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BUTLER MANUFACTURING CO
Form 8-K
May 16, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of the

THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: May 16, 2002

BUTLER MANUFACTURING COMPANY
BIRMINGHAM HOURLY EMPLOYEE SAVINGS TRUST
401(K) PLAN

Butler Manufacturing Company
1540 Genessee Street
Kansas City, Missouri 64102
Phone (816) 968-3000

Incorporated in the State of Delaware

Commission File No. 001-12335

I.R.S. Employer Identification Number: 44-0188420

ITEM 4. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.

The Administrative Committee of Butler Manufacturing Company Birmingham Hourly Employee Savings Trust Plan (the "Committee"), approved dismissal of Arthur Andersen LLP ("Arthur Andersen") as the Company's independent auditors and the appointment of KPMG LLP to serve as the Company's independent auditors for the Birmingham Hourly Employee Savings Trust Plan (the "Plan") for the year ending December 31, 2001. The change is effective May 16, 2002.

Arthur Andersen's reports on the Plan's consolidated financial statements for each of the years ended December 31, 2000 and 1999 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2000 and 1999 and through the date hereof, there were no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with the audit reports on the Plan's consolidated financial statements for such years; and there were no reportable events as defined in

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Item 304(a)(1)(v) of Regulation S-K.

The Committee provided Arthur Andersen with a copy of the foregoing disclosures. Attached as Exhibit 16 is a copy of Arthur Andersen's letter, dated May 16, 2002, stating its agreement with such statements.

During the years ended December 31, 2000 and 1999 and through May 16, 2002, the Plan did not consult KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

ITEM 7. - FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 16 Letter from Arthur Andersen to the Securities and Exchange Commission dated May 16, 2002.

SIGNATURES

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

BIRMINGHAM HOURLY EMPLOYEE SAVINGS TRUST

Date: May 16, 2002

BY: /s/ Larry C. Miller

Larry C. Miller
Member of the Administrative
Committee

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes No

If Yes is marked, indicate below the file under assigned to the registrant in connection with Rule 12g3-2(b):

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This Form 6-K contains our Annual Report for the fiscal year ended December 31, 2005, the Notice of the Annual General Meeting of the Shareholders dated 26th April 2006, and the Form of Voting Card, each of which has been mailed to holders of our Equity Shares. Also included in this Form 6-K is the Depositary's Notice of the Annual General Meeting of Shareholders and the Form of Proxy Card, each of which have been mailed to holders of American Depositary Shares. The information contained in this Form 6-K shall not be deemed filed for the purposes of section 18 of the Securities Exchange Act, 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Only connect!

Live in fragments no longer.

Annual Report 2005

The *relationships* we form today will long outlast the *technology* we currently use.

Only connect!

Live in fragments no longer.

-E.M. Forster, *Howard's End*

Now more than ever before, the world is wired. Geography is irrelevant. Culture is no barrier. Information is cold, hard currency.

But as technology propels us into a new age, we find ourselves forced to acknowledge an old-fashioned truth. It is our relationships that make us strong. Relationships with our customers, our employees, our shareholders, and our business partners.

The relationships we form today will long outlast the technology we currently use.

At Patni, we take pride in this fact every day. Over the years, we have built long-standing and vibrant partnerships with over 200 companies across the globe.

Only connect. The Twenty-first Century will be powered first by a network of relationships. And only then by the web of technology. Those who understand this will grow exponentially. For they are part of a global network that is growing at the rate of a million connections a day.

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Consolidated Financials under US GAAP

Subsidiary Information

Patni Computer Systems, Inc. and Subsidiary

Patni Computer Systems (U.K.) Limited

Patni Computer Systems GmbH

Patni Telecom Solutions, Inc.

Patni Telecom Solutions (UK) Limited

Patni Telecom Solutions Private Limited

Risk Management

Patni World-wide

Corporate Information

Highlights 2005

Revenues increased by 37.9%, from US\$ 326.6 million in 2004 to US\$ 450.3 million in 2005.

Net income increased by 11.3% from US\$ 54.7 million in 2004 to US\$ 60.9 million in 2005.

74 new clients added, taking the number of active client relationships to 199; number of million dollar relationships increased to 61.

2,141 people added to the Company in CY 2005, taking the total strength to 11,802 worldwide.

Infrastructure expansion of 430,000 sq. ft in progress, for development facilities across Navi Mumbai, Pune, Chennai and Hyderabad.

Appointed Louis Theodoor van den Boog as an independent director on the board.

Opened offices in Amsterdam and in Helsinki and Copenhagen, to address the Benelux and Scandinavian markets, respectively.

Successful ADR in December 2005 over-subscribed 22 times, and consequent listing on the New York Stock Exchange.

Was selected as a preferred partner to ABN AMRO, to provide global Application Development services.

Won The International Productivity and Quality Centre's Best Lean Six Sigma Project Award, and The Amity Global Corporate Excellence Award, among others.

Listed 27th in the Deloitte Technology Fast 50 India 2005 ranking programme; also ranked in the Deloitte Technology Fast 500 Asia Pacific 2005 ranking programme.

Five - year Performance Highlights

CAGR 33.3%

Revenues US\$ (mn)

CAGR 28.9%

Earnings after Tax US\$ (mn)

CAGR 45.6%

Book Value per Share US\$

CAGR 26.8%

Operating Income US\$ (mn)

CAGR 23.7%

Basic & Diluted Earnings per Share (US\$)

CAGR 24.6%

Number of Employees

5

Letter to Shareholders

The company's landmark listing on the *NYSE* marked the start of a new era for *Patni*

Chairman's Review

Dear Shareholders

Our performance in CY 2005 once again underscored the Company's ability to deliver sustained growth by leveraging its unique and highly scalable business model. We have made significant progress in creating growth opportunities through the delivery of a comprehensive portfolio of high quality IT services. We have also expanded our existing offerings and invested in key areas to further increase the potential for growth.

Our most significant achievement of the year was the Company's momentous listing on the NYSE. This marked the start of a new era for Patni. Our listing on the NYSE will also provide further impetus to our organisational initiatives, both in terms of augmenting our capital resources and improving our visibility in the largest market for our services. With this milestone achievement, we have furthered the boundaries of our leadership and have taken a giant step towards achieving our vision.

During the year, we also:

Consolidated our existing verticals while creating growth opportunities in several emerging areas.

Ensured that our operating metrics, offshore leverage, and realised prices moved in the desired direction, and continued to invest in our market facing resources and delivery infrastructure.

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Established our capability as a best-of-breed vendor to large global customers, with the ABN AMRO win.

Successfully completed the integration of Cymbal, which is now one of our fastest growing business units.

Starting 2006, we have many reasons to feel optimistic. Global trends show a reaffirmed faith in India as an outsourcing centre. Driving off our BSE, NSE and NYSE listings, brand Patni has gained strength and momentum, and we are committed to developing long-term relationships with our investors.

However, we are now faced with the next set of challenges: we must continue to build a world-class global operation that will provide our

customers superior value at higher quality and lower cost. As a global company and a global brand, we now need to implement Global Delivery in its true sense from any country to any country. We also need to keep a close watch on our margins so as to grow profitably. Another significant challenge is to manage the currency fluctuation risk through active monitoring and appropriate use of hedging instruments. Driven by these challenges, we will look to continue to expand the business in the coming years.

Corporate Performance

The Company reported significant revenue growth of 37.9% from US\$ 326.58 million in 2004 to US\$ 450.33 million in 2005. Gross profit increased by 30.4%, to US\$ 161.85 million. Diluted EPS for the year was at US\$ 0.48 per share, up from US\$ 0.44 per share in CY 2004.

We made significant progress towards our objective of creating sustainable growth opportunities through the delivery of a comprehensive range of high quality IT services. We expanded our existing offerings and invested in the right areas to further growth potential. Our operations grew in line with our expectations and the guidance shared with investors. However, we re-assessed the payroll and related taxes in regard to our international operations and made some provision for the entire year.

In our efforts to improve our operational excellence, we launched PROPEL - a comprehensive program designed to reach best-in-class levels of efficiency, speed and quality. A dedicated Program Management Office was established to drive the implementation of these initiatives.

Following the ADS offering, the Company now has a larger cash reserve of US\$ 290 million that will be actively invested in augmenting growth. We enter the 2006 financial year with a much stronger run rate of business and a strong, well-diversified client base that offers opportunities for sustained growth in the coming year.

In 2005, Patni won some notable awards:

The International Productivity and Quality Centre s Best Lean Six Sigma Project award

The Amity Global Corporate Excellence Award

The Maharashtra Information Technology Award in the category of IT-Software.

Following the ADS offering, the Company now has a cash reserve of US\$ 290 million that will be actively invested in augmenting growth.

Industry Environment

According to the 2005 Nasscom-McKinsey Report , India's IT and IT-enabled services export revenues are forecast to touch US\$ 60 billion by 2010. The industry is expected to grow at 25 percent year-on-year to achieve this target. Deep and enduring innovation could generate an additional US\$ 15-20 billion in export revenues for Indian companies over the next five years. However, global IT firms could end up wresting away more than half of this US\$ 60 billion kitty.

As the second-generation IT outsourcing customers step up the momentum of sending work offshore, the fortunes of the Indian IT services industry are poised to get better. The country continues to remain the world's leading destination for global delivery of IT services, retaining the edge of higher quality at lower cost. Deals are getting bigger and more strategic. Clients are also actively looking beyond custom application development and maintenance to enterprise applications, infrastructure management and BPO.

Indian IT companies are preparing to step up to the challenge. For Indian vendors, growth in market share with more orientation towards business solutions is becoming a matter of importance. The focus is also on raising the bar on productivity and delivery efficiency.

While opportunities are plenty, Indian IT companies will have to make deliberate choices about target segments (where to compete) and the basis of distinctiveness (how to compete). The choice of target segments will depend on the addressable market in each segment, current penetration, competitive intensity and existing capabilities to serve the segment.

In such a challenging scenario, IT delivery will continue to see emphasis on domain expertise and experience. Building a multicultural workforce held together by strong unifying values will become essential. Verticalization will be the de facto growth model. Acquisitions and

alliances and partnerships with other IT solution providers will grow to strengthen the solution capabilities. With the pricing environment remaining flat, the emphasis will be on enterprise-wide operational excellence.

Verticalization Pays Off

Our verticalization initiative showed results. 2005 was the first full year of operation under seven verticals:

Insurance continued to remain our strongest vertical. During the year, we launched new domain-focused specialised services in 401(k) BPO and Health Claims BPO. We also extended new market opportunities through global alliances with Milliman, FileNet, Clear Technology and EMC.

In the **Financial Services** vertical, the landmark ABN AMRO win, against stiff competition, clearly indicated the Company's capability as a best-of-breed vendor to service large global customers.

In the **Manufacturing** vertical, we are set to generate a healthy pipeline for 2006 and beyond, with a focus on opening new sectors such as Pharma, Automotive and Oil & Gas.

The **Telecom** vertical, formed through an acquisition in 2004, completed a full year of operation last year and has integrated well within the organization. The telecom business unit recorded very strong growth during the year, acquiring several large customers.

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The **Product Engineering Services** (PES) vertical delivered outstanding growth in 2005. PES is now offering end-to-end solutions and has assumed a leadership position in key domains with its strong blend of domain- and skills-based expertise.

In the **Independent Software Vendors** vertical, we made good progress by winning several new accounts in its first year of operations.

In our **Growth Industry** verticals, after some big wins in the UK and the US, we have created a significant presence in the Retail industry. We are continuing to build our capabilities and track record in our other growth industries, namely Energy & Utilities, Media & Entertainment, and Logistics & Transportation.

In 2005, we continued to build and strengthen our horizontal service lines. We clinched our first million-dollar customer of **Managed Services** to be delivered out of our state-of-the-art Network Operations Centre. Delivering implementation projects in China and the Philippines, and opening up the India business through competitive wins, we achieved continued growth in the **Enterprise Applications Solutions** area. We also entered into an alliance with i2 Technologies to jointly market Master Data Management solutions.

We made encouraging progress in the **BPO** practice during the year. We added nine new clients and closed the year with active relationships with five Fortune 500 companies. Our win of the prestigious Global Outsourcing deal from a global leader in Human Resource Consulting against the best global companies has clearly established our credentials to service large global customers.

During the year, our **Verification & Validation** service witnessed significant growth and our offerings expanded to include Managed Test Centers, Test Process Consultancy and Test Automation to customers across industry verticals; many complex engagements we executed involved testing of our client's niche IT systems. Our Business Intelligence service launched new offerings, new customers, deeper penetration in verticals, new partnerships, and expanded delivery capabilities with 500+ consultants.

Regional Performance

In 2005, our **US** sales operations went through complete verticalization, organised under National Industry Service Groups within each vertical. This strategic reorganization helped in an impressive growth of 33%.

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Our **Asia Pacific** sales saw a growth of 63% in 2005. This growth was led by Japan, where revenues grew at 78% over 2004. We established a permanent presence in Korea and made a significant entry in the Middle East. In the Indian subcontinent, we have strengthened our partnership with SAP to expand our footprint in the ERP market.

Our **Europe** operations grew by 60% in 2005. The region added new customers and

grew strongly in Retail and Telecom. We also increased our presence in the Benelux region and in Scandinavia by opening offices in Amsterdam, and, Helsinki and Copenhagen, respectively.

Infrastructure Growth

During 2005, we enhanced our global delivery capability by setting up delivery centers in Boston and San Francisco in the US, and Honslow in the UK.

We consolidated our San Francisco, California area operations at a new building in Milpitas. We also moved into a new facility in Illinois to support our growth in the Midwest. Due to the expansion of our BPO business in the US, we have added a dedicated mailroom facility at a separate location in Cambridge, Massachusetts.

In India, in keeping with our growth plans, we expanded our offshore facilities by adding 430,000 sq. ft of office space across Navi Mumbai, Pune, Chennai and Hyderabad.

At the Airoli Knowledge Park, a total of five buildings for software development facilities and for training and employee care centres, are expected to be operational by end-2006. At our Chennai campus, a 1,200 seat software development facility was made operational in 2005; work is in progress on the second software development facility and the customer care, training, and employee care centres. Our software development facility in Hyderabad - the 8th city of Patni's geographical spread in India - became operational during 2005 and has since been expanded. The Andhra Pradesh government has recently allotted us 30 acres of land for a

campus. To meet our increasing requirements, we are also expanding in NOIDA. We have acquired 4 acres of land in a SEZ (Special Economic Zone) area, where a facility with 3,000 seats is being planned.

Quality, Research & Technology Initiatives

Patni's Quality and Delivery Innovations (QDI) and Six Sigma teams clocked significant savings in our internal operations. The Company is now represented on the Advisory Council of the NASSCOM Quality Forum.

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Our Products and Technology Initiatives group launched many new initiatives in 2005. After achieving significant leadership for Patni in the RFID space, the group has set up a CoE to develop expertise in Service Oriented Architecture, Model Driven Architecture, and Legacy Modernisation. Other initiatives include Enterprise Mobility and Business Process Management.

People Initiatives

We continue to build our management team and globalise our work force. Of the 14 persons hired in 2005 at Vice-President level and above, ten were of non-Indian origin. Patni added 2,141 employees during 2005 and closed the year with a head count of 11,802. Some significant HR initiatives in recruitment, performance appraisal, e-Care and onsite compensation were also set in place.

During 2005, Patni Academy for Competency Enhancement (PACE) delivered over 74,000 person days of technical training, 9,800 person

days of behavioural training, and 2,200 person days of leadership training. It also offered several certification programs, notably the Project Management Professional (PMP) certification program; we now have 50 certified PMPs within Patni.

On the continuing education front, in the BITS-Patni collaborative effort, the first batch of 35 employees successfully completed their Master's program.

Building Brand Patni

Our global efforts in building brand Patni has yielded considerable results, today the Patni brand is visible and strong. We now receive significant coverage by key global analyst firms such as Forrester, Gartner and IDC.

In addition, a number of initiatives taken in 2005 will further strengthen our brand: a comprehensive web-marketing program was initiated with the launch of a new company website; our second annual customer meet, PatniConnect 2005, drew more than 100 senior level customer attendees; we successfully launched a quarterly customer newsletter *Insight*, which has been very well received by customers.

We must extend our global delivery model to expand from India to everywhere to anywhere to anywhere .

2006 and Beyond

Patni has achieved significant success from a number of important initiatives in the past few years. However, going forward, we need to continue to explore and drive further growth opportunities to maintain our track record. We also need to step up our organizational improvements for helping us deliver the next level of growth.

In the coming years, we will also need to increasingly earn customer loyalty, not just satisfaction. We must extend our global delivery model to expand from India to everywhere to anywhere to anywhere . This will strengthen our capability to service our customers across the globe.

With strong new business visibility and our ability to expand existing relationships, we remain confident that we will continue to drive growth, achieve our strategic corporate objectives, and emerge stronger in our journey towards global leadership in the IT Services marketplace.

Regards,

Narendra K. Patni

Client Relationships

Only connect... or live your life in fragments

Deep relationships open a world of possibilities.

At Patni, we forge customer relationships that endure.

Our contentment comes not only from our robust performance and growth, but also from the fact that our success is built on the strong foundation of customer satisfaction. We are constantly alert to emerging market trends and stay close to our customers to understand their changing needs.

Over the years we have invested in new growth areas and simultaneously enhanced our existing growth engines. Our continued investment in strengthening our technology expertise, deepening our domain knowledge and expanding our service lines has enabled us to deliver value creating solutions for our customers.

Our customer-centric approach has helped us widen our customer portfolio to more than 199 active and concurrent relationships in 2005; 61 of these are million-dollar accounts. In addition to growth in scale, the portfolio of our services continues to expand into higher value, more complex solutions. This has further reinforced the maturity of our global delivery model.

Partnering client transformation through innovation

With the advent of true services globalization, Patni is geared up to address the global market shift from tactical offshoring to strategic outsourcing. Going forward, our focus will be on partnering our clients in transforming their organizations to make them more efficient, flexible, productive and better prepared to handle external market changes. To achieve this, we will continually strive to deepen our relationships with our clients by adopting innovation in the entire sphere of our operations.

We have always been at the forefront of ushering proactive change and will continue to do so in the future, as we embark on expanding

our global delivery model. Having specialized in providing services from India to anywhere , we will continue to expand our global delivery capability to service our global clientele from anywhere to anywhere .

In the Year 2006, we see our successes of the past year throw up newer and greater challenges. The foremost challenge will be to earn customer loyalty, not just satisfaction. We will continue to strengthen our client relationships by pushing all boundaries of excellence...For each new customer engagement, will open up more avenues for the future.

We are into a three year relationship with Patni which is getting stronger as we work more closely with the teams. The Patni teams are seen as an extended team of Group IS who are keen to ensure that we all succeed in delivering the Carphone Warehouse vision.

Hitesh Patel, Director
Group Information Services
Carphone Warehouse

Working with the Patni team has been a tremendous benefit to our organization. The team, which is split across a number of activities, is flexible, continually produces a high level of work, and the manner in which tasks are completed indicates that processes are very well controlled.

The company's ability to integrate new team members into the fold as well as shift individual members from one technology to another has had a minimal impact on core Bottomline resources.

Jessica Kowalczyk, Director
Quality Assurance, Bottomline Technologies

Patni's Onsite and Offshore team has done an excellent job of supporting JDSU in the Oracle Applications Customization related bug fix and enhancement work... They stood out with their ability to manage client expectations, effectively balance demanding client time-lines while delivering quality results, even as they continue to expand their already robust applications and business process knowledge.

Biswajit Das, Director
Oracle Corporation

The initial project as well as the ongoing support activities by Patni did exceed all our expectations. Already in the very first time, the quality of the delivered service was much better than what has been in place before. The commitment of the involved Patni resources is great and the permanent attempt to improve adds additional value for Electrolux.

The very good experience did lead to the decision to hand over further topics for integration into this service from Patni.

Heidi Bauer, Service Delivery Manager
Middleware, Electrolux IT

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We have partnered together with Patni for the last four years, during which time we have successfully managed a large number of projects in the Value Chain function across each of our geographic regions. Patni's consultants and client managers have provided flexible, cost-efficient solutions, and importantly share our passion to deliver with quality exceeding our clients' expectations.

Through this period, we have enhanced and optimised our own organizational capabilities, which has enabled us to take full advantage of the range of services that Patni has to offer. This strong foundation will be used to guide our next quantum leap in Information Delivery Services.

Paul Butler, Assistant Director

IT@Gillette

Patni is an important and strategic partner in Visage mobile's ongoing growth and business success. The Patni team delivers outstanding value via onsite domain experts, a global delivery and support model, and an unparalleled commitment to the success of Visage Mobile and its clients.

Rashesh Jethi, CIO
Visage Mobile

Patni has provided Hannover Re with a balance of technology and insurance expertise to assist us in meeting a very unique and complex set of challenges in our new product offerings.

Curt Hagelman, Senior Vice President
Hannover Life Re

The Patni team has far exceeded my expectations for the QA work they are doing for InsureWorx. I'm very pleased with the quality of work they have provided in such a short time, and the test procedures/test cases written by the offshore team have been of high quality... I'm very excited that your team is providing us with the necessary and thorough test documentation of specified testing areas as we've needed to take shortcuts in the past due to lack of resource availability.

Maria Marlow, Director, Quality Assurance
InsureWorx

Having just been out to Mumbai, I have seen first-hand the dedication, hard work and creativity of the Patni team in bringing this huge project to where it is today. This program has enormous significance to St. Jude Medical and it is clearly visible that its success will not have been possible without the leadership and efforts of the Patni team.

We consider you as part of our team and look forward to celebrating our success together!

Eric Fain, Executive Vice-President
St. Jude Medical Inc.

Throughout 2005, the offshore Patni team was responsible for more than eleven projects. Many of these had aggressive schedules and each time the team performed very well. This is largely due to the leadership and skill in recognizing problems and coming up with good solutions in a timely manner.

The success of these efforts gave us the confidence to entrust Patni with larger projects.

Thomas M. Chalk, Manager
Offshore Development
Wabtec Railway Electronics

Employee Relationships

Few things are as *fulfilling* as a committed relationship between people who work *together*.

Few things are infinitely fulfilling as a committed relationship.

At Patni, we understand that enduring growth is a function of attracting, training, motivating, and retaining world-class employees.

Since its inception, Patni has benefited from the skills and commitment of exceptional people. The strength of our internal relationships has led to a team approach to problem solving, taking advantage of the synergies of the best minds.

Through the caring and nurturing culture that we have created over the years, we make sure our people evolve professionally and personally in a congenial and collaborative work environment. Our investments in world-class training and knowledge sharing forums enable every employee to imbibe the best knowledge and values of the industry.

A vibrant, stimulating and open environment makes our people deliver their best performance at all times. At Patni, empowerment is not a buzzword but represents a well-defined growth path. Through our Leadership Excellence At Patni (LEAP) programme we have built a strong leadership for the company.

Our ethos ensures that a strong team spirit bonds everyone, and that people are constantly motivated to go beyond their individual capacities. Achievement orientation is highly valued. We encourage employees to stretch self-goals as also team-goals. Attractive benefits and regular rewards are core to our people policies.

Driven by deep-rooted relationships, commitment and organizational pride, our people are ever ready to go that extra mile to make a difference to our clients.

I joined Patni more than two decades ago when it was a small company with about 100 employees. While the organization has grown to more than 10,000 employees, the environment remains the same - total transparency in the working environment and complete freedom at work.

R H Mahajan
Senior Manager (Accounts)
23 years with Patni

A few years ago, during the downturn in the industry, all the major software companies downsized their employee strength.

Patni was one of the few rare companies which had the confidence and determination to challenge the falling market and honour its commitment to its employees.

Ashish Kanak
Senior Engineer (Software)
3 years with Patni

I came to Patni via an acquisition. The key factors that have always kept me challenged and motivated at Patni is a business model relevant to market needs, deep service offerings and learning from experienced colleagues who have a diverse set of skills. This has contributed immensely to my growth both as a professional and an individual.

Vic D Alfonso, Sr. VP & Head
Financial Services Business Unit
3 years with Patni

Having joined the organization as a trainee, my role has evolved from an application developer to performing activities ranging from project management, pre-sales and special consulting assignments. The breadth of job responsibilities and the variety of functional roles at Patni has stimulated and enriched my overall career.

Prashant Kharche
Senior Consultant (Software)
12 years with Patni

Exposure to a variety of cultures and processes for different organizations from giant organizations like General Electric to small entrepreneurial companies has helped me evolve as a professional.

Ranjana Chitale
Senior Manager (Software)
17 years with Patni

Business Ethics

Business without relationships is mere *transaction*.

Transactions are fleeting. Value-based relationships endure for a *lifetime*.

Strong values produce strong bonds.

Business without relationships is just a transaction. Transactions are fleeting. Relationships last a lifetime.

And since relationships are worthless without values, we build our relationships with our clients, employees, business partners, investors and suppliers & vendors, based on our strong business values.

Our relentless *pursuit of excellence* has brought us success as a global IT consulting and services company. Our capabilities are best defined by the fact that we always seek *value-addition* in all our relationships. We ensure this through continuous improvement in quality, cost and speed.

We pride ourselves on being agile and nimble even as we grow; *responsive* enough to be able to meet the exacting demands in our relationships. Our corporate governance philosophy entails balancing shareholders' interests with corporate goals, through *efficient conduct of our business* .

Our relationships are based on *transparency and sharing of knowledge* . Our concerted R&D thrust and knowledge management practices ensure that when we harness knowledge everyone benefits. We leverage our domain knowledge to build strategic relationships with global technology solution providers, helping them strengthen and extend their footprint in targeted verticals and geographies.

Patni is committed to adopting the highest social and ethical standards in all spheres of our business. We lay high emphasis on a service management culture involving *speed & flexibility, trust & integrity* in all our relationships. This involves contributing to the well-being of our clients, employees, business partners, shareholders and society at large.

Our business values are pillars upon which our business model rests. Without them we would merely be servicing transactions. With them, every interaction is an opportunity to deepen a relationship. Relationships cement client loyalties the ultimate sign of a business success. We remain irrevocably bound by our business values. And why not? They have accelerated our own fortunes over the years.

Relationships through business values. The cornerstones of our existence.

Board of Directors

Narendra K Patni

Chairman & CEO

Gajendra K Patni

Executive Director

Ashok K Patni

Executive Director

William O Grabe

Director

Louis Theodoor van den Boog

Independent Director

Micheal A Cusumano

Independent Director

Arun Duggal

Independent Director

Arun Maira

Additional Director

w.e.f. 25 April 2006

Anupam P Puri

Independent Director

Up to 25 April 2006

Pradip Shah

Independent Director

Ramesh Venkateswaran

Independent Director

Abhay Havaladar

Alternate Director to Mr. William O Grabe

Key Managers

Narendra Patni, 64, Chairman and CEO, has a Master's degree In Electrical Engineering from the Massachusetts Institute of Technology (MIT) and a Master's degree in Management from the Sloan School of Management at MIT. He is the founder promoter of the Company and has over 35 years of experience in the software industry.

Mrinal Sattawala, 51, Chief Operating Officer and Global Sales & Marketing Coordinator, has a Bachelor's degree in Electrical Engineering from IIT, Mumbai, and a Master's degree in Business Administration from MacMaster University, Canada. He has been employed with Patni for 20 years.

Russell Boekenkroeger, 60, Executive Vice-President and Region Head, North America, has a Bachelor's degree in Government from Franklin & Marshall College, a Master's degree in Urban and Regional Planning and a Master's degree in Civil Engineering from the University of Pittsburgh. He has over 25 years experience in managing software development teams and has been employed by Patni for 4 years.

Neeraj Gupta, 38, Executive Vice-President & Head, Telecom business unit, has a Bachelor's degree in Electronics & Communications Engineering from PEC, India, and a Master's degree in E.E. from the University of Alabama, USA. He was CEO of Cymbal Corporation prior to its acquisition by Patni and has 15 years of technology consulting, marketing, and product management experience.

Satish Joshi, 50, Executive Vice-President and Chief Technology Officer, has a Bachelor's degree in Electrical Engineering from IIT, Mumbai, and a Master's degree in Computer Science. He has been employed with Patni for 23 years.

Vijay Khare, 48, Executive Vice-President, Chief Administrative Officer and Chief Delivery Officer, has a Bachelor's degree in Engineering from the Regional Engineering College, Nagpur, and a Master's degree in Computer Science from IIT, Mumbai. He has been employed with Patni for 25 years.

Deepak Sogani, 40, Chief Financial Officer, has a Bachelor's degree in Electrical Engineering from IIT, Delhi, and a post graduate diploma in Management from IIM Ahmedabad. He is a CFA charter holder from AIMR, USA. He has been employed with Patni for eight years.

Lokesh Bhagwat, 47, Sr. Vice-President & Head, Growth Industries business unit, has a Postgraduate degree in Science from Pune University. He has 25 years of IT experience and has been employed with Patni for over four years.

Harish Bhat, 49, Sr. Vice-President & Head, Independent Software Vendors business unit, has a degree in Electronics Engineering from Mumbai University. He has over 24 years of IT experience and has been employed with Patni for over six years.

William Budde, 46, Sr. Vice-President & Head, Insurance business unit, has a Bachelor's degree in Political Science, Urban Studies and Geography from Northwestern University, Evanston, Illinois, and a Charter as a Property and Casualty Underwriter from the Insurance Institute, Malvern, Pennsylvania. He has over 20 years of insurance industry experience and has been with Patni for two years.

Ajay Chamania, 43, Sr. Vice-President & Head, Product Engineering Services, has a Bachelor's degree in Electronics and Telecommunications from REC, Bhopal. He has been employed with Patni for 20 years.

Sunil Chitale, 42, Sr. Vice-President & Head, Manufacturing business unit, has a Bachelor's degree in Electronics Engineering from the Institute of Technology, Benares Hindu University. He has been employed with Patni for 20 years.

Vic D Alfonso, 54, Sr. Vice President & Head, Financial Services business unit, has a Bachelor's degree in Management Science from the University of Rhode Island, US and an MBA from Bryant College, US. He has broad financial services and consulting experience working in the industry for the past 30 years and has been with Patni for three years.

Douglas Fallon, 42, Sr. Vice-President & Head, Infrastructure Management Services business unit, has a BS in Business Administration from Plymouth State University. Douglas has over 20 years' experience in IT Services & Infrastructure Services & Consulting.

Milind Jadhav, 47, Sr. Vice-President & Head, Human Resources, is a Postgraduate in Personnel Management and Industrial Relations from the Tata Institute of Social Sciences, Mumbai. He has been employed with Patni for over four years.

Sanjiv Kapur, 46, Vice-President & Head, Business Process Outsourcing, is a graduate from Mumbai University. Sanjiv has more than 21 years of experience in the IT, Telecom and BPO industries and has been with Patni for over four years.

Sukumar Namjoshi, 57, Sr. Vice-President (Sales) & Head, Europe and UK, has a Bachelor's degree in Computer

Science from IIT, Mumbai and post-graduate qualifications in Business, Industrial Management and International Marketing. His industry experience spans over three decades.

Milind Padalkar, 48, Sr. Vice-President & Head, Enterprise Applications Solutions business unit, has a Bachelor's degree in Engineering from IIT, Delhi, and a Postgraduate diploma in management from IIM, Ahmedabad. He has been employed with Patni for 17 years.

Kiran Patwardhan, 52, Sr. Vice-President (Sales) - Asia Pacific, has a Bachelor's degree in Chemical Engineering from IIT, Mumbai, and a postgraduate diploma in Management from IIM, Kolkata. He has been employed with Patni for over six years.

PATNI COMPUTER SYSTEMS LIMITED**Directors Report**

To,

The Members,

PATNI COMPUTER SYSTEMS LIMITED

Your Directors have pleasure in presenting their Twenty Eighth Annual Report together with Audited statements of Accounts for the year ended 31 December 2005:

Financial Results

	31 Dec 2005 (Rs. in Lakhs)	31 Dec 2004 (Rs. in Lakhs)
Sales	87,559.6	70,206.8
Resulting in Profit Before Tax	24,424.5	25,624.9
Profit After Tax	19,441.3	23,054.2
Profit available for appropriation after adding to it Previous Year's Brought Forward	86,382.8	72,073.5
Appropriated as under:		
Transfer to General Reserve	1,944.1	2,305.4
Final Proposed Dividend on Equity Shares @ 125% (Previous Year 100%)	3,446.9	2,499.9
Corporate Tax on above Dividend	507.3	326.7
Balance Carried to Balance Sheet	80,484.5	66,941.5
	86,382.8	72,073.5

Business Performance

The performance of your Company during the year under report has shown improvement over the previous year. Total revenue for the year ended 31 December 2005 amounted to Rs. 87,559.6 lakhs as against Rs. 70,206.8 lakhs for the corresponding period last year registering growth of 24.7 per cent. The Company has posted Net profits after tax of Rs. 19,441.3 lakhs for the year ended 31 December 2005 as against Rs. 23,054.2 lakhs for the corresponding period last year registering decline of 15.7 per cent. However, on consolidated basis, revenues increased in the current year 2005 by 37.9 per cent to US\$ 450.3 million and net income by 11.3 per cent to US\$ 60.9 million.

Dividend

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Your Directors are pleased to recommend the payment of dividend for the year ended 31 December 2005 at Rs. 2.50/- per share (125 per cent) on face value of Rs. 2/- (Previous year Rs. 2/- per share), subject to the approval of members at the ensuing Annual General Meeting. If approved, the dividend will be payable to all the eligible shareholders whose names appear on the Register of Members on 15 June 2006.

Business Overview

Your Company is a leading provider of information technology services. The Company delivers a comprehensive range of IT

services through globally integrated onsite and offshore delivery locations primarily in India. Your Company addresses its clients' needs with its global delivery model, through which it allocates resources in a cost-efficient manner using a combination of onsite client locations in USA, Europe, Japan, Asia Pacific and Rest of the world, and, offshore locations in India. Your Company believes that integral to its delivery competence is its domain expertise. Overall, your Company derives significant strength from its focused industry expertise, successful client relationships, extensive suite of IT services, delivery and operational excellence, highly experienced management team and dedicated and highly skilled delivery professionals.

Business Segments

Your Company offers its services to customers through industry practices in insurance, manufacturing, financial services and telecommunications, as well as in other industries. Your Company also has technology practices that offer services in product engineering and for Independent Software Vendors (ISVs). Both industry practices and technology practices are complemented by service lines, which are developed in response to client requirements and technology life cycles. Your Company's range of services includes application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering, business process outsourcing and quality assurance services.

Customer Relationships

Your Company has always demonstrated the ability to build and manage relationships with some of the world's largest and best known companies. Our strategy to diversify our revenue profile is on course. Your Company's client concentration reduced significantly with the top client GE contributing 22.1 per cent of revenues compared to 31.7 per cent in the previous year. Revenues from the top 10 clients were higher by 18.6 per cent during the year 2005. Revenues from clients outside the top 10 grew by 80.7 per cent during this year. While nurturing long-term relationships with existing customers, your Company has continued to expand its customer base. The Company added 74 new clients during 2005 and its active client base has increased to 199 clients as of 31 December 2005. Similarly, your Company's strategy to improve the geographical diversification of the Company's client base is on track with revenues from Europe, Japan and Asia-Pacific (excluding Japan) registering strong growth.

Your Company successfully concluded its second annual customer forum PatniConnect 2005 in the U.S. This was an opportunity for the Company's leadership team to interact with IT and business leaders representing its customer organizations, and with other pre-eminent industry analysts and professionals who presented their valuable perspectives.

Sales and Marketing Initiatives

Your Company has further consolidated its global verticalization initiative. The Company has realigned its business unit structures to create sharper focus on select industry and technology practices. The North American sales organization has been re-aligned and integrated with the said industry and technology practices. A majority of your Company's sales and marketing teams focus on specific industries and have Accounts Managers to manage relationship with large customers. In addition to sales executives, there are industry experts and solution architects who complement the sales efforts by providing specific industry and service line expertise. Your Company has opened four sales offices during the year at Korea, Amsterdam, Finland Fremont and New York.

Personnel and Performance

Your Company has established a work ethic based on values that transcend across its global operations. The culture is oriented to high growth and performance that allows the Company to attract, motivate and retain high quality talent worldwide. Abilities are recognized with rewards for high performance.

Your Company follows a structural recruitment program to select talent from India's premier engineering institutions. An adaptive business model and mature management structure allows aggressive scalability without compromising on flexibility, responsiveness and reliability of services.

During the year 2005, your Company added 2,141 employees taking the aggregate employee strength to 11,802.

Facility Expansion

With the growth in the business and expansion of the employee base, your Company is investing in new high-tech facilities which are referred as Knowledge Parks designed for expanding the Company's operations and training for employees. Development work has been initiated at two such Knowledge Parks located at Navi Mumbai and Chennai.

The Knowledge Park at Navi Mumbai, is expected to accommodate about 14,000 seats when fully completed. Phase I of this facility, having a capacity of about 4,500 seats, is at an advanced stage of construction and is expected to be operational in the last quarter of this year.

The Chennai facility, spreading across 18.75 acres, will have a seating capacity of 10,000 employees when fully completed. Phase I of this facility having a capacity of 1200 seats is complete and under partial occupation.

Along with the acquisition of Cymbal, a Hyderabad-based development center has been added to the delivery resource base, the eighth city where your Company's offshore development facilities are now operational. Aggregate area for offshore development available to your Company as of 31 December 2005 is over 12,35,000 sq. ft.

All of your Company's development centers were assessed at SEI-CMMI Level 5 by KPMG, India.

Accolades

Your Company received the Maharashtra Information Technology Award (First Prize) for outstanding contribution to the IT-software during the year 2004-05, from the Government of Maharashtra.

Your Company was listed 27th in the Deloitte Technology Fast 50 India 2005 Ranking Program. The Company was also ranked in the Deloitte Technology Fast 500 Asia Pacific ranking program, which recognizes and profiles the Top 500 companies, public and private, based on percentage revenue growth over three years.

Patni ESOP 2003

Your Company had introduced the Employees Stock Option Plan known as Patni ESOP 2003. Under the Plan, the Company is authorised to issue 11,142,085 equity shares of Rs. 2/- each upon the exercise of options granted to employees and/or directors of the company and its subsidiaries. The Plan is being administered by the Compensation Committee of Directors constituted as per SEBI Regulations. Options granted under the Plan will vest over period of 48 months. The details of Options granted under the Plan are given in the Annexure to this Report.

Subsidiary Companies

The Company has wholly owned subsidiaries viz. Patni Computer Systems (U.K.) Limited, Patni Computer Systems GmbH and Patni Computer Systems, Inc.

Pursuant to the Section 4 of the Companies Act, 1956, The Reference Inc. and Patni Telecom Solutions, Inc. (formerly Cymbal Corporation) being wholly owned subsidiaries of Patni Computer Systems Inc. (wholly owned subsidiary of the Company), become subsidiaries of the Company. Patni Telecom Solutions Private Limited (formerly Cymbal Information Services (P) Limited) and Patni Telecom Solutions (UK) Limited (formerly Cymbal Corporation Limited) being wholly owned subsidiaries of Patni Telecom Solutions Inc. by virtue of Section 4 of the

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Companies Act, 1956, also become subsidiaries of the Company. Cymbal Information Services (Thailand) Limited being subsidiary of Patni Telecom Solutions Private Limited, also becomes subsidiary of the Company pursuant to the aforesaid Section.

The reports and accounts of the Subsidiary Companies (consolidated) along with the statement pursuant to Section 212 of the Companies Act, 1956 are annexed.

Directors

Mr. Anupam Puri has tendered his resignation as a director w.e.f. 25 April 2006. The Board placed on record its appreciation of the services rendered by Mr. Puri during his tenure on the Board of the Company.

Mr. Arun Maira, an independent director, was appointed as an Additional Director w.e.f. 25 April 2006 and he holds the office of the Director upto the date of The Annual General Meeting. It is proposed to reappoint him as director of the Company. Necessary resolution is proposed for his re-appointment at the Annual General Meeting. Your directors recommend the appointment of Mr. Arun Maira as director of the Company.

In accordance with the requirements of the Companies Act, 1956 and Articles of Association of the Company, Mr. Pradip Shah and Mr. Ramesh Venkateswaran are liable to retire and eligible for re-appointment in the forthcoming Annual General Meeting.

Mr. Gajendra K Patni and Mr. Ashok K Patni were re-appointed as Executive Directors w.e.f. 24 October 2005 for a further period of five years on recommendation of the Remuneration Committee and in accordance with the Articles of Association the Company. Necessary formalities in respect of the said re-appointments were duly complied with. Now, it is proposed to obtain necessary approval from the Members of the Company in the ensuing Annual General Meeting.

Corporate Governance

Your Company follows the principles of the effective Corporate Governance practices. The Clause 49 of the Listing Agreement deals with Corporate Governance requirements which every publicly listed Company is required to comply with. The Company has taken steps to comply with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges.

A separate section on Corporate Governance forming part of the Directors' Report and certificate from the Company's Auditors confirming the compliance of conditions on Corporate Governance as stipulated in Clause 49 of the Listing Agreement is included in the Annual Report.

ADR Offering

Your Company proposes to expand its business activities both in India and abroad. It proposes to grow through acquisitions, mergers, joint ventures and strategic alliances, both in India and abroad, apart from expanding and upgrading its existing development facilities as well as creating new facilities and expanding its geographical reach by setting up subsidiaries/branches/marketing offices across the world.

In order to finance the above growth plans, the Company made a successful issue of American Depositary Receipts (ADRs) which received an overwhelming response from a large number of high quality investors. The ADR issue consisted of both primary and secondary portion and is listed on the New York Stock Exchange (NYSE). This will help in creating a brand value in the US market, from where substantial business is generated.

Accordingly, the Company had allotted 10,250,000 equity shares (represented by 5,125,000 ADSs) of Rs. 2/- each to the Bank of New York (BONY) as a depository, at a price of \$20.34 per ADS.

Underwriters of ADS Offering had exercised the over allotment Option (greenshoe option) to purchase additional 1,031,250 ADSs representing 2,062,500 underlying equity shares of Rs.2/- each at the initial public offering price, less the underwriting discount. Accordingly, the Company allotted 2,062,500 equity shares.

In connection with the abovementioned Primary (including greenshoe) ADS offering, your Company received US\$ 117.0 million (net of underwriting discount and related expenses).

In addition, a sponsored ADS offering consisted of 1,750,000 ADSs represented by 3,500,000 underlying equity shares.

Particulars of Employees

Particulars of employees as required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. However, in pursuance of Section 219(1)(b)(iv) of the Companies Act, 1956, this Report is being sent to all the members of the Company excluding the aforesaid information and the said particulars are made available at the registered office of the Company. The members desirous of obtaining such particulars may write to the Company Secretary at the registered office of the Company.

Fixed Deposits

Your Company has not accepted any fixed deposits from the Public. As such, no amount of principal or interest is outstanding as of the balance sheet date.

Auditors

M/s. BSR & Co., (formerly M/s. Bharat S. Raut & Co.,) Chartered Accountants, the present statutory auditors of the Company holds office until the conclusion of the ensuing Annual General Meeting. It is proposed to re-appoint them as the statutory auditors of the Company until the conclusion of the next Annual General Meeting. M/s. BSR & Co., have, under Section 224(1) of the Companies Act, 1956, furnished the certificate of their eligibility for re-appointment.

Directors Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors, based on the representation received from the Operating Management, confirm that:-

- (a) in the preparation of the annual accounts, the accounting standards have been followed and that there are no material departures;
- (b) they, in selection of accounting policies, have consulted the Statutory Auditors and have applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31 December 2005 and the Profit of the Company for the period 1 January 2005 to 31 December 2005;
- (c) they have taken proper and sufficient care, to their best of knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) they have prepared the annual accounts on a going concern basis.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings / Outgo:**A) Conservation of Energy**

Your Company consumes electricity only for the operation of its computers. Though the consumption of electricity is negligible as compared to the total turnover of the Company, your Company has taken effective steps at every stage to reduce consumption of electricity.

B) Technology Absorption

This is not applicable to your Company as it has not purchased or acquired any Technology for development of software from any outside party.

C) Foreign Exchange Earnings/Outgo

	(Rs. in Lakhs)
Earnings in Foreign Currency on account of:	
Export Sale	87,116.5
Others	434.8
Total Earnings	87,551.3
Expenditure in Foreign Currency on account of:	
Stores & Spares	12.7
Capital Goods	3,208.3
Travelling Expenses	4,209.0
Overseas Employment Expenses	1,705.4
Professional Fees & Consultancy Charges	707.7
Subscription & Registration Fees	25.6
Other Matters	4,075.5
Total Expenditure	13,944.2
Net Earnings in Foreign Currency	73,607.1

Acknowledgements

Your Directors wish to convey their appreciation to all the Company's employees for their performance and continued support. The Directors would also like to thank all shareholders, consultants, customers, vendors, banks, service providers and governmental & statutory authorities for their continued support.

For and on behalf of the Board of Directors

Narendra K Patni

Chairman & CEO

Date: 26 April 2006

Annexure to the Directors Report**Patni ESOP 2003**

Description		Details
(a)	No. of options granted	6,454,742*
(b)	Pricing formula	As per market price as defined in SEBI Guidelines on ESOP
(c)	Options vested	1,850,664**
(d)	Options exercised	649,875
(e)	The total number of shares arising as a result of exercise of option	649,875
(f)	Options lapsed	594,450***
(g)	Variation of terms of options	Clause 5.6 amended****
(h)	Money realized by exercise of options	Rs. 99,635,875
(i)	Total number of options in force	5,210,417
(j)	Employee wise details of options granted to:	
(I)	senior managerial personnel;	Please refer to Table 1
(II)	any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
(III)	identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil

* Including options granted to employees, who have then separated.

** Net of lapsed options.

*** As per the Plan, in the event of resignation from employment, the option lapses for the individual employee. However the said options are available to the Company for reissue.

**** In accordance with the variation to the clause 5.6 of the Patni ESOP 2003, resigned employees are now been allowed 60 days from the last working day for exercising their vested options, as against 30 days from the last working day which was previously allowed.

Table 1

Employee	Number of Options granted
Mr. Neeraj Gupta#	24,000
Total	24,000

#Key managerial personnel of Subsidiaries.

- (k) Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with the Accounting Standard (AS) 20 15.25
- (l) Impact of Employee Compensation cost calculated as difference between intrinsic value and fair market value in accordance with SEBI Guidelines on ESOP

Profit for the year after taxation as reported	1,944,129
Add: Stock based employee compensation determined under the intrinsic value method	
Less: Stock based employee compensation determined under the fair value method	154,383
Pro-forma profit	1,789,746
Reported earnings per equity share of Rs 2 each	
Basic	15.46
Diluted	15.25
Pro-forma earnings per equity share of Rs 2 each	
Basic	14.23
Diluted	14.04

- (m) Weighted-average exercise prices and weighted-average Fair values of options, separately for options whose exercise price either equals or exceeds or is less than the market price of the stock

Weighted average exercise price	Rs. 286.78
Weighted average fair value	Rs. 90.31

- (n) Assumptions used to estimate the fair Market value in accordance with SEBI Guidelines on ESOP.

Dividend yield	0.53% to 0.54%	
Expected life	2 to 5 years	
Risk free interest rates	5.74% to 6.73%	
Expected volatility	28% to 50%	
The price of the underlying share in market at the time of option grant	Grant Date	Price (Rs.)
	01/04/2005	381
	1/10/2005	451

Corporate Governance Report

Your Company has complied in all material respects with features of Corporate Governance Code as per Clause 49 of the Listing Agreement with the Stock Exchanges.

A report on the implementation of the Corporate Governance Code of the Listing Agreement by the Company is furnished below.

Philosophy on Corporate Governance

A good corporate governance process aims to achieve balance between shareholders' interest and corporate goals by providing long-term vision of its business and establishing systems that help the Board in understanding and monitoring risk at every stage of the corporate evolution process to enhance the trust and confidence of the stakeholder without compromising with laws and regulations.

The Company's philosophy on corporate governance encompasses achieving balance between individual interests and corporate goals through the efficient conduct of its business and meeting its stakeholder obligations in a manner that is guided by transparency, accountability and integrity. Accountability improves decision-making and transparency helps to explain the rationale behind decisions and to build stakeholder confidence.

At Patni Computer Systems Limited, we strive towards excellence through adoption of best governance and disclosure practices.

A. Board of Directors

1. Composition of directors

The Board of Directors of the company (the Board) has an optimum combination of executive and non-executive directors. In order to ensure the independence of the Board, majority of the directors are Independent Directors.

The Board consists of ten members. The relevant details in respect of the existing composition of the Board are furnished below.

Name of the director	Position / Category	Number of directorships in other companies*
Mr. Narendra K Patni(1)	Chairman & CEO	5
Mr. Gajendra K Patni(2)	Executive Director	2

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Mr. Ashok K Patni(2)	Executive Director	3
Mr. William O Grabe(3)	Non-Executive Director	6
Mr. Anupam P Puri(4)	Independent Director	5
Mr. Arun Duggal	Independent Director	6
Mr. Pradip Shah	Independent Director	16
Mr. Ramesh Venkateswaran	Independent Director	
Mr. Michael A Cusumano	Independent Director	1
Mr. Louis Theodoor van den Boog	Independent Director	1
Mr. Arun Maira(5)	Independent Director	

*This includes directorships held in public limited companies, subsidiaries of public limited companies and foreign companies but excludes directorships held in private limited companies.

(1)Mr. Narendra K Patni is promoter and Executive Chairman (2)Promoter (3)Mr. Abhay Havaldar acts as an alternate director to Mr. William O Grabe (4)Resigned as Director w.e.f. 25 April 2006 (5)Appointed as an Additional Director w.e.f. 25 April 2006.

Changes in composition of the Board during the period ended 31 December 2005.

Mr. Louis Theodoor van den Boog was appointed as a Director of the Company, liable to retire by rotation, in the Annual General Meeting held on 14 June 2005.

2. Number of Board Committees of the Company and other companies on which directors are Member or Chairman.

Name of the director	Number of board committees on which Member	Number of board committees on which Chairman	Number of board committees of other companies on which Chairman	Number of board committees of other companies on which Member
Mr. Narendra K Patni	1	NIL	NIL	NIL
Mr. Gajendra K Patni	NIL	NIL	NIL	1
Mr. Ashok K Patni	NIL	NIL	NIL	1
Mr. William O Grabe*	2	NIL	NIL	NIL
Mr. Anupam P Puri	NIL	1	1	4
Mr. Arun Duggal	NIL	2	1	4
Mr. Pradip Shah	1	NIL	4	6
Mr. Ramesh Venkateswaran	1	NIL	NIL	NIL
Mr. Michael A Cusumano	NIL	NIL	NIL	NIL
Mr. Louis Theodoor van den Boog	1	NIL	NIL	NIL

*Mr. Abhay Havaladar acts as an alternate director to Mr. William O Grabe

Notes:

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, have been included and all other companies including private limited companies, foreign companies and companies under Section 25 of the Companies Act have been excluded.

2. For the purpose of considering the limit on memberships of the committees, the Audit Committee, the Remuneration Committee and the Shareholders / Investors Grievance Committee are considered.

3. Number of board meetings held and the dates on which such meetings were held:

Five board meetings were held during the year ended 31 December 2005 with a time gap of not more than four months between any two meetings and the required information as stipulated under clause 49 of the Listing Agreement was made available to the members of the Board. The dates of such board meetings are 31 January 2005, 19 February 2005, 26 April 2005, 29 July 2005, and 25 October 2005.

4. Attendance of each director at the board meetings and the last AGM

Name of the director	Total board meetings held	Attended in person	Attended through video / tele conference	Annual general meeting on 14 June 2005
Mr. Narendra K Patni	5	5		ü
Mr. Gajendra K Patni	5	5		ü
Mr. Ashok K Patni	5	2		û
Mr. William O Grabe	5	2	3	û
Mr. Anupam P Puri	5	1	1	û
Mr. Arun Duggal	5	4		ü
Mr. Pradip Shah	5	5		ü
Mr. Michael A Cusumano	5	1	3	û
Mr. Ramesh Venkateswaran	5	4		ü
Mr. Louis Theodoor van den Boog	5	2	1	û
Mr. Abhay Havaldar (Alternate Director to Mr. William O Grabe)	5	3		ü

5. Compensation to Directors

Details of compensation paid to Directors for the year ended 31 December 2005 as below:

Director	Relationship with other directors	Business relationship with the Company	Loans & advances from the Company	Sitting Fees (Rs.)	Remuneration (Rs.)	Commission (US\$)
Mr. Narendra K Patni	Brother of Mr. Gajendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	Refer note 3	NIL
Mr. Gajendra K Patni	Brother of Mr. Narendra K Patni and Mr. Ashok K Patni	Promoter	NIL	NIL	19,987,836	NIL
Mr. Ashok K Patni	Brother of Mr. Gajendra K Patni and Mr. Narendra K Patni	Promoter	NIL	NIL	19,937,201	NIL
Mr. William O Grabe	No	Nominee of strategic investor	NIL	NIL	NIL	NIL
Mr. Anupam P Puri	No	None	NIL	20,000	NIL	33,334
Mr. Arun Duggal	No	None	NIL	160,000	NIL	33,334
Mr. Pradip Shah	No	None	NIL	180,000	NIL	33,334
Mr. Michael A Cusumano	No	None	NIL	40,000	NIL	33,334
Mr. Ramesh Venkateswaran	No	None	NIL	100,000	NIL	33,334
Mr. Louis Theodoor van den Boog	No	None	NIL	80,000	NIL	29,223

Note:

1. Sitting Fees: The Independent Directors are paid a sitting fee of Rs. 20,000 per meeting, being the maximum amount permissible under the present regulations, for attending the Board /Committee meetings.

2. The breakup of remuneration to the executive directors is as under:

	(Amounts in Rs.)			
	Salary, Allowances & Perquisites	PF contribution	Pension	Total
Mr. Gajendra K Patni	11,661,356	1,073,980	7,252,500	19,987,836
Mr. Ashok K Patni	11,610,721	1,073,980	7,252,500	19,937,201

3. Compensation to Mr. Narendra K Patni is paid by Patni Computer Systems Inc., a wholly owned subsidiary of the Company. The Compensation is as described in footnote 28b of the financials.

Stock Options Grant

The Company had introduced PATNI ESOP 2003 for employees of the Company / subsidiaries including non-executive directors of the Company in terms of SEBI Guidelines on ESOP. In pursuance of PATNI ESOP 2003, the Company issued 20,000 Options to each Independent Director on 1 July 2004 as approved by the Compensation Committee at the exercise price of Rs. 254 per share.

The Board of Directors, at its meeting held on 26 April 2005, approved initial grant of 20,000 options to Mr. Louis Theodoor van den Boog on joining the Board and 5,000 options each to other Independent Directors, at the exercise price of Rs.381 per share.

25% of the options granted to Independent Directors in July 2004 as mentioned above had been vested in July 2005. However, none of the said directors have exercised their options yet.

All options have been granted with an exercise price which has been arrived pursuant to the SEBI Guidelines on ESOP. All the options which have been granted, vest in four equal annual instalments beginning one year from the date of grant. The options can be exercised within five years from the date of vesting.

Tenure

As per the provisions of the Articles of the Company, two third of the total directors of the Company retire by rotation. Out of this two third, one third will be retiring at every Annual General Meeting. Accordingly, the tenure of each director is 3 years but they are eligible for reappointment.

In accordance with the Articles of Association of the Company, Mr. Narendra K Patni, Mr. Gajendra K Patni and Mr. Ashok K Patni are permanent members of the Board.

B. Audit Committee

1. Brief description of terms of reference

The Audit Committee was initially set up on 19 December 2001 and reconstituted on 12 November 2003 in line with corporate governance norms. Subsequently, the Audit Committee was reconstituted on 30 March 2005. The Audit Committee has three non-executive members with all being independent. The chairman of the Committee is an independent director.

The Audit Committee was duly constituted on the following terms of reference:

- a) Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- b) Recommending the appointment and removal of external auditor, fixation of audit fee and also approval of payment for any other services.
- c) Reviewing with management the annual financial statements before submission to the board, focusing primarily on:

Any changes in accounting policies and practices.

Major accounting entries based on exercise of judgment by management.

Qualifications in draft audit report.

Significant adjustments arising out of audit.

The going concern assumption.

Compliance with accounting standards.

Compliance with stock exchange and legal requirements concerning financial statements.

Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the company at large.

- d) Reviewing with the management, external and internal auditors, and the adequacy of internal control systems.
- e) Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- f) Discussion with internal auditors on any significant findings and follow up there on.
- g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- h) Discussion with external auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

- i) Reviewing the company's financial and risk management policies.

- j) To look into the reasons for substantial defaults in payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

Powers assigned to the Audit Committee

The following powers are vested with the Audit Committee:

- a) To investigate any activity within its terms of reference.
- b) To seek information from any employee.
- c) To obtain outside or other professional advice.
- d) To secure attendance of outsiders with relevant expertise, if it considers necessary.

Review of information by the Audit Committee

The Audit Committee is responsible for reviewing the following information:

- a) Financial statements and draft audit report, including quarterly/half-yearly financial information.
- b) Management's discussion and analysis of financial condition and results of operation.
- c) Reports relating to compliance with laws and to risk management.
- d) Management's letters/letters of internal control weaknesses issued by statutory/internal auditors.
- e) Records of related party transactions; and

f) The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the Audit Committee.

2. Composition, names of Members and Chairman

Name of the member	Designation	Category
Mr. Arun Duggal	Chairman	Independent Director
Mr. Pradip Shah	Member	Independent Director
Mr. Louis Theodoor van den Boog*	Member	Independent Director

* Mr. Louis Theodoor van den Boog was inducted as a Member of the Audit Committee and Mr. William O Grabe resigned as a Member of Audit Committee w.e.f. 30 March 2005.

3. Meetings and attendance during the year

Four meetings were held during the year ended 31 December 2005

Name of the member	Total Audit Committee meetings held	Attended in person	Attended through video/tele conference
Mr. Arun Duggal	4	4	
Mr. Pradip Shah	4	4	
Mr. Louis Theodoor van den Boog*	4	2	1
Mr. William O Grabe*	4	1	

* Mr. Louis Theodoor van den Boog was inducted as a Member of the Audit Committee and Mr. William O Grabe resigned as a Member of Audit Committee w.e.f. 30 March 2005.

C. Remuneration Committee

1. Brief description of terms of reference

The Remuneration Committee was set up on 12 November 2003. The main function of the committee is to determine on behalf of the Board and the shareholders, the Company's policy on specific package for Executive Directors including pension rights and any compensation payment.

The committee has three non-executive members with the majority being independent and the chairman of the committee is an independent director.

2. Composition, names of Members and Chairman

Name of the member	Designation	Category
Mr. Anupam P Puri	Chairman	Independent Director
Mr. Ramesh Venkateswaran	Member	Independent Director
Mr. William O Grabe*	Member	Non-executive Director

*Mr. Abhay Havaladar acts as an alternate director to Mr. William O Grabe.

During the year, no physical meeting of the Remuneration Committee was held.

3. Remuneration policy

The Remuneration Committee determines the policy on specific remuneration packages for Executive Directors.

During the year, the term of Executive Directorship of Mr. Gajendra K Patni and Mr. Ashok K Patni was renewed for a further period of five years with effect from 24 October 2005 on the recommendations of the Remuneration Committee, subject to approval of Members of the Company. The said reappointment of Mr. Gajendra K Patni and Mr. Ashok K Patni is proposed for approval of Members at ensuing Annual General Meeting.

D. Shareholders / Investors Grievance Committee

Shareholders / Investors Grievance Committee was set up on 12 November 2003. The committee consists of three directors, the majority being non-executive directors. The Chairman of the committee is an independent director.

1. Name of non-executive director heading the committee:

Mr. Arun Duggal

Composition, names of the members and Chairman:

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Name of the member	Designation	Category
Mr. Arun Duggal	Chairman	Independent Director
Mr. Narendra K Patni	Member	Chairman & CEO
Mr. William O Grabe*	Member	Non-executive Director

*Mr. Abhay Havaldar acts as an alternate director to Mr. William O Grabe.

2. Name and designation of Compliance Officer

Mr. Arun Kanakal,

Company Secretary

Akruti Softech Park,

MIDC Cross Road No.21,

MIDC, Andheri (East),

Mumbai - 400 093.

Tel: +91 22 66930500

Fax: +91 22 28321750

E-mail: arun.kanakal@patni.com

3. Details of investors queries/complaints received and resolved during the year ended 31 December 2005:

This information has been provided under Shareholders Information.

E. General Body Meetings

1. Details of last three Annual General Meetings of the company:

Annual General Meetings for the last three years

Date	14 June 2005	29 June 2004	30 June 2003
Location	Hotel Le Meridien, R.B.M. Road, Opposite Pune Railway Station, Pune - 411 001	Hotel Le Meridien, R.B.M. Road, Opposite Pune Railway Station, Pune - 411 001	Registered office: S-1A, F-1, Irani Market Compound, Yerawada, Pune 411 006
Time	11.30 a.m.	11.30 a.m.	11.30 a.m.

2. Whether any special resolution passed in the previous three AGMs?

Yes

3. Whether any special resolution passed last year through postal ballot - details of voting pattern?

Not applicable

4. Who conducted the postal ballot?

Not applicable

5. Whether any special resolution is proposed to be conducted through postal ballot?

Not required

6. Procedure for postal ballot?

Not applicable

F. Disclosures

1. Disclosures on materially significant related party transactions that may have potential conflict with the interests of the company at large

These Disclosures have been made under Related Party Transactions in notes to financial statements of the Company, which form part of this Annual Report.

2. Details of non-compliance by the company, penalties, strictures imposed on the company by the stock exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years

The shares of the Company were listed on 25 February 2004. No penalties and strictures have been imposed on the Company by the stock exchange, SEBI or any statutory authority on any matter related to capital markets as there was no non-compliance by the Company in general.

G. Shareholders Information

Date and time of AGM	:	21 June 2006, Wednesday at 11.30 a.m.
Venue	:	Hotel Le Meridien, R.B.M. Road, Opposite Pune Railway Station, Pune - 411 001.
Financial year	:	1 January 2005 to 31 December 2005
Book closure dates	:	15 June 2006 to 21 June 2006 (both days inclusive)
Registered office	:	S-1A, F-1, Irani Market Compound, Yerawada, Pune - 411 006.
Dividend payment date	:	on or after 26 June 2006, but within the statutory time limit of 30 days
Compliance officer	:	Mr. Arun Kanakal, Company Secretary is the Compliance Officer of the Company.
Website address	:	www.patni.com

Means of communication

The Company's website www.patni.com contains an Investors' section containing financials, press releases, shareholding pattern, news about the Company and certain other shareholder information.

The Company is registered with Electronic Data Information Filing and Retrieval System (EDIFAR) website maintained by National Informatics Centre (NIC) Delhi. The Company is sharing the relevant information in that website.

The SEC maintains a website at www.sec.gov that contains all information and filings done by the registrants that make electronic filings with the SEC using its EDGAR system. The periodical filings of the Company with Securities and Exchange Commission (SEC), US are also available on the Company's website.

All press releases and events can be accessed under the heading 'News and Events' in Investors' section on the Company's website.

Financial results are generally published in Economic Times, Free Press Journal (the National newspapers) and NavShakti (Vernacular newspaper).

As required by sub-clause V of Clause 49 of the Listing Agreement, Management Discussion and Analysis is provided elsewhere in the Annual Report.

As on 31 December 2005, there were 28,401 shareholders of our equity shares.

The Company's shares fall under category B1 of scrip in BSE and are listed on the following stock exchanges:

In India:

1. Bombay Stock Exchange Limited

Phiroze Jeejeebhoy Towers

Dalal Street, Fort

Mumbai - 400001

Tel: + 91 22 22721233/1234

Fax: + 91 22 22723719

E-mail: listing@bseindia.com

Website: www.bseindia.com

2. National Stock Exchange of India Limited

Exchange Plaza,

Plot No. C/1, G Block,

Bandra-Kurla Complex, Bandra (E)

Mumbai - 400 051

Tel.: + 91 22 26598235/36

Fax: 91 22-26598237/38

E-mail: cmlist@nse.co.in

Website: www.nseindia.com

Outside India:

The Company's ADSs are listed on:

The New York Stock Exchange

11 Wall Street, New York

NY 10005

Listing fees for the year 2006-07 have been paid to the stock exchanges where the Company's shares are listed.

Stock code:

BSE	:	532517
NSE	:	PATNI
ISIN nos. in NSDL and CDSL	:	INE660F01012
NYSE (ADR)	:	PTI
Telerate Code / Moneyline code	:	BSE - IN; PQS NSE - IN; PQSN NYSE - US; NYA

Reuters:

Symbol	Company name	Prime Exchange
PTNI.NS	PATNI COMPUTER SYSTEMS NSE	NSE
PTNI.BO	PATNI COMPUTER SYSTEMS BSE	BSE
PTI.N	PATNI COMPUTER SYSTEMS LTD.	New York Stock Exchange

Bloomberg Code: NYSE - PTI: US.

Dematerialisation of equity shares

The Company's shares are under compulsory dematerialisation list and can be transferred through depository system. The Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) to facilitate the dematerialisation of shares. As on 31 December 2005, 91.1% shares were held in electronic form.

Contact Details:

For any queries regarding shares:

Registrar and Transfer Agent:

Karvy Computershare Private Limited

Unit: Patni Computer Systems Limited

Karvy House, 46 Avenue 4, Street No. 1,

Banjara Hills, Hyderabad - 500 034

Tel: + 91 40 2342 0814- 824

Fax: + 91 40 2342 0814

E-mail: mailmanager@karvy.com

Company Secretary and Compliance Officer:

Arun Kanakal

Company Secretary cum Compliance Officer

Patni Computer Systems Limited

Akruti Softech Park, MIDC Cross Road No. 21,

Andheri (East), Mumbai - 400 093.

Tel: + 91 22 66930500

E-mail: arun.kanakal@patni.com

For queries relating to Financial Statements:

Vaishali Kariya

Manager-Investor Relations

Patni Computer Systems Limited

Akruti Softech Park, MIDC Cross Road No. 21,

Andheri (East), Mumbai - 400 093.

Tel: + 91 22 66930500

E-mail: investors@patni.com

Investor correspondence in the U.S.:

Gaurav Agarwal

Manager - Investor Relations

Patni Computer Systems Limited

One Broadway, Cambridge MA 02142

Tel.: +1 617 914 8360

E-mail: investors@patni.com

Name and address of the depository bank for the purpose of ADS:

In the U.S.

The Bank of New York

Investor Services

P.O. Box 11258, Church Street Station

New York, NY 10286-1258

Toll Free Tel # for domestic US callers: 1-888-BNY-ADRS

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International Callers can call: +1-212-815-3700

E-mail: shareowners@bankofny.com

Websites: <http://www.stockbny.com>

Name and address of the custodian in India for the purpose of ADS:

The Hongkong and Shanghai Banking Corporation Limited

Corporate, Investment Banking and Markets

Custody and Clearing

S.K. Ahire Marg, Worli, Mumbai - 400 030

Tel: + 91 22 2498 0000

Fax: + 91 22 2498 0040/ 2491 0040

E-mail ID: bomcnc1@hsbc.co.in

Dividend

The Board of Directors is pleased to recommend the payment of dividend for the year ended 31 December 2005 @ Rs.2.50 per share or 125 per cent. This dividend, if approved at the Annual General Meeting, shall be paid to all eligible members whose names appear on the Register of Members on 15 June 2006.

Dividend through Electronic Clearing Service (ECS)

The Company shall provide the facility of ECS to those shareholders in the locations where ECS is available.

In the balance locations, the Company shall issue dividend warrants. These warrants will be valid for a period of 90 days i.e. upto expiry of 23 September 2006. On the expiry of the validity period of the dividend warrants, these may be sent back to our Registrars and Transfer Agents for issue of demand drafts in lieu of the same at:

Karvy Computershare Private Limited

Unit: Patni Computer Systems Limited

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Karvy House,

46 Avenue 4, Street No. 1

Banjara Hills, Hyderabad - 500 034.

Tel: +91 40 23420814-824

Fax: +91 40 23420814

Patni Insider Trading Policy

The Company has implemented an Insider Trading Policy to comply with all relevant Insider Trading Regulations. In accordance with the policy, the Company announces quiet period for designated employees from time to time.

The Company has a policy of observing a quiet period from the last day of the end of the quarter till two trading days after the financial results are published. The Company may also announce quiet period during and after the occurrence of certain events mentioned in the Insider Trading Policy.

The Company is strictly monitoring its Insider Trading Policy.

Details of complaints received and resolved from 1 January 2005 to 31 December 2005

Complaints	Received	Attended to	Pending
Non-Receipt of Refund Order	6	6	0
Non-Receipt of Dividend Warrant	30	30	0
Receipt of Refund Orders/Dividend warrants for corrections	74	74	0
Complaints Received from SEBI	6	6	0
Complaints Received from Stock Exchanges	0	0	0
Total	116	116	0

Shareholding Pattern as on 31 December 2005

Category	No. of shares held	% of holding
A Promoter's Holding		
1 Promoters		
Indian Promoters	15,595,500	11.32
Foreign Promoters	20,364,198	14.78
2 Persons acting in concert	25,633,104	18.60
Sub Total	61,592,802	44.70
B Non Promoter Holding		
I Institutional Investors		
1 Mutual Funds and UTI	2,326,257	1.69
2 Banks, Financial Institutions, Insurance Companies (Central, State Govt. Institutions /Non-Govt. Institutions)	152,921	0.11
3 Foreign Institutional Investors	25,832,841	18.75
Sub Total	28,312,019	20.55
II Others		
1 Private Corporate Bodies	2,60,907	0.19
2 Indian Public	2,206,649	1.60
3 NRIs/ OCBs/FNs	92,120	0.07
4 Any other:		

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a) Trust		100	0.00
b) Clearing Members		3,954,476	2.87
c) FCBs		41,379,326	30.03
The Bank of New York (BONY) as a depository under ADS Offering	15,812,500		11.47%
General Atlantic Mauritius Ltd. (GAML)	2,752,081		2.00%
BONY as a depository for GAML	20,161,868		1.53%
GE APC Technology Investment II Mauritius Ltd.	2,652,877		1.92%
Sub Total		47,893,578	34.76
Grand Total		137,798,399	100.00

Market Price Data:**Monthly highs, lows and volumes for Financial Year 2005**

Month	High Rs.	BSE Low Rs.	Volume Nos.	High Rs.	NSE Low Rs.	Volume No.	Total Volume (BSE+NSE) No.
January 2005	387.95	355.80	781,835	389.10	353.65	1,577,526	2,359,361
February 2005	396.25	368.55	954,692	395.85	368.65	2,842,782	3,797,474
March 2005	395.85	364.70	1,043,185	396.20	363.65	1,670,775	2,713,960
April 2005	379.30	325.70	576,361	379.65	328.35	1,228,057	1,804,418
May 2005	354.40	329.00	1,157,765	354.70	328.55	1,152,459	2,310,224
June 2005	364.50	345.70	1,352,463	363.80	345.40	1,522,257	2,874,720
July 2005	367.30	348.55	1,699,617	367.50	347.90	1,937,176	3,636,793
August 2005	425.95	362.55	2,221,242	425.75	362.10	5,075,229	7,296,471
September 2005	458.25	416.05	2,147,913	458.05	414.00	7,354,184	9,502,097
October 2005	486.20	416.85	1,857,578	487.10	415.80	3,642,899	5,500,477
November 2005	472.20	435.05	771,158	472.35	437.65	2,380,201	3,151,359
December 2005	495.45	457.25	2,392,569	493.25	457.25	6,475,543	8,868,112

The number of shares outstanding is 101,824,031. American Depositary Shares (ADSs) have been excluded for the purpose of this calculation.

Market movement:

Stock market data relating to equity shares listed in India.

Chart on Patni share price vs. Sensex from 25 February 2004 to 31 December 2005

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Distribution of shareholding as on 31 December 2005

No. of equity shares held	No. of shareholders	%	No. of shares	%
1 5000	27927	98.33%	1,750,464	1.27%
5001 10000	166	0.58%	127,235	0.09%
10001 20000	94	0.33%	143,484	0.10%
20001 30000	51	0.18%	131,250	0.10%
30001 40000	27	0.10%	98,993	0.07%
40001 50000	15	0.05%	68,705	0.05%
50001 100000	32	0.11%	228,300	0.17%
100001 And Above	87	0.31%	99,275,600	72.04%
Total (excluding ADS)	28399	99.99%	101,824,031	73.89%
Equity shares underlying ADS	2	0.01%	35,974,368	26.11%
Total (including ADS)	28401	100.00%	137,798,399	100.00%

ADS listed at: NYSE in the U.S.

Ratio of ADS to Equity share: One ADS represents two underlying equity shares

ADS Symbol: PTI

The American Depositary Shares issued under ADS program were listed on the NYSE in the U.S. on 8 December 2005. The offer price was \$20.34 per ADS.

Outstanding ADR

Our ADS are traded on the NYSE under the ticker symbol PTI . The ADS began trading on 8 December 2005. As of 31 December 2005, Outstanding ADSs are 79,06,250. Each ADS represents two underlying Equity Shares.

We have entered into a Deposit Agreement dated 15 July 2002 with The Bank of New York, the Depository. Pursuant to the said Deposit Agreement, we have deposited 20,161,868 equity shares of Rs. 2/- each with the Depository. The Depository has executed and delivered to General Atlantic 20,161,868 ADRs representing such equity shares where each ADR represents one equity share of par value Rs.2 per share.

The addresses of offices / locations are given elsewhere in this Annual Report.

Certificate of Compliance with the Corporate Governance requirements under Clause 49 of the Listing Agreement

To the Members of Patni Computer Systems Limited

We have examined the compliance of the conditions of corporate governance by Patni Computer Systems Limited (the Company) for the year ended on 31 December 2005 as stipulated in Clause 49 of the Listing Agreement of the Company with the National Stock Exchange of India Limited and The Bombay Stock Exchange Limited.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of corporate governance referred to above. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of corporate governance as stipulated in the above mentioned Listing Agreements.

Based on confirmation received from the Company s share transfer agent, and representations made by management, we report that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Share Transfer Agent/Investors Grievances Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No: 046768

Mumbai

26 April 2006

Ratios (As per US GAAP)

	2003 consolidated	2004 consolidated	2005 consolidated
Ratios - growth			
Revenues	33.3%	30.1%	37.9%
Operating profit	8.0%	39.3%	15.8%
PAT	38.5%	25.3%	11.3%
Basic and Diluted EPS	78.3%	13.4%	8.9%
Ratios - financial performance			
Cost of revenues / Revenues	62.7%	62.0%	64.1%
Selling, general and administrative expenses / Revenues	19.8%	18.6%	20.0%
Operating profit / Revenues	17.4%	18.6%	15.6%
PBT / Revenues	18.6%	19.1%	16.6%
Taxation / Revenues	2.5%	2.4%	3.1%
PAT / Revenues	17.4%	16.7%	13.5%
Return on capital employed (ROCE) (PBIT / Average Capital employed)	33.7%	28.0%	20.6%
Return on average networth (RONW) (PAT / Average Networth)	31.2%	24.3%	16.4%
Ratios - Balance Sheet			
Debt Equity Ratio	0.0	0.0	0.0
Debtors Turnover (days)	82	80	60
Fixed assets turnover (days)	60	62	75
Current Ratio	4.2	5.4	4.8
Cash and Cash equivalents / Total Assets	43.2%	44.2%	52.6%
Cash and Cash equivalents / Revenues	38.7%	49.8%	64.5%
Per share data			
Basic and Diluted EPS (\$)	0.39	0.44	0.48
Book value per share (\$)	1.45	2.31	3.30
No. of Employees	7,091	9,661	11,802

Certification by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) on Financial Statements of the Company

We, **Narendra K Patni, Chairman & Chief Executive Officer** and **Deepak Sogani, Chief Financial Officer**, of Patni Computer Systems Limited, certify that:

(a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

ii. these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.

(c) We are responsible for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

(d) We have indicated to the auditors and the Audit committee:

(i) significant changes in internal control during the year;

(ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system.

Narendra K Patni
Chairman & Chief Executive Officer

Deepak Sogani
Chief Financial Officer

Place: Mumbai
Date: 25 April 2006

Standalone Financials Under Indian GAAP

Auditors Report

To the Members of

Patni Computer Systems Limited

We have audited the attached Balance Sheet of Patni Computer Systems Limited (the Company) as at 31 December 2005 and the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor s Report) Order, 2003 (the Order) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the Act), we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.

2. Further to our comments in the Annexure referred to above, we report that :

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

c) the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

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d) in our opinion, the Balance Sheet and the Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act, to the extent applicable;

e) on the basis of written representation received from the directors of the Company, as at 31 December 2005 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31 December 2005 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act, and

f) in our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :

i. in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2005;

ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **BSR & Co.**
Chartered Accountants

Mumbai
Date : 1 February 2006

Akeel Master
Partner
Membership No.: 046768

Annexure to the Auditors Report 31 December 2005

With reference to the Annexure referred to in paragraph 1 of the Auditors Report to the members of Patni Computer Systems Limited (the Company) on the financial statements for the year ended 31 December 2005, we report that :

1. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of

fixed assets.

(b) The Company has a regular programme of physical verification of its fixed assets, by which all fixed assets are verified in a phased manner over a period of three years. During the current year, as part of a cyclical plan, the Company has carried out physical verification of certain fixed assets and no material discrepancies were noticed upon such verification. In our opinion this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets.

(c) Fixed assets disposed off during the year were not substantial and therefore do not affect the going concern assumption.

2. The Company is a service company, primarily rendering IT consulting and software development services. Accordingly, the Company does not hold inventories. Accordingly, matters specified in clause 4(ii) of the Order are not applicable to the Company.

3. According to the information and explanations given to us, the Company has not granted or taken any loans, secured or unsecured, to/from companies, firms or other parties in the register maintained under Section 301 of the Act. Accordingly, Clause 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the Order are not applicable to the Company.

4. In our opinion, and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and nature of its business with regard to purchase of fixed assets and with regard to sale of services. The activities of the Company do not involve purchase of inventory and the sale of goods. In our opinion and according to the information and explanations given to us there is no continuing failure to correct major weaknesses in the internal control system.

5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or

arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

6. The Company has not accepted any deposits from the public.

7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

8. The Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 for any of the services rendered by the Company.

9. (a) According to the information and explanations given to us and on the basis of our examination of the records of

the Company, the Company is generally regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income tax, Sales tax, Wealth tax, Customs duty, Cess and other material statutory dues with the appropriate authorities. As explained to us, the Company does not have any dues on account of Investor Education and Protection Fund, Excise duty and Service tax.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees State Insurance, Income tax, Sales tax, Wealth tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 December 2005 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of Income tax, Sales tax, Wealth tax, Customs duty, and Cess which have not been deposited with the appropriate authorities on account of any dispute.

10. The Company does not have accumulated losses at the end of the financial year and has not incurred cash losses in the current financial year and in the immediately preceding financial year.

11. The Company did not have any outstanding dues to any financial institution, banks or debenture holders during the year. Accordingly, the provisions of paragraph 4 (xi) of the Order are not applicable to the Company.

12. According to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of paragraph 4 (xii) of the Order are not applicable to the Company.

13. In our opinion and according to the information and explanations given to us the Company is not a chit fund/ nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4 (xiii) of the Order are not applicable to the Company.

14. According to the information and explanations given to us, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of paragraph 4(xiv) of the Order are not applicable to the Company.

15. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the company.

16. The Company did not have any term loans outstanding during the year. Accordingly, the provisions of paragraph 4(xvi) of the Order are not applicable to the Company.

17. According to the information and explanations given to us, and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long term investment.

18. The Company has not made any preferential allotment of shares to companies/ firms/ parties covered in the register maintained under Section 301 of the Act.

19. According to the information and explanations given to us, the Company does not have any outstanding debentures during the year. Accordingly, the provisions of paragraph 4 (xix) of the Order are not applicable to the Company.

20. We have verified the end-use of money raised by public issue as disclosed in the notes to the financial statements.

21. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **BSR & Co.**
Chartered Accountants

Mumbai
Date : 1 February 2006

Akeel Master
Partner

Membership No.: 046768

Balance Sheet as at 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

	Note	2005	2004
SOURCES OF FUNDS			
Shareholders funds			
Share capital	3	275,597	254,032
Reserves and surplus	4	20,145,180	13,176,003
		20,420,777	13,430,035
Loan funds			
Secured loans	5	31,813	28,644
Deferred tax liability	17	70,848	115,071
		20,523,438	13,573,750
APPLICATION OF FUNDS			
Fixed assets			
Gross block	6	4,772,848	3,664,601
Less : Accumulated depreciation		2,092,600	1,599,183
Net block		2,680,248	2,065,418
Capital work-in-progress		1,209,278	241,368
		3,889,526	2,306,786
Investments	7	8,049,677	6,820,740
Deferred tax asset, net	17	11,877	7,968
Current assets, loans and advances			
Sundry debtors	8	4,166,236	5,036,648
Cash and bank balances	9	5,706,226	202,874
Costs and estimated earnings in excess of billings		174,331	128,776
Loans and advances	10	407,645	350,368
		10,454,438	5,718,666
Less : Current liabilities and provisions			
Current liabilities	11	1,047,347	612,046
Provisions	12	834,733	668,364
		1,882,080	1,280,410
Net current assets		8,572,358	4,438,256
		20,523,438	13,573,750

The accompanying notes form an integral part of this balance sheet.

As per attached report of even date.
For **BSR & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
*Chairman and
CEO*

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master
Partner
Membership No. : 046768

Arun Kanakal
*Company
Secretary*

Mumbai
1 February 2006

Mumbai
1 February 2006

Profit and Loss Account for the year 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

	Note	2005	2004
Income			
Sales and service income		8,755,962	7,020,675
Other income	13	362,660	157,060
		9,118,622	7,177,735
Expenditure			
Personnel costs	14	3,928,003	2,860,765
Selling, general and administration costs	15	2,063,700	1,236,851
Depreciation	6	600,345	470,077
Less : Transfer from revaluation reserve	4	81	81
Interest costs	16	40,787	1,453
Initial public offering related expenses	3		46,182
		6,632,754	4,615,247
Profit for the year before prior period items and taxation		2,485,868	2,562,488
Prior period items	31	43,423	
Profit for the year before taxation		2,442,445	2,562,488
Provision for taxation (prior periods)	17	113,196	
Provision for taxation - Fringe benefits		30,349	
Provision for taxation	17	354,771	257,073
Profit for the period after taxation		1,944,129	2,305,415
Profit and loss account, brought forward		6,694,146	4,901,938
Amount available for appropriation		8,638,275	7,207,353
Dividend on equity shares		344,684	249,994
Dividend tax		50,733	32,671
Transfer to general reserve		194,413	230,542
Profit and loss account, carried forward		8,048,445	6,694,146
Earnings per equity share of Rs. 2 each			
Basic		15.46	18.73
Diluted		15.25	18.58
Weighted average number of equity shares outstanding during the year			
Basic		125,736,592	123,066,042
Diluted		127,457,632	124,084,992

The accompanying notes form an integral part of this profit and loss account.

As per attached report of even date.
For **BSR & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
*Chairman and
CEO*

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master

Partner
Membership No. : 046768

Mumbai
1 February 2006

Arun Kanakal
Company
Secretary

Mumbai
1 February 2006

Cash Flow Statement for the year ended 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

	2005	2004
Cash flows from operating activities		
Profit before taxation	2,442,445	2,562,488
Adjustments:		
Depreciation	600,263	469,996
(Profit)/loss on sale of fixed assets, net	(133,957)	18,699
(Profit) on sale of investments, net	(49,395)	(6,544)
Provision for decline in the fair value of investment	29	(263)
Dividend income	(109,439)	(156,815)
Interest income	(45,584)	(2,420)
Interest expense	1,384	1,453
Provision for doubtful debts and advances	(22)	1,744
Initial public offering related expenses		46,182
Unrealised foreign exchange loss	28,332	106,228
Reversal of impairment loss	(14,043)	
Operating cash flows before working capital changes	2,720,013	3,040,748
Decrease/(increase) in sundry debtors	845,332	(1,987,214)
(Increase) in cost and estimated earnings in excess of billings	(45,560)	(12,233)
(Increase) in loans and advances	(57,776)	(187,189)
Increase/(decrease) in billings in excess of cost and estimated earnings	12,612	(13,429)
Increase in sundry creditors	46,592	23,998
Increase in advance from customers	304	1,978
Increase/(decrease) in payables to subsidiary companies	10,051	(69,101)
Increase in other liabilities	362,913	45,963
(Decrease)/increase in provision for retirement benefits	(26,899)	86,140
Cash generated from operations	3,867,582	929,661
Income taxes paid	(463,327)	(276,335)
Net cash provided by operating activities (A)	3,404,255	653,326
Cash flows from investing activities		
Purchase of fixed assets	(2,226,312)	(985,645)
Sale of fixed assets	191,232	23,077
Purchase of non trade investments	(15,342,162)	(11,123,127)
Sale of non trade investments	14,162,597	10,129,315
Investment in subsidiary		(1,598,962)
Dividend received	109,439	156,815
Interest received	45,584	2,420
Net cash used in investing activities (B)	(3,059,622)	(3,396,107)

	2005	2004
Cash flows from financing activities		
Issue of equity shares (net of shares issue expenses)	5,442,110	2,886,585
Share application money received pending allotment		4,038
Dividend paid, including dividend tax	(285,175)	(140,739)
Interest paid	(1,384)	(1,453)
Proceeds from finance lease obligations incurred	17,683	17,689
Finance lease obligations repaid	(14,515)	(13,654)
Net cash provided by financing activities (C)	5,158,719	2,752,466
Net increase in cash and cash equivalents during the year (A+B+C)	5,503,352	9,685
Cash and cash equivalents at the beginning of the year	202,874	193,189
Cash and cash equivalents at the end of the year	5,706,226	202,874
Notes to the Cash flow statement		
Cash and cash equivalents consist of cash on hand and balances with banks.		
Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts.		
Cash in hand	14,975	4,707
Balance with banks:		
Current accounts	5,638,914	130,688
Exchange earners foreign currency account	62,653	65,825
Effect of changes in Exchange rate	(10,316)	1,654
	5,706,226	202,874

For **BSR & Co.**
Chartered Accountants

For and on behalf of the Board of Directors

N K Patni
Chairman and
CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master
Partner
Membership No. : 046768

Arun Kanakal
Company
Secretary

Mumbai
1 February 2006

Mumbai
1 February 2006

Notes to the Financial Statements for the year ended 31 December 2005

(Currency : in thousands of Indian Rupees except share data)

1 Background

Patni Computer Systems Limited (Patni or the Company) was incorporated on 10 February 1978 under the Indian Companies Act, 1956. On 18 September 2003, the Company converted itself from a Private Limited company into a Public Limited company. In February 2004, Patni completed initial public offering of its equity shares in India comprising fresh issue of 13,400,000 shares and sale of 5,324,000 equity shares by the existing shareholders.

In December 2005, Patni issued 5,125,000 American Depository Shares (ADSs) at a price of US\$ 20.34 per ADS. There was a secondary offering of additional 1,750,000 ADSs to the existing shareholders. Patni also issued 1,031,250 ADSs at the price of US\$ 20.34 per ADS on the exercise of Greenshoe option by the underwriters. Each ADS represented two equity shares of Rs 2 each fully paid-up.

Patni owns 100% equity interest in Patni Computer Systems, Inc. USA, a company incorporated in USA, Patni Computer Systems (UK) Limited, a company incorporated in UK and Patni Computer Systems GmbH, a company incorporated in Germany. In April 2003, Patni Computer Systems Inc. acquired 100% equity interest in The Reference Inc., a company incorporated in USA. Patni also has foreign branches offices in USA, Japan, Sweden, Korea, Netherlands and Australia. In November 2004, Patni Computer Systems, Inc., USA, acquired 100% equity in Patni Telecom Solutions Inc., - USA (formerly Cymbal Corporation) and its subsidiaries.

Patni is primarily engaged in the business of IT consulting and software development. Most of the business of Patni is subcontracted from its subsidiary companies in the USA, UK and Germany. The Company provides multiple service offerings to its clients across various industries comprising financial services, manufacturing companies and others such as energy and utilities, telecom, retail and hospitality companies. The various service offerings comprise application development and maintenance, enterprise application systems, enterprise system management, research and development services and business process outsourcing services.

2 Principal accounting policies

2.1 Basis of preparation of financial statements

The accompanying financial statements have been prepared under the historical cost convention with the exception of land and buildings, which have been revalued, on the accrual basis of accounting, in accordance with the relevant provisions of the Companies Act, 1956 and comply with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable.

The preparation of the financial statements in accordance with generally accepted accounting principles requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as of the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

2.2 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, except for items of land and buildings which were revalued in March 1995. Cost includes inward freight, duties, taxes and incidental expenses related to acquisition and installation of the asset. Depreciation is provided on the Straight Line Method (SLM) based on the estimated useful lives of the assets as determined by the management. For additions and disposals, depreciation is provided pro-rata for the period of use.

The rates of depreciation based on the estimated useful lives of fixed assets are higher than those prescribed under Schedule XIV to the Companies Act, 1956. The useful lives of fixed assets are stated below:

Asset	Useful life (in years)
Leasehold land and improvements	Over the lease period or the useful life of the assets, which ever is shorter
Buildings	40
Electrical installations	8
Computers, computer software and other service equipments	3
Furniture and fixtures	8
Office equipments	5
Vehicles	5

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating

unit which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost.

2.3 Leases

In accordance with Accounting Standard 19 Accounting for leases issued by the ICAI, assets acquired on finance leases, have been recognised as an asset and a liability at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Such leased assets are depreciated over the lease term or its estimated useful life, whichever is shorter. Further, the payment of minimum lease payments have been apportioned between finance charges, which are debited to the profit and loss account, and reduction in lease obligations recorded at the inception of the lease.

2.4 Revenue and cost recognition

The Company derives its revenues primarily from software development activities. Revenue from time-and-material contracts is recognised as related services are rendered. Revenue from fixed-price contracts is recognised on a percentage of completion basis, measured by the percentage of costs incurred to-date to estimated total costs for each contract. This method is used because management considers costs to be the best available measure of progress on these contracts.

Contract costs include all direct costs such as direct labour and those indirect costs related to contract performance, such as depreciation and satellite link costs. Selling, general, and administrative costs are charged to expense as incurred. Provision for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revision to costs and income and are recognised in the period in which the revisions are determined.

The asset Cost and estimated earnings in excess of billings represents revenues recognised in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and the customer acceptance for the same is received. The liability Billings in excess of costs and estimated earnings represents billings in excess of revenues recognised. Warranty costs on sale of services are accrued based on management's estimates and historical data at the time related revenues are recorded.

Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified period. The costs to be deferred are limited to the extent of future contractual revenues. Further, revenue attributable to set up activities is deferred and recognised systematically over the periods that the related revenues are earned, as services performed during set up period do not result in the culmination of a separate earnings process.

Revenue on maintenance contracts is recognized on a straight-line basis over the period of the contract.

Revenue recognition is postponed in instances wherein the conditions for revenue recognition are not met. Related costs are also deferred in such instances, subject to management's assessment of realisability.

Dividend income is recognized when the Company's right to receive dividend is established. Interest income is recognized on the time proportion basis.

2.5 Employee retirement and other benefits

Contributions to the provident fund, which is a defined contribution scheme, are charged to the profit and loss account in the period in which the contributions are incurred.

Gratuity, pension and leave encashment costs, which are defined benefits, are based on actuarial valuations carried out by an independent actuary at the balance sheet date.

The Company provides compensatory-offs to its employees, which entitle the employees to avail paid leave in future periods for services already rendered. These entitlements are not encashable by the employees. The Company makes provision for such compensatory absences by estimating the likely salary payable to the employees availing such leave based on historical data of such entitlements availed in the past.

2.6 Foreign currency transactions

India Operations

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Foreign currencies denominated monetary assets and monetary liabilities at the balance sheet date are translated

at the exchange rate prevailing on the date of the balance sheet. Exchange rate differences resulting from foreign exchange transactions settled during the year, including year-end translation of current assets and liabilities are recognised in the profit and loss account other than those exchange differences arising in relation to liabilities incurred for acquisition of fixed assets, which are adjusted to the carrying value of the underlying fixed assets.

The accounting standard on The effect of changes in foreign exchange rates was revised and comes into effect in respect of accounting periods commencing on or after 1 April 2004. This standard prescribes accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading / speculation purposes. Further it has been clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment of a highly probable forecast transaction. Upto 31 December 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognised as income or expense over the life of the contract.

The Company has adopted the revised accounting standard effective 1 January 2005 for contracts entered into after the date of adoption. In respect of forward exchange contracts which hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the Company values these contracts based on the spot rate at the balance sheet date and the resultant gain or loss is included in the profit and loss account. Since the revised accounting standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or of a highly probable forecast transaction, the Company has decided to account for these forward exchange contracts based on their designation as effective hedges or not effective .

To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable to the hedged risk or not. The gain or loss on these hedges is measured based on the movement in the spot rate at the inception of the contract and the spot rate at period end (or the spot rate used to measure the gain or loss on that contract for an earlier period). In respect of effective hedges, such gain or loss is recorded in the foreign currency translation reserve until the hedged transaction occur and then recognised in the profit and loss account. In the absence of an effective hedge, the gain or loss is immediately recognised in the profit and loss account.

The premium or discount on all forward exchange contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

Gains/losses on cancellation of forward contracts designated as hedge of highly probable forecasted transactions are recognised in the profit and loss account in the period in which the forecasted transaction is expected to occur.

Consequent to the above changes in the accounting policy, the profit for the nine months ended 30 September 2005 was reflected lower by Rs 2,013 and the Reserves and surplus lower by Rs 16,842.

In January 2006, ICAI has issued an announcement on applicability of the accounting standard, 'The Effects of Changes in Foreign exchange rates', in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. It states that hedge accounting, in its entirety, including hedge of a firm commitment or a highly probable forecast transaction, is proposed to be dealt with in the Accounting Standard on Financial Instruments : Recognition and Measurement, which is under formulation. It further states that pending the issuance of this proposed accounting standard, exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction should be recognised in the statement of profit and loss in the reporting period in which the exchange rate changes. Any profit or loss arising on renewal or cancellation of such contracts should be recognised as income or expense for the period.

Consequently, the amount accounted as foreign currency translation reserve of Rs. 45,895 upto December 2005 has been reversed and recognised as an expense in the statement of profit and loss in December 2005.

Foreign branch office operations

Revenue items other than depreciation costs are translated into the reporting currency at monthly average exchange rates. Foreign currency denominated monetary assets and monetary liabilities at balance sheet date are translated at exchange rates prevailing on the date of the balance sheet. Fixed assets are translated at exchange rates on the date of the transaction and depreciation on fixed assets is translated at the exchange rates used for translation of the underlying fixed assets.

Net exchange difference resulting from translation of items in the financial statements of the foreign branches is recognised in the profit and loss account.

2.7 Investments

Long-term investments are stated at cost, and provision is made when in the management's opinion there is a decline, other than temporary, in the carrying value of such investments.

Current investments are carried at lower of cost and fair value, and provision is made to recognise any decline in the carrying value.

2.8 Taxation

Income tax expense comprises current tax expense and deferred tax expense or credit. Provision for current taxes is recognised under the taxes payable method based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the Indian Income-tax Act, 1961. In case of matters under appeal, full provision is made in the financial statements when the Company accepts the liabilities.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to timing differences that result between the profits offered for income taxes and the profits as per the financial statements of the Company. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rates is recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Other deferred tax assets are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are reviewed as at each balance sheet date and written down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Substantial portion of the profits of the Company are exempted from income tax, being profits from undertakings situated at Software Technology Parks. Under the tax holiday, the Company can utilise exemption of profits from income taxes for a period of ten consecutive years. The Company has opted for this exemption and these exemptions expire on various dates between years 2005 and 2010. In this regard, the Company recognises deferred taxes in respect of those originating timing differences, which reverse after the tax holiday period resulting in tax consequences. Timing differences, which originate and reverse within the tax holiday period do not result in tax consequence and therefore no deferred taxes are recognised in respect of the same. For this purpose, the timing differences, which originate first

are considered to reverse first.

2.9 Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to the equity shareholders for the year by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of equity shares and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The dilutive potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

2.10 Contingencies

Loss contingencies arising from claims, litigations, assessment, fines, penalty etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

3 Share capital

	2005	2004
Authorised		
250,000,000 (2004: 250,000,000) equity shares of Rs 2 each	500,000	500,000
Issued, subscribed and paid-up		
137,798,399 (2004: 124,997,009) equity shares of Rs 2 each fully paid	275,597	249,994
Share application money (Refer note below)	275,597	4,038
	275,597	254,032

Of the above, 14,500,000 equity shares of Rs 2 each were allotted as fully paid bonus shares in March 1995 by capitalisation of general reserve aggregating Rs 29,000.

In June 2001, Patni's Board of Directors approved a sub division of existing equity shares of Rs 10 each into 5 equity shares of Rs 2 each.

The above also includes 46,867,500 equity shares of Rs 2 each allotted as fully paid bonus shares in August 2001 by capitalisation of share premium aggregating Rs 93,735.

In December 2002, in pursuance of Section 77A of the Indian Companies Act, 1956, Patni completed buy back of 1,650,679 equity shares by utilising the share premium account. In this regard, an amount equivalent to the nominal value of the share capital bought back by the Company aggregating Rs 3,301, has been transferred from general reserve to capital redemption reserve (Refer note 4).

In August 2003, the Company allotted 37,140,283 equity shares of Rs 2 each as fully paid bonus shares by capitalization of share premium aggregating Rs. 74,281.

In February 2004, Patni completed initial public offering (IPO) of its equity shares in India comprising fresh issue of 13,415,200 shares and sale of 5,324,000 equity shares by the existing shareholders. In this regard, equity shares of Rs 2 each were issued at a premium of Rs 228 aggregating Rs 3,085,496. In respect of above, the Company incurred IPO related expenditure aggregating Rs 225,274. Proportionate variable IPO related expenditure pertaining to the shares sold by the existing shareholders has been debited to the profit and loss account and the balance has been adjusted against share premium in accordance with Section 78 of the Companies Act, 1956.

In December 2005, Patni issued 6,156,250 American Depository Shares (ADSs) representing 12,312,500 equity shares of Rs. 2 each fully paid-up at a price of US\$ 20.34 per ADS for a gross proceeds of Rs. 5,739,262. Each ADS represents two equity shares of Rs 2 each fully paid-up. An amount of Rs. 369,406 has been incurred towards ADS issue expenses and the same has been adjusted against share premium received on the ADS issue in accordance with Section 78 of the Companies Act, 1956.

Amount received from employees on exercise of stock options pending allotment of shares is shown as share application money.

Refer note 24 for employee stock compensation plans.

4 Reserves and surplus

	2005	2004
Land revaluation reserve		
Balance carried forward	7,935	7,935
Building revaluation reserve		
Balance brought forward	1,596	1,677
Transfer to profit and loss account	(81)	(81)
	1,515	1,596
Capital redemption reserve		
Balance carried forward	253,301	253,301
	253,301	253,301
Share premium		
Balance brought forward	5,331,763	2,426,148
Share premium received on issue of equity shares (Refer note 3)	5,789,952	3,081,683
Share premium utilized in connection with share issue expenses incurred during the period (Refer note 3)	(369,406)	(176,068)
	10,752,309	5,331,763
General reserve		
Balance brought forward	887,262	656,720
Transfer from profit and loss account	194,413	230,542
	1,081,675	887,262
Profit and loss account, balance carried forward	8,048,445	6,694,146
	20,145,180	13,176,003

5 Secured loans

	2005	2004
Lease obligation in relation to vehicles acquired under finance lease (Refer note 22)	31,813	28,644

Nature of security

Finance lease obligations are secured against the vehicles acquired on lease.

6 Fixed assets

	Land (Freehold)	Land (Leasehold)	Buildings and leasehold improvements	Computer software	Computers and other service	Electrical installations	Office equipments	Furniture and fixtures	Vehicles	Total as at 31 December 2005	Total as at 31 December 2004
Gross block											
As at 1 January 2005	9,019	203,021	847,529	585,929	1,045,900	205,233	287,236	398,322	82,412	3,664,601	2,978,497
Additions during the year		6,696	293,401	205,200	298,037	100,196	118,617	208,843	27,411	1,258,401	787,843
Deletions during the year		40,011	9,190		47,734	11,632	6,756	17,502	17,329	150,154	101,739
As at 31 December 2005	9,019	169,706	1,131,740	791,129	1,296,203	293,797	399,097	589,663	92,494	4,772,848	3,664,601
Accumulated depreciation											
As at 1 January 2005		17,643	95,697	228,005	803,243	81,071	151,603	179,104	42,817	1,599,183	1,189,069
Charge for the year		3,145	35,419	150,190	236,591	30,313	58,387	67,074	19,226	600,345	470,077
Deletions during the year		16,957	7,973		47,273	8,325	4,286	9,403	12,711	106,928	59,963
As at 31 December 2005		3,831	123,143	378,195	992,561	103,059	205,704	236,775	49,332	2,092,600	1,599,183
Net block as at 31 December 2005	9,019	165,875	1,008,597	412,934	303,642	190,738	193,393	352,888	43,162	2,680,248	2,065,418
Net block as at 31 December 2004	9,019	185,378	751,832	357,924	242,657	124,162	135,633	219,218	39,595	2,065,418	

Notes:

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1. Gross block of computers, computer software and other service equipments at 31 December 2005 includes exchange gain capitalised during the year aggregating

Rs 110 (2004: 2,946).

2. Gross block of vehicles as of 31 December 2005 includes assets acquired on lease, refer note 22.

7 Investments

	2005	2004
Long term (at cost)		
Trade		
Unquoted		
Investment in Subsidiary companies		
50,000 (2004: 50,000) equity shares of 1 pound each fully paid of Patni Computer Systems (UK Limited)	2,409	2,409
Contribution of Euro 150,000 (2004: Euro 150,000) towards Capital of Patni Computer Systems GmbH	6,076	6,076
7,500 (2004: 7,500) equity shares fully paid of Patni Computer Systems, Inc. (no par value)	3,571,561	3,571,561
	3,580,046	3,580,046

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	2005	2004
Short term (at lower of cost or fair value)		
Non-trade		
Quoted		
9,384,472 units (2004: Nil) Birla Cash Plus - Institutional Premium Growth Plan	100,000	
10,000,000 units (2004: Nil) Deutsche Fixed Term Fund - Series 7	100,000	
10,000,000 units (2004: Nil) Deutsche Fixed Term Fund - Growth option	100,000	
9,880,642 units (2004: Nil) D6 - Deutsche Short Maturity Fund - Md -	100,000	
6,993,007 units (2004: Nil) G60 GSSIF - St - Plan C - Monthly Dividend	70,000	
12,412,862 units (2004: Nil) G63 GSSIF - Short Term - Plan C Growth 21349 / 70	125,000	
9,576,067 units (2004: Nil) of ABN Amro Cash Fund - Institutional Growth	100,000	
14,086,623 units (2004: Nil) of GCCG Grindlays Cash Fund - Inst. Fund C Growth	150,000	
10,000,000 units (2004: Nil) of G9 Grindlays Fixed Maturity - 18th Plan - Dividend	100,000	
5,000,000 units (2004: Nil) G104 Grindlays Fixed Maturity - 4th Plan B Growth	50,000	
11,073,543 units (2004: Nil) of Kotak Liquid (Institutional Premium) - Growth Plan	150,000	
15,561,332 units (2004: Nil) of I-262 ING Vysya Liquid Fund Super Institutional - WD	155,862	
10,000,000 units (2004: Nil) I244 ING Vysya Fixed Maturity Fund Series - IV Growth	100,000	
10,000,000 units (2004: Nil) Reliance Fixed Maturity Fund - Annual Plan Series1 Growth	100,000	
Option		100,000
10,118,100 units (2004: Nil) R8-Reliance Fixed Maturity Fund - Qtrly Plan-II Series II		
Dividend Option		101,181
5,000,000 units (2004: Nil) Principal Deposit Fund Growth - March 05	50,000	
10,000,000 units (2004: Nil) Principal Deposit Fund (FMP-3-20) 91 Days Plan	100,000	
2,990,937 units (2004: Nil) Principal Income Fund - Short Term Instl.Plan - Md	30,000	
13,085,466 units (2004: Nil) Principal Income Fund Short Term Instl. Plan - Growth Plan	150,000	
6,978,624 units (2004: Nil) RLF - Treasury Plan - Retail Option - Monthly Dividend	100,367	
15,000,000 units (2004: Nil) DSP Merrill Lynch Fixed Term Plan Series IA Dividend	150,000	
20,000,000 units (2004: Nil) UTI - Fixed Maturity Plan (QFMP/1205/I) Dividend Plan	200,000	
10,766,076 units (2004: Nil) of OCFPWD HSBC Cash Fund - Institutional Plus Weekly		
Dividend		107,751
14,190,973 units (2004: Nil) of H16- Oisid HSBC Cash Fund - Institutional Plus Growth	150,000	
3,426,447 units (2004: Nil) OISIG HSBC Income Fund - Short Term Inst. - Growth	40,000	
68,451 units (2004: Nil) of TLSW01 Tata Liquid Super High Investment Funds - Weekly		
Dividend		77,615
121,417 units (2004: Nil) of TLSG01 Tata Liquid Super High Investment Funds -		
Appreciation		150,000
7,144,745 units (2004: Nil) of HDFC Cash Management Fund -Saving Plan - Growth	100,000	
14,345,967 units (2004: Nil) of Principal Cash Management Fund Liquid Option		
Institutional Premium Plan Growth		150,000
100,003 units (2004: Nil) Templeton India Short Term Plan Inst # 2140000237625		
Weekly Dividend		100,000

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	2005	2004
5,475,209 units (2004: Nil) B332G Birla Bond Plus - Instl. - Growth	70,000	
5,000,000 units (2004: Nil) Birla Fixed Term Plan Series A - Dividend - Reinvestment	50,000	
8,111,155 units (2004: Nil) Kotak Bond (Short Term) - Growth	100,000	
9,487,087 units (2004: Nil) Kotak FMP Series XII - Dividend 90 Days	94,871	
20,535,736 units (2004: Nil) TSTG TATA ST Bond Fund - Growth 441363/58	250,000	
5,000,000 units (2004:Nil) TFHAG1 Tata Fixed Horizon Fund Series 1 Plan A (371 Days Maturity) Growth	50,000	
10,000,000 units (2004: Nil) DSP Merrill Lynch Fixed Term Plan Series I Dividend	100,000	
9,981,703 units (2004: 35,518,398) Birla Cash Plus - Institutional Premium Dividend Plan Weekly	100,065	355,987
8,034,378 units (2004: 5,442,680) of GCCW Grindlays Cash Fund - Inst. Fund C Weekly Dividend	80,360	54,436
10,689,205 units (2004: 26,835,640) of Kotak Liquid (Institutional Premium) - Weekly Dividend	107,207	269,079
15,850 units (2004:141,841) of Templeton India Treasury Management Account - Weekly Dividend Reinvestment	15,863	141,954
155,139 units (2004: Nil) of D50 DSP Merill Lynch Liquidity Fund - Inst. Weekly Dividend	155,237	
975,523 units (2004: 7,525,628) of HDFC Cash Management - Savings Plan - Weekly Dividend Reinvestment Option	10,363	79,976
2,796,428 units (2004: 41,873,527) of Principal Cash Management Fund Liquid Option - Institutional Premium Plan Weekly Dividend	27,973	418,721
Nil units (2004: 4,983,105) of D50 DSP Merill Lynch Liquidity Fund - Weekly Dividend		61,798
Nil units(2004:23,000,000) J 120 JM Fixed Maturity Plan - YSW - Growth Option		230,000
Nil units (2004: 48,835,265) of Deutsche Insta Cash Plus Fund - Institutional Monthly Dividend		488,489
Nil units (2004: 5,000,000) of G40 Grindlays Fixed Maturity - 3rd Plan - Dividend		50,000
Nil units (2004: 15,000,000) of Reliance Fixed Term Scheme Annual Plan - Growth Option		150,000
Nil units (2004: 12,000,000) Principal Deposit Fund (FMP-6) 371 days plan growth		120,000
Nil units (2004: 52,422,054) of OCIMD HSBC Cash Fund - Institutional Monthly Dividend		524,162
Nil units (2004: 6,788,420) of S31 Tata Liquid Super High Investment Funds - Weekly Dividend		76,104
Nil units (2004:12,004,290) of HDFC Fixed Investment Plan - June 2004 - Growth		120,043
Nil units (2004:10,000,000) of HDFC Fixed Investment Plan - July 2004 - Growth		100,000
	4,469,715	3,240,749
Less: Provision for decline in the fair value of investments	(84)	(55)
Total	8,049,677	6,820,740
Aggregate value of quoted investments (market value Rs 4,528,188; 2004 : Rs 3,261,633)	4,469,631	3,240,694
Aggregate value of unquoted investments	3,580,046	3,580,046

Refer note 26 for summary of investments purchased and sold during the year.

8 Sundry debtors

	2005	2004
(Unsecured)		
Debts outstanding for a period exceeding six months		
considered good	5,817	1,530,858
considered doubtful	23,779	24,301
	29,596	1,555,159
Other debts		
considered good	4,160,419	3,505,790
considered doubtful		
	4,160,419	3,505,790
Less: Provision for doubtful debts	23,779	24,301
	4,166,236	5,036,648

Of the above, debts due from companies under the same management as defined under Section 370(1)(B) of the Companies Act, 1956 aggregate Rs 3,852,041 (2004: Rs 4,875,055). This consists of debts due from Patni Computer Systems, Inc. aggregating Rs 3,551,446 (2004 : Rs 4,588,026); Patni Computer Systems (UK) Limited aggregating Rs 221,224 (2004 : Rs 224,411), Patni Computer Systems GmbH aggregating Rs 34,901 (2004 : Rs 62,123), and Patni Telecom Solutions Pvt ..Ltd. Rs. 44,470 (2004 : Rs.495).

9 Cash and bank balances

	2005	2004
Cash on hand	14,975	4,707
Balances with scheduled banks in current account	168,984	121,693
Balances with non scheduled banks in current account (Refer note 27)	5,522,267	76,474
	5,706,226	202,874

10 Loans and advances (Unsecured)

	2005	2004
Advances recoverable in cash or in kind or for value to be received	147,098	91,189
Advances to companies under the same management		
PCS Technology Limited		10
(Maximum amount of outstanding during the year; Rs 10 : 2004: Rs 13)		
Security deposits with companies under the same management		
Ashoka Computer Systems Private Limited	2,732	3,336
(Maximum amount of outstanding during the year; Rs 3,336 : 2004: Rs 3,336)		
PCS Cullinet Private Limited	2,766	3,334
(Maximum amount of outstanding during the year; Rs 3,334 : 2004: Rs 3,334)		
PCS Finance Limited	2,810	3,303
(Maximum amount of outstanding during the year; Rs 3,303: 2004: Rs 3,303)		
	8,308	9,973
Other deposits	250,469	246,671
Loan to employees	2,805	3,060

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	408,680	350,903
Less: Provision for doubtful loans and advances	1,035	535
	407,645	350,368

11 Current liabilities

	2005	2004
Sundry creditors	121,366	73,687
Payable to subsidiary companies	35,769	24,071
Billings in excess of cost and estimated earnings	13,797	1,185
Advance from customers	2,530	2,226
Unclaimed dividend *	187	92
Other liabilities	873,698	510,785
	1,047,347	612,046

* There is no amount due and outstanding to be credited to Investor Education and Protection Fund.

12 Provisions

	2005	2004
Provision for taxation (net of advance tax 2005: 1,222,896, 2004: Rs 779,769)	133,947	50,826
Provision for retirement benefits	307,974	334,873
Dividend on equity shares	344,496	249,994
Dividend tax	48,316	32,671
	834,733	668,364

13 Other income

	2005	2004
Dividend on non-trade investments	109,439	156,815
Dividend from subsidiary		825
Profit on sale of non-trade investments, net	49,395	6,544
Profit / (Loss) on sale of fixed assets, net	133,957	(18,699)
Interest from:		
Loan to employees	259	322
Bank deposits (tax deducted at source; Rs 189; 2004: Rs 47)	12,167	340
Others	33,158	1,758
Miscellaneous income	24,285	9,155
	362,660	157,060

14 Personnel costs

	2005	2004
Salaries, bonus and allowances, including overseas employee expenses	3,528,684	2,449,313
Contribution to provident and other funds	168,389	132,429

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Staff welfare	177,621	124,755
Pension, gratuity and leave encashment costs	53,309	154,268
	3,928,003	2,860,765

15 Selling, general and administration costs

	2005	2004
Travel and conveyance	457,617	269,475
Legal and professional fees	255,636	149,196
Rent	317,836	156,480
Postage and communication	166,895	133,612
Electricity	159,481	105,291
Advertisement and publicity	42,476	35,983
Software consumables	23,370	22,379
Rates and taxes	20,919	32,689
Recruitment charges	31,266	17,188
Insurance	31,925	20,515
Training fees	37,636	16,034
Printing and stationery	26,447	26,694
Subscription, registration and license fee	7,219	8,897
Foreign exchange loss/(gain, net)	232,614	66,993
Repairs and maintenance		
computers	99,420	64,567
building	25,562	15,787
others	25,907	14,846
Provision for decline in the fair value of investment	29	(263)
Provision for doubtful debts and advances	(22)	1,744
Miscellaneous expenses	101,467	78,744
	2,063,700	1,236,851

16 Interest costs

	2005	2004
Interest on finance lease obligations	1,341	1,453
Interest on loans from banks and financial institutions	43	
Interest on tax assessments	30,248	
Interest on others	9,155	
	40,787	1,453

17 Taxes

	2005	2004
Provision for tax expense consists of the following:		
Current taxes		
Indian	78,519	6,990
Foreign (Refer note 1 below)	310,855	231,131
	389,374	238,121
Deferred tax expense / (credit)		
Indian	(3,909)	(17,131)
Foreign	(30,694)	36,083
	(34,603)	18,952
	354,771	257,073
Provision for tax expense (prior period) consists of the following:		
Current taxes		
Foreign	126,725	
	126,725	
Deferred tax expense / (credit)		
Foreign	(13,529)	
	(13,529)	
	113,196	
The significant components of deferred tax asset and liability consists of the following:		
Provision for retirement benefits	52,571	57,092
Provision for bad and doubtful debts	2,908	2,534
Others	1,017	1,312
Depreciation	(44,619)	(52,970)
Total deferred tax asset, net	11,877	7,968
US branch profit taxes	(70,848)	(115,071)
Total deferred tax liability	(70,848)	(115,071)

During the year, the Company has sold leasehold land for a consideration of Rs 175,000 and recognised a gain of Rs 135,975. The Company plans to reinvest proceeds from this sale in prescribed securities for a period of three years so as to realise the gain on sale in a tax free manner, as required by the Income Tax law.

18 Auditors remuneration

	2005	2004
Remuneration to auditors consists of the following:		
Audit fees	5,139	4,700
Other services	337	341
Out of pocket expenses	370	184
	5,846	5,225

19 Segmental information

In accordance with paragraph 4 of Accounting Standard 17 Segment Reporting issued by the ICAI, the Company has presented segmental information only on the basis of the consolidated financial statements (Refer note 19 of the consolidated financial statements)

20 Related party transactions

(a) Names of related parties and nature of relationship where control exists

Sr. No.	Category of related parties	Names
1	Subsidiaries	1) Patni Computer Systems, Inc.,USA
		2) Patni Computer Systems (U.K.) Ltd.
		3) Patni Computer Systems GmbH
		4) The Reference Inc.
		5) Patni Telecom Solutions Inc (formerly Cymbal Corporation)
		6) Patni Telecom Solutions (UK) Limited (formerly Cymbal Corporation Ltd.)
		7) Patni Telecom Solutions Pvt. Ltd. (formerly Cymbal Information Services Pvt. Ltd.)
		8) Cymbal Information Services (Thailand) Limited
2	Affiliates	1) PCS Technology Limited (formerly known as PCS Industries Ltd.)
		2) Ashoka Computer Systems Private Ltd.
		3) PCS Cullinet Private Ltd.
		4) PCS Finance Ltd.
		5) Ravi & Ashok Enterprises.
		6) iSolutions Inc.
3	Key management personnel	1) Mr. N. K. Patni
		2) Mr. A. K. Patni
		3) Mr. G. K. Patni
4	Parties with substantial interest	1) Members of Patni family and their relatives
		2) General Atlantic Mauritius Limited (GA)
5	Others	1) Ravindra Patni Family Trust

(b) Transactions and balances with related parties

Nature of the transaction	Subsidiaries	Affiliates	Key management personnel	Parties with substantial interest	Others
Transactions during the year ended 31 December 2005					
Remuneration			118,178		
Sales and service income	7,363,875				
Interest income	31,269				
Purchase of fixed assets	9,799				
Professional fees	8,819				
Reimbursement of expenses by subsidiaries/affiliates	490,007				
Rent and other expenses		11,683		60	
Donations					2,500
Amounts incurred by subsidiary on behalf of the Company	107,484				
Amounts repaid to subsidiary	83,826				
Balances at 31 December 2005					
Investments	3,580,046				
Security deposits		8,338		3,000	
Debtors	3,852,041				
Amounts recoverable					
Amounts payable	35,769	781		37	
Proposed dividend		45,638	44,261	160,899	
Remuneration payable to the directors			1,116		
Provision for pension benefits			267,968		
Guarantees given		150,000			
Transactions during the year ended 31 December 2004					
Remuneration			124,437		
Sales and service income	6,050,545				
Professional fees	9,000				
Reimbursement of expenses by subsidiaries/affiliates	304,280	36			
Rent and other expenses		13,467		241	
Donations					2,500
Dividend income	825				
Amounts incurred by subsidiary on behalf of the Company	176,119				
Investments in subsidiary	1,598,962				
Amounts repaid to subsidiary	244,498				
Balances at 31 December 2004					
Investments	3,580,046				
Security deposits		9,973		3,000	
Debtors	4,875,055				
Amounts recoverable		10			
Amounts payable	24,071	1,732		193	
Proposed dividend		36,511	35,409	118,610	
Remuneration payable to the directors			1,029		
Provision for pension benefits			289,188		
Guarantees given		150,000			

Refer note 28 for Managerial remuneration

21 Reconciliation of basic and diluted shares used in computing earnings per share

	2005	2004
Number of shares considered as basic weighted average shares outstanding	125,736,592	123,066,042
Add: Effect of dilutive issues of stock options	1,721,040	1,018,950
Number of shares considered as weighted average shares and potential shares outstanding	127,457,632	124,084,992

22 Leases

The Company has acquired certain vehicles under finance lease for a non-cancellable period of 4 years. At the inception of the lease, fair value of such vehicles has been recorded as an asset under gross block of vehicles with a corresponding lease obligation recorded under secured loans. As per the lease agreement, the ownership of these vehicles would not transfer to the Company, however it contains a renewal clause. Fixed assets include the following amounts in relation to the above leased assets:

As at	2005	2004
Gross block of vehicles	56,503	46,610
Less: Accumulated depreciation	24,486	18,066
Net block	32,017	28,544

Future minimum lease payments in respect of the above assets as at 31 December 2005 are summarised below:

	Minimum lease payments	Finance charge	Present value of minimum lease payments
Amount due within one year from the balance sheet date	13,988	939	13,049
Amount due in the period between one year and five years	19,453	688	18,765
	33,441	1,627	31,814

The Company has operating lease agreements, primarily for leasing office space and residential premises for its employees. Most of the lease agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days and also contain a clause for renewal of the lease agreement at the option of the Company. Additionally, the Company has taken certain office premises under non-cancelable operating lease arrangements, which are renewable at the option of the Company.

The future minimum lease payments in respect of such non-cancelable operating leases as at 31 December 2005 are summarised below:

As at	2005	2004
Amount due within one year from the balance sheet date	223,582	191,895

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Amount due in the period between one year and five years	186,359	325,628
	409,941	517,523

Rent expense for all operating leases for the year ended 31 December 2005 aggregated Rs 317,836 (2004: Rs 156,480)

23 Capital and other commitments

	2005	2004
Estimated amount of contracts remaining to be executed on capital account and not provided for	1,010,802	1,111,437
Corporate guarantee	150,000	150,000
Outstanding forward contracts	3,470,390	4,491,830
Unamortised income in respect of forward contracts	10,748	4,917
Bank guarantees	18,011	15,504
Letters of credit	24,672	2,503
	4,684,623	5,776,191

Estimated amount of contracts remaining to be executed on capital account and not provided for includes cases wherein purchase orders have been released and work has either not commenced or has been partially completed.

Corporate guarantee includes guarantee given to Standard Chartered Bank on account of PCS Technology Limited in consideration of granting advances, credit and other banking facilities.

Outstanding forward contracts represents the total value of forward contracts entered into by the company.

Guarantees given by a bank on behalf of Patni amounted Rs.15,504 and Rs. 18,011 as at December 31, 2004 and 2005 and letter of credit issued by bank was Rs 2,503 and Rs 24,672 as at December 31, 2004 and 2005.

Certain other income tax related legal proceedings are pending against the Company. Potential liabilities, if any, have been adequately provided for, and the Company does not currently estimate any incremental liability in respect of these proceedings. Additionally, the Company is also involved in lawsuits and claims which arise in ordinary course of business. There are no such matters pending that the Company expects to be material in relation to its business.

24 Employee stock compensation plans

On 30 June 2003, Patni established the Patni ESOP 2003 plan (the plan). Under the plan, the Company is authorized issue up to 11,142,085 equity shares to eligible employees. Employees covered by the Plan are granted an option to purchase shares of the Company subject to the requirements of vesting. A compensation committee constituted by the Board of Directors of the Company administers the plan.

The exercise price of the grant approximated the fair value of the underlying equity shares at the date of the grant.

Stock options* activity under the plan is as follows:

* Includes stock options granted to employees of subsidiary companies

	Year ended 31 December 2005	
Shares arising out of options	Range of exercise prices	Weightage average remaining contractual life (months)
2,352,015	145	75

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Outstanding at the beginning of the year			
	100,000	254	84
	2,750,632	338	87
Granted during the year	190,000	381	90
Granted during the year	670,710	451	90
Forfeited during the year	(113,900)	145	
Forfeited during the year	(198,625)	338	
Forfeited during the year	(45,500)	145	
Forfeited during the year	(50,000)	338	
Forfeited during the year	(9,000)	381	
Exercised during the year	(433,065)	145	
Exercised during the year	(28,000)	338	
Outstanding at the end of the year	1,759,550	145	67
	100,000	254	72
	2,474,007	338	75
	181,000	381	81
	670,710	451	87
Exercisable at the end of the year	663,242	145	67
Exercisable at the end of the year	25,000	254	72
Exercisable at the end of the year	597,502	338	75

	Year ended 31 December 2004		
	Shares arising out of options	Exercise prices	Weightage average remaining contractual life (months)
Outstanding at the beginning of the year	2,733,700	145	86
Granted during the year	100,000	254	90
Granted during the year	2,750,632	338	90
Forfeited during the year	(192,875)	145	
Exercised during the year	(188,810)	145	
Outstanding at the end of the year	2,352,015	145	75
	100,000	254	84
	2,750,632	338	87
Exercisable at the end of the year	446,396	145	56

Patni uses the intrinsic value method of accounting for its employee stock options. Patni has therefore adopted the pro-forma disclosure provisions as required by the Guidance Note on Accounting for Employee Share-based payments issued by the ICAI with effect from 1 April 2005. Had the compensation cost been determined in a manner consistent with the fair value approach described in the aforesaid Guidance Note, Patni's net profit and EPS as reported would have been adjusted to the pro-forma amounts indicated below:

	2005
Profit for the year after taxation as reported	1,944,129
Add Stock based employee compensation determined under the intrinsic value method	
Less Stock based employee compensation determined under the fair value method	154,383
Pro-forma profit	1,789,746
Reported earnings per equity share of Rs 2 each	
Basic	15.46
Diluted	15.25
Pro-forma earnings per equity share of Rs 2 each	
Basic	14.23
Diluted	14.04

The stock based compensation disclosed above is with respect to all stock options granted on or after 1 April, 2005.

The fair value of each stock option is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2005
Dividend yield	0.53% to 0.54%
Expected life	2 to 5 years
Risk free interest rates	5.74% to 6.73%
Expected volatility *	28% to 50%

* Expected volatility is computed based on historical share price movement since February 2004

25 Amounts due to small scale industrial undertakings

Based on the information and records available with the Company, no amounts are payable to small scale industrial undertakings at 31 December 2005 which are outstanding for more than 30 days (2004: Nil)

26 Summary of investments purchased and sold during the period**Investments purchased during the year ended 31 December 2005 (non-trade)**

	Year ended 31 December 2005	
	Units	Cost of purchase
Liquidity Fund		
Birla Cash Plus - Institutional Premium Dividend Plan Weekly	84,908,970	851,136
D50 DSP Merrill Lynch Liquidity Fund - Inst.-Weekly Dividend	304,962	305,163
D50 DSP Merrill Lynch Liquidity Fund - Weekly Dividend	14,174,671	175,808
GCCW Grindlays Cash Fund -Super Inst. Plan C - Weekly Dividend	156,966,797	1,570,053
HDFC Cash Management Fund - Savings Plan - Weekly - Dividend Reinvestment	62,831	664
HDFC Cash Management Fund - Saving Plan - Weekly Dividend Option	66,762,386	709,605
I-262_ING Vysya Liquid fund Super Institutional - WD	30,166,340	302,144
I-160 ING Vysya Liquid fund Institutional Weekly Dividend	29,926,060	300,312
Kotak Liquid (Institutional Premium) - Weekly Dividend	112,729,130	1,130,576
M 44 ABN Amro Cash Fund - Institutional Daily Dividend	38,330,464	383,312
M 47 ABN Amro Cash Fund - Institutional Daily Dividend	31,444,538	314,445
OCFPMD HSBC Cash Fund - Institutional Plus - Monthly Dividend	150,764	1,509
OCCPWD HSBC Cash Fund - Institutional Plus - Weekly Dividend	137,982,953	1,380,801
Principal Cash Management Fund Liquid Option - Instl. Plan - Dividend Reinvestment - Weekly	87,900,186	879,203
Principal Income Fund - Short Term Instl.Plan - Md	18,080,391	182,032
Templeton India Treasury Management Account Institutional Plan - Weekly Dividend Reinvestment	56,501	56,529
Templeton India Short Term Plan Inst # 2140000237625 Weekly Dividend	100,003	100,000
T LSW Tata Liquid Super high Inv Fund - Weekly Dividend	8,915,544	100,276
TLW01 Tata Liquid Super high Inv. Fund - Weekly Dividend	967,083	1,092,585
Tstd Tata Short Term Bond Fund - Dividend	9,325,579	101,641
Deutsche Insta Cash Plus Fund - Institutional Plan - Weekly Dividend	85,891,978	861,544
D6_Deutsche Short Maturity Fund - Monthly Dividend	14,880,354	150,860
Gstd Gssif - Short Term - Monthly Dividend	5,024,178	50,372
G60 Gssif - St - Plan C - Monthly Dividend	17,093,246	171,003
B332Fd Birla Bond Plus - Instl. - Fortnightly Dividend - Reinvestment	9,708,609	101,601
Kotak Bond (Short Term) - Monthly Dividend	4,994,610	50,260
HDFC Short Term Plan - Dividend Reinvestment	3,424,558	35,196
H15 - Oisid Hsbc Income Fund - Short Term Institutional - Dividend	9,473,287	101,618
RLF - Treasury plan - Institutional Option - Weekly Dividend Option	10,026,400	100,318
RLF - Treasury plan - Retail Option - Monthly Dividend	6,978,624	100,367

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Reliance Short Term Fund -Dividend Plan	9,774,242	100,177
Birla Cash Plus - Ip- Growth	9,384,472	100,000

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	Year ended 31 December 2005	
	Units	Cost of purchase
M 43 Abn Amro Cash Fund - Institutional Growth	9,576,067	100,000
HDFC Cash Management Fund - Saving Plan - Growth	7,144,745	100,000
Kotak Liquid (Institutional Premium) - Growth	11,073,543	150,000
B332G Birla Bond Plus - Instl. - Growth	5,475,209	70,000
Kotak Bond (Short Term) - Growth	8,111,155	100,000
TSTG Tata ST Bond Fund - Growth 441363/58	20,535,736	250,000
Tlsg01 Tata Liquid Super High Inv. Fund - Appreciation	121,417	150,000
G63 GSSIF - Short Term - Plan C Growth 21349 / 70	12,412,862	125,000
OISIG HSBC Income Fund - Short Term Inst. - Growth	3,426,447	40,000
H16 - Oisid Hsbc Cash Fund - Institutional Plus - Growth	14,190,973	150,000
Principal Cash Man. Fund Liquid Option -Instl. Prem. Plan Growth	14,345,967	150,000
Principal Income Fund Short Term Instl. Plan - Growth Plan	13,085,466	150,000
Gccg Grindlays Cash Fund -Super Inst. Plan C - Growth	14,086,623	150,000
	1,149,496,921	13,546,110
Fixed maturity fund		
Birla Fixed Term Plan Series A-Dividend-Reinvestment	5,000,000	50,000
DSP Merrill Lynch Fixed term Plan Series I Dividend	10,000,000	100,000
G9_G121 Grindlays Fixed Maturity - 18th Plan Dividend	10,000,000	100,000
I244 ING Vysya Fixed Maturity Fund Series -IV Growth	10,000,000	100,000
J120 JM Fixed Maturity Pl -YSW - Growth	5,000,000	50,000
Kotak FMP Series XII - Dividend 90 Days	9,487,087	94,871
Principal Deposit Fund Growth - March 05	5,000,000	50,000
Principal Deposit Fund (FMP-3-20) 91 Days Plan	10,000,000	100,000
Reliance Fixed Term Scheme - Quarterly Plan - 8 - Dividend Option	20,000,000	200,000
TFHAG1 Tata Fixed Horizon Fund Series 1 Plan A (371 Days Maturity) Growth	5,000,000	50,000
Reliance Fixed Maturity Fund - Annual Plan Series1 Growth Option	10,000,000	100,000
Reliance Fixed Maturity Fund - Qtrly Plan Seriesii Dividend Option	10,000,000	100,000
R8_Reliance Fixed Maturity Fund - Qtrly Plan-II SeriesII Dividend Option	10,118,100	101,181
G104 Grindlays Fixed Maturity -4th Plan B Growth	5,000,000	50,000
Deutsche Fixed Term Fund - Growth Option	10,000,000	100,000
Deutsche Fixed Term Fund - Series 7	10,000,000	100,000
DSP Merrill Lynch Fixed term Plan Series IA Dividend	15,000,000	150,000
UTI - Fixed Maturity Plan (QFMP/1205/I) Dividend Plan	20,000,000	200,000
	179,605,187	1,796,052
Total	1,329,102,108	15,342,162

Investments sold during the year ended 31 December 2005 (non-trade)

	Units	Year ended 31 December 2005	
		Sale Value	Cost of purchase
Liquidity Fund			
M 44 Abn Amro Cash Fund - Institutional Daily Dividend	38,330,464	383,305	383,312
M 47 Abn Amro Cash Fund - Institutional Daily Dividend	31,444,538	314,446	314,445
Birla Cash Plus - Institutional Premium Dividend Plan Weekly Dividend - Reinvestment	110,445,665	1,107,500	1,107,058
D50 DSP Merrill Lynch Liquidity Fund - Inst.-Weekly Dividend	149,823	150,000	149,926
D50 DSP Merrill Lynch Liquidity Fund - Weekly Dividend	19,157,776	237,705	237,607
Deutsche Insta Cash Plus Fund - Institutional Plan - Weekly Dividend	49,158,608	492,309	491,726
Deutsche Insta Cash Plus Fund - Institutional Plan - Weekly Dividend	85,568,634	858,972	858,308
GCCW Grindlays Cash Fund -Super Inst Plan C - Weekly Dividend	154,375,099	1,544,500	1,544,130
HDFC Cash Management Fund - Savings Plan - Weekly - Dividend Reinvestment	6,612,936	70,319	70,277
HDFC Cash Management Fund - Saving Plan - Weekly Dividend Option	66,762,386	709,658	709,605
OCFPMD HSBC Cash Fund - Institutional Plus - Monthly Dividend	52,572,819	526,459	525,671
OCFPWD HSBC Cash Fund - Institutional Plus - Weekly Dividend	127,216,877	1,273,600	1,273,049
I-262_ING VYSYA Liquid Fund Super Institutional - WD	14,605,008	146,500	146,282
Kotak Liquid (Institutional Premium) - Weekly Dividend	128,875,564	1,292,871	1,292,448
Principal Cash Management Fund Liquid Option - Instl. Plan - Dividend Reinvestment - Weekly	126,977,285	1,270,500	1,269,951
TLSW TATA Liquid Super High Inv. Fund - Weekly Dividend	15,703,964	176,758	176,380
TLSW01 TATA Liquid Super High Inv. Fund - Weekly Dividend	898,631	1,017,500	1,014,970
D6_Deutsche Short Maturity Fund - Md - Gstd Gssif - Short Term - Monthly Dividend	4,999,713	50,660	50,860
G60 Gssif - St - Plan C - Monthly Dividend	5,024,178	50,372	50,372
H15 - Oisid Hsbc Income Fund - Short Term Institutional - Dividend	10,100,239	101,145	101,003
HDFC Short Term Plan - Dividend Reinvestment	9,473,287	101,649	101,618
I-160 ING Vysya Liquid fund Institutional Weekly Dividend	3,424,558	35,198	35,196
Principal Income Fund - Short Term Instl.Plan - Md	29,926,060	300,299	300,312
RLF - Treasury Plan - Institutional option - Weekly Dividend Option	15,089,453	151,973	152,032
Reliance Short Term Fund -Dividend Plan	10,026,400	100,367	100,318
Templeton India Treasury Management Account Institutional Plan - Weekly Dividend Reinvestment	9,774,242	100,652	100,177
B332Fd Birla Bond Plus - Instl. - Fortnightly Dividend - Reinvestment	182,492	182,664	182,619
Kotak Bond (Short Term) - Monthly Dividend	9,708,609	101,664	101,601
Tstd Tata Short Term Bond Fund - Dividend	4,994,610	50,245	50,260
	9,325,579	101,840	101,641

1,150,905,498

13,001,630

12,993,154

	Year ended 31 December 2005		
	Units	Sale Value	Cost of purchase
Fixed Maturity fund			
G40 Grindlays Fixed Maturity - 3rd Plan - Dividend	5,000,000	50,000	50,000
HDFC Fixed Investment Plan - June 2004 (2) - Growth	12,004,290	126,613	120,043
HDFC Fixed Investment Plan - July 2004 (2) - Growth	10,000,000	105,409	100,000
J120 JM Fixed Maturity PI - YSW - GROWTH	28,000,000	293,069	280,000
Principal Deposit Fund (FMP -6) 371 Days Plan - Growth - June 2004	12,000,000	126,490	120,000
Reliance Fixed Term Scheme - Annual Plan - 4 - Growth Option	15,000,000	158,202	150,000
Reliance Fixed Term Scheme - Quarterly Plan - 8 - Dividend Option	20,000,000	200,000	200,000
Reliance Fixed Maturity Fund - Qtrly Plan Series ii Dividend Option	10,000,000	101,181	100,000
	112,004,290	1,160,964	1,120,043
Total	1,262,909,788	14,162,594	14,113,197

27 Names of non-scheduled banks, balances at period end and maximum amount of outstanding during the period

	2005	2004
Fleet Bank, Boston, USA (formerly Bank Boston - USA) (Maximum balance outstanding during the year: Rs 157,273 ; 2004: Rs 72,651)	12,584	2,655
Bank of Tokyo Mitsubishi Limited - Japan (Maximum balance outstanding during the year: Rs 146,081 ; 2004: Rs 17,329)	51,110	16,795
ANZ Bank Australia - Australia 013-030-1982-72801 (Maximum balance outstanding during the year Rs 9,160 ; 2004: Rs 3,324)	5,683	2,795
ANZ Bank Australia - Australia 013-030-1982-72828 (Maximum balance outstanding during the year Rs 33,413 ; 2004: Rs 33,796)	9,920	27,686
Handels Bank - Kista Sweden 585-341-338 (Maximum balance outstanding during the year Rs 4,777; 2004: Rs 5,013)	1,331	1,815
Handels Bank - Kista Sweden 585-130-558 (Maximum balance outstanding during the year Rs 50,352 ; 2004: Rs 26,635)	47,132	24,728
Korea Exchange Bank - 611-016-118-609 (Maximum balance outstanding during the year: Rs 1,803)	1,805	
Korea Exchange Bank - 801-013451-412 (Maximum balance outstanding during the year: Rs 218)	218	
Korea Exchange Bank - 650-00-4614-999 (Maximum balance outstanding during the year: Rs 3,168)	546	
ABN AMRO Bank N.V.-Netherlands (Maximum balance outstanding during the year: Rs 9155)	543	
Standard Chartered Bank N.Y. (Maximum balance outstanding during the year: Rs 5,391,395)	5,391,395	
	5,522,267	76,474

28 Supplementary statutory information**(i) Managerial remuneration**

	2005	2004
Salaries and allowances	57,497	50,590
Perquisites	1,212	3,042
Contribution to provident fund	2,148	1,953
Provision for pension fund	57,321	68,852
	118,178	124,437

(a) Provisions for gratuity and leave encashment in respect of Directors are not included above, as actuarial valuation is done on an overall Company basis.

(b) Managerial remuneration includes Rs 78,253 (including provision for pension Rs 42,816) paid/accrued to manager by the subsidiary company during the year ended 31 December 2005.

(c) Computation of net profit in accordance with Section 349 of the Companies Act, 1956 has not been given, as commission by way of percentage of profits is not payable for the year to the Directors.

(d) Sitting fees paid to non-executive directors not included above aggregated Rs 580 (2004: Rs 540) during the year ended 31 December 2005. Further commission payable to non-executive directors not included above aggregated Rs 8,656 (2004: Rs 4,691)

(ii) Value of imported and indigenous software consumables

	2005		2004	
Imported	5.46%	1,272	2.45%	549
Indigenous	94.54%	22,030	97.55%	21,830
	100.00%	23,302	100.00%	22,379

(iii) Value of imports calculated on C.I.F basis

2005 2004

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Capital goods	320,833	254,109
Software consumables	1,272	549
Others	240	353
	322,345	255,011

(iv) **Expenditure in foreign currency**

Overseas employee expenses	170,544	92,642
Travelling	420,898	83,169
Professional fees and consultancy charges	70,769	36,655
Subscription and registration fees	2,559	6,571
ADR expenses	341,723	
Others	65,582	23,013
	1,072,075	242,050

(v) **Earnings in foreign currency**

Sales and services income (on FOB basis)	8,711,653	6,996,847
Interest received	43,476	119
	8,755,129	6,996,966

(vi) **Dividend remitted in foreign currency**

Number of non-resident shareholders	3	9
Number of equity shares held on which dividend was due (paid up value of Rs 2 each)	20,908,373	62,468,545

Period to which dividend relates	1 January 2004 to 31 December 2004	1 January 2003 to 31 December 2003
Final dividend	41,817	62,469

29 Statement of Utilisation of IPO Funds as of 31 December 2005

	No. of shares	Price	Amount
Amount raised through IPO	13,415,200	230	3,085,496
Share issue expenses			225,274
Net proceeds			2,860,222
Deployment :			
1 General Corporate Purposes			
Capital Expenditure for Office facilities			1,261,259
2 Strategic Initiatives			
Investments in Subsidiary Company to acquire Cymbal Corporation			1,598,963
3 Held under Short term Investments pending utilisation			
Net proceeds			2,860,222

30 Statement of Utilisation of ADS Funds as of 31 December 2005

	No. of shares	Price	Amount
Amount raised through ADS (6,156,250 ADSs @ \$20.34 per ADS)	12,312,500	466	5,739,262
Share issue expenses			369,406
Net proceeds			5,369,856
Deployment :			
Held as bank balance pending utilisation			5,369,856
Net proceeds			5,369,856

31 Prior year items

In connection with an ongoing review of certain tax aspects relating to its international operations by the tax authorities in certain overseas locations, the Company has reassessed its obligations for payroll and related taxes for years ended 31 December 2001 to 31 December 2004. Based on information gained from this reassessment and consultation with its advisors, the Company has determined that it is probable that payroll and related tax obligations have been incurred.

Accordingly, the Company has estimated its liability including interests and penalties for related tax consequences at amounts based on applicable tax rules and these have been reported separately in these financial statements as prior period items:

	2005	2004
Personnel costs	20,892	

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Selling, general and administration cost	1,252
Interest	21,279
Total	43,423

To the extent that the Company has determined a likely tax deduction for these payments, a related deferred tax asset has been created and reported as a prior period item in Note 17.

Additionally, the Company has also reassessed its branch taxation policies for the years ended 31 December 2001 and 31 December 2002 and determined an amount of Rs. 126,725 which is reported as a prior period income tax item in Note 17

32 **Prior year comparatives**

Previous year figures have been appropriately reclassified to conform to the current year's presentations.

33 Balance sheet abstract and Company's general business profile

I. Registration details

Registration No.	2	0	1	2	7	State Code	1	1
Balance Sheet Date	3	1	1	2	2	0	0	5
		Date		Month		Year		

II. Capital raised during the year

Public Issue	2	4	6	2	5	Right Issue	N	I	L
Bonus Issue						Private Placement	N	I	L

III. Position of mobilisation and deployment of funds

Total Liabilities	2	2	4	0	5	5	1	8	Total Assets	2	2	4	0	5	5	1	8
<i>Sources of Funds</i>									<i>Reserves & Surplus</i>								
Paid-Up Capital	2	7	5	5	9	7			Unsecured Loans	2	0	1	4	5	1	8	0
Secured Loans	3	1	8	1	3												
Deferred Tax Liability	7	0	8	4	8												
<i>Application of Funds</i>									<i>Investments</i>								
Net Fixed Assets	3	8	8	9	5	2	6		Deferred Tax Asset	8	0	4	9	6	7	7	
Net Current Assets	8	5	7	2	3	5	8		Miscellaneous Expenditure								
Accumulated Losses																	

IV. Performance of the company

Turnover	9	1	1	8	6	2	2	Total Expenditure	6	6	3	2	7	5	4
+/- Profit before Tax								+/- Profit after Tax							
+ Earnings per share in Rs.	2	4	4	2	4	4	5	+ Dividend @%	1	9	4	4	1	2	9

V. Generic names of three principal products/services of the company (As per monetary terms)

Item No. ITC Code	NIL	Product Description	Computer Software and Services
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For and on behalf of the Board of Directors

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Mumbai
1 February 2006

Arun Kanakal
Company Secretary

PATNI COMPUTER SYSTEMS LIMITED

Annexure to the Balance Sheet for the year ended 31 December, 2005

Statement pursuant to Section 212 of the Companies Act, 1956

1 Name of the Subsidiary Company	Patni Computer Systems, Inc.	Patni Computer Systems (UK) Ltd.	Patni Computer Systems GmbH	Patni Telecom Solutions Inc. (formerly Cymbal Corporation)	Patni Telecom Solutions Private Ltd. (formerly Cymbal Informations Services Private Ltd.)	Patni Telecom Solutions (UK) Ltd (formerly Cymbal Corporation Ltd.)
2 Financial Year of the Subsidiary Company	31 December, 2005	31 December, 2005	31 December, 2005	31 December, 2005	31 December, 2005	31 December, 2005
3 Date from which it became subsidiary	9 September, 2002	1 October, 1993	7 November, 2000	3 November, 2004	3 November, 2004	3 November, 2004
4 Extent of the Holding Company's Interest in the Subsidiary Company at the end of the financial year of the Subsidiary Company	100%	100%	100%	100%	100%	100%
5 Net aggregate amount of the profit/(loss) of the Subsidiary Company not dealt with in the Holding Company's Account (concerning the members of the Holding Company)						
i) For the Current Year	US Dollar 2,927,217 (*)	UK Pound 155,490	Euro 273,045	US Dollar 8,120,320	Rupees 172,522,227	Pounds 645,437
ii) For the previous years since it became a Subsidiary	US Dollar 10,560,898 (*)	UK Pound 2,186,827	Euro (97,781)	US Dollar 315,040 (**)	Rupees 10,722,723 (**)(***)	Pounds 22,443 (**)
6 Net aggregate amount of the profit of the Subsidiary Company dealt with in the Holding Company's Accounts.						
i) For the Current Year	Nil	Nil	Nil	Nil	Nil	Nil
ii) For the previous year since it became a Subsidiary	Nil	Nil	Nil	Nil	Nil	Nil

(*) Includes the results of The Reference Inc, wholly owned subsidiary of Patni Computer Systems, Inc. Excludes restatement impact of prior period adjustments and contingencies, as the same is a part of current year consolidated financials.

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(**) Represents Profits of Patni Telecom Entities before elimination.

(***) Includes profit of Cymbal Information Services (Thailand) Ltd.

For and on behalf of the Board of Directors

N K Patni
Chairman & CEO

G K Patni
*Executive
Director*

Arun Duggal
Director

Pradip Shah
Director

Arun Kanakal
*Company
Secretary*

Place : Mumbai

Date : 25 April 2006

PATNI COMPUTER SYSTEMS LIMITED**Management's Discussion and Analysis of the Consolidated Financials under Indian GAAP****Financial Condition****Share capital**

(Rs in thousands)

	Year ended 31 December 2005	Year ended 31 December 2004
Balance at the beginning of the year	249,994	222,842
Shares issued during the year		
Initial public offering		26,830
ESOP plan	978	322
ADS issue	24,625	
Balance at the close of the year	275,597	249,994

In December 2005, Patni issued 6,156,250 American Depository Shares (ADSs) representing 12,312,500 equity shares of Rs 2 each fully paid-up at a price of US\$ 20.34 per ADS for a gross proceeds of Rs 5,739.3 million. Each ADS represents two equity shares of Rs 2 each fully paid-up. An amount of Rs. 369.4 million has been incurred towards ADS issue expenses and the same has been adjusted against share premium received on the ADS issue in accordance with Section 78 of the Companies Act, 1956.

The Company has established the Patni ESOP 2003 plan under which it is authorized to issue up to 11,142,085 equity shares to eligible employees. The Company issued 4,88,890 shares to 438 employees during the year under the above plan.

Following these issuances of the Company's equity shares during the year, the issued, subscribed and paid-up share capital increased by 12,801,390 shares to 137,798,399 shares.

Reserves and surplus

The issuance of equity shares through the ADS issue and ESOP plan, as mentioned above, resulted in an addition of Rs 5,714.6 million to the share premium account. However, related share issue expenses of Rs 369.4 million were incurred during the period, which have been deducted from the share premium account.

The Company transferred an amount of Rs 194.4 million from its profit for the year to the general reserve, while Rs 1,397.3 million was retained in the profit and loss account.

Secured loans

The Company acquires vehicles under finance lease for a non-cancellable period of four years. The lease rental obligation in relation to such vehicles is recorded under secured loans. As per the lease agreement, the ownership of these vehicles would not transfer to the Company.

Net deferred tax liability

The Company recorded cumulative net deferred tax liability of Rs 59.8 million as of 31 December 2005. The deferred tax liability represents timing differences arising out of costs and estimated earnings in excess of billings, Depreciation and U.S. branch profit taxes.

Goodwill

The excess of cost to the parent company of its investment in subsidiaries over the parent company's portion of equity in the subsidiaries, at the respective dates on which investments in subsidiaries were made, is recognized in the consolidated financial statements as goodwill. Goodwill recorded in the consolidated financial statements has not been amortized, but evaluated for impairment.

The aggregate goodwill recorded in the financial statements comprises the following:

	(Rs in thousands)	
	Year ended 31 December 2005	Year ended 31 December 2004
Balance at the beginning of the year	2,687,715	1,398,941
Goodwill arising on acquisition of 100% equity interest in TRI		
Goodwill arising on acquisition of 100% equity interest in Patni Telecom Solutions Inc. (formerly Cymbal Corporation)		1,288,774
Contingent consideration arising out of Patni Telecom Solutions Inc. (formerly Cymbal Corporation)	2,43,093	
Effect of foreign currency translation	(9,485)	
Balance at the end of the year	2,921,323	2,687,715

Fixed assets

(Rs in thousands)

	Year ended 31 December 2005	Year ended 31 December 2004	Increase / (Decrease) %
Gross block			
Land			
freehold	9,019	9,019	
leasehold	169,706	203,021	(16.4)
Buildings and leasehold improvements	1,214,376	868,342	39.8
Computers, software and other service equipment	2,416,974	1,866,271	29.5
Electrical installations	312,335	205,234	52.2
Office equipments	450,117	319,676	40.8
Furniture and fixtures	660,926	438,372	50.8
Vehicles	101,917	91,382	11.5
Total	5,335,370	4,001,317	33.3
Less: Accumulated depreciation	2,372,420	1,810,460	31.0
Add: Capital work-in-progress	1,210,178	246,602	390.7
Net fixed assets	4,173,128	2,437,459	71.2

During 2005, the Company added Rs 1,484.8 million to its gross block of assets. Of this Rs 89.5 million was spent on leasehold improvements, air conditioners, electrical installations and furniture and fixtures for Magarpatta, Pune location. Similarly Rs 529.0 million was spent on construction of building, air conditioners, electrical installations and furniture & fixtures for Siruseri, Chennai location.

The capital work-in-progress as at 31 December 2005 and 2004 represents advances paid towards acquisition of fixed assets and the cost of assets yet to be put to use.

The ongoing development work at Patni's Knowledge Parks at Airoli (Navi Mumbai) and in SIPCOT-Phase II (Chennai) has led to the accretion of Rs 1,210.2 million to capital work-in-progress in 2005, compared to Rs 246.6 million in 2004.

Investments

Surplus cash generated from operations are invested in short-term money market instruments. Investments in short term and liquid mutual funds increased to Rs 6,331.3 million as of 31 December 2005 compared to Rs 3,714.8 million as of 31 December 2004.

Deferred tax asset (net)

The Company recorded cumulative deferred tax asset (net) of Rs 639.3 million as of 31 December 2005. This relates to the subsidiary companies, Patni USA and Patni Computer Systems (UK) Limited and Patni Telecom Solutions, Inc. The deferred tax asset represents timing differences arising out of provisions for retirement benefits, provision for bad and doubtful debts, deferred revenues, billings in excess of cost and estimated earnings, accrued expenses and carry forward losses.

Sundry debtors

Sundry debtors of Rs 3,230 million (net of provision for doubtful debts amounting to Rs 112.5 million) represents 16.3 per cent of revenues for the year ended 31 December 2005. During the year, the debts outstanding for a period exceeding six months reduced further to 3.9 per cent of gross debtors compared to 5.9 per cent in the previous year. Provision for doubtful debts as a percentage of sundry debtors also reduced to 3.4 per cent from 4.5 per cent in the previous year.

The age profile of debtors is given below:

Period in days	Year ended 31 December 2005	Year ended 31 December 2004
0-180	96.0%	94.1%
More than 180	4.0%	5.9%
Total	100.0%	100.0%

Cash and bank balances

The Company recorded cash and bank balances of Rs 6,707.3 million and Rs 3,364.2 million as of 31 December 2005 and 2004, respectively. Bank balances include balances maintained both in India and overseas. Bank balances in India include both rupee accounts and foreign currency accounts.

As of December 31, 2005 and 2004, the Company had cash and cash equivalents (cash and bank balances including short term investments) of Rs 13,038.7 million and Rs 7,079.1 million, respectively. Cash and cash equivalents represent 50.5 per cent and 41.6 per cent of total assets as of 31 December 2005 and 2004, respectively.

Cost and estimated earnings in excess of billings

Costs and estimated earnings in excess of billings represent revenues recognized by the Company in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and once customer acceptance is received. Cost and estimated earnings in excess of billings increased to Rs 1,176.1 million during the year ended 31 December 2005 compared to Rs 667.4 million in the year ended 31 December 2004 due to increase in revenue and number of projects executed by the Company.

Loans and advances

During the year ended 31 December 2005 advances recoverable in cash or kind increased to Rs 323.1 million from Rs 292.3 million in the year ended 31 December 2004. This increase is mainly due to change in the method of accounting for advances in Patni, Inc.

Security deposits decreased to Rs 290.8 million for the year ended 31 December 2005 from Rs 310.1 million in the year ended 31 December 2004 primarily on account of decrease in rental deposits placed for office premises in the United States by Patni, Inc.

Loan to the Company's employees were lower at Rs 19.4 million for the year ended 31 December 2005 from Rs 77.3 million in the year ended 31 December 2004.

Current liabilities

Current liabilities primarily include creditors for goods and expenses of Rs 246.9 million, which represent amounts payable to vendors for goods or services rendered. Billings in excess of cost and estimated earnings of Rs 105.9 million denotes billings in excess of revenues recognized. Advances received from customers of Rs 62.6 million include amounts received from customers for the delivery of future services. Deferred revenues of Rs 91.4 million relate to revenues for set up activities that are deferred and recognized over the period in which the fees are earned. Related costs are also deferred in such instances and are grouped under advances recoverable in cash or kind. Other liabilities of Rs 2,584.7 million include increased provisions for employee related and other costs.

Provisions

Provision for taxation represents estimated income tax liabilities, both in India and overseas. Provision for taxation (net of advance tax) as of 31 December 2005 was Rs 208.4 million.

As of 31 December 2005, provision for retirement benefits increased to Rs 799.5 million from Rs 707.7 million as of 31 December 2004 primarily on account of increase in salaries and an increase in manpower.

Dividend on equity shares of Rs 344.5 million represents dividend payable to shareholders of the Company recommended by the Board of Directors and will be paid on approval by the shareholders at the annual general meeting. Dividend tax denotes taxes payable on the proposed dividend for 2005.

Results of Operations

The following table sets forth certain financial information for the year ended 31 December 2005 as a percentage of revenues, calculated from the consolidated financial statements:

(Rs in thousands)

	Amount	% of income
Sales and service income	19,869,306	98.1%
Other income	381,932	1.9%
Total income	20,251,238	100%
Personnel cost	11,197,700	55.3%
Selling, general and administration cost	4,931,281	24.4%
Depreciation	678,158	3.4%
Transfer from revaluation reserves	81	
Interest costs	81,234	0.4%
Total expenses	16,888,292	83.4%
Profit before prior period items and taxation	3,362,946	16.6%
Prior period items	909,687	4.5%
Profit for the year before taxation	2,453,259	12.1%
Provision for taxation	466,166	2.3%
Profit for the year after taxation	1,987,093	9.8%

Income

The Company's sales and service income was Rs 19,869.3 million in 2005 from Rs 14,765.2 million in 2004. Clients from the insurance, manufacturing, and financial services industries contribute a large proportion of our sales and service income. In 2005, revenues from these clients together contributed 65.7 per cent of our revenues.

The Company derives a significant proportion of its revenues from clients located in the United States. In 2005, Patni derived 84.8 per cent of its revenues, from clients located in the United States. However, strong revenue growth was achieved in other regions and the business achieved a greater element of geographical diversification. The Company added 74 new clients during 2005.

Other income was Rs 381.9 million in 2005 from Rs 180.9 million in 2004. During 2005, other income comprised interest and dividend income of Rs 184.6 million, profit on sale of fixed assets of Rs 133.9 million, gain of Rs 49.2 million on the sale of investments and other miscellaneous income of Rs 14.2 million.

Personnel costs

Personnel costs were Rs 11,197.7 million and Rs 8,422.7 million in 2005 and 2004, respectively. These costs represent 55.3 per cent and 56.3 per cent of the Company's total income in 2005 and 2004, respectively. Personnel costs comprise salaries paid to employees in India and overseas staff expenses. The Company added 2,141 employees (net) during 2005.

Selling, general and administration expenses

The Company incurred selling, general and administration expenses of Rs 4,931.3 million and Rs 2,965.6 million, representing 24.4 per cent and 19.8 per cent of total income in 2005 and 2004, respectively. Selling, general and administration expenses include costs such as, subcontractor costs, travelling expenses, communication expenses, office expenses, legal and other professional fees, advertisement and publicity, and other miscellaneous selling and administrative costs.

Depreciation

The Company provided Rs 678.2 million and Rs 516.3 million towards depreciation for 2005 and 2004, respectively. Depreciation as a percentage of gross block of fixed assets was 12.7 per cent and 12.9 per cent for 2005 and 2004, respectively.

Interest

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The Company incurred interest costs of Rs 81.2 million and Rs 1.7 million in 2005 and 2004, respectively. These costs mainly comprise interest on tax assessments and interest on finance lease obligations relating to vehicles acquired by the Company.

Provision for taxation

The Company provided for its tax liability both in India and overseas. The details of provision for taxes are as follows:

Provision for tax expense consists of the following:

	2005	2004
	(Rs in thousands)	
Current taxes		
Indian	78,519	6,990
Foreign	614,594	383,300
	693,113	390,290
Deferred tax expense/(credit)		
Indian	(3,909)	(17,131)
Foreign	(58,602)	43,528
	(62,511)	26,397
	630,602	416,687

The Company benefits from a tax holiday given by the Government of India for the export of information technology services from specially designated software technology parks and special economic zones located in India. As a result of these tax incentives, a substantial portion of the Company's pre-tax income has not been subject to significant tax in recent years.

The Finance Act, 2000 phases out the 10-year tax holiday over a 10-year period from 2000 through 2009. Accordingly, facilities set up in India on or before 31 March 2000 have a 10-year tax holiday, new facilities set up in India on or before 31 March 2001 have a nine - year tax holiday and so forth until 31 March 2009. As per the prevailing tax laws, the tax holiday will no longer be available to new facilities after 31 March 2009. Patni's current tax holidays expire in stages by 2009.

The Company recorded net deferred tax credit of Rs 62.5 million and net deferred tax expense of Rs 26.4 million for 2005 and 2004, respectively.

Net profit

Net profit was Rs 1,987.0 million and Rs 2,577.0 million in 2005 and 2004, respectively. Net profit as a percentage of total income was 9.8 per cent and 17.2 per cent in 2005 and 2004, respectively.

Reconciliation of significant differences between consolidated net income determined in accordance with Indian Generally Accepted Accounting Principles (Indian GAAP) and consolidated net income determined in accordance with US Generally Accepted Accounting Principles (US GAAP)

(Rs in thousands)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Consolidated net income as per Indian GAAP		1,987,093	2,577,045
Income taxes	1	(52,991)	(12,317)
Fixed assets and depreciation	2	7,164	2,037
Foreign currency differences	3	51,364	29,820
Employee retirement benefits	4	(22,082)	30,532
Provision for decline in fair value of investment	5	28	(261)
Others		(1,873)	
Business acquisition	6	(32,754)	8,150
Prior period adjustment	7	746,661	
Total		695,517	57,961
Consolidated net income as per USGAAP		2,682,610	2,635,006

Notes:**1. Income taxes**

This represents deferred tax impact of significant differences between Indian GAAP and US GAAP.

2. Fixed assets and depreciation

Under Indian GAAP, certain indirect expenses incurred during the construction period are capitalized, whereas such costs are expensed as incurred under US GAAP. Further, under Indian GAAP, borrowing costs have been capitalised to fixed assets, only effective April 1 2001, when the AS 16 Borrowing Costs issued by ICAI became mandatory. These differences in carrying value of fixed assets have consequently resulted in differences in depreciation charge, which has been reflected above, as a reconciling item.

3. Foreign currency differences

Under Indian GAAP, net exchange difference resulting from translation of financial statements of foreign subsidiaries is recognised in the consolidated income statement. Under US GAAP, this exchange difference is reported in the statement of shareholders equity and other comprehensive income.

Additionally, the Company had booked forward foreign exchange contracts to hedge its export proceeds. Under Indian GAAP, premium on forward contract is recognized as income or expenditure over the life of the related contract.

Whereas, under US GAAP, the same is marked-to-market as on the reporting date and depending on the designation of the forward contract, the resultant gain/loss is recognized in the income statement or in the statement of shareholders' equity and other comprehensive income, as the case may be.

Also, in Indian GAAP, losses on cancellation of forward contracts designated against future sales are booked to Profit and Loss Account. In US GAAP, the same is reported in the statement of shareholders' equity and other comprehensive income.

These foreign currency differences are reported above, as a reconciling item.

4. Employee retirement benefits

This represents difference in recording pension, gratuity, and leave encashment costs.

5. Provision for decline in fair value of investments

Under Indian GAAP, current investments are carried at the lower of cost and fair value, and provision is made in the income statement to recognize any decline in the carrying value of such investments. Under US GAAP, such investments are designated as available for sale and are carried at fair value with unrealized gains or losses being separately

reported in the statement of shareholders' equity and other comprehensive income.

6. Business acquisition

Under US GAAP, the assets and liabilities acquired on acquisition of The Reference Inc. and Patni Telecom Solutions Inc. (formerly Cymbal Corporation) have been recorded at fair values assigned to them, whereas under Indian GAAP these have been recorded at respective book values.

Further, under US GAAP, a portion of the purchase consideration has been allocated to intangible assets meeting the criteria for being recognized as an asset apart from goodwill. These intangible assets are being amortised over its useful life in proportion to the economic benefits consumed during each reporting period. Under Indian GAAP, the entire difference between the purchase consideration and the book value of assets acquired has been recorded as goodwill, which is subject to impairment testing.

7. Prior period adjustment

In connection with an ongoing review of certain tax aspects relating to its international operations by the tax authorities in certain overseas locations, the Company has reassessed its obligations for payroll and related taxes for years ended 31 December 2001 to 31 December 2004. Based on information gained from this reassessment and consultation with its advisors, the Company has determined that it is probable that payroll and tax related obligations have been incurred.

Accordingly, under Indian GAAP, the Company has estimated its liability including interest and penalties for related tax consequences at amounts based on applicable tax rules and these have been reported separately in these financial statements as prior period items.

In US GAAP, in case of these prior period items, the Company has restated its financial statements for the respective years.

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES

Consolidated Financials Under Indian GAAP

Auditors Report

To the Board of Directors

Patni Computer Systems Limited on the Consolidated financial statements of Patni Computer Systems Limited and its subsidiaries

We have audited the attached Consolidated Balance Sheet of Patni Computer Systems Limited (Patni or the Company or the Parent Company) and its subsidiaries (as per the list appearing in Note 2.2 to the consolidated financial statements) [collectively referred to as the Patni Group or the Group] as at 31 December 2005, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto.

These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by the Company s management in accordance with the requirements of Accounting Standard 21 - Consolidated Financial Statements issued by the Institute of Chartered Accountants of India (ICAI).

In our opinion and on the basis of information and explanation given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. in the case of the Consolidated Balance Sheet, of the state of affairs of the Patni Group as at 31 December 2005;
- ii. in the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and

iii. in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For **BSR & Co.**
Chartered Accountants

Mumbai
Date: 1 February 2006

Akeel Master
Partner
Membership No: 046768

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES**Consolidated Balance Sheet as at 31 December 2005**

(Currency: in thousands of Indian Rupees except share data)

	Note	2005	2004
SOURCES OF FUNDS			
Shareholders funds			
Share capital	3	275,597	254,032
Reserves and surplus	4	20,971,706	13,961,873
		21,247,303	14,215,905
Loan funds			
Secured loans	5	31,813	28,644
Deferred tax liability	17	59,759	120,115
		21,338,875	14,364,664
APPLICATION OF FUNDS			
Goodwill	18	2,921,323	2,687,715
Fixed assets			
Gross block	6	5,335,370	4,001,317
Less: Accumulated depreciation		2,372,420	1,810,460
Net block		2,962,950	2,190,857
Capital work-in-progress		1,210,178	246,602
		4,173,128	2,437,459
Investments	7	6,331,285	3,714,751
Deferred tax asset, net	17	639,344	304,530
Current assets, loans and advances			
Sundry debtors	8	3,230,112	3,135,318
Cash and bank balances	9	6,707,329	3,364,246
Costs and estimated earnings in excess of billings		1,176,063	667,390
Loans and advances	10	652,766	715,941
		11,766,270	7,882,895
Less: Current liabilities and provisions			
Current liabilities	11	3,091,772	1,588,972
Provisions	12	1,400,703	1,073,714
		4,492,475	2,662,686
Net current assets		7,273,795	5,220,209
		21,338,875	14,364,664

The accompanying notes form an integral part of this consolidated balance sheet.

As per attached report of even date.

For **BSR & Co.**

Chartered Accountants

For **Patni Computer Systems Limited and its subsidiaries**

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master

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Partner
Membership No.: 046768

Mumbai
1 February 2006

Arun Kanakal
Company Secretary

Mumbai
1 February 2006

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES

Consolidated Profit and Loss Account for the year 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

	Note	2005	2004
Income			
Sales and service income		19,869,306	14,765,175
Other income	13	381,932	180,905
		20,251,238	14,946,080
Expenditure			
Personnel costs	14	11,197,700	8,422,664
Selling, general and administration costs	15	4,931,281	2,965,580
Depreciation	6	678,158	516,315
Less: Transfer from revaluation reserve	4	81	81
Interest costs	16	81,234	1,688
Initial public offering related expenses	3		46,182
		16,888,292	11,952,348
Profit for the year before prior period items and taxation		3,362,946	2,993,732
Prior period items	25	909,687	
Profit for the year before taxation		2,453,259	2,993,732
Provision for taxation (prior periods)	17	(196,413)	
Provision for taxation - Fringe benefits		31,977	
Provision for taxation	17	630,602	416,687
Profit for the period after taxation		1,987,093	2,577,045
Profit and loss account, brought forward		7,480,016	5,416,178
Amount available for appropriation		9,467,109	7,993,223
Proposed dividend on equity shares		344,684	249,994
Dividend tax		50,733	32,671
Transfer to general reserve		194,413	230,542
Profit and loss account, carried forward		8,877,279	7,480,016
Earnings per equity share of Rs 2 each	21		
Basic		15.80	20.94
Diluted		15.59	20.77

The accompanying notes form an integral part of this consolidated profit and loss account.

As per attached report of even date.

For **BSR & Co.**

Chartered Accountants

For **Patni Computer Systems Limited and its subsidiaries**

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master

Partner

Membership No.: 046768

Arun Kanakal
Company Secretary

Mumbai
1 February 2006

Mumbai
1 February 2006

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES

Consolidated Cash Flow Statement for the year ended 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

	2005	2004
Cash flows from operating activities		
Profit before taxation	2,453,259	2,993,732
Adjustments:		
Depreciation	678,077	516,234
(Profit)/loss on sale of fixed assets, net	(133,913)	27,120
(Profit) on sale of investments, net	(49,241)	(6,544)
Provision for decline in the fair value of investment	28	(263)
Dividend income	(109,439)	(156,815)
Interest income	(75,173)	(34,448)
Interest expense	48,647	1,688
Provision for doubtful debts and advances	(8,110)	22,513
Initial public offering related expenses		46,182
Unrealised foreign exchange loss/(gain)	237,491	(101,586)
Reversal of Impairment	(14,043)	
Operating cash flows before working capital changes	3,027,583	3,307,813
(Increase) in sundry debtors	(134,477)	(461,664)
(Increase) in cost and estimated earnings in excess of billings	(487,079)	(237,633)
(Increase) in loans and advances	(27,630)	(238,960)
(Decrease)/increase in billings in excess of cost and estimated earnings	(19,745)	26,752
Increase in sundry creditors	66,878	850
Increase/(decrease) in advance from customers	56,357	(6,600)
Increase in other liabilities	815,068	54,267
Increase in provision for retirement benefits	58,944	162,472
Cash generated from operations	3,355,899	2,607,297
Income taxes paid	(724,757)	(566,984)
Net cash provided by operating activities (A)	2,631,142	2,040,313
Cash flows from investing activities		
Payments in Goodwill	254,480	
Purchase of fixed assets	(2,440,549)	(1,034,954)
Sale of fixed assets	191,265	26,235
Purchase of non trade investments	(23,972,101)	(11,559,770)
Investment in subsidiary, net of cash acquired		(1,475,504)
Sale of non trade investments	21,398,906	10,129,413
Dividend received	109,439	156,815
Interest received	79,814	54,679
Net cash used in investing activities (B)	(4,378,746)	(3,703,086)

	2005	2004
Cash flows from financing activities		
Issue of equity shares (net of shares issue expenses)	5,442,111	2,886,585
Share application money received pending allotment		4,038
Dividend paid, including dividend tax	(285,172)	(140,739)
Interest paid	(1,384)	(1,688)
Proceeds from finance lease obligations incurred	17,683	17,689
Finance lease obligations repaid	(14,514)	(13,654)
Net cash provided by financing activities (C)	5,158,724	2,752,231
Effect of changes in exchange rates (D)	(68,037)	90,576
Net increase in cash and cash equivalents during the year (A+B+C+D)	3,343,083	1,180,034
Cash and cash equivalents at the beginning of the year	3,364,246	2,184,212
Cash and cash equivalents at the end of the year	6,707,329	3,364,246
Notes to the Consolidated Cash flow statement		
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts.		
Cash and cheques in hand	15,043	4,890
Balance with banks:		
Current accounts	6,639,949	3,291,877
Exchange earners foreign currency account	62,653	65,825
Effect of changes in Exchange rate	(10,316)	1,654
	6,707,329	3,364,246

As per attached report of even date.

For **BSR & Co.**

Chartered Accountants

For **Patni Computer Systems Limited and its subsidiaries**

N K Patni
Chairman and CEO

G K Patni
Executive Director

Arun Duggal
Director

Pradip Shah
Director

Akeel Master

Partner

Membership No.: 046768

Arun Kanakal
Company Secretary

Mumbai

1 February 2006

Mumbai

1 February 2006

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES

Notes to the Consolidated financial statements for the year ended 31 December 2005

(Currency: in thousands of Indian Rupees except share data)

1 Background

Patni Computer Systems Limited (Patni or the Company or the Parent Company) was incorporated on 10 February 1978 under the Indian Companies Act, 1956. On 18 September 2003, the Company converted itself from a Private Limited company into a Public Limited company. In February 2004, Patni completed initial public offering of its equity shares in India comprising fresh issue of 13,415,200 shares and sale of 5,324,000 equity shares by the existing shareholders.

In December 2005, Patni issued 5,125,000 American Depository Shares (ADSs) at a price of US\$ 20.34 per ADS. There was a secondary offering of additional 1,750,000 ADSs to the existing shareholders. Patni also issued 1,031,250 ADSs at the price of US\$ 20.34 per ADS on the exercise of Greenshoe option by the underwriters. Each ADS represented two equity shares of Rs 2 each fully paid-up.

Patni owns 100% equity interest in Patni Computer Systems, Inc. USA, a company incorporated in USA, Patni Computer Systems (UK) Limited, a company incorporated in UK and Patni Computer Systems GmbH, a company incorporated in Germany. In April 2003, Patni USA, acquired 100% equity in The Reference Inc. (TRI), a company incorporated in Massachusetts, USA, for consideration in cash. In November 2004, Patni Computer Systems, Inc. USA, acquired 100% equity in Patni Telecom Solutions Inc. - USA (formerly Cymbal Corporation) and its subsidiaries, for consideration in cash. These companies are collectively referred to as the Patni Group or the Group . Further, Patni also has foreign branch offices in USA, Japan, Sweden, Korea, Netherlands and Australia.

The Group is engaged in IT consulting and software development. The Group provides multiple service offerings to its clients across various industries comprising financial services, insurance services, manufacturing companies and others such as energy and utilities, telecom, retail and hospitality companies. The various service offerings comprise application development and maintenance, enterprise application systems, enterprise system management, research and development services and business process outsourcing services.

2 Principal accounting policies

2.1 Basis of preparation of consolidated financial statements

These consolidated financial statements of the Group have been prepared under the historical cost convention with the exception of certain land and buildings of Patni which have been revalued, on the accrual basis of accounting and comply with the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

2.2 Basis of consolidation

These consolidated financial statements include the financial statements of Patni Computer Systems Limited and its subsidiaries. The subsidiaries considered in the consolidated financial statements as at 31 December 2005 are summarized below:

Name of the subsidiary	Country of incorporation	% shareholding
Patni Computer Systems, Inc. USA	USA	100
Patni Computer Systems (UK) Limited	UK	100
Patni Computer Systems GmbH	Germany	100
The Reference Inc.	USA	100
Patni Telecom Solutions Inc. (formerly Cymbal Corporation)	USA	100
Patni Telecom Solutions Private Limited (formerly Cymbal Information Services Private Limited)	India	100
Patni Telecom Solutions (UK) Limited (formerly Cymbal Corporation Limited)	UK	100
Cymbal Information Services (Thailand) Limited	Thailand	100

These consolidated financial statements are prepared in accordance with the principles and procedures prescribed by AS 21- Consolidated Financial Statements (AS-21) issued by the ICAI for the purpose of preparation and presentation of consolidated financial statements.

The financial statements of the Parent Company and its subsidiaries have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/transactions and resulting unrealized profits in full. Unrealized losses resulting from intra-group transactions have also been eliminated unless cost cannot be recovered in full. The amounts shown in respect of accumulated reserves comprises the amount of the relevant reserves as per the balance sheet of the Parent Company and its share in the post acquisition increase/decrease in the relevant

reserves/accumulated deficit of its subsidiaries. Investments in associates are accounted under the equity method as per AS 23- Accounting for Investments in associates in Consolidated Financial Statements .

Consolidated financial statements are prepared using uniform accounting policies across the Group.

2.3 Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation, except for items of land and buildings of Patni, which were revalued in March 1995. Cost includes inward freight, duties, taxes and incidental expenses related to acquisition and installation of the asset. Depreciation is provided on the Straight Line Method (SLM) based on the estimated useful lives of the assets as determined by the management. For additions and disposals, depreciation is provided pro-rata for the period of use.

The rates of depreciation based on the estimated useful lives of fixed assets are higher than those prescribed under Schedule XIV to the Companies Act, 1956. The useful lives of fixed assets are stated below:

Asset	Useful life (in years)
Leasehold land and improvements	Over the lease period or the useful life of the assets, which ever is shorter
Buildings	40
Electrical installations	8
Computers, computer software and other service equipments	3
Furniture and fixtures	3-8
Office equipments	5
Vehicles	4-5

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost.

2.4 Goodwill

The excess of cost to the Holding Company of its investment in subsidiaries over the Holding Company's portion of equity in the subsidiaries, at the respective dates on which investments in subsidiaries were made, is recognised in the consolidated financial statements as goodwill. The Holding Company's portion of equity in the subsidiaries is determined on the basis of the book value of assets and liabilities as per the financial statements of the subsidiaries as on the date of investment.

The goodwill recorded in these consolidated financial statements has not been amortised, but instead evaluated for impairment. The Group evaluates the carrying amount of its goodwill whenever events or changes in circumstances indicate that its carrying amount may be impaired.

2.5 Leases

Assets acquired on finance leases, have been recognised as an asset and a liability at the inception of the lease, at an amount equal to the lower of the fair value of the leased asset or the present value of the future minimum lease payments. Such leased assets are depreciated over the lease term or its estimated useful life, whichever is shorter. Further, the payment of minimum lease payments have been apportioned between finance charges, which are debited to the consolidated profit and loss account, and reduction in lease obligations recorded at the inception of the lease.

2.6 Revenue and cost recognition

The Group derives its revenues primarily from software development activities. Revenue from time-and-material contracts is recognised as related services are rendered. Revenue from fixed-price contracts is recognised on a percentage of completion basis, measured by the percentage of costs incurred to-date to estimated total costs for each contract. This method is used because management considers costs to be the best available measure of progress on these contracts.

Contract costs include all direct costs such as direct labour and those indirect costs related to contract performance, such as depreciation and satellite link costs. Selling, general, and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revision to costs and income and are recognised in the period in which the revisions are determined.

The asset Cost and estimated earnings in excess of billings represents revenues recognised in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and the customer acceptance for the same is received. The liability Billings in excess of costs and estimated earnings represents billings in excess of revenues recognised.

Warranty costs on sale of services are accrued based on management's estimates and historical data at the time related revenues are recorded.

Revenue from maintenance contracts is recognised on a straight-line basis over the period of the contract.

Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service

arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified period. The costs to be deferred are limited to the extent of future contractual revenues. Further, revenue attributable to set up activities is deferred and recognised systematically over the periods that the related fees are earned, as services performed during set up period do not result in the culmination of a separate earnings process.

The Group grants volume discounts to customers in the form of free services in future. The Group accounts for such volume discounts by allocating a portion of the revenue on the related transactions to the service that will be delivered in future. Further, other volume discounts and rebates are also deducted from revenue.

Dividend income is recognised when the Group's right to receive dividend is established. Interest income is recognised on the time proportion basis.

2.7 Employee retirement and other benefits Provident fund

In accordance with Indian regulations, all employees of Patni receive benefits from a provident fund, which is a defined contribution retirement plan. Contributions to the provident fund are charged to the consolidated profit and loss account in the period in which the contributions are incurred.

Gratuity

In accordance with the Payment of Gratuity Act, 1972, Patni provides for gratuity, a defined retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective portion of last salary and the years of employment with the Company. Patni contributes each year to a gratuity fund administered by Patni through a trust set up for the purpose. The liability for gratuity at the end of each financial year is determined based on valuation carried out by an independent actuary. The difference between such actuarially determined liability and contributions made to the fund is recognised as an asset/liability, as the case may be.

Pension

Certain directors of the Group are entitled to receive pension benefit upon retirement or on termination from employment @ 50% of their last drawn monthly salary. The pension is payable from the time the eligible director reaches the age of sixty-five and is payable to the director or the surviving spouse. The liability for pension is actuarially determined by an independent actuary at the end of each financial year and periodically recognised by Patni in the consolidated financial statements. The plan is not funded.

Others

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Patni USA adopted a 401(k) salary deferral profit sharing plan, which enables employees to make pre-tax contributions. Patni USA does not match employee contributions to the plan.

Patni provides compensatory-offs to its employees, which entitle the employees to avail paid leave in future periods for services already rendered. These entitlements are not encashable by the employees. Patni makes provision for such compensated absences by estimating the likely salary payable to the employees availing such leave based on historical data of such entitlements availed in the past.

Provision for leave encashment costs is based on actuarial valuations carried out by an independent actuary at the balance sheet date.

2.8 Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Foreign currency denominated monetary assets and monetary liabilities at the year-end are translated at the year-right to end exchange rate. Exchange rate differences resulting from foreign exchange transactions settled during the year, including year-end translation of current assets and liabilities are recognised in the consolidated profit and loss account other than those exchange differences arising in relation to liabilities incurred for acquisition of fixed assets, which are adjusted to the carrying value of the underlying fixed assets.

The accounting standard on The effect of changes in foreign exchange rates was revised and comes into effect in respect of accounting periods commencing on or after 1 April 2004. This standard prescribes accounting for forward exchange contracts based on whether these are entered into for hedging purposes or for trading / speculation purposes. Further, it has been clarified that the revised standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm defined commitment of a highly probable forecast transaction. Upto 31 December 2004, such segregation was not required and the difference between the forward rate and the exchange rate on the date of the transaction was recognised as income or expense over the life of the contract.

The Company has adopted the revised accounting standard effective 1 January 2005 for contracts entered into after the date of adoption. In respect of forward exchange contracts which hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the Company values these contracts based on the spot rate at the balance sheet date and the resultant gain or loss is included in the profit and loss account. Since the revised accounting standard does not cover forward exchange contracts entered in to hedge the foreign currency risk of a firm commitment or of a highly probable forecast transaction, the Company has decided to account for these forward exchange contracts based on their designation as effective hedges or not effective .

To designate a forward contract as an effective hedge, management objectively evaluates and evidences with appropriate supporting documentation at the inception of each forward contract, whether these forward contracts are effective in achieving offsetting cash flows attributable

to the hedged risk or not. The gain or loss on these hedges is measured based on the movement in the spot rate at the inception of the contract and the spot rate at period end (or the spot rate used to measure the gain or loss on that contract for an earlier period). In respect of effective hedges, such gain or loss is recorded in the foreign currency translation reserve until the hedged transaction occur and then recognised in the profit and loss account. In the absence of an effective hedge, the gain or loss is immediately recognised in the profit and loss account.

The premium or discount on all forward exchange contracts arising at the inception of each contract is amortised as income or expense over the life of the contract.

Gains / losses on cancellation of forward contracts designated as hedge of highly probable forecasted transactions are recognised in the profit and loss account in the period in which the forecasted transaction is expected to occur.

In January 2006, ICAI has issued an announcement on applicability of the accounting standard, The Effects of Changes in Foreign exchange rates , in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. It states that hedge accounting, in its entirety, including hedge of a firm commitment or a highly probable forecast transaction, is proposed to be dealt with in the Accounting Standard on Financial Instruments : Recognition and Measurement, which is under formulation. It further states that pending the issuance of this proposed accounting standard, exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction should be recognised in the statement of profit and loss in the reporting period in which the exchange rate changes. Any profit or loss arising on renewal or cancellation of such contracts should be recognised as income or expense for the period.

Consequently, the amount accounted as foreign currency translation reserve of Rs. 45,895 upto December 2005 has been reversed and recognised as an expense in the statement of profit and loss in December 2005.

2.9 Foreign currency translation

The consolidated financial statements are reported in Indian rupees. The translation of the local currency of each foreign subsidiary and foreign branches within the Group into Indian rupees is performed in respect of assets and liabilities other than fixed assets using the exchange rate in effect at the balance sheet date and for revenue and expense items other than depreciation costs using a monthly simple average exchange rate for the period. Fixed assets are translated at the exchange rates on the date of transaction and depreciation on fixed assets is translated at the exchange rates used for translation of the underlying fixed assets.

Net exchange difference resulting from the above translation of financial statements of foreign branches is recognised in the consolidated profit and loss account.

Until the previous year, the net exchange differences resulting from translation of foreign subsidiaries were also recognised in the consolidated profit and loss account.

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Pursuant to para 24 of AS-11 (revised 2003), the financial statements of the foreign subsidiaries being non-integral operations are translated into Indian rupees as follows:

- a) Income and expense items are translated by using a monthly simple average exchange rate for the period.
- b) Assets and liabilities, both monetary and non-monetary are translated at the closing rate.
- c) All resulting exchange differences are accumulated in a foreign currency translation reserve which is reflected under Reserves and Surplus.

Due to the above changes in accounting policy, the profit for the year ended 31 December 2005 is lower by Rs. 7,177 and the reserves and surplus are lower by Rs 2,308.

2.10 Investments

Long-term investments are stated at cost, and provision is made when in the other than temporary, in the carrying value of such investments.

Current investments are carried at lower of cost and fair value, and provision is made to recognise any decline in the carrying value.

2.11 Taxation

Provision for current income tax is recognised under the taxes payable method for each company within the Group, based on the estimated tax liability computed after taking credit for allowances and exemptions in accordance with the local tax laws existing in the respective countries. In case of matters under appeal, full provision is made in the financial statements when the Company accepts the liabilities.

Deferred tax assets and liabilities are recognised for the future tax consequences attributable to timing differences that result between the profits offered for income taxes and the profits as per the financial statements. Deferred tax assets and liabilities are measured using the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities of a change in tax rate is recognised in the period that includes the enactment date. Deferred tax assets in respect of carry forward losses are recognised only to the extent that there is virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Other deferred tax assets are recognised only if there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are reviewed as at each balance sheet date and are written

down or written-up to reflect the amount that is reasonably/ virtually certain (as the case may be) to be realised.

The deferred tax asset / liability and tax expense are determined separately for parent and each subsidiary and then aggregated.

Substantial portion of the profits of Patni are exempted from income tax, being profits from undertakings situated at Software Technology Parks. Under the tax holiday, Patni can utilise exemption of profits from income taxes for a period of ten consecutive years. Patni has opted for this exemption for its undertakings situated in Software Technology Parks and these exemptions expire on various dates between years 2005 and 2010. In this regard, Patni recognizes deferred taxes in respect of those originating timing differences, which reverse after the tax holiday period resulting in tax consequences. Timing differences, which originate and reverse within the tax holiday period do not result in tax consequence and therefore no deferred taxes are recognised in respect of the same. For the above purposes, the timing differences, which originate first, are considered to reverse first.

2.12 Earnings per share

The basic earnings per share is computed by dividing the net profit attributable to the equity shareholders for the period by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of equity shares and also the weighted average number of equity shares that could have been issued on the conversion of all dilutive potential equity shares. The dilutive potential equity shares are adjusted for the proceeds receivable, had the shares been actually issued at fair value. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless they have been issued at a later date. The number of shares and potentially dilutive equity shares are adjusted for stock splits and bonus shares, as appropriate.

2.13 Contingencies

Loss contingencies arising from claims, litigations, assessment, fines, penalty etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

3 Share capital

	2005	2004
Authorised		
250,000,000 (2004: 250,000,000) equity shares of Rs 2 each	500,000	500,000
Issued, subscribed and paid-up		
137,798,399 (2004: 124,997,009) equity shares of Rs 2 each fully paid	275,597	249,994
Share application money (Refer note below)		4,038
	275,597	254,032

Of the above, 14,500,000 equity shares of Rs 2 each were allotted as fully paid bonus shares in March 1995 by capitalisation of general reserve aggregating Rs 29,000.

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In June 2001, division of existing equity shares of Rs 10 each into 5 equity shares of Rs 2 each.

The above also includes 46,867,500 equity shares of Rs 2 each allotted as fully paid bonus shares in August 2001 by capitalisation of share premium aggregating Rs 93,735.

In December 2002, in pursuance of Section 77A of the Indian Companies Act, 1956, Patni completed buy-back of 1,650,679 equity shares by utilising the share premium account. In this regard, an amount equivalent to the nominal value of the share capital bought back by the Company aggregating Rs 3,301 was transferred from general reserve to capital redemption reserve (Refer note 4).

In August 2003, the Company allotted 37,140,283 equity shares of Rs 2 each as fully paid bonus shares by capitalization of share premium aggregating Rs 74,281.

In February 2004, Patni completed initial public offering (IPO) of its equity shares in India comprising fresh issue of 13,415,200 shares and sale of 5,324,000 equity shares by the existing shareholders. In this regard equity shares of Rs 2 each were issued at premium of Rs 228 aggregating Rs 3,085,496. In respect of above, the Company incurred IPO related expenditure aggregating Rs 225,274. Proportionate variable IPO related expenditure pertaining to the shares sold by the existing shareholders has been debited to the profit and loss account and the balance has been adjusted against share premium in accordance with Section 78 of the Companies Act, 1956.

In December 2005, Patni issued 6,156,250 American Depository Shares shares (ADSs) representing 12,312,500 equity shares of Rs 2 each fully paid-up at a price of US\$ 20.34 per ADS for a gross proceeds of Rs 5,739,262. Each ADS represents two equity shares of Rs 2 each fully paid-up. An amount of Rs 369,406 has been incurred towards ADS issue expenses and the same has been adjusted against share premium received on the ADS issue in accordance with Section 78 of the Companies Act, 1956.

Amount received from employees on exercise of stock options pending allotment of shares is shown as share application money.

Refer note 24 for employee stock compensation plans.

4 Reserves and surplus

	2005	2004
Land revaluation reserve		
Balance carried forward	7,935	7,935
Building revaluation reserve		
Balance brought forward	1,596	1,677
Transfer to profit and loss account	(81)	(81)
	1,515	1,596
Capital redemption reserve		
Balance carried forward	253,301	253,301
	253,301	253,301
Share premium		
Balance brought forward	5,331,763	2,426,148
Share premium received on issue of equity shares (Refer note 3)	5,789,952	3,081,683
Share premium utilized in connection with share issue expenses incurred during the period (Refer note 3)	(369,406)	(176,068)
	10,752,309	5,331,763
General reserve		
Balance brought forward	887,262	656,720
Transfer from profit and loss account	194,413	230,542
	1,081,675	887,262
Foreign currency translation reserve	(2,308)	
Profit and loss account, balance carried forward	8,877,279	7,480,016
	20,971,706	13,961,873

5 Secured loans

	2005	2004
Lease obligation in relation to vehicles acquired under finance lease (Refer note 22)	31,813	28,644
Finance lease obligations are secured against the vehicles acquired on lease.		

6 Fixed assets

	Land (Free- hold)	Land (Lease- hold)	Buildings and leasehold improvements	Computer software	Computers and other service equipments	Electrical installat- ions	Office equipments	Furniture and fixtures	Vehicles	Total as at 31 December 2005	Total as at 31 December 2004
Gross block											
As at 1 January											
2005	9,019	203,021	868,342	618,110	1,248,161	205,234	319,676	438,372	91,382	4,001,317	3,241,879
Additions on account of business acquisition											52,602
Additions / Adjustments during the period *		6,696	355,224	239,144	359,719	118,733	137,197	240,183	27,864	1,484,760	850,848
Deletions during the year		40,011	9,190	46	48,114	11,632	6,756	17,629	17,329	150,707	144,012

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As at 31 December 2005	9,019	169,706	1,214,376	857,208	1,559,766	312,335	450,117	660,926	101,917	5,335,370	4,001,317
Accumulated depreciation											
As at 1 January 2005		17,642	111,069	364,343	823,391	81,072	164,439	203,013	45,491	1,810,460	1,357,099
Accumulated depreciation on account of business acquisition											27,460
Charge for the year		3,144	40,734	161,192	279,087	31,581	67,440	73,263	21,717	678,158	516,315
Deletions / Adjustments during the period *		16,958	8,093	1,574	54,015	8,325	3,901	10,464	12,868	116,198	90,414
As at 31 December 2005		3,828	143,710	523,961	1,048,463	104,328	227,978	265,812	54,340	2,372,420	1,810,460
Net block as at 31 December 2005	9,019	165,878	1,070,666	333,247	511,303	208,007	222,139	395,114	47,577	2,962,950	2,190,857
Net block as at 31 December 2004	9,019	185,379	757,273	253,766	424,770	124,162	155,238	235,359	45,891	2,190,857	

Notes:

1. Gross block of computers, computer software and other service equipments at 31 December 2005 includes exchange gain capitalised during the period aggregating Rs 110 (31 December 2004: 2,946).
 2. Gross block of vehicles as of 31 December 2005 includes assets acquired on lease, refer note 22.
- * Includes the effect of translation of assets held by foreign subsidiaries which are considered as non-integral in terms of AS 11 (revised 2003).

7 Investments

	2005	2004
Short term (at lower of cost or fair value)		
Non-trade		
Unquoted		
3,649,636 shares (2004: 3,649,636) of Series B-3 Preferred stock of Visage Mobile Inc.	33,803	34,103
321,888 shares (2004: 321,888) of Series B Preferred stock of Speedera Networks, Inc.	3,380	3,410
Quoted		
9,384,472 units (2004: Nil) Birla Cash Plus Institutional Premium Growth Plan	100,000	
10,000,000 units (2004: Nil) Deutsche Fixed Term Fund Series 7	100,000	
10,000,000 units (2004: Nil) Deutsche Fixed Term Fund Growth Option	100,000	
9,880,642 units (2004: Nil) D6_Deutsche Short Maturity Fund - Md	100,000	
6,993,007 units (2004: Nil) G60 GSSIF St - Plan C Monthly Dividend	70,000	
12,412,862 units (2004: Nil) G63 GSSIF - Short Term Plan C Growth 21349 / 70	125,000	
9,576,067 units (2004: Nil) of ABN Amro Cash fund Institutional Growth	100,000	
14,086,623 units (2004: Nil) of GCCG Grindlays Cash Fund Inst. Fund C Growth	150,000	
10,000,000 units (2004: Nil) of G9 Grindlays Fixed Maturity 18th Plan Dividend	100,000	
5,000,000 units (2004: Nil) G104 Grindlays Fixed Maturity 4th Plan B Growth	50,000	
11,073,543 units (2004:Nil) of Kotak Liquid (Institutional Premium) Growth Plan	150,000	
15,561,332 units (2004:Nil) of I-262 ING Vysya Liquid Fund Super institutional WD	155,862	
10,000,000 units (2004:Nil) I244 ING Vysya Fixed Maturity Fund Series IV Growth	100,000	
10,000,000 units (2004: Nil) Reliance Fixed Maturity Fund Annual Plan SeriesI Growth Option	100,000	
10,118,100 units (2004: Nil) R8_Reliance Fixed Maturity Fund Qtrly. Plan-II Series-II Dividend Option	101,181	
5,000,000 units (2004: Nil) Principal Deposit Fund Growth March 0550,000		
10,000,000 units (2004: Nil) Principal Deposit Fund (FMP-3-20) 91 Days Plan	100,000	
2,990,937 units (2004: Nil) Principal Income Fund - Short Term Instl. Plan Md	30,000	
13,085,466 units (2004: Nil) Principal Income Fund Short Term Instl. Plan Growth Plan	150,000	
6,978,624 units (2004: Nil) RLF Treasury Plan Retail Option Monthly Dividend	100,367	
15,000,000 units (2004: Nil) DSP Merrill Lynch Fixed Term Plan Series IA Dividend	150,000	
20,000,000 units (2004: Nil) UTI Fixed Maturity Plan (QFMP/1205/I) Dividend Plan	200,000	
10,766,076 units (2004: Nil) of OCFPWD HSBC Cash Fund Institutional Plus Weekly Dividend	107,751	
14,190,973 units (2004: Nil) of H16 Oisid HSBC Cash Fund Institutional Plus Growth	150,000	
3,426,447 units (2004: Nil) OISIG HSBC Income Fund Short Term Inst. Growth	40,000	
68,451 units (2004: Nil) of TLSW01 Tata Liquid Super High Investment Funds Weekly Dividend	77,615	
121,417 units (2004: Nil) of TLSG01 Tata Liquid Super High Investment Funds Appreciation	150,000	
7,144,745 units (2004: Nil) of HDFC Cash Management Fund Saving Plan Growth	100,000	
14,345,967 units (2004: Nil) of Principal Cash Management Fund Liquid Option Institutional Premium Plan Growth	150,000	
100,003 units (2004:Nil) Templeton India Short Term Plan Inst # 2140000237625 Weekly Dividend	100,000	

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	2005	2004
5,475,209 units (2004: Nil) B332G Birla Bond Plus Instl. Growth	70,000	
5,000,000 units (2004: Nil) Birla Fixed Term Plan Series A-Dividend Reinvestment	50,000	
8,111,155 units (2004: Nil) Kotak Bond (Short Term) Growth	100,000	
9,487,087 units (2004: Nil) Kotak FMP Series XII Dividend 90 Days	94,871	
20,535,736 units (2004: Nil) TSTG Tata ST Bond Fund Growth 441363/58	250,000	
5,000,000 units (2004: Nil) TFHAG1 Tata Fixed Horizon Fund Series 1 Plan A (371 Days Maturity) Growth	50,000	
10,000,000 units (2004: Nil) DSP Merrill Lynch Fixed term Plan Series I Dividend	100,000	
9,981,703 units (2004: 35,518,398) Birla Cash Plus Institutional Premium Dividend Plan Weekly	100,065	355,987
8,034,378 units (2004: 5,442,680) of GCCW Grindlays Cash Fund Inst Fund C Weekly Dividend	80,360	54,436
10,689,205 units (2004: 26,835,640) of Kotak Liquid (Institutional Premium) Weekly Dividend	107,207	269,079
15,850 units (2004:141,841) of Templeton India Treasury Management Account Weekly Dividend Reinvestment	15,863	141,954
155,139 units (2004: Nil) of D50 DSP Merrill Lynch Liquidity Fund Inst. Weekly Dividend	155,237	
975,523 units (2004: 7,525,628) of HDFC Cash Management Savings Plan Weekly Dividend Reinvestment Option	10,363	79,976
2,796,428 units (2004: 41,873,527) of Principal Cash Management Fund Liquid Option Institutional Premium Plan Weekly Dividend	27,973	418,721
Merill Lynch Cash Management account	1,824,471	436,544
Nil units (2004: 23,000,000) J 120 JM Fixed Maturity Plan YSW Growth Option		230,000
Nil units (2004: 4,983,105) of D50 DSP Merrill Lynch Liquidity Fund Weekly Dividend		61,798
Nil units (2004: 48,835,265) of Deutsche Insta Cash Plus Fund Institutional Monthly Dividend		488,489
Nil units (2004: 5,000,000) of G40 Grindlays Fixed Maturity 3rd plan - Dividend		50,000
Nil units (2004: 15,000,000) of Reliance Fixed Term Scheme Annual Plan Growth Option		150,000
Nil units (2004: 12,000,000) Principal Deposit Fund (FMP-6) 371 days Plan Growth		120,000
Nil units (2004: 52,422,054) of OCIMD HSBC Cash Fund Institutional Monthly Dividend		524,162
Nil units (2004: 6,788,420) of S31 Tata Liquid Super High Investment Funds Weekly Dividend		76,104
Nil units (2004:12,004,290) of HDFC Fixed Investment Plan June 2004 Growth		120,043
Nil units (2004:10,000,000) of HDFC Fixed Investment Plan July 2004 Growth		100,000
	6,331,369	3,714,806
Less: Provision for decline in the fair value of investments	(84)	(55)
Total	6,331,285	3,714,751
Market value of quoted investments	6,352,659	3,261,633

8 Sundry debtors (Unsecured)

	2005	2004
Debts outstanding for a period exceeding six months		
considered good	20,550	46,186
considered doubtful	112,460	146,038
	133,010	192,224
Other debts		
considered good	3,209,562	3,089,132
considered doubtful		445
	3,209,562	3,089,577
Less: Provision for doubtful debts	112,460	146,483
	3,230,112	3,135,318

9 Cash and bank balances

	2005	2004
Cash on hand	15,043	1,904
Cheques in hand		2,986
Balances with scheduled banks in current account	224,266	132,682
Balances with non scheduled banks in current account	6,468,020	3,226,674
	6,707,329	3,364,246

10 Loans and advances (Unsecured)

	2005	2004
Advances recoverable in cash or in kind or for value to be received	323,070	292,344
Advance tax		11,148
Security deposits	290,843	310,086
Certificates of deposit with foreign banks		4,397
Loan to employees	19,376	77,316
Others	24,343	23,491
	657,632	718,782
Less: Provision for doubtful loans and advances	4,866	2,841
	652,766	715,941

11 Current liabilities

	2005	2004
Sundry creditors	246,981	178,558
Billings in excess of cost and estimated earnings	105,930	124,131
Advance from customers	62,645	6,020
Deferred revenue	91,377	98,525
Unclaimed dividend	187	92

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Other liabilities	2,584,652	1,181,646
	3,091,772	1,588,972

12 Provisions

	2005	2004
Provision for taxation	208,402	83,331
Provision for retirement benefits	799,489	707,718
Dividend on equity shares	344,496	249,994
Dividend tax	48,316	32,671
	1,400,703	1,073,714

13 Other income

	2005	2004
Dividend on non-trade investments	109,439	156,815
Profit / (loss) on sale of fixed assets, net	133,913	(27,120)
Profit on sale of non-trade investments, net	49,241	6,544
Interest from:		
Loan to employees	259	322
Bank deposits	38,860	32,343
Others	3,833	1,783
Interest from securities	32,221	
Miscellaneous income	14,166	10,218
	381,932	180,905

14 Personnel costs

	2005	2004
Salaries, bonus and allowances, including overseas employee expenses	10,367,318	7,635,181
Contribution to provident and other funds	196,837	154,697
Staff welfare	379,639	286,238
Pension, gratuity and leave encashment costs	253,906	346,548
	11,197,700	8,422,664

15 Selling, general and administration costs

	2005	2004
Outsourced service charges	1,165,599	544,232
Travel and conveyance	989,637	636,545
Legal and professional fees	625,426	324,151
Postage and communication	406,783	309,178
Rent	456,455	317,457
Foreign exchange loss, net	231,739	113,303
Electricity	169,280	105,849
Rates and taxes	47,047	27,036
Software consumables	20,806	18,202
Advertisement and publicity	109,550	74,250
Insurance	68,485	73,601
Recruitment charges	104,898	33,596
Repairs and maintenance		
Computers	118,349	79,805
Building	27,188	16,094
Others	44,819	34,930
Printing and stationery	47,090	38,285
Provision for decline in the fair value of investment	28	(263)
Provision for doubtful debts and advances	(8,110)	22,513
Training fees	44,693	24,307
Commission	21,565	25,954
Subscription, registration and license fee	32,651	14,915

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Auditors remuneration (Refer note below)	18,942	21,285
Miscellaneous expenses	188,361	110,355
	4,931,281	2,965,580

Note: *Auditors remuneration includes remuneration of subsidiary*

16 Interest costs

	2005	2004
Interest on finance lease obligations	1,341	1,453
Interest on loans from banks and financial institutions	43	235
Interest on tax assessments	30,248	
Interest on others	49,602	
	81,234	1,688

17 Taxes

	2005	2004
Provision for tax expense consists of the following:		
Current taxes		
Indian	78,519	6,990
Foreign (Refer note 1 below)	614,594	383,300
	693,113	390,290
Deferred tax expense / (credit)		
Indian	(3,909)	(17,131)
Foreign	(58,602)	43,528
	(62,511)	26,397
	630,602	416,687
Provision for tax expense (prior period) consists of the following:		
Current taxes		
Foreign	126,725	
	126,725	
Deferred tax expense / (credit)		
Foreign	(323,138)	
	(323,138)	
	(196,413)	
The significant components of deferred tax asset and liability consists of the following:		
Provision for retirement benefits	239,403	206,086
Provision for bad and doubtful debts	31,365	45,130
Deferred revenue, net	27,642	22,462
Billings in excess of cost and estimated earnings	4,449	19,737
Accrued expenses	421,260	64,765
Carry forward loss	19,080	46,433
Others	13,456	12,643
Total deferred tax asset	756,655	417,256
Cost and estimated earnings in excess of billings	(48,946)	(32,353)
Depreciation	(48,611)	(60,265)
US branch profit taxes	(70,848)	(115,071)
Others	(8,665)	(25,152)
Total deferred tax liability	(177,070)	(232,841)

During the year, the Company has sold leasehold land for a consideration of Rs.175,000 and recognised a gain of Rs. 135,975. The Company plans to reinvest proceeds from this sale in prescribed securities for a period of three years so as to realise the gain on sale in a tax free manner, as required by the Income Tax law.

18 Business acquisitions

Pursuant to the shareholders agreement dated 28 September 2000 entered into between Patni, the promoter shareholders of the Company and GE Capital Mauritius Equity Investment (GE) on 24 November 2000, the Company acquired 25% equity interest in Patni USA for cash purchase consideration aggregating Rs 480,455 (equivalent to US\$10,250).

The equity of Patni USA on the date of investment, representing the proportionate residual interest in the assets of Patni USA after deducting the liabilities, aggregated Rs 142,858. The Company's USA's has been classified as goodwill in the consolidated financial statements. The goodwill arising on the above-mentioned investment has been determined as follows:

Purchase consideration	480,455
Less:	
Fixed assets, net	4,499
Net current assets	138,359
	142,858
Goodwill	337,597

On 9 September 2002, the Company acquired the balance 75% equity interest in Patni USA for cash purchase consideration aggregating Rs 1,492,144 (equivalent of US\$ 30,750). As a result of this acquisition, Patni USA became a wholly owned subsidiary of the Company. The equity of Patni USA on this date representing the Company's proportionate residual interest aggregated Rs 565,974. The goodwill arising on this acquisition has been determined as follows:

Purchase consideration	1,492,144
Less:	
Fixed assets, net	42,695
Cash and bank balances	719,054
Net current liabilities	(195,775)
	565,974
Goodwill	926,170

AS-23 Accounting for Investment in Associates in Consolidated Financial Statements issued by the ICAI was applicable in respect of accounting period beginning on or after 1 April 2002 and hence was not applicable for preparation of the consolidated financial statements for the year ended 31 December 2002. Accordingly, the Parent Company's share in the profits of Patni USA for the period following the acquisition of 25% equity interest until the date Patni USA became a wholly owned subsidiary, aggregating Rs 45,800 has been credited to revenue reserves in the consolidated financial statements for the year ended 31 December 2002.

In April 2003 Patni USA acquired 100% equity interest in TRI, which is engaged in providing IT services to clients in the financial services sector. These consolidated financial statements include the operating results of TRI from the date of acquisition. The purchase price of Rs 288,467 (including direct expenses of Rs 7,978) has been paid in cash.

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The equity of TRI on the date of investment, representing the proportionate residual interest in the assets of TRI after deducting the liabilities aggregated Rs 153,293. Patni USA's cost of investment in TRI in excess of TRI's equity on the date of investment aggregating Rs 135,174 has been classified as goodwill in the consolidated financials statements. The goodwill arising on the above-mentioned investment has been determined as follows:

Purchase consideration	288,467
Less	
Cash and bank balances	144,612
Fixed assets, net	27,843
Deferred tax asset	7,480
Net current liabilities	(26,642)
	153,293
Goodwill	135,174

On 3 November 2004, Patni USA acquired 100% equity interest in Cymbal corporation which is engaged in providing IT services to clients in the telecom sector. These consolidated financial statements include the operating results of Cymbal Corporation from the date of acquisition. The purchase price of Rs 1,140,982 (including direct expenses of Rs. 59,618) has been paid in cash. Additionally in connection with the acquisition the Company incurred Rs 498,716 related to certain contract terminations/ settlement and acquisition

costs of Cymbal Corporation, USA. Such costs have been recognised by the Company as liabilities assumed at the acquisition date resulting in additional goodwill.

The equity of Cymbal on the date of investment, representing the proportionate residual interest in the assets of Cymbal after deducting the liabilities aggregated Rs. (147,792). Patni USA's cost of investment in Cymbal in excess of Cymbal's equity on the date of investment aggregating Rs 1,288,774 has been classified as goodwill in the consolidated financial statements. The goodwill arising on the above-mentioned investment has been determined as follows:

Purchase consideration	1,140,982
<i>Less</i>	
Cash and bank balances	139,206
Fixed assets, net	39,699
Deferred tax asset	49,197
Net current liabilities (including contract termination / settlement and acquisition related liabilities)	(375,894)
	(147,792)
Goodwill	1,288,774

The aggregate goodwill recorded in these consolidated financial statements comprise the following:

	Total
Goodwill arising on acquisition of 25% equity interest in Patni USA	337,597
Goodwill arising on acquisition of balance 75% equity interest in Patni USA	926,170
Goodwill arising on acquisition of 100 % equity interest in TRI	135,174
Goodwill arising on acquisition of 100% equity interest in Cymbal USA	1,288,774
Add : Contingent consideration arising out of Cymbal acquisition	243,093
Effect of foreign currency translation	(9,485)
Balance as at 31 December 2005	2,921,323

19 Segmental information

The Group's operations relate to providing IT services and solutions, delivered to customers, operating in various industry segments. Accordingly, revenues represented along industry classes comprise the primary basis of segmental information set out in these consolidated financial statements. Secondary segmental reporting is performed on the basis of the geographical segmentation.

Industry segments of the Group comprise customers providing financial services, insurance services, manufacturing companies, telecom, independent software vendors, product engineering services and others such as energy and utilities, retail and hospitality companies.

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The Group evaluates segment performance and allocates resources based on revenue growth. Revenue in relation to segments is categorized based on items that are individually identifiable to that segment. Costs are not specifically allocable to individual segments as the underlying resources and services are used interchangeably. Fixed assets used in Group's business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments.

The Group's geographic segmentation is based on location of the customers and comprises United States of America, Europe, Japan, India and Others, which include Rest of Asia Pacific and Rest of the World. Revenue in relation to geographic segments is categorized based on the location of the specific customer entity for which services are performed irrespective of the customer entity that is billed for the services and includes both onsite and offshore services. Categorization of customer related assets and liabilities in relation to geographical segments is based on the location of the specific customer entity which is billed for the services.

The accounting policies consistently used in the preparation of the consolidated financial statements are also consistently applied to individual segment information. There are no intersegment sales.

Business segments**As at 31 December 2005 and for the year then ended**

Particulars	Financial services	Insurance services	Manufacturing	Telecom	Independent Software Vendor	Product Engineering Services	Others	Total
Sales and service income	3,186,119	5,502,080	4,350,112	3,047,015	980,708	1,498,793	1,304,479	19,869,306
Sundry debtors	591,486	714,793	747,836	394,507	162,309	330,142	289,039	3,230,112
Cost and estimated earnings in excess of billings	116,184	232,032	160,162	412,979	73,212	135,558	45,936	1,176,063
Billings in excess of cost and estimated earnings	(8,492)	(17,280)	(34,186)	(20,351)	(3,113)	(9,378)	(13,130)	(105,930)
Advance from customers	(54,467)	(4,277)	(3,242)		(76)		(583)	(62,645)

As at 31 December 2004 and for the year then ended

Particulars	Financial services	Insurance services	Manufacturing	Telecom	Independent Software Vendor	Product Engineering Services	Others	Total
Sales and service income	2,836,254	4,840,050	4,178,433	377,361	884,478	682,399	966,200	14,765,175
Sundry debtors	378,391	837,080	1,080,696	269,921	159,473	145,817	263,940	3,135,318
Cost and estimated earnings in excess of billings	87,834	52,456	198,590	86,901	89,935	77,103	74,571	667,390
Billings in excess of cost and estimated earnings	(2,406)	(41,272)	(36,245)	(4,335)	(1,203)	(20,836)	(17,834)	(124,131)
Advance from customers		(2,910)	(942)		(2,055)		(113)	(6,020)

Geographic segments**As at 31 December 2005 and for the year then ended**

Particulars	USA	Europe	Japan	India	Others	Total
Sales and service income	16,844,953	1,807,755	855,341	63,157	298,100	19,869,306
Sundry debtors	2,549,924	509,983	99,377	7,558	63,270	3,230,112
Cost and estimated earnings in excess of billings	911,152	109,273	128,280	6,738	20,620	1,176,063
Billings in excess of cost and estimated earnings	(65,651)	(32,971)	(7,308)			(105,930)
Advance from customers	(60,115)			(91)	(2,439)	(62,645)

As at 31 December 2004 and for the year then ended

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Particulars	USA	Europe	Japan	India	Others	Total
Sales and service income	12,969,948	1,161,832	499,999	32,867	100,529	14,765,175
Sundry debtors	2,701,399	367,797	16,004	5,782	44,336	3,135,318
Cost and estimated earnings in excess of billings	456,295	97,906	96,187	3,691	13,311	667,390
Billings in excess of cost and estimated earnings	(122,385)	(1,236)	(123)	(387)		(124,131)
Advance from customers		(5,775)	(245)			(6,020)

20 Related party transactions**(a) Names of related parties and nature of relationship where control exists**

Sr. No.	Category of related parties	Names
1	Affiliates	1) PCS Technology Ltd. (formerly known as PCS Industries Ltd.)
		2) Ashoka Computer Systems Private Ltd.
		3) PCS Cullinet Private Ltd.
		4) PCS Finance Ltd.
		5) Ravi & Ashok Enterprises.
		6) iSolutions Inc.
2	Key management personnel	1) Mr. N. K. Patni
		2) Mr. A. K. Patni
		3) Mr. G. K. Patni
		4) Mr. Sukumar Namjoshi
		5) Mr. Mrinal Sattawala
3	Parties with substantial interest	1) Members of Patni family and their relatives
		2) General Atlantic Mauritius Limited (GA)
4	Others	1) Ravindra Patni Family Trust

(b) Transactions and balances with related parties

Nature of the transaction	Affiliates	Key management personnel	Parties with substantial interest	Others
Transactions during the year ended 31 December 2005				
Remuneration (Refer note below)		158,078		
Donations				2,500
Rent and other expenses	11,683		60	
Balances at 31 December 2005				
Security deposits	8,338		3,000	
Proposed dividend	45,638	44,261	160,899	
Amounts payable	781		37	
Remuneration payable to directors		7,257		
Provision for pension benefits		267,968		
Guarantees given	150,000			
Transactions during the year ended 31 December 2004				
Remuneration (Refer note below)		160,720		
Donations				2,500
Reimbursement of expenses by affiliates	36			
Rent and other expenses	13,467			
Balances at 31 December 2004				
Security deposits	9,973		3,000	
Amounts recoverable	10			
Proposed dividend	36,511	35,409	118,610	
Amount payable	1,732		193	
Remuneration payable to directors		3,840		
Provision for pension benefits		289,188		

Guarantees given

150,000

Note: Remuneration does not include provisions for gratuity and leave encashment in respect of Directors, as actuarial valuation is done on an overall Company basis.

21 Earnings per share

Particulars	2005	2004
Profit for the period after taxation	1,987,093	2,577,045
Less: Dividend on equity shares of subsidiary		
Profit available for equity shareholders	1,987,093	2,577,045
Weighted average number of equity used in computing earnings per equity share.		
Basic	125,736,592	123,066,042
Diluted	127,457,632	124,084,992
Earnings per equity share of Rs 2 each		
Basic	15.80	20.94
Diluted	15.59	20.77
Face value per share (Rs)	2.00	2.00

22 Leases

Patni has acquired certain vehicles under finance lease for a non-cancellable period of four years. At the inception of the lease, fair value of such vehicles has been recorded as an asset under gross block of vehicles with a corresponding lease rental obligation recorded under secured loans. As per the lease agreement, the ownership of these vehicles would not transfer to Patni. However, it contains a renewal clause.

Fixed assets include the following amounts in relation to the above leased vehicles:

As at	2005	2004
Gross block of vehicles	56,503	46,610
Less: Accumulated depreciation	24,486	18,066
Net block	32,017	28,544

Future minimum lease payments in respect of the above assets as at 31 December 2005 are summarised below:

	Minimum lease payments	Finance charge	Present value of minimum lease payments
Amount due within one year from the balance sheet date	13,988	939	13,049
Amount due in the period between one year and five years	19,453	688	18,765
	33,441	1,627	31,814

The future minimum lease payments in respect of non-cancellable operating leases are summarised below:

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	2005	2004
Amount due within one year from the balance sheet date	308,884	299,689
Amount due in the period between one year and five years	424,064	641,830
	732,948	941,519

Patni has operating lease agreements, primarily for leasing office space and residential premises for its employees. Most of the lease agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days and also contain a clause for renewal of the lease agreement at the option of the Company.

Patni USA has operating lease agreements, primarily for leasing office space, that expire over the next 1-5 years. These leases generally require Patni USA to pay certain executory costs such as taxes, maintenance and insurance.

Cymbal and its subsidiaries have operating leases for office space, that expire over the next 1-4 years. These agreements provide for cancellation by either party with a notice period ranging from 30 days to 120 days, after the initial lock-in period, if any.

Rent expense for all operating leases for the year ended 31 December 2005 aggregated Rs 460,990 (2004: Rs 317,457) respectively.

Sub lease income recognised in the statement of profit and loss for the year ended 31 December 2005 aggregated Rs 12,331 (2004: Rs 18,508)

23 Capital commitments and contingent liabilities

	2005	2004
Estimated amount of contracts remaining to be executed on capital account and not provided for	1,010,802	1,111,437
Corporate guarantees	150,000	150,000
Outstanding forward contracts	3,470,390	4,491,830
Unamortised income in respect of forward contracts	10,748	4,917
Bank guarantees	18,011	15,504
Letters of credit	24,672	2,503
	4,684,623	5,776,191

The Company has issued equity shares to GE Capital Mauritius Equity Investment and General Atlantic Mauritius Limited, which contained certain exit options and commitments in the event the IPO did not occur within the period stipulated in the shareholders agreement. In February 2004, Patni completed its IPO and accordingly these exit options and commitments have lapsed.

Certain income tax related legal proceedings are pending against the Group. Potential liabilities, if any, have been adequately provided for, and the Group does not currently estimate any incremental liability in respect of these proceedings. Additionally, the Group is also involved in lawsuits and claims which arise in ordinary course of business. There are no such matters pending that the Group expects to be material in relation to its business.

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Estimated amount of contracts remaining to be executed on capital account and not provided for includes cases wherein purchase orders have been released and work has either not commenced or has been partially completed.

Corporate guarantee includes guarantee given to Standard Chartered Bank on account of PCS Industries in consideration of granting advances, credit and other banking facilities.

Outstanding forward contracts represents the total value of forward contracts entered into by the company.

Guarantees given by a bank on behalf of Patni amounted Rs15,504 and Rs 18,011 as at December 31, 2004 and 2005 and letter of credit issued by bank was Rs 2,503 and Rs 24,672 as at December 31, 2004 and 2005.

24 Employee stock compensation plans

On 30 June 2003 Patni established the Patni ESOP 2003 plan (the plan). Under the plan, the Company is authorized to issue up to 11,142,085 equity shares to eligible employees. Employees covered by the Plan are granted an option to purchase shares of the Company subject to the requirements of vesting. The options vest in a graded manner over four years with 25 percent of the options vesting at the end of each year. The options can be exercised within five years from the date of vesting. A compensation committee constituted by the Board of Directors of the Company administers the plan.

The exercise price of the grant approximated the fair value of the underlying equity shares at the date of the grant.

Stock options* activity under the plan is as follows:

	Shares arising out of options	Range of exercise prices	Weightage average remaining contractual life (months)
Year ended 31 December 2005			
Outstanding at the beginning of the year	2,352,015	145	75
	100,000	254	84
	2,750,632	338	87
Granted during the year	190,000	381	90
Granted during the year	670,710	451	90
Forfeited during the year	(113,900)	145	
Forfeited during the year	(198,625)	338	
Forfeited during the year	(45,500)	145	
Forfeited during the year	(50,000)	338	
Forfeited during the year	(9,000)	381	
Exercised during the year	(433,065)	145	
Exercised during the year	(28,000)	338	
Outstanding at the end of the year	1,759,550	145	67
	100,000	254	72
	2,474,007	338	75
	181,000	381	81
	670,710	451	87
Exercisable at the end of the year	663,242	145	67
Exercisable at the end of the year	25,000	254	72
Exercisable at the end of the year	597,502	338	75
	Shares arising out of options	Range of exercise prices	Weightage average remaining contractual life (months)
Year ended 31 December 2004			
Outstanding at the beginning of the year	2,733,700	145	86
Granted during the year	100,000	254	90
Granted during the year	2,750,632	338	90
Forfeited during the year	(192,875)	145	
Exercised during the year	(188,810)	145	
Outstanding at the end of the year	2,352,015	145	75
	100,000	254	84
	2,750,632	338	87
Exercisable at the end of the year	446,396	145	56

* Includes stock options granted to employees of subsidiary companies.

Profit for the year after taxation as reported	1,987,093
Add: Stock based employee compensation determined under the intrinsic value method	
Less: Stock based employee compensation determined under the fair value method	154,383
Pro-forma profit	1,832,710
Reported earnings per equity share of Rs 2 each	
Basic	15.80
Diluted	15.59
Pro-forma earnings per equity share of Rs 2 each	
Basic	14.58
Diluted	14.38

The stock based compensation disclosed above is with respect to all stock options granted on or after 1 April 2005. The fair value of each stock option is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0.53% to 0.54%
Expected life	2 to 5 years
Risk free interest rates	5.74% to 6.73%
Expected volatility	28% to 50%

25 Prior year adjustments

In connection with an ongoing review of certain tax aspects relating to its international operations by the tax authorities in certain overseas locations, the Company has reassessed its obligations for payroll and related taxes for years ended 31 December 2001 to 31 December 2004. Based on information gained from this reassessment and consultation with its advisors, the Company has determined that it is probable that payroll and related tax obligations have been incurred.

Accordingly, the Company has estimated its liability including interests and penalties for related tax consequences at amounts based on applicable tax rules and these have been reported separately in these financial statements as prior period items:

	2005	2004
Personnel costs	700,223	
Selling, general and administration cost	93,494	
Interest	115,970	
Total	909,687	

To the extent that the Company has determined a likely tax deduction for these payments, a related deferred tax asset has been created and reported as a prior period item in Note 17.

Additionally, the Company has also reassessed its branch taxation policies for the years ended 31 December 2001 and 31 December 2002 and determined an amount of Rs. 126,725 which is reported as a prior period income tax item in Note 17.

26 **Prior year comparatives**

Previous year's figures have been appropriately reclassified to conform to the current year's presentations.

PATNI COMPUTER SYSTEMS LIMITED AND ITS SUBSIDIARIES

Management's Discussion and Analysis of the Consolidated Financials under US GAAP

Overview

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

Our revenues grew from \$142.6 million in 2001 to \$450.3 million in 2005, representing a compound annual growth rate of 33.3%. Our net income grew from \$22.1 million in 2001 to \$60.9 million in 2005, representing a compound annual growth rate of 28.9%. Our total number of employees was 9,661 as of 31 December 2004 and 11,802 as of 31 December 2005. In light of this growth, we are investing in new high-tech facilities, which we refer to as knowledge parks, designed for expanding our operations and training our employees. As of 31 December 2005, we had 194 sales and marketing personnel supported by dedicated industry specialists in 23 sales offices around the globe, including North America, Europe, Japan and the rest of the Asia-Pacific region.

Our management evaluates our results of operations by examining financial and operating data in a variety of categories, including our industry and technology practices, onsite and offshore revenues, type of contract, type of customer and geographic region. We manage and market our business according to our industry and technology practices. Our industry practices consist of insurance, manufacturing, financial services and telecommunications, and a group of other industries (including retail, energy and utilities, logistics and transportation, and media and entertainment).

We have also developed technology practices that offer research, design and development services for product engineering and to independent software vendors, or ISVs. Our service lines support both our industry and technology practices. We do not, however, treat our service lines as separate components of our business for financial reporting purposes.

Results of Operations

The following table sets forth certain financial information as a percentage of revenues, calculated from our consolidated financial statements under U.S. GAAP:

Year ended 31 December

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	2003 (restated)(1)	2004 (restated)(1)	2005
Revenues	58.8%	68.3%	77.9%
Revenue from a significant shareholder	41.2%	31.7%	22.1%
Cost of revenues	62.7%	62.0%	64.1%
Gross profit	37.3%	38.0%	35.9%
Selling, general and administrative expenses	19.8%	18.6%	19.9%
Provision for doubtful debts and advances	0.1%	0.2%	0.0%
Foreign exchange gain (loss), net	(0.0)%	0.6%	0.4%
Operating income	17.4%	18.6%	15.6%
Interest and dividend income	0.6%	1.3%	0.9%
Interest expense	(0.3)%	(0.2)%	(0.4)%
Gain on sale of investments, net	0.5%	0.0%	0.3%

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	2003 (restated)(1)	Year ended 31 December 2004 (restated)(1)	2005
Other income (expense), net	(0.1)%	(0.6)%	0.2%
Change in fair value of put option	0.5%	0.0%	0.0%
Income before income taxes	18.6%	19.1%	16.6%
Income taxes	2.5%	2.4%	3.1%
Cumulative effect due to change in accounting principle (SFAS 150)	1.3%	0.0%	0.0%
Net income	17.4%	16.7%	13.5%

(1) See Note 3 to our consolidated financial statements for the year ended 31 December 2005 for a discussion on the restatement in respect of our financial statements for fiscal years 2002, 2003 and 2004, relating to the effects of recognition of additional payroll and related taxes for our international operations primarily on account of certain wages paid, and short-term fringe benefits given, to our employees when working outside of India.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Revenues

Our revenues were \$450.3 million in 2005, representing an increase of 37.9% from revenues of \$326.6 million in 2004. Out of this increase, \$60.6 million (representing 49.0% of the increase in revenues) was due to revenues from Patni Telecom (formerly Cymbal). Patni Telecom (formerly Cymbal) was acquired in November 2004 and therefore revenue for November and December 2004 was only reflected in our income statement for the year ended 31 December 2004. Other than Patni Telecom (formerly Cymbal), revenues from existing customers contributed \$354.4 million and new customers contributed \$27.0 million to our revenues. Excluding Patni Telecom (formerly Cymbal) revenues, the growth from our existing operations would have been 19.8% in 2005. Growth in revenues from our existing operations was attributable to an increase of 21.2% in the total billed person-months from work performed at both our offshore and onsite locations. Onsite work measured in billed-person months increased 12.7% in 2005 compared to 2004, while offshore work increased 26.0% over the same period. Due to this higher growth in offshore efforts than onsite efforts, our revenue growth was less than our growth in total billed person-months. We increased our client relationships to 199 as of 31 December 2005 from 170 as of 31 December 2004. In addition, the total number of clients that individually accounted for over \$1.0 million in annual revenues increased to 61 as of 31 December 2005 from 46 as of 31 December 2004.

During 2005, our revenues from T&M projects increased by 42.9% over revenues in 2004, while revenues from fixed price contracts increased by 31.1% over the same period in 2004. T&M projects accounted for 59.5% of our revenues in 2005, compared to 57.4% in 2004 mainly because 62.7% of our new business was billed on a T&M basis.

Our client concentration, as measured by the proportion of revenue generated from our top ten clients, decreased to 59.3% in 2005 from 69.0% in 2004. General Electric, our largest client and one of our principal shareholders, contributed 22.1% of our revenues in 2005, compared to 31.7% in 2004. While revenues from General Electric declined by 4.0% in 2005 as compared to 2004, revenues from other clients grew by 57.3%.

During 2005, clients in the insurance, manufacturing and financial services industries continued to contribute a large proportion of our revenues. Revenues from clients in these industries in 2005 increased by 16.7%, 6.8% and 15.1% compared to 2004 and contributed 27.7%, 21.9% and

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16.0% to overall revenues, respectively. Our telecommunications industry practice grew by \$60.4 million mainly due to business from Patni Telecom (formerly Cymbal) and contributed 15.3% to our overall revenues in 2005. Our other industries practice contributed 6.5% and 6.6% of our revenues in 2005 and 2004. Our ISV practice contributed 5.0% and 5.9% of our revenues in 2005 and 2004 and our product engineering practice contributed 7.5% and 4.6% of our revenues in 2005 and 2004.

During the 2005, we continued to derive a significant proportion of our revenues from clients located in the United States. In 2005 and 2004, we derived 84.8% and 87.8% of our revenues from clients located in the United States. Revenues from these clients grew by 33.2% in 2005, while revenues from clients in other regions grew by 71.2% in the same period.

Cost of revenues

The cost of revenues was \$288.5 million in 2005, representing an increase of 42.5% from \$202.5 million in 2004. Cost of revenues represented 64.1% and 62% of our revenues in 2005 and 2004. Out of the increase of \$86 million in cost of revenues, \$36.2 million increase was due to the cost of revenues of Patni Telecom (formerly Cymbal). Of the remaining increase of \$49.8 million in cost of revenues, \$32.6 million was attributable to wage costs, \$2.2 million to sub-contractor cost, \$2.5 million to travel costs, \$2.6 million to legal immigration costs, \$4.6 million to rental and repairs, 1.1 million to data-link charges, \$2.8 million to other general administration costs and \$1.4 million to depreciation charged on assets. Wage costs increased by \$32.6 million due to an increase in headcount of software professionals by 2,084, annual salary revisions and recognition of additional payroll and related taxes for our international operations arising on reassessment of certain wages paid, and short-term benefits given, to our employees when working outside India. Our legal immigration costs were higher due to increased costs of applications as well as an increase in the number of applications processed. Expansion of our facilities led to increased rental costs and other related expenses. Depreciation charged on assets increased by \$1.4 million in 2005 as compared to 2004. Patni Telecom (formerly Cymbal) cost of revenues of \$36.2 million consisted of wage costs of \$21.2 million, subcontractor costs of \$11.9 million, travel costs of \$2.6 million and other costs of \$0.5 million.

Gross profit

Our gross profit for 2005 was \$161.9 million, representing an increase of 30.4% from \$124.1 million in 2004. Gross profit as a percentage of our revenues dropped to 35.9% from 38% during 2004 reflecting the increase in cost of revenues.

Selling, general and administrative expenses

During 2005, our selling, general and administrative expenses were \$89.7 million, representing an increase of 46.6% from \$61.2 million in 2004. During 2005 our selling, general and administrative expenses as a percentage of revenues increased to 19.9% from 18.7% in 2004. Out of the total increase of \$28.5 million, \$10.3 million was due to selling, general and administrative expenses of Patni Telecom (formerly Cymbal).

During 2005, our sales and marketing expenses were \$36.0 million, representing an increase of 55.6% from \$23.2 million in 2004. Apart from the Patni Telecom (formerly Cymbal) costs, personnel costs increased by \$5.0 million due to the addition of 35 sales and marketing personnel and higher compensation costs resulting from salary increases. Other selling and marketing costs increased by \$2.0 million. Selling and marketing costs associated with Patni Telecom (formerly Cymbal) increased by \$5.8 million. We believe that our investment in selling and marketing expenses has contributed to the growth and diversification of our client revenues.

Our general and administrative expenses were \$53.7 million, representing an increase of 60.9% from \$37.5 million in 2004. Apart from Patni Telecom (formerly Cymbal), personnel costs increased by \$1.7 million due to the addition of general and administrative personnel and annual salary revisions. Establishment costs increased by \$1.4 million due to an increase in the number of facilities. Professional and consultancy charges increased by \$3.8 million, recruitment expenses increased by \$1.6 million and other general expenses increased by \$1.1 million. General and administrative expenses associated with Patni Telecom (formerly Cymbal) increased by \$4.3 million. Depreciation expense increased by \$1.8 million.

Foreign exchange gain/loss

In 2005, we had a foreign exchange loss of US\$1.7 million as against a loss of US\$2.1 million in 2004, as our dollar-denominated receivables continued to be hedged to a significant level. Our receivables are marked to market.

Operating income

Our operating income was \$70.4 million in 2005, representing an increase of 15.8% from \$60.8 million in 2004. As a percentage of revenues, operating income dropped to 15.6% from 18.6% in 2004 reflecting increase in cost of revenues and selling, general and administration expenditures.

Other income (expense), net

Other income (expense), net reflects interest and dividend income, interest expense, net gain on sale of investments and other income or expense. Our other income (expense), net was income of \$4.2 million in 2005, increasing 176% from \$1.5 million in 2004. In 2004, we incurred expenses of approximately \$1 million in relation to our initial public offering. On account of reassessment of our payroll and related tax obligations for our international operations, we have provided for other related expenses with respect to delayed payments amounting \$1.7 million in 2005.

Income taxes

We made a provision of \$13.8 million for income taxes in 2005, representing an increase of 79.4% from \$7.7 million in 2004. Our effective tax rate increased to 18.5% in 2005 from 12.3% in 2004. The increased tax provisioning included an amount of approximately US\$1 million relating to an adjustment for an earlier year's income

tax assessment. The tax rate was higher than preceding periods as a result of the previous year adjustment. Also, the tax provision for Patni Telecom (formerly Cymbal) was for the whole year of 2005 as compared to two months of 2004.

Net income

Our net income was \$60.9 million in 2005, representing an increase of 11.3% from \$54.7 million in 2004. As a percentage of our revenues, net income decreased to 13.5% in 2005 from 16.7% in 2004.

Liquidity and capital resources

Our operations and our growth have been financed by cash generated from operations and from the proceeds of sales of equity shares. We received net proceeds of \$117.0 million from our ADSs issue in 2005. We received net proceeds of \$64.3 million from our initial public offering in India in 2004. Prior to 2004, we received net proceeds of \$61.5 million from our sale of equity shares to General Electric and General Atlantic.

As of 31 December 2005, we had \$148.8 million in cash and cash equivalents, \$42.2 million invested in units of liquid mutual funds, and \$99.6 million invested primarily in units of other debt mutual funds. As of 31 December 2004, we had \$77.1 million in cash and cash equivalents, \$55.4 million invested in units of liquid mutual funds in India (which typically are mutual funds with investments in short term debt instruments), and \$30.2 million invested primarily in units of other debt mutual funds in India.

Our working capital at 31 December 2005 and at 31 December 2004 was \$35.7 million and \$54.2 million, respectively. We had no outstanding bank borrowings or long-term debt as of such date. Net cash provided by operating activities was \$75.2 million and \$48.7 million in the year ended 31 December 2005 and the year ended 31 December 2004.

This variance was primarily due to increase in net income to \$60.9 million during 2005 from \$54.7 million in 2004. In addition, during 2005 depreciation increased to \$16.0 million from \$11.5 million in 2004. There was a reversal of provision for bad debts of \$0.2 million in the year ended 31 December 2005 whereas provision for bad debts was \$0.5 million in the year ended 31 December 2004. Gain from sale of plant property and equipment was \$3.2 million in 2005 as compared to a loss of \$0.6 million in 2004. Also Gain from sale of investments were \$1.1 million and \$0.1 million in the years ended 31 December 2005 and 31 December 2004 respectively. Further net accounts receivable and cost and estimated earnings in excess of billings on uncompleted contracts increased by \$14.7 million in the year ended 31 December 2005 against an increase of \$15.4 million in 2004. Current assets and other assets decreased by \$3.3 million in the year ended 31 December 2005 as compared to an increase of \$6.2 million in the year ended 31 December 2004. Taxes paid were \$15.3 million as against a tax provision of \$15.7 million in the year ended 31 December 2005. Taxes paid were \$12.5 million as against a tax provision of \$8.6 million in the year 2004. Other current liabilities and other liabilities increased by \$8.9 million during the year ended 31 December 2005 as compared to \$7.7 million increase in 2004.

Net cash used in investing activities was \$113.9 million for the year ended 31 December 2005 and \$86.4 million for 2004. Net cash used in the acquisition of property, plant and equipment for the year ended 31 December 2005 was \$51.1 million, mainly on account of the purchases of new facilities and expansion of our existing facilities. Net purchases of investment securities were \$67.7 million for the year ended 31 December 2005. Net proceeds from investments in liquid mutual funds and units of other debt mutual funds were \$10.5 million for the year ended 31

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December 2005. Additional purchase consideration to Cymbal shareholders in the year ended 31 December 2005 amounted to \$5.6 million. Net cash used in investing activities in 2004 included \$32.5 million for the acquisition of Cymbal Corporation, net of cash acquired. Net cash used in the acquisition of property, plant and equipment for 2004 was \$21.9 million mainly on account of the purchase of new facilities or expansion of our existing facilities. Net purchase of investment securities was \$1.4 million in 2004. Net purchases of investments in liquid mutual funds and units of other debt mutual funds were \$30.6 million in 2004.

Net cash provided by financing activities was \$111.9 million for the year ended December 2005 and \$61.4 million for the year ended December 2004. We paid \$6.5 million in dividends, including dividend tax on our equity shares in the year ended 31 December 2005. We received net proceeds of \$118.7 million from ADSs issue and our employee stock option plan during the year ended 31 December 2005. We received net proceeds of \$64.8 million from our initial public offering and our employee stock option plan during 2004. We also paid \$3.1 million towards dividend payouts on our equity shares in 2004.

Our capital expenditures for the year ended 31 December 2005 and the year ended 31 December 2004 were \$55.4 million and \$22.5 million, respectively. These capital expenditures were primarily to finance the expansion of our existing facilities as well as the construction of new facilities in India.

PATNI COMPUTER SYSTEMS LIMITED AND SUBSIDIARIES

Consolidated Financials Under US GAAP

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Patni Computer Systems Limited We have audited the accompanying consolidated balance sheets of Patni Computer Systems Limited and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements 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 are free of material misstatement. An audit includes examining, onan test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 referred to above present fairly, in all material respects, the financial position of Patni Computer Systems Limited and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3, the Company has restated its 2003 and 2004 consolidated financial statements.

KPMG

Mumbai, India

3 February 2006

Consolidated Balance Sheets

As of	December 31, 2004 (Restated)	December 31, 2005
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents	\$ 77,143,498	\$ 148,819,600
Investments in liquid mutual fund units	55,372,919	42,161,683
Investment in securities	30,249,800	99,614,252
Accounts receivable, net	45,721,964	58,747,671
Accounts receivable, net from a significant shareholder	26,282,949	15,673,490
Costs and estimated earnings in excess of billings on uncompleted contracts	15,233,440	26,094,094
Deferred income taxes	5,951,315	11,887,564
Other current assets	10,575,425	9,549,036
Total current assets	266,531,310	412,547,390
Deferred income taxes	3,634,585	3,401,766
Other assets	5,987,387	5,946,751
Property, plant and equipment, net	55,074,565	92,009,623
Intangible assets, net	11,987,830	10,158,065
Goodwill	24,677,771	27,987,198
Total assets	\$ 367,893,448	\$ 552,050,793
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Current liabilities</i>		
Capital lease obligation	266,242	289,520
Trade accounts payable	3,673,205	5,488,043
Billings in excess of costs and estimated earnings on uncompleted contracts	2,846,346	2,350,346
Income taxes payable	5,311,065	4,829,152
Deferred income taxes	115,659	193,807
Accrued expenses	20,779,367	26,231,532
Other current liabilities	16,531,146	46,893,194
Total current liabilities	49,523,030	86,275,594
Capital lease obligations excluding current instalments	390,586	416,342
Other liabilities	25,542,123	6,368,544
Deferred income taxes	4,008,648	4,758,961
Total liabilities	\$ 79,464,387	\$ 97,819,441
<i>Commitments and contingencies</i>		
Shareholders Equity		
Common shares Rs. 2 par value; Authorized 250,000,000 shares (Issued and outstanding; 124,997,009 shares and 137,798,399 shares as of December 31, 2004 and 2005 respectively).	5,542,301	6,101,600
Additional paid-in capital	180,906,859	299,220,619
Retained earnings	93,381,447	147,714,225
Accumulated other comprehensive income	8,598,454	1,194,908
Total shareholders equity	\$ 288,429,061	\$ 454,231,352
Total liabilities and shareholders equity	\$ 367,893,448	\$ 552,050,793

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income

Year ended December 31,	2003 (Restated)	2004 (Restated)	2005
Revenues	\$ 147,641,306	\$ 223,141,113	\$ 350,972,760
Revenue from a significant shareholder	103,402,102	103,440,511	99,359,172
	251,043,408	326,581,624	450,331,932
Cost of revenues	157,472,727	202,461,490	288,480,678
Gross profit	93,570,681	124,120,134	161,851,254
Selling, general and administrative expenses	50,065,154	61,195,519	89,728,951
Foreign exchange (gain)/loss, net	(171,574)	2,081,800	1,693,145
Operating income	43,677,101	60,842,815	70,429,158
Other income/(expense)			
Interest and dividend income	1,573,522	4,222,853	4,189,776
Interest expense	(705,616)	(890,569)	(2,044,366)
Gain on sale of investments, net	1,278,018	144,482	1,128,071
Other (expense)/income, net	(302,549)	(1,940,281)	966,620
Change in fair value of put option	1,186,160		
Income before income taxes	46,706,636	62,379,300	74,669,259
Income taxes	6,337,112	7,695,160	13,802,583
Income before cumulative effect of change in accounting principle	\$ 40,369,524	\$ 54,684,140	\$ 60,866,676
Cumulative effect on prior years (to June 30, 2003) of change in accounting principle due to adoption of SFAS 150 (net of income taxes of \$Nil)	3,273,960		
Net income	\$ 43,643,484	\$ 54,684,140	\$ 60,866,676
Earnings per share			
Income before cumulative effect of a change in accounting principle (basic and diluted)	\$ 0.36	\$ 0.44	\$ 0.48
Cumulative effect of a change in accounting principle (basic and diluted)	0.03		
Net Income (basic and diluted)	\$ 0.39	\$ 0.44	\$ 0.48
Weighted average number of common shares used in computing earnings per share			
Basic	111,420,849	123,066,042	125,736,592
Diluted	111,420,849	124,084,992	127,457,632

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders Equity and Comprehensive Income

for the years ended December 31, 2003, 2004 and 2005

	Common shares				Comprehensive Income	Accumulated Other Comprehensive Income	Shareholders Equity
	Shares	Par value	Additional Paid-in-Capital	Retained Earnings (in \$ except share data)			
Balance as of January 1, 2003	69,904,103	\$ 2,256,636	\$ 6,505,213	\$ 5,357,008		\$ (7,118,132)	\$ 7,000,725
Prior period adjustment (refer note 3.1.1)				(6,243,011)			(6,243,011)
Balance as of January 1, 2003	69,904,103	\$ 2,256,636	\$ 6,505,213	(\$886,003)		\$ (7,118,132)	\$ 757,714
Cash dividend on common shares				(998,623)			(998,623)
Stock dividend		1,016,861	(1,016,861)				
Reclassification of redeemable common shares in accordance with SFAS No. 150	41,516,746	1,669,008	115,703,768				117,372,776
Transition adjustment in accordance with SFAS No. 150 for net carrying amount of put option (Note 3)			(4,470,120)				(4,470,120)
Comprehensive income Net income				43,643,484	43,643,484		43,643,484
Other comprehensive income:							
Translation adjustment					6,456,104		6,456,104
Unrealised loss on investments, net of tax of \$204,656 :					(356,228)		(356,228)
Minimum pension liability, net of tax of \$338,425					(507,088)		(507,088)
Comprehensive income					49,236,272		5,592,788
Balance as of December 31, 2003	111,420,849	\$ 4,942,505	\$ 116,722,000	\$ 41,758,858		\$ (1,525,344)	\$ 161,898,019
Common shares issued through an Initial Public Offering, net of direct expenses	13,415,200	592,675	63,675,676				64,268,351
Issuance of equity shares on exercise of	160,960	7,121	509,183				516,304

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options							
Cash dividend on common shares				(3,061,551)			(3,061,551)
Comprehensive income Net income				54,684,140	54,684,140		54,684,140
Other comprehensive income:							
Translation adjustment					9,549,971		9,549,971
Unrealised gain on investments, net of tax of \$142,362					241,535		241,535
Minimum pension liability, net of tax of \$153,253					332,292		332,292
Comprehensive income					64,807,938	10,123,798	
Balance as of December 31, 2004	124,997,009	\$ 5,542,301	\$ 180,906,859	\$ 93,381,447		\$ 8,598,454	\$ 288,429,061

Common shares

	Shares	Par value	Additional Paid-in-Capital	Retained Earnings (Restated)	Comprehensive Income	Accumulated Other Comprehensive Income	Shareholders Equity
Balance as of December 31, 2004	124,997,009	\$ 5,542,301	\$ 180,906,859	\$ 93,381,447	\$ 8,598,454		\$ 288,429,061
Common shares issued, net of direct expenses	12,312,500	537,304	116,484,548				117,021,852
Issuance of equity shares on exercise of options	488,890	21,995	1,692,396				1,714,391
Tax benefit arising on exercise of stock options			136,816				136,816
Cash dividend on common shares				(6,533,898)			(6,533,898)
Comprehensive income							
Net income				60,866,676	60,866,676		60,866,676
Other comprehensive income:							
Translation adjustment					(7,278,016)		(7,278,016)
Unrealised gain on investments, net of tax of \$261,520					560,447		560,447
Unrealised loss on cash flow hedging derivatives, net of tax of \$Nil					(1,026,624)		(1,026,624)
Minimum pension liability, net of tax of \$194,848					340,647		340,647
Comprehensive income					53,463,130	(7,403,546)	
	137,798,399	\$ 6,101,600	\$ 299,220,619	\$ 147,714,225		\$ 1,194,908	\$ 454,231,352

**Balance as of
December 31, 2005**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31,	2003 (Restated)	2004 (Restated)	2005
Operating activities			
Net income	\$ 43,643,484	\$ 54,684,140	\$ 60,866,676
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	9,127,418	11,543,775	15,960,705
Deferred taxes	(2,367,289)	(1,044,286)	(1,889,293)
Provision/(recovery) for doubtful debts and advances	305,201	495,618	(151,954)
Cumulative effect of a change in accounting principle	(3,273,960)		
(Gain)/loss on sale of property, plant and equipment, net	6,175	597,678	(3,176,152)
(Gain)/loss on sale of investments	(1,278,018)	(144,482)	(1,128,071)
Change in the put option liability	(10,000)		
Change in fair value of put option	(1,186,160)		
Changes in assets and liabilities			
Accounts receivable	(9,580,494)	(10,400,590)	(3,531,903)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,558,554)	(5,032,911)	(11,162,155)
Other current assets	(3,800,150)	(3,445,375)	3,431,844
Other assets	(292,911)	(2,714,988)	(142,962)
Trade accounts payable	200,994	18,445	1,937,464
Billings in excess of costs and estimated earnings on uncompleted contracts	692,262	634,645	(456,143)
Tax benefit arising on exercise of stock options			136,816
Taxes payable	(1,147,543)	(3,706,993)	(463,113)
Accrued expenses	2,638,374	(569,178)	6,069,364
Other current liabilities	3,602,235	1,645,226	16,410,593
Other liabilities	6,660,913	6,101,595	(7,548,512)
Net cash provided by operating activities	\$ 41,381,977	\$ 48,662,319	\$ 75,163,204
Investing activities			
Purchase of property, plant and equipment	(13,742,261)	(22,460,713)	(55,387,224)
Proceeds from sales of property, plant and equipment	70,105	509,570	4,336,910
Purchase of investment securities	(84,218,119)	(68,507,215)	(284,249,359)
Proceeds from sale of investment securities	95,256,878	67,149,337	216,499,740
Purchase of investments in liquid mutual fund units	(69,622,903)	(187,094,707)	(258,744,922)
Proceeds from sale of investments in liquid mutual fund units	47,478,842	156,499,620	269,269,221
Payments for acquisition, net of cash acquired	(3,038,154)	(32,450,060)	
Additional purchase consideration to Cymbal shareholders			(5,578,772)
Net cash used in investing activities	\$ (27,815,612)	\$ (86,354,168)	\$ (113,854,406)

See accompanying notes to the consolidated financial statements.

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Year ended December 31,	2003 (Restated)	2004 (Restated)	2005
Financing activities:			
Payment of capital lease obligations	(166,479)	(301,474)	(329,168)
Dividend on common shares	(998,623)	(3,059,633)	(6,531,628)
Proceeds from common shares issued, net of expenses		64,784,655	118,736,243
Net cash provided by/(used in) financing activities	\$ (1,165,102)	\$ 61,423,548	\$ 111,875,447
Effect of exchange rates changes on cash and cash equivalents	2,737,437	5,472,249	(1,508,143)
Net increase in cash and cash equivalents	12,401,263	23,731,699	73,184,245
Cash and cash equivalents at the beginning of the year	32,800,850	47,939,550	77,143,498
Cash and cash equivalents at end of the year	\$ 47,939,550	\$ 77,143,498	\$ 148,819,600
Supplemental disclosure of cash flow information:			
Interest paid	\$ 36,295	\$ 35,152	\$ 673,158
Income taxes paid	\$ 9,741,716	\$ 12,536,145	\$ 15,294,446
Non cash investing and financing activities:			
Additions to property, plant and equipment, represented by capital lease obligations	\$ 275,080	\$ 393,184	\$ 471,644
Stock dividend	\$ 1,016,861		

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated financial statements for the year ended 31 December, 2005

1 Organization and nature of business

1.1.1 Patni Computer Systems Limited (Patni) is a company incorporated in India under the Indian Companies Act, 1956. On September 18, 2003, Patni converted itself from a private limited company into a public limited company and changed its name from Patni Computer Systems (P) Limited to Patni Computer Systems Limited. In February 2004, Patni completed initial public offering of its equity shares in India.

1.1.2 Patni Computers Systems (UK) Limited (Patni UK), a company incorporated in UK, Patni Computer Systems GmbH (Patni GmbH), a company incorporated in Germany and Patni Computer Systems, Inc. (Patni USA), a company incorporated in Massachusetts, USA are 100% subsidiaries of Patni. In April 2003, Patni USA acquired 100% equity in The Reference Inc. (TRI), a company incorporated in Massachusetts, USA for consideration in cash. On November 3, 2004, Patni USA, acquired 100% equity in Cymbal Corporation (Cymbal), a company incorporated in California, USA, together with its subsidiaries in India, UK & Thailand, for consideration in cash. Further, Patni also has foreign branch offices in USA, Japan, Sweden, Australia, Korea and Netherlands.

1.1.3 Patni together with its subsidiaries (collectively, Patni Group or the Company) is engaged in IT consulting, software development and Business Process Outsourcing (BPO). The Company provides multiple service offerings to its clients across various industries comprising financial services, insurance services, manufacturing, telecommunications services and technology services (comprising independent software vendors and product engineering) and other industries such as energy and utilities, retail, logistics and transportation, and media and entertainment. The various service offerings comprise application development, application maintenance and support, packaged software implementation, infrastructure management services, product engineering services, quality assurance services and BPO services.

1.1.4 These financial statements are prepared on a consolidated basis for all the years presented.

2 Summary of significant accounting policies

Basis of preparation of financial statements

2.1.1 The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Principles of consolidation

2.1.2 The consolidated financial statements include the financial statements of Patni and all of its subsidiaries, which are more than 50% owned and controlled. All inter-company accounts and transactions are eliminated on consolidation. The Company accounts for investments by the equity method where its investment in the voting stock gives it the ability to exercise significant influence over the investee. In addition, the Company consolidates any Variable Interest Entity (VIE) if it is determined to be a primary beneficiary in accordance with *FASB interpretation 46(R), Consolidation of Variable Interest Entities* . However, as of December 31, 2004 and 2005, the Company does not have any interest in any VIE.

Accounting estimates

2.1.3 The preparation of financial statements in conformity with US GAAP requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. The actual results could differ from these estimates.

Revenue and cost recognition

2.1.4 The Company derives its revenues primarily from software services and to a lesser extent from BPO services. Revenue is recognized when there is persuasive evidence of a contractual arrangement with customers, the sales price is fixed or determinable and collectibility is reasonably assured. Software services are provided either on a fixed price, fixed time frame or on a time and material basis. The Company s fixed price contracts include application

maintenance and support services, on which revenue is recognized on a straight line basis over the term of maintenance Revenue with respect to other fixed price contracts is recognized on a percentage of completion basis. Revenue with respect to time-and-material contracts is recognized as related services are performed.

Guidance has been drawn from paragraph 95 of Statement of Position (SOP) 97-2, Software Revenue Recognition to account for revenue from fixed price arrangements for software development and related services in conformity with SOP-81-1 (Accounting for Performance of Construction Type and Certain Production Type Contracts). The input method has been used because management considers this to be the best available measure of progress on these contracts as there is a direct relationship between input and productivity.

2.1.5 The asset, Cost and estimated earnings in excess of billings on uncompleted contracts , represents revenues recognized in excess of amounts billed. These amounts are billed after the milestones specified in the agreement are achieved and the customer acceptance for the same is received. The liability, Billings in excess of costs and estimated earnings on uncompleted contracts , represents billings in excess of revenues recognized.

2.1.6 Direct and incremental contract origination and set up costs incurred in connection with support/maintenance service arrangements are charged to expense as incurred. These costs are deferred only in situations where there is a contractual arrangement establishing a customer relationship for a specified period. The costs to be deferred are limited to the extent of future contractual revenues. Further, revenue attributable to set up activities is deferred and recognised systematically over the periods that the related fees are earned, as services performed during such period do not result in the culmination of a separate earnings process.

2.1.7 Warranty costs on sale of services are accrued based on managements estimates and historical data at the time related revenues are recorded.

2.1.8 The Company grants volume discounts to certain customers, which are computed based on a pre-determined percentage of the total revenues from those customers during a specified period, as per the terms of the contract. These discounts are earned only after the customer has provided a specified cumulative level of revenues in the specified period. The discounts can be utilized by the customer in the form of free services.

The Company estimates the total number of customers that will ultimately earn these discounts, based on which a portion of the revenue on the related transactions is allocated to the free services that will be delivered in the future. The amount of revenue to be allocated to the free services is based on the relative fair value of the free services.

The Company reports revenues net of discounts offered to customers. In accounting for the above volume discounts, guidance has been obtained from Emerging Issues Task Force (EITF) 00-22 Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future and EITF 01-09, Accounting for Consideration given by a Vendor to a Customer (Including a Reseller of

the Vendor s Products) . Accordingly, these volume discounts have been recorded based on estimate of the total number of customers that will ultimately earn these discounts as it is believed that, based on historical experience, reliable estimates can be made of the estimated amount of revenues from a particular customer in the specified period.

Reimbursement of out of pocket expenses received from customers have been included as part of revenues in accordance with *EITF 01-14 Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred* .

2.1.9 Revenue from BPO is recognised on proportionate performance method.

Advertising cost

2.1.10 Advertising costs incurred during the year have been expensed. The total amount of advertising costs expensed was \$0.7 million, \$1 million and \$1.5 million for the years ended December, 31, 2003, 2004 and 2005.

Cash and cash equivalents

2.1.11 The Company considers investments in highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents comprise cash and cash on deposit with banks.

Investments

2.1.12 Management determines the appropriate classification of investment securities at the time of purchase and re-evaluates such designation at each balance sheet date. At December 31, 2004 and 2005, all investment securities were classified as available-for-sale and consisted of units of mutual funds.

2.1.13 Available-for-sale securities are carried at fair market value with unrealized gains and losses, net of deferred income taxes, reported as a separate component of other comprehensive income in the statement of shareholders' equity and comprehensive income. Realized gains and losses, and decline in value judged to be other than temporary on available-for-sale securities are included in the consolidated statements of income. The cost of securities sold or disposed is determined on average cost basis.

Business combinations, goodwill and intangible assets

2.1.14 *Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations* requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must be recognized and reported separately from goodwill. In accordance with *SFAS No. 142, Goodwill and Other Intangible Assets* all assets and liabilities of the acquired businesses including goodwill are assigned to reporting units.

2.1.15 Goodwill represents the cost of the acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased. Goodwill is not amortized but is tested for impairment at least on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process. The first step involves a comparison of the fair value of a reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Goodwill of a reporting unit will be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

2.1.16 Intangible assets are amortized over their respective individual estimated useful lives in proportion to the economic benefits consumed in each period. Intangible assets comprise customer related intangibles and are being amortized over a period of 10 years. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, and known technological advances) and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

2.1.17 Intangible assets are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

Property, plant and equipment

2.1.18 Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Gains and losses on disposals are included in the consolidated statements of income at amounts equal to the difference between the net book value of the disposed assets and the net proceeds received upon disposal. Expenditures for replacements and improvements are capitalized,

whereas the cost of maintenance and repairs is charged to income when incurred.

2.1.19 Property, plant and equipment are depreciated over the estimated useful life of the asset using the straight-line method, once the asset is ready for its intended use. The cost of software obtained for internal use is capitalized and amortized over the estimated useful life of the software. The estimated useful lives of assets are as follows:

Buildings	40 years
Leasehold premises and improvements	Over the lease period or the useful lives of the assets, whichever is shorter
Computer Hardware and software and other service equipments	3 years
Furniture and fixtures	3-8 years
Other equipment	3-8 years
Vehicles	4-5 years

Impairment of long-lived assets and long-lived assets to be disposed

2.1.20 Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever an event or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Functional and Foreign currency translation

2.1.21 The functional currency of Patni and its branches in the US, Japan, Sweden, Australia, Korea and Netherland is the Indian Rupee. The functional currencies of Patni's subsidiaries are the applicable local currencies.

2.1.22 The accompanying consolidated financial statements are reported in US Dollars. The translation is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for statements of income accounts using an appropriate monthly weighted average exchange rate for the respective periods. In respect of subsidiaries, the respective functional currencies are first translated into Indian Rupees and then into US Dollars. The gains or losses resulting from such translation are reported in other comprehensive income in the statement of shareholders' equity and comprehensive income.

Foreign currency transactions

2.1.23 Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the date of the transaction. Resulting gains or losses from settlement of such foreign currency transactions are included in the consolidated statements of income. Unsettled monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the balance sheet date. Transaction gain or loss arising from change in exchange rates between the date of transaction and period end exchange rates are included in the consolidated statements of income.

Income taxes

2.1.24 Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in results of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance if it is more likely than not that some portion or all of the assets will not be realized.

Concentration of credit risk

2.1.25 Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash, cash equivalents, investments and accounts receivables. Cash and cash equivalents are invested with corporations, financial institutions and banks with investment grade credit ratings. To reduce credit risk, investments are made in a diversified portfolio of mutual funds, which are periodically reviewed. To reduce its credit risk on accounts receivables, the Company performs ongoing credit evaluations of customers.

Retirement benefits to employees

2.1.26 Contributions to defined contribution plans are charged to income in the period in which they accrue. Current services costs for defined benefit plans are accrued in the period to which they relate, based on actuarial valuation performed by an independent actuary in accordance with *SFAS No. 87, Employers Accounting for Pensions*. Prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

Stock-based compensation

2.1.27 The Company uses the intrinsic value based method of accounting prescribed by *APB Opinion No. 25, Accounting for Stock Issued to Employees*, and related interpretation including *FASB interpretation 44, Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25*, issued in March 2000, to account for its employee stock based compensation plans. Under this method, compensation expense is recorded on the date of the grant, only if the current fair value of the underlying stock exceeds the exercise price. *SFAS No. 123, Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of *SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure*, an amendment of FASB Statement No. 123. All stock options issued to date have been accounted for as fixed awards.

2.1.28 Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS No. 123, the Company's net income and earnings per share as reported would have been reduced to the pro forma amounts indicated below:

Year ended December 31,	2003 (Restated)	2004 (Restated)	2005
Net income, as reported	\$ 43,643,484	\$ 54,684,140	\$ 60,866,676

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Add: Stock based employee compensation expense
included in reported income

Less: Stock based employee compensation expense
determined under fair value based method, net of tax
effects

		(158,232)		(1,253,513)		(3,501,531)
Pro forma net income	\$	43,485,252	\$	53,430,627	\$	57,365,145
Reported earnings per share						
Basic	\$	0.39	\$	0.44	\$	0.48
Diluted	\$	0.39	\$	0.44	\$	0.48
Pro forma earnings per share						
Basic	\$	0.39	\$	0.43	\$	0.46
Diluted	\$	0.39	\$	0.43	\$	0.45

2.1.29 The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions.

Year ended December 31,	2003	2004	2005
Dividend yield	0.41%	0.34%-0.72%	0.53%-0.54%
Expected life	2-5 years	2-5 years	2-5 years
Risk free interest rates	4.75%-4.9%	5.16%-6.46%	5.74%-6.73%
Volatility	0	43%-65%	28%-50%

2.1.30 For the year ended December 31, 2003, since the Company was a non-public entity, it has used the minimum value method in estimating the fair value of options.

Dividends

2.1.31 Dividends on common shares are recorded as a liability on the date of declaration by the shareholders at the Annual General Meeting.

Derivatives and hedge accounting

2.1.32 The Company enters into forward foreign exchange contracts where the counter party is a bank. The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on inter-company transactions and forecasted transactions denominated in foreign currencies. Although the Company believed that forward contracts were effective as hedges from an economic perspective, the Company had not previously designated these forward contracts as hedges of underlying transactions.

2.1.33 During 2004, the Company re-evaluated its risk management program and hedging strategies in respect of forecasted transactions, and, upon completion of the formal documentation and testing for effectiveness, the Company has designated certain forward contracts in respect of forecasted transactions, which meet the hedging criteria, as cash flow hedges. Changes in fair values of designated cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are then recognised in the consolidated statements of income. Changes in fair value for derivatives not designated as hedging instruments and ineffective portion of the hedging instruments are recognized in consolidated statements of income in the current period.

2.1.34 In respect of derivatives designated as hedges, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking

various hedge transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will, prospectively, discontinue hedge accounting with respect to that derivative.

Earnings per share

2.1.35 In accordance with *SFAS No. 128, Earnings per Share*, basic earnings per share is computed using the weighted average number of common and redeemable common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and redeemable common shares and dilutive common equivalent shares outstanding during the period using the treasury stock method for options except where the result would be anti-dilutive.

Reclassifications

2.1.36 Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year.

Commitments and Contingencies

2.1.37 Liabilities for loss contingencies arising from claims, assessments, litigations, fines and penalties and other

sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Recently Issued Accounting Standards

2.1.38 The Company examined the recently issued accounting standards SFAS No.151 Inventory Costs , SFAS No.152 Accounting for Real Estate Time-Sharing Transactions , SFAS No. 153 Exchange of Non-monetary Assets , SFAS No.154 Accounting Changes and Error Corrections and EITF 03-1 The Meaning of Other-Than-Temporary Impairment and Its Applications to Certain Investments and believes that the adoption of these standards will not have a significant impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No.123 (revised 2004). Share-Based Payment (SFAS 123R), which requires all companies to measure compensation cost for all share-based payments (including employee stock option) at fair value. SFAS 123R provides two alternative adoption methods. The first method is a modified prospective transition method whereby a company would recognize share based employee costs from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. Measurement and attribution of compensation cost for awards that are unvested as of the effective date of SFAS 123R would be based on the same estimate of the grant-date fair value and the same attribution method used previously under SFAS No.123, Accounting for Stock Based Compensation (SFAS 123).

The second adoption method is a modified retrospective transition method whereby a Company would recognize employee compensation cost for periods presented prior to the adoption of SFAS 123R in accordance with the original provisions of SFAS No. 123; that is, an entity would recognize employee compensation costs in the amounts reported in the pro forma disclosures provided in accordance with SFAS No. 123; a company would not be permitted to make any changes to those amounts upon adoption of SFAS 123R unless those changes represent a correction of an error. For periods after the date of adoption of SFAS 123R, the modified prospective transition method described above would be applied.

SFAS 123R does not change the accounting guidance for share-based payment transaction with parties other than employees provided in SFAS No. 123 as originally issued and EITF Issue No. 96-18. Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services .

SFAS 123R is effective for public entities that do not file as small business issuers as of the beginning of the first annual reporting period that begins after June 15, 2005. Accordingly, the Company is required to adopt SFAS 123R on January 1, 2006.

The Company currently expects to adopt SFAS 123R in the quarter ending March 31, 2006 using the modified prospective method. At December 31, 2005, unamortized costs determined based on the fair value approach described in SFAS No. 123 amounted to \$5,342,491, which will be amortised over a weighted average period of approximately five years. Future compensation expense will be impacted by various factors, including the number of awards granted and their related fair value at the date of the grant.

3 Restatement

3.1.1 In connection with an ongoing review of certain tax aspects relating to its international operations by the tax authorities in the US, the Company has reassessed its obligations for payroll and related taxes for the years ended December 31, 2003 and December 31, 2004. This reassessment related primarily to certain wages paid, and short-term fringe benefits given, to the Company's employees when working outside of India, for which appropriate withholding taxes were not provided.

Accordingly, the Company has estimated its liability for related tax consequences at amounts based on applicable tax rules. As a result of the above, the Company has

restated its financial statements for the years ended December 31, 2003 and 2004 to include payroll and related taxes of \$2,291,091 and \$2,510,543 (included under cost of revenues), interest expenses with respect to delayed payments of \$448,415 and \$568,432 (included under interest expense), and other related expenses \$209,201 and \$121,435 (included under other income/(expense) net). As a result of the above adjustments, deferred tax benefit (included under income taxes) of \$1,095,803 and \$1,231,590 have also been recognized for the years ended December 31, 2003 and December 31, 2004 respectively. The cumulative impact of similar adjustments on retained earnings relating to prior periods amounting to \$6,243,011 has been recorded as a prior period adjustment in the statement of shareholders equity and comprehensive income.

3.1.2

	Year ended December 31, 2003		Year ended December 31, 2004	
	As previously reported	Restated	As previously reported	Restated
Consolidated statements of income				