Valuation allowance .....	1,093	4,776	8,056
Total deferred (benefit) provision .....	<u>(288)</u>	<u>929</u>	<u>3,107</u>
Total provision (benefit) for income taxes .....	<u>\$ 2,249</u>	<u>\$ 113</u>	<u>\$ 5,130</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision (benefit) for income taxes from continuing operations for the years ended December 31, 2006, 2005 and 2004 were as follows:

	<u>December 31,</u> <u>2006</u>		<u>December 31,</u> <u>2005</u>		<u>December 31,</u> <u>2004</u>	
Income taxes computed at the federal statutory rate . . . . .	\$ 3,834	35.0%	\$ 2,479	35.0%	\$(5,914)	35.0%
State income taxes, net of federal tax benefit . . . . .	286	2.6	238	3.4	310	(1.8)
Foreign taxes at other than U.S. statutory rate . . . . .	(3,534)	(32.3)	668	9.4	4,408	(26.1)
Reversal of prior year accrued taxes . . . . .	—	—	(2,200)	(31.1)	—	—
Minority interest . . . . .	263	2.4	739	10.4	680	(4.0)
Nondeductible goodwill . . . . .	55	0.5	145	2.0	213	(1.3)
Nondeductible compensation . . . . .	238	2.2	253	3.6	239	(1.4)
Capital losses in investments . . . . .	—	—	(6,891)	(97.3)	(2,524)	14.9
Other—net . . . . .	14	0.1	(94)	(1.3)	(338)	2.0
Valuation allowance . . . . .	1,093	10.0	4,776	67.4	8,056	(47.7)
	<u>\$ 2,249</u>	<u>20.5%</u>	<u>\$ 113</u>	<u>1.6%</u>	<u>\$ 5,130</u>	<u>(30.4)%</u>

Under the Indian Income Tax Act, 1961, the Company's Indian subsidiary is eligible to claim a tax holiday for 10 consecutive assessment years on profits derived from the export of software services from divisions registered under the Software Technology Parks at Bangalore, Chennai and Pune. For the years ended December 31, 2006, 2005 and 2004, the tax holiday resulted in benefits of \$2.7 million, \$(0.7) million and \$0.3 million, respectively, when calculated at the statutory U.S. rate. The benefits of the holiday began to expire for certain of the units in 2005.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

The components of the deferred tax assets and liabilities were as follows:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and employee advances . . . . .	\$ 452	\$ 622
Accrued health benefits . . . . .	183	29
Accrued vacation and bonuses . . . . .	861	1,171
Depreciation . . . . .	167	190
Section 123(R) compensation . . . . .	267	—
Foreign currency translation adjustments . . . . .	713	797
Capital losses in investments . . . . .	14,721	15,057
Deferred compensation . . . . .	6,202	5,778
Net operating loss carryovers . . . . .	3,772	2,310
Accrued restructuring charges . . . . .	—	369
Other . . . . .	63	75
Valuation allowance . . . . .	<u>(25,045)</u>	<u>(23,952)</u>
Total deferred tax assets . . . . .	<u>2,356</u>	<u>2,446</u>
Deferred tax liabilities		
Amortization of acquired intangibles . . . . .	609	995
Prepaid expenses . . . . .	409	363
Section 481(a) adjustments . . . . .	—	38
Unrecognized gain on iGATE Global Solutions IPS . . . . .	<u>9,710</u>	<u>9,710</u>
Total deferred tax liabilities . . . . .	<u>10,728</u>	<u>11,106</u>
Net deferred tax liability . . . . .	<u>\$ 8,372</u>	<u>\$ 8,660</u>
Net deferred tax liability . . . . .	\$ 8,372	\$ 8,660
Plus: net current deferred tax asset . . . . .	<u>1,111</u>	<u>1,058</u>
Net long-term deferred tax liability . . . . .	<u>\$ 9,483</u>	<u>\$ 9,718</u>

During 2006 and 2005, the Company reduced certain deferred tax assets generated from capital loss transactions through valuation allowances. The Company believes that sufficient future capital gains will not be generated so as to permit the reversal of the deductible temporary differences.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

**15. Earnings per Share**

The reconciliation between basic and diluted earnings per common share from continuing operations is as follows:

	Year Ended December 31,		
	2006	2005	2004
	(in thousands, except per share data)		
Basic earnings (loss) per share:			
Net income (loss) from continuing operations . . . . .	\$ 8,704	\$ 6,969	\$(22,029)
Divided by:			
Weighted average common shares . . . . .	52,939	52,530	52,721
Basic earnings (loss) per share from continuing operations . . . . .	\$ 0.16	\$ 0.13	\$ (0.42)
Diluted earnings (loss) per share:			
Net income (loss) from continuing operations . . . . .	\$ 8,704	\$ 6,969	\$(22,029)
Divided by:			
Weighted average common shares . . . . .	53,278	52,734	52,721
Diluted earnings (loss) per share from continuing operations . . . . .	\$ 0.16	\$ 0.13	\$ (0.42)

The number of outstanding options to purchase common shares for which the option exercise prices exceeded the average market price of the common shares aggregated 0.9 million, 1.1 million and 1.3 million shares for the years ended December 31, 2006, 2005 and 2004, respectively. These options were excluded from the computation of diluted earnings per share under the treasury stock method.

In addition, the calculation of diluted earnings per share for 2004 would have included 0.4 million shares for assumed exercise of options under the Company's share incentive plans. However, because the Company was in a net loss position inclusion of such shares would have been anti-dilutive.

**16. Segment Reporting**

The Company's reportable segments are iGATE Solutions, iGATE Professional Services and iGATE Shared Services. Effective April 1, 2004, we recast our segments to include the operations of Global Financial Services ("GFS") as part of the iGATE Professional Services ("iPS") segment. Previously, GFS was included in the iGATE Solutions segment.

As of January 1, 2006, jobcurry operations are included in the iPS segment. jobcurry was previously included as part of iGATE Shared Services. All prior periods have been reclassified to reflect the changes to our segment reporting. Accordingly, revenues of \$1.3 million, cost of revenues of \$0.7 million, gross margin of \$0.6 million, selling, general and administrative expenses of \$0.7 million and loss from operations of \$(0.1) million have been reclassified from the iGATE Shared Services segment to the iPS Segment for 2005. In addition, revenues of \$1.2 million, cost of revenues of \$0.5 million, gross margin of \$0.7 million, selling, general and administrative expenses of \$0.6 million and income from operations of \$0.1 million have been reclassified from the iGATE Shared Services segment to the iPS Segment for 2004.

The following discussion also compares our operating segments without the operations of iGATE Australia Pty Ltd. and Direct Resources Ltd., which are being treated as discontinued operations. Prior to their sale in 2004 both entities were part of our iPS operating segment.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

*iGATE Solutions*

The iGATE Solutions segment's services offerings include offshore outsourcing of IT services, IT systems maintenance and Business Process Outsourcing ("BPO"). Other offerings include enterprise applications implementation and related custom development of applications such as Oracle, SAP and PeopleSoft. The Segment also offers application maintenance outsourcing, business intelligence services and data management and application re-engineering through its offshore development centers ("ODCs").

iGATE Solutions has ODCs located in Bangalore, Hyderabad, Chennai, Delhi, and Pune, India and Wuxi, China. iGS has global development centers ("GDCs") located in Canada and the U.S. The centers can deliver both near shore and offshore services, dependent upon customer location and expectations. iGATE Solutions operates in India, Canada, the U.S., Europe, Singapore, Malaysia, Japan, China and Australia.

*iGATE Professional Services ("iPS")*

The iPS segment's service offerings include a variety of client-managed and supervised IT staffing service offerings which include enterprise resource package implementation and integration, application support services and client directed software design and customization.

The iPS segment services North America.

*iGATE Shared Services (formerly "iGATE Corporate")*

In 2006, 2005 and 2004, iGATE Shared Services includes the operations of ICRI acquired on February 26, 2003, iGATE Clinical Research International Private Ltd. acquired on October 28, 2003 and corporate and other unallocated costs.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1. We evaluate segment performance based upon profit or loss from operations. We do not allocate income taxes, other income or expense and non-recurring charges to segments. In addition, we account for inter-segment sales and transfers at current market prices. All inter-segment sales have been eliminated in consolidation, which are not material.

The following tables present selected financial information for the Company's reporting segments, as reclassified for discontinued operations, for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31, 2006			Total
	iGATE Solutions	iGATE Professional Services	iGATE Shared Services(1)	
	(Dollars in thousands)			
External revenues	\$169,570	\$112,476	\$ 1,542	\$283,588
Cost of revenues	<u>122,694</u>	<u>86,594</u>	<u>924</u>	<u>210,212</u>
Gross margin	46,876	25,882	618	73,376
Selling, general and administrative	42,587	16,459	10,574	69,620
Restructuring recovery	<u>(2,507)</u>	<u>(555)</u>	<u>—</u>	<u>(3,062)</u>
Income (loss) from operations	<u>\$ 6,796</u>	<u>\$ 9,978</u>	\$ (9,956)	\$ 6,818
Other income, net			3,992	3,992
Minority interest			(752)	(752)
Gain on venture investments and affiliated companies			578	578
Equity in income of affiliated companies			<u>317</u>	<u>317</u>
(Loss) income before income taxes			<u>\$ (5,821)</u>	<u>\$ 10,953</u>

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

	Year Ended December 31, 2005			
	iGATE Solutions	iGATE Professional Services	iGATE Shared Services(1)	Total
	(Dollars in thousands)			
External revenues . . . . .	\$138,032	\$136,775	\$ 1,185	\$275,992
Cost of revenues . . . . .	97,108	107,354	648	205,110
Gross margin . . . . .	40,924	29,421	537	70,882
Selling, general and administrative . . . . .	38,948	17,173	11,362	67,483
Restructuring recovery . . . . .	—	(481)	—	(481)
Income (loss) from operations . . . . .	<u>\$ 1,976</u>	<u>\$ 12,729</u>	\$(10,825)	\$ 3,880
Other expense, net . . . . .			(275)	(275)
Minority interest . . . . .			(261)	(261)
Gain on sale of stock of subsidiary . . . . .			5,549	5,549
Loss on venture investments and affiliated companies, net . . . . .			(2,149)	(2,149)
Equity in income of affiliated companies . . . . .			338	338
(Loss) income before income taxes . . . . .			<u>\$ (7,623)</u>	<u>\$ 7,082</u>

	Year Ended December 31, 2004			
	iGATE Solutions	iGATE Professional Services	iGATE Shared Services(1)	Total
	(Dollars in thousands)			
External revenues . . . . .	\$131,484	\$132,439	\$ 662	\$264,585
Cost of revenues . . . . .	92,329	104,637	611	197,577
Gross margin . . . . .	39,155	27,802	51	67,008
Selling, general and administrative . . . . .	55,197	17,601	9,281	82,079
Gain on sale of land . . . . .	(3,615)	—	—	(3,615)
Restructuring charges . . . . .	4,896	909	—	5,805
(Loss) income from operations . . . . .	<u>\$(17,323)</u>	<u>\$ 9,292</u>	\$ (9,230)	\$(17,261)
Other income, net . . . . .			1,374	1,374
Minority interest . . . . .			(677)	(677)
Equity in losses of affiliated companies . . . . .			(335)	(335)
Loss before income taxes . . . . .			<u>\$ (8,868)</u>	<u>\$ (16,899)</u>

(1) Shared Services activities include general corporate expenses, interest income and expense, equity in losses of unconsolidated affiliates, minority interest, loss from joint ventures and restructuring charges not identified to a specific segment, and other unallocated charges. The Company evaluates segments based on income (loss) from operations. Since certain administrative and other operating expenses or income sources have not been allocated to the operating business segments, this basis is not necessarily a measure computed in accordance with generally accepted accounting principles and it may not be comparable to other companies.

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

Total assets by segment were as follows:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
iGATE Solutions .....	\$106,034	\$ 95,010	\$101,439
iGATE Professional Services .....	20,798	21,368	42,360
iGATE Shared Services including discontinued operations .....	63,942	61,096	36,433
Total assets .....	<u>\$190,774</u>	<u>\$177,474</u>	<u>\$180,232</u>

Revenue and tangible long-term assets by geographic area consisted of the following:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
<b>Revenues:</b>			
North America, principally U.S. ....	\$241,433	\$235,054	\$223,772
Europe .....	19,123	19,284	22,167
Pacific Rim, principally India .....	23,032	21,654	18,646
Total revenues .....	<u>\$283,588</u>	<u>\$275,992</u>	<u>\$264,585</u>

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
<b>Tangible long-term assets:</b>			
North America, principally U.S. ....	\$ 1,392	\$ 1,610	\$ 2,511
Europe .....	131	176	106
Pacific Rim, principally India .....	28,344	26,753	23,197
Total tangible long-term assets .....	<u>\$ 29,867</u>	<u>\$ 28,539</u>	<u>\$ 25,814</u>

The following is a concentration of revenues greater than 10% for the periods shown:

	2006	2005	2004
<b>General Electric Company</b>			
iGATE Solutions .....	30%	35%	37%
iGATE Consolidated .....	18%	18%	19%
<b>Royal Bank of Canada</b>			
iGATE Solutions .....	10%	—	—
<b>TEKsystems, Inc.</b>			
iGATE Professional Services .....	13%	—	—
<b>International Business Machine Corp.</b>			
iGATE Professional Services .....	11%	22%	23%
iGATE Consolidated .....	—	11%	12%
<b>Wachovia Corporation</b>			
iGATE Professional Services .....	—	11%	13%

**iGATE CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**AS OF DECEMBER 31, 2006 AND 2005**

**17. Quarterly Financial Information (Unaudited)**

The following table sets forth certain unaudited financial information for each of the quarters indicated below and, in the opinion of management, contains all adjustments, consisting only of normal recurring adjustments, if necessary, for a fair presentation thereof. Earnings per share amounts for each quarter are required to be computed independently, and therefore may not equal the amount computed for the entire year.

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
<b>2006:</b>				
Revenues .....	\$67,696	\$69,322	\$71,954	\$74,616
Gross margin .....	17,182	16,802	18,428	20,964
Income (loss) from operations .....	300	(377)	1,173	5,722
Income from operations before income taxes .....	1,651	212	2,053	7,037
Net income (loss) .....	<u>\$ 1,083</u>	<u>\$ (406)</u>	<u>\$ 1,550</u>	<u>\$ 6,477</u>
Net earnings (loss) per common share, basic .....	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>	<u>\$ 0.12</u>
Net earnings (loss) per common share, diluted .....	<u>\$ 0.02</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>	<u>\$ 0.12</u>
<b>2005:</b>				
Revenues .....	\$69,601	\$67,896	\$70,102	\$68,393
Gross margin .....	17,197	16,798	18,930	17,957
(Loss) income from operations .....	(32)	(576)	1,709	2,779
(Loss) income from operations before income taxes .....	(519)	(27)	1,997	5,631
Net income (loss) .....	<u>\$ 1,344</u>	<u>\$ (286)</u>	<u>\$ 875</u>	<u>\$ 5,036</u>
Net earnings (loss) per common share, basic .....	<u>\$ 0.03</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>
Net earnings (loss) per common share, diluted .....	<u>\$ 0.03</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.10</u>

**18. Related Party Transactions**

In conjunction with the modified sales agreement with Quintant, which is more fully discussed in Notes 11 and 12, Phaneesh Murthy, CEO of iGS, purchased 722,570 shares of iGS at a market value of \$5.91 per share. Through this transaction, Phaneesh Murthy owns approximately 2.5% of the outstanding common stock of iGS.

On August 25, 2004, Phaneesh Murthy was issued 357,863 shares of common stock of iGATE Corporation at a market value of \$2.92 per share.

The Company has advanced employees \$1.1 million and \$1.1 million at December 31, 2006 and 2005, respectively. These advances do not exceed \$2,500 per employee and are typically deducted from the employee's salary over a six-month period or until paid in full.

At December 31, 2006, Sunil Wadhvani, CEO and Co-Founder of iGATE Corporation, directly owned 12,738,791 common shares of the Company and indirectly owned 2,562,262 common shares of the Company through various family trusts.

At December 31, 2006, Ashok Trivedi, President and Co-Founder of iGATE Corporation, directly owned 12,961,131 common shares of the Company and indirectly owned 2,339,922 common shares of the Company through various family trusts.

The Company leases office space in the Indian cities of Bangalore, Chennai and Mumbai from Sunil Wadhvani, the Company's Co-Chairman and Chief Executive Officer, and Ashok Trivedi, the Company's Co-Chairman and President. Messrs. Wadhvani and Trivedi own various properties jointly and individually. The acquisitions of the real estate and the construction of the office buildings, excluding build-outs of the office space, were financed entirely by Messrs. Wadhvani and Trivedi from personal funds. The leases cover approximately 98,000 square feet, and expire at various times from 2007 through 2008. The total annual rental is approximately \$0.5 million. The lease agreements are subject to annual rent escalation, which has been accounted for on a straight-line basis.

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

Not Applicable.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### *Disclosure Controls and Procedures*

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rules 13a-15(b) and 15d-15(b). Based upon, and as of the date of this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. The results of management's assessment were reviewed with the Company's Audit Committee.

The certification required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.01 and 31.02, respectively, to this Annual Report on Form 10-K.

### *Management's Report on Internal Control Over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the U.S.A. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making its assessment of internal control over financial reporting, management used the criteria described in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based upon this assessment, management believes that the Company's internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

There has been no change in iGATE's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting as of December 31, 2006.

**Report of Independent Registered Public Accounting Firm on  
Internal Control over Financial Reporting**

Board of Directors and Stockholders  
iGate Corporation  
Pittsburgh, Pennsylvania

We have audited management's assessment, included in the accompanying Management's Report that iGate Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Standards Board (United States), the consolidated balance sheet of iGate Corporation as of December 31, 2006, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended and our report dated March 13, 2007 expressed an unqualified opinion on those Consolidated Financial Statements.

/s/ BDO Seidman, LLP  
Milwaukee, Wisconsin  
March 13, 2007

## PART III

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

Information required by this Item, not set forth below, is incorporated herein by reference from the Company's definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 31, 2007, which will be filed with the Commission within 120 days after the close of the Company's fiscal year ended December 31, 2006 (the "Proxy Statement").

We have adopted a code of ethics applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer titled Code of Conduct Policy. The Code of Conduct Policy is posted on the Company's website, [www.igatecorp.com](http://www.igatecorp.com) (under the "Corporate Governance" caption of the Investor Relations page). The Company intends to satisfy the disclosure requirement regarding certain amendments to, or waivers from, provisions of its code of ethics by posting such information on the Company's website.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

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

The following table provides information as of December 31, 2006 regarding compensation plans and arrangements under which equity securities of iGATE are authorized for issuance.

<u>Plan Category</u>	<u>Equity Compensation Plan Information</u>		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
(in thousands except for price)			
Equity compensation plans approved by security holders .....	2,272	\$4.99	14,114
Total .....	<u>2,272</u>	<u>\$4.99</u>	<u>14,114</u>

During 2006, the Company adopted the 2006 iGATE Corporation Stock Incentive Plan (the "Plan"). The Plan provides that up to 14.7 million shares of the Company's Common Stock shall be allocated for issuance to directors, executive management and key personnel.

The other information required by this Item is incorporated by reference to the Company's Proxy Statement.

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

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this Item is incorporated herein by reference to the section describing "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Company's Proxy Statement.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) 1. *Financial Statements*

The following Consolidated Financial Statements of the registrant and its subsidiaries are included on pages 41 to 44 and the reports of Independent Registered Public Accounting Firms is included on pages 39 and 40 in this Form 10-K.

Reports of Independent Registered Public Accounting Firms.

Consolidated Balance Sheets—December 31, 2006 and 2005.

Consolidated Statements of Operations—Years ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)—Years ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Cash Flows—Years ended December 31, 2006, 2005 and 2004.

Notes to Consolidated Financial Statements

#### 2. *Consolidated Financial Statement Schedules*

The following consolidated financial statement schedules shown below should be read in conjunction with the Consolidated Financial Statements on pages 41 to 44 in this Form 10-K. All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

The following items appear immediately following the signature pages:

Financial Statement Schedules:

Schedule II—Valuation and Qualifying Accounts for the three years ended December 31, 2006, 2005 and 2004, respectively.

#### 3. *Exhibits*

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

**iGATE CORPORATION**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	<u>Balance at beginning of period</u>	<u>(Credited) charged to expense</u>	<u>Deductions(1)</u>	<u>Balance at end of period</u>
	(in thousands)			
<b>Allowance for Doubtful Accounts:</b>				
Year ended December 31, 2006 .....	\$ 1,776	\$ 286	\$ (972)	\$ 1,090
Year ended December 31, 2005 .....	3,892	(949)	(1,167)	1,776
Year ended December 31, 2004 .....	2,283	2,735	(1,126)	3,892
<b>Deferred Tax Valuation Allowance:</b>				
Year ended December 31, 2006 .....	\$23,952	\$1,462	\$ (369)	\$25,045
Year ended December 31, 2005 .....	19,176	5,086	(310)	23,952
Year ended December 31, 2004 .....	11,120	8,770	(714)	19,176

(1) Write-offs, net of recoveries, cash payments related to restructurings and the use of capital loss carry forwards and foreign tax credits.

<u>Exhibit</u>	<u>Index Description of Exhibit</u>
3.1	Second Amended and Restated Articles of Incorporation of the Company are incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, File No. 000-21755, filed on August 14, 2000.
3.2	Amended and Restated Bylaws of the Company are incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q, File No. 000-21755, filed on August 14, 2000.
4.1	Form of certificate representing the Common Stock of the Company is incorporated by reference from Exhibit 4.1 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.
10.1	Form of Employment Agreement by and between the Company and Sunil Wadhvani and Ashok Trivedi is incorporated by reference from Exhibit 10.1 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.*
10.1(a)	Form of Amendment to Employment Agreement by and between the Company and Sunil Wadhvani and Ashok Trivedi is incorporated by reference from Exhibit 10.1(a) to the Annual Report on Form 10-K, File No. 000-21755 filed on March 28, 2001.*
10.2	Executive Employment Agreement dated November 22, 2000 between Steven Shangold and Emplifi, Inc. and iGATE Corporation is incorporated by reference from Exhibit 10.2 to the Annual Report on Form 10-K, File No. 000-21755 filed on March 28, 2001.*
10.2(a)	Employment Agreement Amendment dated September 30, 2001, between Steven Shangold, Emplifi, Inc. and iGATE Corporation filed on April 1, 2002.*
10.3	Employment Agreement dated April 1, 2001 between iGATE Management, Inc., and Michael J. Zugay is incorporated by reference from Exhibit 10.1 to the Quarterly Report on Form 10-Q, File No 000-21755 filed on August 14, 2001.*
10.4	Second Amended and Restated Stock Incentive Plan is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, File No. 000-21755, filed on August 14, 2000.*
10.4(a)	Executive Employment Agreement dated August 21, 2003 between Phaneesh Murthy and iGATE Global Solutions, Ltd. filed on November 14, 2003.
10.5	Amended and Restated 1996 Stock Incentive Plan is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, File No. 000-21755 filed on November 16, 1998.*
10.6	Second Amended and Restated 1996 Stock Incentive Plan is incorporated by reference to Exhibit 99.1 to iGATE Corporation's Definitive Proxy Statement, File No. 000-21755 filed on December 30, 1998.*
10.7	1996 Stock Incentive Plan is incorporated by reference to Exhibit 10.2 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.*
10.8	Credit Agreement dated August 1, 2000 by and among iGATE Capital Corporation, as borrower, and the financial institutions party thereto, as lenders, and PNC Bank, N.A., as agent and as Swing Loan Lender and Issuing Bank is incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q, Commission File No. 000-21755, filed on November 14, 2000.
10.8(a)	First Amendment to Credit Agreement dated November 28, 2000 by and among iGATE Capital Corporation, PNC Bank, N.A. and National City Bank of Pennsylvania is incorporated by reference to Exhibit 10.8(a) to the Annual Report on Form 10-K, File No. 000-21755 filed on March 28, 2001.
10.8(b)	Second Amendment to Credit Agreement dated September 30, 2001 by and among iGATE Corporation, PNC Bank, N.A., National City Bank of Pennsylvania and First National Union Bank filed on April 1, 2002.

<u>Exhibit</u>	<u>Index Description of Exhibit</u>
10.8(c)	Third Amendment to Credit Agreement dated December 30, 2002 by and among iGATE Corporation, PNC Bank, N.A., National City Bank of Pennsylvania and First National Union Bank filed on March 31, 2003.
10.8(d)	Loan Agreement dated September 16, 2003 by and among iGATE Corporation, iGATE, Inc. and PNC Bank, N.A. filed as Exhibit 10.02 to Form 10-Q on November 14, 2003.
10.8(e)	First Amendment to Loan Agreement dated as of September 15, 2004 by and among iGATE Corporation, iGATE, Inc. and PNC Bank, N.A., as Exhibit 10.01 to Form 8-K on September 20, 2004.
10.8(e)	Second Amendment to Loan Agreement dated as of September 14, 2005, by and among iGATE Corporation, iGATE, Inc. and PNC Bank, N.A., as Exhibit 10.01 to Form 10-Q on November 9, 2005.
10.8(f)	First Amended and Restated Loan Agreement dated September 14, 2006 by and among iGATE Corporation, iGATE, Inc. and PNC Bank, N.A. filed as Exhibit 10.01 to Form 8-K on September 20, 2006.
10.9	Lease Agreement dated January 15, 1995 by and between iGS and Messrs. Wadhvani and Trivedi for real estate in Bangalore, India is incorporated by reference to Exhibit 10.10 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, on April 1, 2002.
10.10	Lease Agreement dated November 6, 1996 by and between iGS and Messrs. Wadhvani and Trivedi for real estate in Bangalore, India is incorporated by reference to Exhibit 10.11 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.
10.11	Lease Agreement dated January 15, 1998 by and between iGS and Messrs. Wadhvani and Trivedi for real estate in Bangalore, India incorporated by reference to Exhibit 10.12 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.12	Lease Agreement dated March 26, 1997 by and between iGS and Messrs. Wadhvani and Trivedi for real estate in Bangalore, India incorporated by reference to Exhibit 10.13 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.13	Lease Agreement dated January 13, 1998 by and between iGS and Messrs. Wadhvani and Trivedi for real estate in Chennai, India incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.14	Lease Agreement dated April 1, 1996 by and between Scott Systems Private Limited and Messrs. Wadhvani and Trivedi for real estate in Bombay, India is incorporated by reference from Exhibit 10.12 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-4169, filed on November 19, 1996.
10.15	Lease Agreement dated April 1, 1996 by and between Scott Systems Private Limited and Sunil Wadhvani for real estate in Bombay, India is incorporated by reference to Exhibit 10.13 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.
10.16	Lease Agreement dated April 1, 1996 by and between Scott Systems Private Limited and Ashok Trivedi for real estate in Bombay, India is incorporated by reference to Exhibit 10.14 to iGATE Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.

<u>Exhibit</u>	<u>Index Description of Exhibit</u>
10.17	Lease Agreement dated April 18, 1998 by and between Scott Systems Private Limited and Messrs. Wadhvani and Trivedi for real estate in Mumbai, India incorporated by reference to Exhibit 10.18 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.18	Lease Agreement dated April 18, 1998 by and between Scott Systems Private Limited and Messrs. Wadhvani and Trivedi for real estate in Mumbai, India incorporated by reference to Exhibit 10.19 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.20	Lease Agreement dated October 14, 1998 by and between Park Ridge One Associates and the Company for office space located in Park Ridge Office Center near Pittsburgh, Pennsylvania incorporated by reference to Exhibit 10.20 to Annual Report on Form 10-K for the year ended December 31, 1998.
10.20(a)	First Amendment to Lease Agreement dated October 14, 1998 by and between Park Ridge One Associates and the Company for office space located in Park Ridge Office Center near Pittsburgh filed as Exhibit 10.20(a) to Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 16, 2006.
10.21	Lease Agreement dated June 8, 2000 by and between the Company and Foster Plaza Holding Corporation for office space in Foster Plaza located near Pittsburgh, Pennsylvania is incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K, File No. 000-21755 filed on March 28, 2001.
10.22	ADR Purchase Agreement dated August 10, 2004 by and among Mukul Murthy, Nirav Murthy, Swarna Murthy, Phaneesh Murthy, Amit Sethi, Kanth Miriyala, Quintant Services Limited and iGATE Corporation filed as Exhibit 10.22 to the Annual Report on Form 10-K filed on April 7, 2005.
10.22(a)	Amendment Agreement dated September 24, 2004 by and among Mukul Murthy, Nirav Murthy, Swarna Murthy, Phaneesh Murthy, Amit Sethi, Kanth Miriyala, Quintant Services Limited and iGATE Corporation filed as Exhibit 10.22(a) to the Annual Report on Form 10-K filed on April 7, 2005.
10.23	Shareholders Agreement by and among the Company, Sunil Wadhvani and Ashok Trivedi and the Joinder Agreement by Grantor Retained Annuity Trusts established by Messrs. Wadhvani and Trivedi are incorporated by reference to Exhibit 10.5 to iGATE Capital Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on December 16, 1996.
10.24	Form of S-corporation Revocation, Tax Allocation and Indemnification Agreement is incorporated by reference to Exhibit 10.17 to iGATE Capital Corporation's Registration Statement on Form S-1, Commission File No. 333-14169, filed on November 19, 1996.
10.25	Stock Purchase Agreement dated December 12, 2001 by and between Highgate Ventures I, L.P. and Ashok Trivedi and Sunil Wadhvani filed April 1, 2002.
10.26	Executive Employment Agreement dated July 1, 2001 between Gerhard Watzinger and iGATE Global Solutions and iGATE Capital Corporation filed on March 31, 2003.*
10.27	Executive Employment Agreement dated December 31, 2001 between Vivekanand Penninti and iGATE Capital Corporation filed on March 31, 2003.*
21.0	Subsidiaries of the Registrant filed as Exhibit 21.0 to the Annual Report on Form 10-K filed on March 15, 2007 is filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm is filed herewith.
23.2	Consent of Independent Registered Public Accounting Firm is filed herewith.

**Exhibit**

**Index Description of Exhibit**

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|-------|--|
| 31.01 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is filed herewith.  |
| 31.02 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is filed herewith.  |
| 32.01 | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is filed herewith. |
| 32.02 | Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is filed herewith. |

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\* Management compensatory plan or arrangement

## Executive Officers

Sunil Wadhvani  
*Co-Chairman and Chief Executive Officer*

Ashok Trivedi  
*Co-Chairman and President*

Michael Zugay  
*Senior Vice President,  
Chief Financial Officer and  
Corporate Secretary*

Phaneesh Murthy  
*Chief Executive Officer,  
iGATE Global Solutions, Ltd.*

Steven Shangold  
*President,  
iGATE Mastech, Inc.*

## Directors

Michel Berty **1,2,3**  
*President, PAC U.S.*

J. Gordon Garrett **1,2,3**  
*Chief Executive Officer,  
Interloci Network Management, Inc.*

Goran Lindahl  
*Former CEO & President of  
ABB, Switzerland*

Phaneesh Murthy  
*Chief Executive Officer,  
iGATE Global Solutions, Ltd.*

Ashok Trivedi  
*Co-Chairman and President*

Sunil Wadhvani  
*Co-Chairman and Chief Executive Officer*

Ed Yourdon **1,2,3**  
*Independent Software  
Engineering Consultant*

### *Committee Assignments*

- 1 Audit Committee
- 2 Compensation Committee
- 3 Nominating and Corporate  
Governance Committee

## Corporate Headquarters

1000 Commerce Drive  
Suite 500  
Pittsburgh, PA 15275  
412-506-1131  
800-627-8323  
www.igatecorp.com

## Investor Relations

To receive further information about  
iGATE Corporation, please contact:

Investor Relations  
1000 Commerce Drive  
Suite 500  
Pittsburgh, PA 15275  
412-506-1131  
800-627-8323

## Transfer Agent

Mellon Investor Services LLC  
Newport Office Center VII  
480 Washington Blvd.  
Jersey City, NJ 07310  
(800) 756-3353  
www.melloninvestor.com

## Independent Auditors

BDO Seidman, LLP  
Two Plaza East  
330 East Kilbourn Avenue  
Suite 950  
Milwaukee, WI 53202

## Annual Shareholder Meeting

The Annual Shareholder Meeting for  
iGATE stockholders will take place on  
Thursday, May 31, 2007 – 8:30 a.m. EST at:

The Four Points Sheraton Hotel  
Pittsburgh Airport  
One Industry Lane  
Pittsburgh, PA 15275  
724-695-0002

## Common Stock

iGATE's common stock is traded on the  
Nasdaq National Market System under  
the symbol IGTE.



1000 Commerce Drive  
Suite 500  
Pittsburgh, PA 15275  
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800-627-8323  
[www.igatecorp.com](http://www.igatecorp.com)

