Cardo Medical, Inc.
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PROSPECTUS

18,333,450 Shares
CARDO MEDICAL, INC.
Common Stock
OTC Bulletin Board Trading Symbol: CDOM.OB

The selling stockholders may offer and sell from time to time up to an aggregate of 18,333,450 shares of Cardo Medical, Inc. (the "Company") common stock that they own or that they may acquire from us upon exercise of warrants. For information concerning the selling stockholders and the manner in which they may offer and sell shares of our common stock, see "Selling Stockholders" and "Plan of Distribution" in this prospectus.

We will not receive any proceeds from the sale by the selling stockholders of their shares of common stock other than the exercise price of the warrants if and when the warrants are exercised unless the warrants are exercised on a cashless basis.

On April 27, 2010, the last reported sale price for our common stock on the OTC Bulletin Board was $0.70 per share.

Investing in shares of our common stock involves a high degree of risk. You should purchase our common stock only if you can afford to lose your entire investment. See "Risk Factors," which begins on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The selling stockholders have not engaged any underwriter in connection with the sale of their shares of common stock. The selling stockholders may sell their shares of common stock in the public market based on the market price at the time of sale or at negotiated prices. The selling stockholders may also sell their shares in transactions that are not in the public market in the manner set forth under "Plan of Distribution."

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with information concerning us, except for the information contained in this prospectus. The information contained in this prospectus is complete and accurate only as of the date on the front cover page of this prospectus, regardless of the time of delivery of this prospectus or the sale of any common stock. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this prospectus is April 28, 2010.

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PROSPECTUS SUMMARY

This summary does not contain all of the information that is important to you. You should read the entire prospectus, including the Risk Factors and our consolidated financial statements and related notes appearing elsewhere in this prospectus before making an investment decision.

Our Business

Cardo Medical, Inc. ("Cardo", the "Company", "we", "us" or "our") is an orthopedic medical device company specializing in designing, developing and marketing high performance reconstructive joint devices and spinal surgical devices. Reconstructive joint devices are used to replace knee, hip and other joints that have deteriorated through disease or injury. Spinal surgical devices involve products to stabilize the spine for fusion and reconstructive procedures. Within these areas, we are focused on developing surgical devices, instrumentation and techniques that will enable surgeons to move what are typically inpatient surgical procedures to the outpatient world. We commercialize our reconstructive joint devices through our Reconstructive division and our spine devices through our Spine division.

GENERAL

On June 18, 2008, Cardo Medical, LLC, a California limited liability company, entered into a Merger Agreement and Plan of Reorganization with clickNsettle.com, Inc. ("CKST") and Cardo Acquisition, LLC, a California limited liability company and wholly-owned subsidiary of CKST. Upon the consummation of the transactions contemplated by the Merger Agreement, CKST acquired Cardo Medical, LLC through a merger of Cardo Medical, LLC with Cardo Acquisition, with Cardo Medical, LLC continuing as the surviving entity in the Merger and a wholly-owned subsidiary of CKST. Pursuant to the Merger Agreement, all of the issued and outstanding units of Cardo Medical, LLC's membership interests were converted into the right to receive shares of the common stock of CKST. In connection with the consummation of the Merger, CKST approved through its stockholders an amendment to its Amended and Restated Certificate of Incorporation to change its name from "clickNsettle.com, Inc." to "Cardo Medical, Inc."

Our executive offices are located at 9701 Wilshire Blvd., Suite 1100, Beverly Hills, California 90212. Our telephone number is (310) 274-2036. Our website is www.cardomedical.com. Information on our website or any other website is not part of this prospectus. References to "we," "us," "our" and similar words in this prospectus refer to Cardo Medical, Inc. and its consolidated subsidiaries.

Sale of Securities to the Selling Stockholders

On October 27, 2009, we sold, in the first tranche of a private placement, 9,949,276 shares of common stock at $0.35 per share. On November 13, 2009, we sold, in the second tranche of a private placement, 7,808,561 shares of common stock at $0.35 per share. In the private placement, we issued an aggregate of 17,757,837 shares of common stock at $0.35 per share, to 74 accredited investors. In conjunction with the private placement, Cardo Medical, Inc. issued to the placement agent warrants to purchase 575,613 shares of the Company's common stock, a number that is equivalent to six percent (6%) of the number of shares of common stock sold in the private placement transaction to investors that were solicited by the placement agent ("Approved Investors"), at an exercise price of $0.44 per share. The warrants issued to the placement agent in the private placement are sometimes referred to as the "Placement Agent Warrants". The Placement Agent Warrants expire on November 13, 2014 and may be exercised on a cashless basis.

We paid the placement agent for this offering a commission equal to eight percent (8%) of the gross proceeds from the offering that was received from Approved Investors. Additionally, the placement agent received (i) a cash non-accountable expense allowance equal to one percent (1%) of the gross proceeds of the offering received from Approved Investors; (ii) reimbursement of the placement agent's out-of-pocket expenses related to the offering,

including its legal fees and expenses up to $40,000; and (iii) warrants to purchase 575,613 shares of common stock equal to six percent (6%) of the number of shares sold in the offering to Approved Investors at a exercise price of $0.44 per share.

The registration rights agreement entered into with subscribers in the offering requires us to use commercially reasonable efforts to have this registration statement declared effective by the Securities and Exchange Commission ("SEC") as soon as practicable, but in no event later than the one hundred twenty (120) calendar days after the final closing date or one hundred fifty (150) calendar days if the SEC reviews the registration statement.

THE OFFERING

Common Stock Offered:	The selling stockholders are offering a total of 18,333,450 shares of common stock, of which 17,757,837 shares are outstanding and 575,613 shares are issuable upon exercise of warrants.
Outstanding Shares of Common Stock:	230,293,141 shares[1, 2]
Common Stock to be Outstanding After Exercise of Placement Agent Warrants:	230,868,754 shares[1]
Use of Proceeds:	We will receive no proceeds from the sale of any shares by the selling stockholders. In the event that the placement agent exercises its warrants, we would receive the exercise price. If all warrants are exercised, we would receive approximately $253,270 unless the warrants are exercised on a cashless basis, all of which, if and when received, would be used for working capital and other corporate purposes.

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(1) As of April 21, 2010. Does not include a total of 2,358,400 shares of common stock granted under existing options to purchase common stock.

(2) As of April 21, 2010. Does not include the 575,613 shares of common stock issuable upon exercise of warrants held by the placement agent.

RISK FACTORS

This registration statement includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), including, in particular, certain statements about our plans, strategies and prospects. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause our actual results to differ materially from our forward-looking statements include those set forth in this Risk Factors section.

An investment in the securities is speculative and involves a high degree of risk. You should carefully consider the risk factors described below together with the other information contained in this prospectus before making a decision to purchase our securities. If any of the risks described below occur, or if other risks not identified below occur, our business, business prospects, cash flow, financial condition, stock price and results of operations could be materially adversely affected. Under these circumstances, the trading price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our financial condition and operations. Furthermore, references to "we," "us" and "our" are references to the Company.

In addition to the risk factors related to the offering set forth below, the risk factors set forth in the SEC filings, including the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and future filings with the SEC are incorporated by reference into this prospectus.

You understand that, certain unique factors make an investment in the Company subject to a high degree of risk. You have been cautioned that an investment in the Company is speculative and involves significant risks, and that it is probably not possible to foresee and describe all of the business, economic and financial risk factors which may affect the Company.

This document contains "forward-looking statements," as that term is defined under the Private Securities Litigation Reform Act of 1995, or the PSLRA. Forward-looking statements include statements about our expectations, beliefs

or intentions regarding our product development efforts, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements.

Any or all of our forward-looking statements in this document may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this document will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking statements. We intend that all forward-looking statements be subject to the safe-harbor provisions of the PSLRA. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance.

Risks and uncertainties, the occurrence of which could adversely affect our business, include the following:

Risks Related to Our Business, Industry and Regulatory Matters

We may need to raise additional funds in the future to fund our operations and research, and these funds may not be available on acceptable terms, if at all.

We expect that proceeds from the 2009 private placements will be sufficient to meet working capital requirements through September 2010. However, actual working capital requirements may change as a result of various factors, including:

We anticipate spending significant amounts of cash on expanding our research and development, sales and marketing efforts, and product commercialization. We have available to us approximately $5 million in cash and cash equivalents, which we expect will not be sufficient for us to meet our anticipated cash requirements for at least the next 12 months However, we cannot assure you that debt or equity financing, if and when required, will be available. Our ability to continue as a going concern is dependent upon receiving additional funds either through the issuance of debt or through the sale of common and/or preferred stock and the success of management's plan to expand sales. Our actual capital requirements may change as a result of various factors, including:

- the success of our research and development efforts, and any changes in the breadth of our research and development programs;
- results from preclinical studies and clinical trials conducted by us or our collaborative partners or licensees, if any;
- the number and timing of acquisitions and other strategic transactions;
- our ability to maintain and establish corporate relationships and research collaborations;
- our ability to manage growth and costs associated with this growth, and the costs associated with increased capital expenditures;
- the time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims;

- the cost and timing of obtaining and maintaining regulatory approval or clearance for our products and products in development;

- the expenses we incur in manufacturing and selling our products;
- the revenues generated by sales of our products; and
- the costs associated with our employee retention programs and related benefits.

Our primary goal as it relates to liquidity and capital resources is to attain the appropriate level of debt and equity and the resultant cash to implement our business plan. We will need to raise additional funds, which may not be available to us on favorable terms, if at all. If we raise capital by issuing equity or debt securities, our existing stockholders may experience dilution and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. Further, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish or share rights to our potential products or proprietary technologies, or to grant licenses on terms that are not favorable to us. If we are unable to raise needed capital on terms acceptable to us, we may not be able to develop new products, enhance our existing products, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We expect to incur significant losses, either directly or indirectly through the companies in which we develop our products, for at least the next fiscal year, and we cannot assure you that we will ever be profitable.

We expect to incur significant losses during the next fiscal year, either directly or indirectly through the companies in which we develop our products, as we expand our research and development activities, apply for regulatory approvals, develop additional technology and expand our operations. We cannot assure you that we will be successful in selling or licensing any of the products we might develop or predict the terms we may be able to obtain in any sales or licensing transaction.

We have a limited number of products currently available for sale and there is a high risk that our research and development efforts might not successfully generate any viable product candidates in the future.

We currently have nine products available for sale, all of which are in the early stages of distribution. Other than those nine products, we are in the preliminary stages of product identification and development, and have identified only a few potential additional products. We have not yet conducted preclinical studies or clinical testing on these potential additional products. It is unlikely that the few products that we have identified as potential candidates will actually lead to successful development efforts, and we do not expect any additional products resulting from our research to be commercially available for several years, if at all. Our leads for potential products will be subject to the risks and failures inherent in developing medical devices and products, including, but not limited to, the unanticipated problems relating to research and development, product testing, confirming intellectual property rights and non-infringement, regulatory compliance, manufacturing, marketing and competition. Additional expenses may exceed current estimates and, therefore, adversely affect our profitability.

Healthcare policy changes, including recently enacted legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and results of operations.

Healthcare costs have risen significantly over the past decade, and there have been and continue to be proposals by legislators, regulators and third-party payors to keep these costs down. Congress recently passed health care reform legislation. The President signed the measure into law on March 23, 2010, and, on March 30, 2010, the President signed into law a "reconciliation" bill that modifies certain provisions of the same. This legislation is considered by some to be the most dramatic change to the country's health care system in decades.

The principal aim of the law as currently enacted is to expand health insurance coverage to approximately 32 million Americans who are currently uninsured. The law's most far-reaching changes do not take effect until 2014, including a

requirement that most Americans carry health insurance. The consequences of these significant coverage expansions on the sales of the Company's products is unknown and speculative at this point.

The enacted legislation contains many provisions designed to generate the revenues necessary to fund the coverage expansions. The most relevant of these provisions are those that impose fees or taxes on certain health-related industries, including medical device manufacturers.

Beginning in 2013, each medical device manufacturer will have to pay an excise tax (or sales tax) in an amount equal to 2.3 percent of the price for which such manufacturer sells its medical devices. This tax applies to all medical devices, including the Company's products and product candidates.

In addition to the new legislation discussed above, the effect of which cannot presently be quantified given its recent enactment, various healthcare reform proposals have also emerged at the state level. We cannot predict what healthcare initiatives, if any, will be implemented at the federal or state level, or the effect any future legislation or regulation will have on us. In addition to the taxes imposed by the new federal legislation, an expansion in government's role in the U.S. healthcare industry may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business, financial condition and results of operations, possibly materially.

Cost containment measures, pressure from our competitors and availability of medical reimbursement may impact our ability to sell our products at prices necessary to expand our operations and reach profitability.

Healthcare costs have risen significantly over the past decade and numerous initiatives and reforms initiated by legislators, regulators and third-party payors to curb these costs have resulted in a consolidation trend in the healthcare industry, including hospitals. This has resulted in greater pricing and other competitive pressures and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some hospital customers. We expect that market demand, government regulation, third-party reimbursement policies and societal pressures will continue to change the national and worldwide healthcare industry, resulting in further business consolidations and alliances among customers and competitors. This consolidation may reduce competition, exert downward pressure on the prices of our products and adversely impact our business, financial condition or results of operations.

Further, third-party payors in the United States and abroad continue to work to contain healthcare costs. The introduction of cost containment incentives, along with closer scrutiny of healthcare expenditures by both private health insurers and employers, has resulted in increased discounts and contractual adjustments to hospital charges for services performed and has shifted services between inpatient and outpatient settings. Hospitals or physicians may respond to these cost-containment pressures by substituting lower-cost products or other therapies for our products.

The market for orthopedic, knee and hip surgery devices is large and growing at a significant rate. Numerous new companies and technologies, as well as more established companies, have entered this market. New entrants to our markets include numerous niche companies with a singular product focus, as well as companies owned partially by surgeons, who may have greater access than we do to the surgeons who may use our products. As a result of this intensified competition, we believe there will be increasing pressure to reduce pricing of our medical devices. If we are unable to price our products appropriately due to these competitive pressures or for other reasons, our profit margins will shrink and our ability to invest in and grow our business and achieve profitability will decrease.

Future legislation, regulation or reimbursement policies of third-party payors may adversely affect the demand for our existing products or our products currently under development and limit our ability to sell our products on a profitable basis.

Also, third-party payors are increasingly challenging the prices charged for medical products and services. Particularly in the United States, third-party payors carefully review, and increasingly challenge, the prices charged for procedures and medical products. Also, greater numbers of insured individuals are receiving (and will continue to receive over the next decade) their medical care through managed care programs, which monitor and often require pre-approval of the

services that a member will receive. Many managed care programs are paying their providers on a capitated basis, which puts the providers at financial risk for the services provided to their patients by paying them a predetermined payment per member per month.

Sales of our products will depend on the availability of adequate reimbursement from third-party payors (such as governmental programs, for example, Medicare and Medicaid, private insurance plans and managed care programs), both in terms of the sales volumes and prices of our products.

Healthcare providers, such as hospitals that purchase medical devices for treating their patients, generally rely on third-party payors to reimburse all or part of the costs and fees associated with the procedures performed with these devices. These third-party payors may deny reimbursement if they feel that a device is not the most cost-effective treatment available, or was used for an unapproved indication. As such, surgeons are unlikely to use our products if they do not receive reimbursement adequate to cover the cost of their involvement in the surgical procedures. The failure of surgeons to use our products, or the diminished use by surgeons, may have a material adverse impact on our business, financial condition and results of operations.

We also believe that future reimbursement from third-party payors may be subject to increased restrictions both in the U.S. and international markets. If we sell our products internationally, market acceptance may depend, in part, upon the availability of reimbursement within the prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored healthcare and private insurance.

Future legislation, regulation or reimbursement policies of third-party payors may adversely affect the demand for our existing products or our products currently under development and limit our ability to sell our products on a profitable basis. Also, third-party payors are increasingly challenging the prices charged for medical products and services. Particularly in the United States, third-party payors carefully review, and increasingly challenge, the prices charged for procedures and medical products. Also, greater numbers of insured individuals are receiving (and will continue to receive over the next decade) their medical care through managed care programs, which monitor and often require pre-approval of the services that a member will receive. Many managed care programs are paying their providers on a capitated basis, which puts the providers at financial risk for the services provided to their patients by paying them a predetermined payment per member per month. Challenges by third-party payors to the prices charged for medical products and services, coupled with the increasing popularity of managed care programs, may result in hospitals and physicians seeking lower-cost alternatives to our products, the occurrence of which could materially adversely affect our business, financial condition and results of operations.

Healthcare providers, such as hospitals that purchase medical devices for treating their patients, generally rely on third-party payors to reimburse all or part of the costs and fees associated with the procedures performed with these devices. These third-party payors may deny reimbursement if they feel that a device is not the most cost-effective treatment available, or was used for an unapproved indication. As such, surgeons are unlikely to use our products if they do not receive reimbursement adequate to cover the cost of their involvement in the surgical procedures. We also believe that future reimbursement may be subject to increased restrictions both in the U.S. and international markets. If we sell our products internationally, market acceptance may depend, in part, upon the availability of reimbursement within the prevailing healthcare payment systems. Reimbursement and healthcare payment systems in international markets vary significantly by country, and include both government sponsored healthcare and private insurance.

Legislative or administrative reforms to the U.S. or international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for those procedures could have a material adverse effect on our business, financial condition or results of operations.

We believe that the overall escalating cost of medical products and services has led to, and will continue to lead to, increased pressures on the healthcare industry to reduce the costs of products and services. We cannot assure you that third-party reimbursement and coverage will be available or adequate, or that future legislation, regulation, or reimbursement policies of third-party payors will not adversely affect the demand for our products or our ability to sell these products on a profitable basis. We also cannot assure you that our products will be considered cost-effective by third-party payors, that reimbursement will be available or, if available, that the third-party payors' reimbursement

policies will not adversely affect our ability to sell our products profitably.

We must convince orthopedic and spine surgeons that our products are an attractive alternative to existing surgical treatments of orthopedic and spine disorders.

To be commercially successful, we believe that we will need surgeons to adopt our products as their preferred treatment option for their patients. Surgeons may be slow to adopt our products for the following reasons, among others:

- lack of clinical evidence;
- the time that must be dedicated for training;
- lack of experience with our products;
- perceived risks generally associated with the use of new products and procedures;
- perceived risks associated with purchasing products from an early-stage medical device company;
- costs associated with the purchase of new products and equipment; and
- limited availability of reimbursement within healthcare payment systems.

We also believe that recommendations and support of our products by influential surgeons are essential for market acceptance and adoption. If we do not receive support from these surgeons, surgeons and hospitals may not use our products. As a result, we may not achieve expected revenues and may never become profitable.

Hospitals, surgeons, distributors and agents may have existing relationships with other medical device companies that make it difficult for us to establish new relationships with them. As a result, we may not be able to sell and market our products effectively.

We believe that to sell and market our products effectively, we must establish relationships with key surgeons and hospitals in the field of orthopedic knee, hip and spinal surgery. Many of these key surgeons and hospitals already have long-standing relationships with large, better-known companies that dominate the medical devices industry through collaborative research programs and other relationships. Because of these existing relationships, some of which may be contractually enforced, surgeons and hospitals may be reluctant to adopt our products, particularly if our products compete with or have the potential to compete with products supported through their own collaborative research programs or by these existing relationships. Even if these surgeons and hospitals purchase our products, they may be unwilling to enter into collaborative relationships with us to promote joint marketing programs or to provide us with clinical and financial data.

We work primarily with a network of independent orthopedic product agents and distributors that generate sales leads for us, in addition to working with our own internal direct sales force. If these product agents and distributors believe that their relationship with us is less beneficial than other relationships they may have with more established or well-known medical device companies, they may be unwilling to continue their relationships with us, making it more difficult for us to sell and market our products effectively.

Our business plan relies on certain assumptions about the market for our products, which, if incorrect, may adversely affect our business and profitability.

We believe that the aging of the general population and increasingly active lifestyles will continue and that these trends will increase the need for our medical products. However, the projected demand for our products could differ materially from actual demand if our assumptions regarding these trends and acceptance of our products by the

medical community prove to be incorrect or do not materialize, or if non-surgical treatments gain more widespread acceptance as a viable alternative to our devices.

We expect to face significant competition as a result of the rapid technological changes in the medical devices industry, which could have an adverse effect on our business, financial condition or results of operations.

The medical device market is highly competitive, subject to rapid change, and significantly affected by new product introductions and other market activities of industry participants. We expect to encounter intense competition across our product lines and in each market in which our products are sold from various medical device companies, many of which are likely to have greater financial and marketing resources than us. Our primary competitors are Zimmer, J&J/DePuy Orthopaedics, Stryker and Biomet in the hips and knees market, and Medtronic/Sofamor Danek, J&J/DePuy Spine and Synthes in the spine market. In addition, we will face competition from a wide range of companies that sell a single or a limited number of competitive products or which participate only in a specific market segment, as well as from non-medical device companies, including pharmaceutical companies, which may offer alternative therapies for disease states intended to be treated using our products.

Additionally, the medical device market is characterized by extensive research and development, and rapid technological change. Developments by other companies of new or improved products, processes or technologies may make our products or proposed products obsolete or less competitive and may negatively impact our revenues. We will be required to devote continued efforts and financial resources to develop or acquire scientifically advanced technologies and products, apply our technologies cost-effectively across product lines and markets, attract and retain skilled development personnel, obtain patent and other protection for our technologies and products, obtain required regulatory and reimbursement approvals and successfully manufacture and market our products consistent with our quality standards. If we fail to develop new products or enhance existing products, it could have a material adverse effect on our business, financial condition or results of operations.

Many of our larger competitors are either publicly traded or divisions or subsidiaries of publicly traded companies, and enjoy several competitive advantages over us, including:

- larger and more well-established distribution networks;
- established relationships with a greater number of surgeons, hospitals, other healthcare providers and third-party payors;
- products supported by long-term clinical data;
- greater experience in obtaining and maintaining regulatory approvals or clearances for products and product enhancements;
- greater name recognition;
- greater access to manufacturers, vendors and raw materials for manufacturing medical devices;
- more expansive portfolios of intellectual property rights; and
- greater financial and other resources for product research and development, sales and marketing, intellectual property protection and litigation.

We rely on single source manufacturers, which could impair our ability to meet demand for delivering our products in a timely manner or within our budget.

We rely on third-party manufacturers to manufacture our products. It is critical to our business that our contract manufacturers be able to provide us with products in substantial quantities, in accordance with agreed upon specifications, in compliance with regulatory requirements, at acceptable cost and on a timely basis. Our anticipated

growth could strain the ability of manufacturers to deliver an increasingly large supply of products. If we are unable to obtain sufficient quantities of high quality products to meet customer demand on a timely and cost-effective basis, we could lose customers, our reputation could be harmed and our business could suffer.

We currently use a variety of manufacturers for each of our devices. Our dependence on these manufacturers involves several risks, including limited control over pricing, availability, quality and delivery schedules. If any one or more of our manufacturers cease to provide us with sufficient quantities of our products in a timely manner or on terms acceptable to us, or cease to manufacture products of acceptable quality, we would have to seek alternative sources of manufacturing. We could experience delays while we locate and engage alternative qualified manufacturers, and we might be unable to engage alternative manufacturers on favorable terms, if at all. Any disruption or increased expenses relating to our supply source could harm our sales and marketing efforts and adversely affect our ability to generate revenue.

Loss of any major customer could have a material adverse effect on our business, financial condition and results of operations.

During the fiscal year ended December 31, 2009, three hospital customers accounted for approximately 64% of our net sales. The loss of any major customer could have a material adverse effect on our business, financial condition and results of operations. We cannot guarantee that we will be able to retain long-term relationships with our major customers in the future.

Our growth will depend on developing new products or product enhancements, requiring significant research and development, clinical trials and regulatory approvals, all of which are expensive and time-consuming and may not result in a commercially viable product.

We believe that it is important for us to continue to build a more complete product offering and to enhance the products we currently offer. Our success in this regard will depend in part on our ability to develop and introduce new products and product enhancements to keep pace with the rapidly changing medical device market. We cannot assure you that we will be able to successfully develop, obtain regulatory approval for or market new products or product enhancements, or that any of our future products or enhancements will be accepted by the surgeons who use our products or the payors who financially support many of the procedures performed with our products.

Factors affecting the success of any new product offering or enhancement to an existing product include our ability to:

- properly identify and anticipate surgeon and patient needs;
- develop and introduce new products or product enhancements in a timely manner;
- avoid infringing upon the intellectual property rights of third parties;
- obtain the necessary regulatory clearances or approvals for new products or product enhancements;
- demonstrate, if required, the safety and efficacy of new products with data from preclinical studies and clinical trials;
- provide adequate training to potential users of our products;
- receive adequate reimbursement; and
- develop an effective and dedicated marketing and distribution network.

If we do not develop new products or product enhancements in time to meet market demand or if there is insufficient demand for these products or enhancements, our results of operations may suffer.

If we choose to grow our business by acquiring new and complementary businesses, products or technologies, we may be unable to complete these acquisitions or successfully integrate them in a cost-effective and non-disruptive manner.

We believe that our success depends in part on our ability to continually enhance and broaden our product offering in response to changing customer demands, competitive pressures and technologies and our ability to increase our market share. To achieve this growth, we have completed certain acquisitions, and intend to pursue other acquisitions of complementary businesses, products or technologies, in some cases instead of developing them ourselves. We may be unable to successfully complete any further acquisitions, or we may not be able to successfully integrate any acquired business, product or technology into our business or retain any key personnel, manufacturers or distributors. The success of any acquisition, investment or alliance undertaken will depend on a number of factors, including:

- our ability to identify suitable opportunities;
- our ability to finance any acquisition, investment or alliance;
- whether we are able to establish an acquisition, investment or alliance on terms that are satisfactory to us, if at all;
- the strength of the other companies' products, underlying technology and ability to execute;
- intellectual property and litigation related to these technologies or businesses; and
- our ability to successfully integrate the acquired company or business with our existing business, including the ability to adequately fund acquired in-process research and development projects.

These efforts could be expensive and time-consuming, disrupt our ongoing business and distract management. If we are unable to integrate any future acquired businesses, products or technologies effectively, our business, financial condition and results of operations will be materially adversely affected. For example, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize significant amounts of expenses, including non-cash acquisition costs, and acquired assets.

We rely on our independent sales distributors and sales representatives to market and sell our products.

We depend upon independent sales distributors and sales representatives to market and sell our products, in particular due to their sales and service expertise and relationships with customers in the marketplace. Independent distributors and sales representatives may terminate their relationships with us or devote insufficient sales efforts to our products for any number of reasons. We do not control our independent distributors and they may not be successful in implementing our marketing plans. If we fail to maintain our existing relationships with our independent distributors and sales representatives, our operations would suffer. Similarly, our failure to recruit and retain additional skilled, independent sales distributors and sales representatives could have an adverse effect on our operations. We may experience turnover with some of our independent sales distributors, which could adversely affect our short-term financial results while we transition to new distributors. Our failure to manage these transitions effectively could negatively impact our operations and profitability.

We are dependent on the services of Andrew A. Brooks, M.D. and Michael Kvitnitsky, and the loss of either of them could harm our business.

Our success depends in part upon the continued service of Andrew A. Brooks, M.D., who serves as our Chairman of the Board and Chief Executive Officer, and Michael Kvitnitsky, who serves as our President and Chief Operating Officer. Dr. Brooks and Mr. Kvitnitsky are critical to the overall management of our Company as well as to the development of our technology, our culture and our strategic direction. The loss of either Dr. Brooks or Mr.

Kvitnitsky could have a material adverse effect on our business, results of operations and financial condition. We

have not obtained and do not expect to obtain any key-person life insurance policies on Dr. Brooks or Mr. Kvitnitsky.

Failure to attract and retain skilled personnel and cultivate key academic collaborations will delay product development programs and business development efforts.

Our success will depend on our ability to continuously attract and retain highly qualified management and scientific personnel and on our ability to develop relationships with academic collaborators. The competition for qualified personnel and collaborators is intense. We cannot assure you that we will be able to attract or retain personnel or cultivate academic collaborations. In addition, our collaborators may have arrangements with other companies to assist those companies in developing products that compete with ours. Our inability to hire or retain qualified personnel or cultivate academic collaborations would harm our business.

If conflicts arise between collaborators or advisors and us, any of these parties may act in its self-interest, which may be adverse to our interests and the interests of our stockholders.

We expect to enter into arrangements with corporate collaborators and scientific advisors to help us develop and test potential products or enhance our existing products. If conflicts arise between us and any of these corporate collaborators or scientific advisors, the other party may act in its self-interest and not in our interest or the interests of our stockholders. It is possible that some of our corporate collaborators will be conducting multiple product development efforts within each area that is the subject of the collaboration with us. We also might be required to agree not to conduct independently, or with any third party, any research that is competitive with the research conducted under our collaborations. In addition, any of these collaborators may develop, either alone or with others, products in related fields that are competitive with the products or potential products that are the subject of our collaboration with them. Competing products, either developed by collaborators or to which collaborators have rights, may result in their withdrawing support for our product candidates.

If we fail to properly manage our anticipated growth, our business could suffer.

We continue to experience growth in, and will continue to pursue rapid growth in, the number and types of products we offer, the number of surgeons using our products, and the number of states in which our products are sold. This growth has placed and will continue to place significant demands on our managerial, operational and financial resources and systems. We are currently focused on increasing the size and effectiveness of our sales force and distribution network, marketing activities, research and development efforts, inventory management systems, management team, accounting systems and corporate infrastructure. If we do not manage our growth effectively, the quality of our products, our relationships with surgeons, distributors and hospitals, and our reputation could suffer.

We must attract and retain qualified personnel and third-party distributors and manage and train them effectively. Personnel qualified in the design, development, production and marketing of our products are difficult to find and hire, and enhancements of information technology systems to support our growth are difficult to implement. In addition, we will need to carefully monitor and manage our surgeon services, and the quality assurance and efficiency of our manufacturers and distributors. This managing, training and monitoring will require allocation of valuable management resources and significant expense.

If we fail to upgrade our management information systems, or if those systems do not operate as expected, we could experience significant disruption of our business and product developments and our results could suffer.

The efficient operation of our business is dependent on our management information systems, which we rely upon to effectively manage accounting and financial functions, manage order entry, order fulfillment and inventory replenishment processes, and maintain our research and development data. We are assessing various inventory tracking software, as well as an improved ledger accounting system for all business units, which will enhance our internal controls. In addition, we are taking steps to unify the financial reporting of our consolidated subsidiaries, and

we are in the initial planning phase of upgrading, where possible, certain of our information technology systems impacting financial reporting.

Any failure of our management information systems to perform as we anticipate could disrupt our business and product development and could result in decreased sales, increased overhead costs, excess inventory and product shortages, causing our business and results of operations to suffer.

If a natural or man-made disaster strikes a facility in which our products are manufactured, we could be unable to deliver our products for a substantial amount of time and our sales could decline.

If a key third party facility is affected by a natural or man-made disaster, we would be forced to rely on another third-party manufacturer. We do not have insurance for potential losses as a result of damages to these manufacturing facilities.

If we decide to market and sell our devices and products internationally, we would be subject to various risks relating to our international activities, which could negatively impact our business and financial results.

We currently do not market or sell our products outside of the United States. However, we may actively pursue one or more international markets within the next few years, at which point we would be exposed to risks separate and distinct from those we face in our U.S. operations. Any international business we may engage in may be adversely affected by changing economic conditions in foreign countries, as well as U.S. laws that may affect the international business operations of a U.S. company such as ours. In addition, increases or decreases in the value of the U.S. dollar relative to foreign currencies could affect our results of operations since international sales most likely would be denominated in the functional currency of the country in which the product is sold.

Certain additional or different risks inherent in engaging in international business include the following:

- compliance with existing and changing foreign regulatory laws and requirements;
- export restrictions and controls and other government regulation relating to technology or medical devices;
- foreign laws and business practices favoring local companies;
- pricing pressures that we may experience internationally;
- the availability and level of reimbursement within prevailing foreign healthcare payment systems or insurance providers;
- shipping delays due to cross-border sales;
- longer payment cycles;
- difficulties and costs of establishing, staffing and managing foreign operations;
- potentially adverse tax consequences, tariffs and other trade barriers;
- difficulties in enforcing intellectual property rights;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability; and
- international terrorism and anti-American sentiment.

Our exposure to each of these risks may increase our costs, impair our ability to market and sell our products and require significant management attention, resulting in harm to our business and financial results.

We are subject to substantial governmental regulation that could change and thus force us to make modifications to how we develop, manufacture and price our products. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply can have adverse consequences on our business.

The medical device industry is regulated extensively by governmental authorities, principally the Food and Drug Administration, or the FDA, and corresponding state and foreign regulatory agencies. The FDA and other federal, state and foreign governmental agencies regulate, among other things, the development, manufacturing, clinical trials, marketing clearance and approval, promotion and sale of medical devices.

In particular, the FDA permits commercial distribution of a new medical device only after the device has received clearance under Section 510(k), or is the subject of an approved premarket approval application, or PMA. The FDA will approve marketing a medical device through the Section 510(k) process if it is demonstrated that the new product is substantially equivalent to other Section 510(k)-cleared products. The PMA process is more costly, lengthy and uncertain than the Section 510(k) clearance process. A PMA application must be supported by extensive data, including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data, to demonstrate to the FDA's satisfaction the safety and efficacy of the device for its intended use. To date, all of our products, unless exempt, have been cleared through the Section 510(k) process. We have no experience in obtaining premarket approval.

Compliance with complex regulations is, and will continue to be, time-consuming, burdensome and expensive. Failure to comply with these regulations could jeopardize our ability to manufacture and sell our products and result in enforcement actions such as warning letters, fines, injunctions, civil penalties, termination of distribution, seizures of products, total or partial suspension of production, refusal of the FDA or other regulatory agencies to grant future clearances or approvals, or withdrawals or suspensions of current clearances or approvals. These enforcement actions could result in higher than anticipated costs or lower than anticipated revenue and have a material adverse effect on our business, financial condition and results of operations. In the most egregious cases, we could face criminal sanctions, closure of the manufacturing facilities in which our products are manufactured, and prohibitions on the sales of our products.

Foreign governmental authorities that regulate the manufacture and sale of medical devices have become increasingly vigilant, and if we engage in sales of our products in foreign countries, these sales would be subject to rigorous foreign regulations. In these circumstances, we would rely heavily on our foreign independent sales agencies to comply with the varying regulations, and any failures on their part could result in restrictions on the sale of our products in foreign countries. We currently do not sell any of our products internationally.

Federal regulatory reforms may adversely affect our ability to sell our products profitably.

Legislation may be drafted from time to time and introduced in Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a medical device in the United States. In addition, FDA regulations and guidance often are revised or reinterpreted by the agency in ways that may significantly affect our business and our ability to commercialize our products. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of these changes, if any, may be. For example, on September 27, 2007, Congress enacted, and the President signed into law, the Food and Drug Administration Amendments Act of 2007. This law grants significant new powers to the FDA and imposes new obligations and requirements on both the FDA and FDA-regulated industries, including the medical device industry. In particular, this law requires, among other things, that the FDA propose, and ultimately implement, regulations that will require manufacturers to label medical devices with unique identifiers unless a waiver is received from the FDA. In addition, it reauthorizes the FDA to collect medical device user fees and amends the existing user fee program by, among other things, reducing device application fees and imposing new fees, including a new annual establishment registration fee. Also, the new law authorizes the FDA to establish a unique medical device identification system and expands the federal government's clinical trial registry and results databank to include,

among other things, information on medical device clinical trials. While these new requirements undoubtedly will have a significant effect on the medical device industry, we cannot yet predict the extent of that effect on our company. As regulations, guidance and interpretations are issued by the FDA relating to the new legislation, its impact on the industry, as well as our business, will become clearer. Compliance with those

regulations could require us to take additional steps, and incur additional costs, in manufacturing and labeling products.

We have not yet collected long-term clinical data to support the safety of our products, and our products may, therefore, prove to be less safe and effective than initially thought.

We obtained clearance to offer all of our products that require FDA clearance or approval through the Section 510(k) clearance process, which is less rigorous than the PMA process and requires less supporting clinical data. As a result of using this expedited process, we currently lack the breadth of published long-term clinical data supporting the safety of our products and the benefits they offer that might have been generated using the PMA process. Because of the lack of this in-depth data, surgeons may be slow to adopt our products, we may not have comparative data that our competitors have or are generating, and we may be subject to greater regulatory and product liability risks. Further, future patient studies or clinical experience may indicate that treatment with our products does not improve outcomes. These results would reduce demand for our products, thereby preventing us from becoming profitable. If future results and experience indicate that our products cause unexpected or serious complications or other unforeseen negative effects, we could be subject to significant legal liability and harm to our business reputation. The medical device market has been particularly prone to costly product liability litigation. The time and costs of any product liability litigation we may face may materially adversely affect our business, financial condition or results of operations, even if we are ultimately victorious in any such litigation.

The FDA requires us to obtain new Section 510(k) clearances or premarket approvals for modifications to our approved products. Otherwise, we may have to cease marketing, or to recall, the modified products until clearances are obtained.

Any modification to a Section 510(k)-cleared device that could significantly affect its safety or efficacy, or that would constitute a major change in its intended use, requires a new Section 510(k) clearance or, possibly, premarket approval. Under FDA regulations, every manufacturer must make this determination in the first instance, but the FDA may review any manufacturer's decision. The FDA may not agree with any of our decisions regarding whether new clearances or approvals are necessary. If the FDA requires us to seek Section 510(k) clearance or premarket approval for any modification to a previously cleared product, we may be required to cease marketing, or to recall, the modified product until we obtain clearance or approval. This may expose us to significant regulatory fines or penalties.

In addition, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe or effective. Any recall or FDA requirement that we seek additional approvals or clearances could result in delays, fines, costs associated with modifying a product, loss of revenue, harm to our reputation and loss of customers and potential operating restrictions imposed by the FDA. Any product liability claim or recall would divert managerial and financial resources and could harm our reputation with customers. We cannot assure you that we will not have product liability claims or recalls in the future, or that these claims or recalls would not have a material adverse effect on our business.

If we or our third-party manufacturers fail to comply with the FDA's Quality System Regulations, the manufacture of our products could be interrupted and our product sales and operating results could suffer.

We and some of our third-party manufacturers are required to comply with the FDA's Quality System Regulation, or QSR, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. In addition, we and our manufacturers will be subject to the regulations of foreign jurisdictions regarding the manufacturing process if we market our products overseas.

The FDA enforces the QSR through periodic and unannounced inspections of manufacturing facilities. If our facilities or those of our manufacturers fail to take satisfactory corrective action in response to an adverse QSR inspection, the

FDA could take enforcement action, including any of the following sanctions:

- customer notifications or repair, replacement, refunds, recall, detention or seizure of our products;

- operating restrictions or partial suspension or total shutdown of production;
- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- refusing or delaying requests for Section 510(k) clearance or PMA approvals of new products or modified products;
- withdrawing Section 510(k) clearances or PMA approvals;
- refusal to grant export approval for our products; or
- criminal prosecution.

If we sell our products in the European Community, we will be required to maintain certain ISO certifications and must undergo periodic inspections by notified bodies to obtain and maintain these certifications. We cannot assure you that we or our manufacturers will be able to obtain or maintain all required registrations and certifications.

Any of these factors could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We also may be required to bear other costs or take other actions that may have a negative impact on our future sales and our ability to generate profits.

Some proponents have advocated the creation of a national database or registry that tracks how patients with artificial joints fare. Any requirement for surgeons to participate in such a registry may adversely affect our ability to sell our products profitably.

Although the United States currently does not have a mandatory medical device registry, a few medical organizations in the country do, such as Kaiser Permanente and the Hospital for Specialty Surgery in New York, and some foreign countries do have national registries, such as Australia, Britain, Norway and Sweden. If a national or any state registry is created to collect data on how patients with artificial joints fare, surgeons who use our products would be required to provide information to that registry. Although it is difficult to determine all of the effects of the creation of a medical device registry, one effect it may have is to make surgeons use well-documented medical devices, instead of new ones. If the surgeons who use our products are required to participate in a national or state registry, they may be less inclined to use our products and, consequently, our ability to sell our products could be impaired.

Risks Related to Our Financial Results

We are an orthopedic medical device company with a limited operating history and our business may not become profitable.

We are an orthopedic medical device company with a limited operating history. We began commercial sales in 2007. We currently have the following nine products with Section 510(k) marketing clearance from the FDA: (1) Cardo Align 360™ Posterior-Stabilized Total Knee System; (2) Cardo Align 360™ Cruciate Retaining Knee System; (3) Cardo Align 360™ Unicompartmental Knee (used in partial knee replacement procedures); (4) Cardo Align 360™ Patello-Femoral Replacement (used in partial knee replacement procedures); (5) Cardo Total Hip System (used in total hip replacement procedures); (6) Cardo Bipolar Hip System (two-piece product used in femoral head replacement procedures); (7) Cardo Monopolar Hip System (one-piece product used in femoral head replacement procedures); (8) Cardo Cervical Plate (used in neck fusion procedures); and (9) Cardo Pedicle Screw System (used in lumbar spine fusion procedures).

The success of our business will depend, in part, on our ability to develop and obtain regulatory clearances or approvals for enhancements to our products or for planned products, which we may be unable to do in a timely

manner, or at all. Our success and ability to generate revenue or be profitable also depends on our ability to establish our sales and marketing force, generate product sales and control costs, all of which we may be unable to

do. In addition, we may not be successful in our research and development efforts to develop enhancements of these products or to develop new products.

We have a limited history of operations upon which you can evaluate our business, and our operating expenses are increasing. We have yet to demonstrate that we can generate ongoing sufficient sales of our products to become profitable. The extent of our future operating losses and the timing of profitability, if at all, are difficult to predict. Our lack of any significant operating history also limits your ability to make a comparative evaluation of us, our products and our prospects. Even if we do achieve profitability as planned, we may not be able to sustain or increase profitability on an ongoing basis.

Our quarterly financial results are likely to fluctuate significantly because our sales prospects are uncertain and our sales are difficult to forecast.

Our quarterly operating results are difficult to predict and may fluctuate significantly from period to period, particularly because our sales prospects are uncertain and sales are difficult to forecast. These fluctuations also may affect our annual operating results and may cause those results to fluctuate unexpectedly from year to year. The level of our revenues and results of operations at any given time will be based primarily on the following factors:

- our ability to increase sales of our products;
- our ability to develop, manufacture and market new products;
- results of clinical research and trials on our current or planned products;
- our ability to obtain regulatory approvals;
- legislative and reimbursement policy changes affecting the products we may offer or those of our competitors;
- the variability of the profit margins among the products we sell;
- our ability to expand and maintain an effective and dedicated sales force;
- pricing pressure from competitors applicable to our products;
- adverse third-party reimbursement outcomes;
- timing of new product launches, acquisitions, licenses or other significant events by us or our competitors;
- the ability of our manufacturers to timely provide us with an adequate supply of products and meet our quality requirements; and
- interruption in the manufacturing or distribution of our products.

For all the foregoing reasons, it will be difficult for us to forecast demand for our products with any degree of certainty. In addition, we will be increasing our operating expenses as we build our commercial capabilities. Accordingly, we may experience significant, unanticipated quarterly losses. Because of these factors, our operating results in one or more future quarters may fail to meet the expectations of securities analysts or investors.

Risks Related to Our Intellectual Property and Potential Litigation

If we cannot adequately protect our patents and other intellectual property rights, we may lose market share to our competitors and be unable to operate our business profitably.

Our success depends on our ability to protect our proprietary rights to the technologies used in our products. We rely significantly on patent protection, as well as a combination of trade secrets, know-how, continuing technological innovations, strategic alliances and licensing opportunities to develop, maintain and strengthen our competitive position. We also expect to pursue a policy of generally obtaining patent protection in both the United States and abroad for patentable subject matter in our proprietary devices and attempt to review third-party patents and patent applications to the extent they become known to develop an effective patent strategy, avoid infringing third-party patents, identify licensing opportunities and monitor the patent claims of others.

We have a number of U.S. and foreign patent applications pending in spine, hip and knee reconstructive surgery. Although we have filed these patent applications, we cannot assure you that any patents may issue or that, if they issue, these patents will adequately protect our rights or permit us to gain or keep any competitive advantage.

The U.S. Patent and Trademark Office, or USPTO, may deny or require significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. We also could incur substantial costs in proceedings before the USPTO. These proceedings could result in adverse decisions as to the priority of our inventions and the narrowing or invalidation of claims in any patents that may issue. Any U.S. and foreign patents that may be issued in the future could subsequently be successfully challenged by others and invalidated or rendered unenforceable, which could limit our ability to stop competitors from marketing and selling related products.

Both the patent application process and the process of managing patent disputes can be time-consuming and expensive. Competitors may be able to design around our patents or develop products that provide outcomes that are comparable to our products. Although we have entered into confidentiality agreements and intellectual property assignment agreements with certain of our employees, consultants and advisors as one of the ways we seek to protect our intellectual property and other proprietary technology, these agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of some foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States, if at all. Since most of our pending patent applications are for the United States only, we lack a corresponding scope of patent protection in other countries. Thus, we may not be able to stop a competitor from marketing products in other countries that are similar to some of our products.

Changes to intellectual property laws may negatively impact our ability to protect our intellectual property.

Congress is considering several significant changes to the U.S. patent laws, including changing from a "first to invent" to a "first inventor to file" system, requiring that patent lawsuits be brought in the forum of the defendant, requiring the apportionment of patent damages, and creating a post-grant opposition process to challenge patents after they have issued. Further, changes to a foreign country's intellectual property laws can occur and result in a negative effect on our current rights or our ability to obtain or enforce rights in the future.

The medical device industry is characterized by patent and other intellectual property litigation, and we could become subject to litigation that could be costly, result in diverting management's time and efforts, require us to pay damages, and/or prevent us from marketing our existing or future products.

The medical device market in which we primarily participate is in large part technology-driven. Physician customers move quickly to new products and new technologies. As a result, intellectual property rights, particularly patents and trade secrets, play a significant role in product development and differentiation. However, intellectual property litigation to defend or create market advantage is inherently complex, unpredictable, time-consuming and costly. Furthermore, appellate courts frequently overturn lower court patent decisions.

In addition, competing parties frequently file multiple suits to leverage patent portfolios across product lines, technologies and geographies and to balance risk and exposure between the parties. In some cases, several competitors are parties in the same proceeding, or in a series of related proceedings, or litigate multiple features of a single class of medical devices. These forces frequently drive settlement not only of individual cases, but also of a series of pending and potentially related and unrelated cases. In addition, although monetary and injunctive relief is typically sought, remedies and restitution generally are not determined until the conclusion of the proceedings and are frequently modified on appeal. Accordingly, the outcomes of individual cases are difficult to time, predict or quantify and are often dependent upon the outcomes of other cases in other geographies.

Certain product categories, including pedicle screws, have been subject to significant patent litigation in recent years. Since we sell orthopedic and spinal devices, such as pedicle screws, knee replacement devices, and cervical plates, and we recently introduced our pedicle screw system, any related litigation could harm our business.

We also may have to take legal action in the future to protect our patents, trade secrets or know-how or to assert them against claimed infringement by others. Any legal action of that type could be costly and time-consuming, and we cannot assure you that any lawsuit will be successful. In addition, we may not have sufficient resources to enforce our intellectual property rights or to defend our patents against a challenge.

Further, we intend to protect our proprietary technology, in part, through proprietary information and inventions agreements with employees, consultants and other parties. These agreements with some of our employees and consultants generally contain standard provisions requiring those individuals to assign to the employer, without additional consideration, inventions conceived or reduced to practice by them while employed or retained by the employer, subject to customary exceptions. If any of our employees, consultants or others breach these agreements, or if these agreements are found to be unenforceable, competitors may learn of our trade secrets and proprietary information.

For the reasons indicated above, enforcing our intellectual property rights may be costly, difficult and time-consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be expensive and time-consuming and could divert our management's attention.

Patent infringement lawsuits brought against us could have a material adverse affect on our ability to develop and sell our products and to operate profitably.

As the number of entrants into our market increases, the possibility of a patent infringement claim against us grows. While we make an effort to ensure that our products do not infringe other parties' patents and proprietary rights, our products and methods may be covered by patents held by our competitors. In addition, our competitors may assert that future products we may market infringe their patents.

A patent infringement suit brought against us or any strategic partners or licensees may force us or any strategic partners or licensees to stop or delay developing, using, manufacturing, importing or selling potential products that are claimed to infringe a third party's intellectual property, unless that party grants us or any strategic partners or licensees rights to use its intellectual property. In those cases, we may be required to obtain licenses to patents or proprietary rights of others in order to continue to commercialize our products. However, we may not be able to obtain any licenses required under any patents or proprietary rights of third parties on acceptable terms, or at all, and any licenses may require substantial royalties or other payments by us. Even if we, any strategic partners or licensees were able to obtain rights to the third party's intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. Ultimately, we may be unable to commercialize some of our potential products or may have to cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

We may be subject to damages resulting from claims that we or our employees or consultants have wrongfully used or disclosed alleged trade secrets of their former employers.

Some of our employees and consultants were previously employed or engaged at universities or other medical device companies, including our competitors or potential competitors. We could in the future be subject to claims that these employees and consultants, or we, have inadvertently or otherwise used or disclosed trade secrets or other

proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail to defend against these claims, a court could order us to pay substantial damages and prohibit us from using technologies or features that are essential to our products and processes, if these technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. In addition, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain potential products, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Some countries may require us to grant compulsory licenses to third parties. These licenses could be extended to include some of our products or potential product, which may limit our potential revenue opportunities.

Many jurisdictions, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In addition, most countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may be limited to monetary relief and may be unable to enjoin infringement, which could materially diminish the value of the patent. Compulsory licensing of life-saving products also is becoming increasingly popular in developing countries, either through direct legislation or international initiatives. These compulsory licenses could be extended to include some of our products or product candidates, which may limit our potential revenue opportunities.

Fluctuations in the cost and availability of insurance could adversely affect our profitability or our risk management profile.

We hold a number of insurance policies, including product liability insurance, errors and omissions insurance, directors' and officers' liability insurance, property insurance, general liability insurance, employee benefits liability and workers' compensation insurance. If the costs of maintaining adequate insurance coverage increases significantly at any time, our operating results could be materially adversely impacted. Likewise, if any of our current insurance coverage should become unavailable to us or become economically impractical, we would be required to operate our business without indemnity from commercial insurance providers.

Potential future product liability claims and other litigation, including contract litigation, may adversely affect our business, reputation and ability to attract and retain customers.

Reconstructive and spine surgery involves a high risk of serious complications, including bleeding, nerve injury, paralysis and even death. As a result, we are exposed to potential product liability claims that are inherent in the testing, manufacture and sale of medical devices for surgery procedures. Many of these medical devices are designed to be implanted in the human body for long periods of time or indefinitely. A number of factors could result in an unsafe condition or injury to, or death of, a patient with respect to these or other products that we manufacture or sell, including component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information. These factors could result in product liability claims, a recall of one or more products or a safety alert relating to one or more products. Product liability claims may be brought by individuals or by groups seeking to represent a class.

In connection with our acquisition of the assets of Accin Corporation ("Accin") in May 2007 (through our ownership of Accelerated Innovation ("Accelerated Innovation"), one of our former subsidiaries) and as a result of the reverse merger we completed in August 2008 (the "Merger"), we assumed the responsibility for any litigation or claims related to Accin's business, including product liability claims relating to products previously sold by Accin. The outcome of litigation, particularly class action lawsuits, is difficult to assess or quantify. Plaintiffs in these lawsuits often seek recovery of very large or indeterminate amounts, including not only actual damages, but also punitive damages. The magnitude of the potential loss relating to these lawsuits may remain unknown for substantial periods of time. In addition, the cost to defend against any future litigation may be significant.

Any product liability claim brought against us, with or without merit, could result in the increase of our insurance rates or the inability to secure coverage in the future. In addition, if our product liability insurance proves to be inadequate to pay a damage award, we may have to pay the excess out of our cash reserves, which may harm our financial condition. If longer-term patient results and experience indicate that our products or any component cause

tissue damage, motor impairment or other adverse effects, we could be subject to significant liability. Finally, even a meritless or unsuccessful product liability claim could harm our reputation in the industry, lead to significant legal fees and result in diverting management's attention from managing our business.

Even if any product liability loss is covered by an insurance policy, these policies have substantial retentions or deductibles that provide that insurance proceeds are not recoverable until the losses incurred exceed the amount of those retentions or deductibles. To the extent that any losses are below these retentions or deductibles, we will be responsible for paying these losses. Paying retentions or deductibles for a significant amount of claims could have a material adverse effect on our business, financial condition and results of operations.

Further, it is possible that we may in the future be substantially self-insured with respect to general and product liability claims. As a result of economic factors currently impacting the insurance industry, meaningful product liability insurance coverage also may become unavailable due to its economically prohibitive cost. The absence of significant third-party insurance coverage increases potential exposure to unanticipated claims and adverse decisions. As a result, product liability claims, product recalls and other litigation in the future, regardless of their outcome, could have a material adverse effect on our financial position, results of operations or liquidity.

Any claims relating to our making improper payments to physicians for consulting services, or other potential violations of regulations governing interactions between us and healthcare providers, could be time-consuming and costly.

Our relationship with surgeons, hospitals and the marketers of our products are subject to scrutiny under various state and federal anti-kickback, self-referral, false claims and similar laws, often referred to collectively as healthcare fraud and abuse laws. The federal anti- kickback laws prohibit unlawful inducements for the referral of business reimbursable under federally-funded health care programs, such as remuneration provided to physicians to induce them to use certain medical devices reimbursable by Medicare or Medicaid. Healthcare fraud and abuse laws are complex and subject to evolving interpretations, and even minor, inadvertent violations potentially can give rise to claims that the relevant law has been violated. Certain states in which we market our products have similar anti-kickback, anti-fee splitting and self-referral laws, imposing substantial penalties for violations. Any violations of these laws could result in a material adverse effect on the market price of our common stock, as well as our business, financial condition and results of operations. We cannot assure you that any of the healthcare fraud and abuse laws will not change or be interpreted in the future in a manner which restricts or adversely affects our business activities or relationships with surgeons, hospitals and marketers of our products. In addition, possible sanctions for violating these anti-kickback laws include monetary fines, civil and criminal penalties, exclusion from Medicare and Medicaid programs and forfeiture of amounts collected in violation of these prohibitions.

Federal anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration by an individual or entity in return for, or to induce:

- the referral of an individual for a service or product for which payment may be made by Medicare, Medicaid or other government-sponsored healthcare program; or

- purchasing, leasing, ordering or arranging for any service or product for which payment may be made by a government-sponsored healthcare program.

We must comply with a variety of other laws, such as laws prohibiting false claims for reimbursement under Medicare and Medicaid, which also can be triggered by violations of federal anti-kickback laws; Healthcare Insurance Portability and Accountability Act of 1996, which protects the privacy of individually identifiable healthcare information; and the Federal Trade Commission Act and similar laws regulating advertisement and consumer protections. In certain cases, federal and state authorities pursue actions for false claims on the basis that manufacturers and distributors are promoting unapproved or off-label uses of their products.

Pursuant to FDA regulations, we can market our products only for cleared or approved uses. Although surgeons are permitted to use medical devices for indications other than those cleared or approved by the FDA based on their medical judgment, we are prohibited from promoting products for those off-label uses. We market our products and provide promotional materials and training programs to surgeons regarding the use of our products. Although we

believe our marketing, promotional materials and training programs for surgeons do not constitute promotion of unapproved uses of our products, if it is determined that our marketing, promotional materials or training programs constitute promotion of unapproved uses, we could be subject to significant fines in addition to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure and criminal penalty.

The scope and enforcement of these laws is uncertain and subject to rapid change, especially in light of the lack of applicable precedent and regulations. We cannot assure you that federal or state regulatory authorities will not challenge or investigate our current or future activities under these laws. Any challenge or investigation could have a material adverse effect on our business, financial condition and results of operations. Any state or federal regulatory review of us, regardless of the outcome, would be costly and time-consuming. Additionally, we cannot predict the impact of any changes in these laws, and whether or not they will be retroactive.

Risks Related to Ownership of Our Common Stock

Our common stock may be thinly traded.

There is a very minimal public market for our common stock. We cannot predict how liquid the market for our common stock might become. Our common stock will likely be thinly traded compared to larger more widely known companies.

Trades of our common stock are conducted on the OTC Bulletin Board. We anticipate applying for listing of our common stock on NYSE AMEX LLC. We cannot ensure that we will be able to satisfy the listing standards of the NYSE AMEX LLC or that our common stock will be accepted for listing. Should we fail to satisfy the initial listing standards of the NYSE AMEX LLC, or our common stock is otherwise rejected for listing and remains listed on the OTC Bulletin Board or suspended from the OTC Bulletin Board, the trading price of our common stock could suffer, the trading market for our common stock may be less liquid and our common stock price may be subject to increased volatility.

Furthermore, for companies whose securities are traded in the OTC Bulletin Board, it is more difficult to obtain accurate stock quotations and raise needed capital. Also, because major wire services generally do not publish press releases about these companies, it is also more difficult for them to obtain coverage for significant news and events.

In addition, the price at which our common stock may be sold is very unpredictable because there could be very few trades in our common stock. We cannot predict the extent to which an active public market for our common stock will develop or be sustained at any time in the future. If our common stock is thinly traded, a large block of shares traded can lead to a dramatic fluctuation in the share price.

We expect that the price of our common stock will fluctuate substantially, potentially adversely affecting the ability of investors to sell their shares.

The market price of our common stock is likely to be highly volatile and subject to wide fluctuations in response to the following factors, many of which are generally beyond our control. These factors may include:

- volume and timing of orders for our products;
- the introduction of new products or product enhancements by us or our competitors;
- quarterly variations in our or our competitor's results of operations;
- announcements of technological or medical innovations for treating spine, knee and hip pathologies;
- our ability to develop, obtain regulatory clearance or approval for, and market new and enhanced products on a timely basis;
- changes in governmental regulations or in the status of our regulatory approvals, clearances or applications, including announcements of actions by the FDA or other regulatory agencies;
- changes in the availability of third-party reimbursement in the United States or other countries;
- the acquisition or divestiture of businesses, products, assets or technology;
- disputes, litigation or other developments with respect to intellectual property rights or other potential legal actions;

- changes in earnings estimates or recommendations by securities analysts; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

Market price fluctuations may negatively affect the ability of investors to sell our shares at consistent prices.

We may become involved in securities class action litigation that could divert management's attention and harm its business.

The stock market in general and the stocks of medical device companies in particular have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the companies involved. If these fluctuations occur in the future, the market price of our shares could fall regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has been brought against that company. If the market price or volume of our shares suffers extreme fluctuations, then we may become involved in this type of litigation which would be expensive and divert management's attention and resources from managing the business.

Securities analysts may elect not to report on our common stock or may issue negative reports that adversely affect the price of our common stock.

At this time, no securities analyst provides research coverage of our common stock. Further, securities analysts may never provide this coverage in the future. Rules mandated by the Sarbanes Oxley Act of 2002 and other restrictions led to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms are required to contract with independent financial analysts for their stock research. It may remain difficult for a company with a smaller market capitalization such as ours to attract independent financial analysts that will cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect our actual and potential market price and trading volume.

The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about our business. If one or more analysts elect to cover our company and then downgrade the stock, the stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline. This could have a negative effect on the market price of our shares.

Anti-takeover provisions in our charter documents and Delaware law may discourage or prevent a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.

Our Certificate of Incorporation and Bylaws contain provisions that could delay or prevent a change in control of our company or changes in our Board of Directors that our stockholders might consider favorable. Some of these provisions:

- impose limitations on our stockholders to call special stockholder meetings; and
- authorize the issuance of preferred stock which can be created and issued by the Board of Directors without prior stockholder approval, with rights senior to those of the common stock.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our Certificate of Incorporation, our Bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then-current Board of Directors, including to delay or impede a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change in control transaction or changes in our Board of Directors could

cause the market price of our common stock to decline.

Because our common stock may be a "penny stock," it may be more difficult for investors to sell shares of our common stock, and the market price of our common stock may be adversely affected.

Our common stock may be a "penny stock" if, among other things, the stock price is below $5.00 per share, we are not listed for trading on a national securities exchange or approved for quotation on the Nasdaq Stock Market or any other national stock exchange, or we have not met certain net tangible asset or average revenue requirements. Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker also must give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. In addition, broker-dealers must provide customers that hold penny stock in their accounts with that broker-dealer a monthly statement containing price and market information relating to the penny stock. If a penny stock is sold to an investor in violation of the penny stock rules, the investor may be able to cancel its purchase and get its money back.

If applicable, the penny stock rules may make it difficult for investors to sell their shares of our common stock. Because of the rules and restrictions applicable to a penny stock, there is less trading in penny stocks and the market price of our common stock may be adversely affected. Also, many brokers choose not to participate in penny stock transactions. Accordingly, investors may not always be able to resell their shares of our common stock publicly at times and prices that they feel are appropriate.

A significant number of shares will become eligible for future sale by our stockholders and the sale of those shares could adversely affect the stock price.

A number of our outstanding shares of common stock are eligible for resale by our stockholders. Furthermore, a significant number of additional shares will become eligible for resale beginning August 29, 2010, or sooner, as a result of the expiration of lock up provisions or other restrictions on resale. If our stockholders whose shares are, or hereafter become eligible for resale, sell or attempt to sell their stock in the public market, the trading price of our common stock could decline.

Directors, executive officers, principal stockholders and affiliated entities own a significant percentage of our capital stock, and they may make decisions that you do not consider to be in the best interests of our stockholders.

As of April 20, 2010, our directors, executive officers, principal stockholders and affiliated entities beneficially owned, in the aggregate, approximately 59.3% of our outstanding voting securities. As a result, if some or all of them acted together, they would have the ability to exert substantial influence over the election of our Board of Directors and the outcome of issues requiring approval by our stockholders. This concentration of ownership also may have the effect of delaying or preventing a change in control of our Company that may be favored by other stockholders. This could prevent transactions in which stockholders might otherwise recover a premium for their shares over current market prices.

Our stock price could decline as a result of our failure to meet reporting and other regulatory requirements.

Our management team is responsible for our operations, reporting and compliance. Our failure to comply with the Sarbanes-Oxley Act, once our Company becomes subject thereto, and/or the reporting requirements and other provisions of securities laws could negatively affect our stock price and adversely affect our results of operations, cash flow and financial condition.

Operating as a small public company also requires us to make forward-looking statements about future operating results and to provide some guidance to the public markets. Our management team has limited experience serving in a

managerial capacity in a public company and as a result projections may not be made timely or set at expected performance levels and could materially affect the price of our shares. Any failure to meet published forward-looking statements that adversely affect the stock price could result in losses to investors, stockholder lawsuits or other litigation, sanctions or restrictions issued by the SEC or any stock market upon which our stock is traded.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404") requires management's annual review and evaluation of our internal control systems. We have expended and expect to continue to expend significant resources and management time documenting and testing our internal systems and procedures. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Absolute assurance also cannot be provided that testing will reveal all material weaknesses or significant deficiencies in internal control over financial reporting.

Privately-held businesses are not subject to the same requirements for internal controls as public companies. While we intend to address any material weaknesses at acquired companies, there is no assurance that this will be accomplished. If we fail to strengthen the effectiveness of acquired companies' internal controls, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and stock price.

Our status as a public company may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As an operating public company, we expect the continued adherence to these rules and regulations will maintain or increase our compliance costs in 2010 and beyond and to make certain activities more time-consuming and costly than if we were not an operating public company. As an operating public company, we also expect that these new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.

There have been changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act, new regulations promulgated by the SEC and rules promulgated by the NYSE AMEX LLC and other national securities exchanges. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Our board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies, we could be subject to liability under applicable laws or our reputation may be harmed.

Stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If future operations or acquisitions are financed through issuing equity securities, stockholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. We expect to issue additional equity securities pursuant to employee benefit plans. The issuance of shares of our common stock upon the exercise of options may result in dilution to our stockholders.

We do not intend to pay cash dividends. Any return on investment may be limited to the value of our common stock, if any.

We have never declared or paid cash dividends on our capital stock (other than certain dividends that may have been paid by CKST in or before 2005). We currently expect to use available funds and any future earnings to develop, operate and expand our business and do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of any future debt or credit facility we may obtain may preclude us from paying any dividends. As a result, capital appreciation, if any, of our common stock will be an investor's only source of potential gain from our common stock for the foreseeable future.

Our Certificate of Incorporation grants our Board of Directors the power to designate and issue additional shares of common and/or preferred stock.

Our authorized capital consists of 750,000,000 shares of common stock and 50,000,000 shares of preferred stock. Our preferred stock may be designated into series pursuant to authority granted by our Certificate of Incorporation, and on approval from our Board of Directors. The Board of Directors, without any action by our stockholders, may designate and issue shares in classes or series as the Board of Directors deems appropriate and establish the rights, preferences and privileges of those shares, including dividends, liquidation and voting rights. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute our book value per share.

FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "project," "target," "forecast," "intend," "assume," "guide," "seek" and similar expressions. Forward-looking statements do not relate strictly to historical or current matters. Rather, forward-looking statements are predictive in nature and may depend upon or refer to future events, activities or conditions. Although we believe that these statements are based upon reasonable assumptions, we cannot provide any assurances regarding future results. We undertake no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. Information regarding our risk factors appears in "Risk Factors" beginning on page 3, which include, but are not limited to, the following:

- We may need to raise additional funds in the future to fund our operations and research, and these funds may not be available on acceptable terms, if at all.
- We expect to incur significant losses, either directly or indirectly through the companies in which we develop our products, for at least the next fiscal year, and we cannot assure you that we will ever be profitable.
- We have a limited number of products currently available for sale and there is a high risk that our research and development efforts might not successfully generate any viable product candidates in the future.
- Healthcare policy changes, including recently enacted legislation reforming the U.S. healthcare system, may have a material adverse effect on our financial condition and results of operations.
- Cost containment measures, pressure from our competitors and availability of medical reimbursement may impact our ability to sell our products at prices necessary to expand our operations and reach profitability.
- Sales of our products will depend on the availability of adequate reimbursement from third-party payors (such as governmental programs, for example, Medicare and Medicaid, private insurance plans and managed care programs), both in terms of the sales volumes and prices of our products.
- Legislative or administrative reforms to the U.S. or international reimbursement systems in a manner that significantly reduces reimbursement for procedures using our medical devices or denies coverage for those procedures could have a material adverse effect on our business, financial condition or results of operations.
- We must convince orthopedic and spine surgeons that our products are an attractive alternative to existing surgical treatments of orthopedic and spine disorders.
- Hospitals, surgeons, distributors and agents may have existing relationships with other medical device companies that make it difficult for us to establish new relationships with them. As a result, we may not be able to sell and market our products effectively.
- Our business plan relies on certain assumptions about the market for our products, which, if incorrect, may adversely affect our business and profitability.
- We expect to face significant competition as a result of the rapid technological changes in the medical devices industry, which could have an adverse effect on our business, financial condition or results of operations.
- We rely on single source manufacturers, which could impair our ability to meet demand for delivering our products in a timely manner or within our budget.
- Loss of any major customer could have a material adverse effect on our business, financial condition and results of operations.
- Our growth will depend on developing new products or product enhancements, requiring significant research and development, clinical trials and regulatory approvals, all of which are expensive and time-consuming and may not result in a commercially viable product.
- If we choose to grow our business by acquiring new and complementary businesses, products or technologies, we may be unable to complete these acquisitions or successfully integrate them in a cost-effective and non-disruptive manner.

- We rely on our independent sales distributors and sales representatives to market and sell our products.
- We are dependent on the services of Andrew A. Brooks, M.D. and Michael Kvitnitsky, and the loss of either of them could harm our business.
- Failure to attract and retain skilled personnel and cultivate key academic collaborations will delay product development programs and business development efforts.
- If conflicts arise between collaborators or advisors and us, any of these parties may act in its self-interest, which may be adverse to our interests and the interests of our stockholders.
- If we fail to properly manage our anticipated growth, our business could suffer.
- If we fail to upgrade our management information systems, or if those systems do not operate as expected, we could experience significant disruption of our business and product developments and our results could suffer.
- If a natural or man-made disaster strikes a facility in which our products are manufactured, we could be unable to deliver our products for a substantial amount of time and our sales could decline.
- If we decide to market and sell our devices and products internationally, we would be subject to various risks relating to our international activities, which could negatively impact our business and financial results.
- We are subject to substantial governmental regulation that could change and thus force us to make modifications to how we develop, manufacture and price our products. Compliance with the various complex laws and regulations is costly and time consuming, and failure to comply can have adverse consequences on our business.
- Federal regulatory reforms may adversely affect our ability to sell our products profitably.
- We have not yet collected long-term clinical data to support the safety of our products, and our products may, therefore, prove to be less safe and effective than initially thought.
- The FDA requires us to obtain new Section 510(k) clearances or premarket approvals for modifications to our approved products. Otherwise, we may have to cease marketing, or to recall, the modified products until clearances are obtained.
- If we or our third-party manufacturers fail to comply with the FDA's Quality System Regulatioing:0in .7pt 0in .7pt;width:2.16%;">

		6,628,074
		6,560,658
		12,958,980
		12,516,677
		25,533,112
Cost of revenues		
		4,479,692
		4,129,205

					8,592,217
					8,004,802
					16,453,255
Gross profit					
					2,148,382
					2,431,453
					4,366,763
					4,511,875
					9,079,857
Selling, general and administrative expenses					
					1,159,477
					1,311,798
					2,228,870
					2,524,759

				4,738,861
Provision for doubtful debts and advances				
				23,285
				7,387
				49,384
				13,526
				52,536
Foreign exchange (gain) / loss , net				
				(347,853)
				(4,497)
				(454,578)
				41,088
				121,211
Operating income				

				1,313,473
				1,116,765
				2,543,087
				1,932,502
				4,167,249
Interest and dividend income				
				121,473
				98,269
				240,332
				225,116
				444,978
Interest expense				
				(38,328)
				(141,682)

			(66,642)
			(177,278)
			(125,269)
Gain on sale of investments, net			
			195,630
			25,143
			201,817
			28,282
			74,065
Other income/(expense), net			
			7,952
			199,071
			56,570
			155,012

					156,212
Income before income taxes					
					1,600,200
					1,297,566
					2,975,164
					2,163,634
					4,717,235
Income taxes					
					252,660
					1,444,527
					497,522
					1,648,033
					2,103,684
Net Income / (loss)					

	1,347,540
	(146,961
)	
	2,477,642
	515,601
	2,613,551
Earning per share	
- Basic	
	9.72
	(1.07
)	

				17.89	
				3.74	
				18.94	
- Diluted					
				9.63	
				(1.07	)
				17.74	
				3.72	
				18.82	
Total assets					
				31,198,670	
				27,154,112	
				31,198,670	
				27,154,112	

					28,245,426
Cash and cash equivalents					
					2,508,739
					2,432,370
					2,508,739
					2,432,370
					2,051,557
Investments					
					11,043,988
					10,000,934
					11,043,988
					10,000,934
					10,851,772

Disclaimer:

We have translated the financial data derived from our consolidated financial statements prepared in accordance with US GAAP for each period at the noon buying rate in the City of New York on the last business day of such period for cable transfers in Rupees as certified for customs purposes by the Federal Reserve Bank of New York.The translations should not be considered as a representation that such US Dollar amounts have been, could have been or could be converted into Rupees at any particular rate, the rate stated above, or at all. Investors are cautioned to not rely on such translated amounts

By Order of the Board
for Patni Computer Systems Limited

Mumbai
26 July 2007

Narendra K. Patni
Chairman and Chief Executive Officer

Audited Consolidated financial results of Patni Computer Systems Limited and its subsidiaries for the quarter and six months ended 30 June 2007, as per Indian GAAP.

	Rs. in thousands except share data				
	Quarter ended 30 June		Six months ended 30 June		Year ended 31 December
	2007 (Audited)	2006 (Audited)	2007 (Audited)	2006 (Audited)	2006 (Audited)
Income					
Sales and service income	**6,587,768**	6,490,885	**13,384,025**	12,240,463	26,080,258
Other income	**761,320**	49,775	**1,114,547**	121,518	556,869
	7,349,088	6,540,660	**14,498,572**	12,361,981	26,637,127
Expenditure					
Personnel costs	**3,871,450**	3,538,407	**7,578,231**	6,761,909	14,447,266
Selling, general and administration costs	**1,440,123**	1,442,817	**3,016,087**	2,885,693	5,920,858
Depreciation (net of transfer from revaluation reserves)	**245,107**	205,524	**477,542**	398,145	842,693
Interest costs	**38,699**	128,655	**69,252**	173,645	189,635
	5,595,379	5,315,403	**11,141,112**	10,219,392	21,400,452
Profit for the period / year before prior period items and taxation	**1,753,709**	1,225,257	**3,357,460**	2,142,589	5,236,675
Prior period items		291,898		281,394	221,172
Profit for the period / year before taxation	**1,753,709**	933,359	**3,357,460**	1,861,195	5,015,503
Provision for taxation	**358,691**	1,441,503	**630,933**	1,647,121	2,114,356
MAT credit entitlement	**(96,529)**		**(114,321)**		(5,735)
Provision for taxation - Fringe benefits	**12,060**	10,450	**22,008**	22,268	40,085
Provision for taxation (prior periods)		414,645		418,976	418,976
Profit/ (Loss) for the period after taxation	**1,479,487**	(933,239)	**2,818,840**	(227,170)	2,447,821
Paid up equity share capital (Face Value per equity share of Rs 2 each)	**277,327**	275,826	**277,327**	275,826	276,564
Reserves excluding revaluation reserves					23,035,534
Earnings per share (Rs. per equity share of Rs.2 each)					
- Basic	**10.67**	(6.77)	**20.35**	(1.65)	17.74
- Diluted	**10.54**	(6.77)	**20.14**	(1.65)	17.60

Notes:

1 The consolidated financial statements of Patni Computer Systems Limited and its subsidiaries are prepared in accordance with the principles and procedures prescribed by AS 21 - Consolidated Financial Statements issued by the Institute of Chartered Accountants of India for the purpose of preparation and presentation of consolidated financial statements. The financial statements of Patni Computer Systems Limited 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.Consolidated financials statements are prepared using uniform accounting policies across the Group.

2 The subsidiaries considered in the consolidated financial statements as at 30 June 2007 are wholly owned subsidiaries, namely Patni Computer Systems Inc. USA, Patni Computer Systems (UK) Ltd., Patni Computer Systems GmbH, Patni Telecom Solutions Inc.,Patni Telecom Solutions Private Limited and Patni Telecom Solutions (UK) Limited.

3 Paid up equity share capital does not include Rs 3,966 (2006 : Rs 2,688) which represents share application money received from employees, on exercise of stock options, pending allotment of shares.

4 The Finance Act, 2007 has introduced Fringe Benefit Tax (FBT) on employee stock options. The difference between the fair value of the underlying share on the date of vesting and the exercise price paid by the employee is subject to FBT. The Company will recover such tax from the employee. The Company s obligation to pay FBT arises only upon the exercise of stock options and hence the FBT liability and the related recovery will be recorded at the time of the exercise.

5 During 2006, the Company received a demand from the Income tax department for Rs. 630,166 (Including interest demand of Rs. 186,850) for the Assessment Year 2004-05.The tax demand is mainly on account of disallowance of deduction claimed by the Company under Section 10A of the Income Tax Act 1961, in respect of profits earned by its various eligible undertakings. The Company has filed an appeal challenging the disallowance within the time available under the Income Tax Act.The Company has made a payment of Rs 147,436 as deposit in this regard Considering the facts and nature of disallowance and based on the advice obtained from the Company s legal counsel, management believes that the disallowance is not tenable, is confident of a favourable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

6 **Segment Information**:

As on 30 June 2007 and for the quarter ended

Particulars	Financial services	Insurance services	Manufacturing	Telecom	Product Engineering Services	Others	Total
For the three months ended 30 June 2007							
Sales and service income	**966,410**	**1,571,527**	**1,460,493**	**917,669**	**1,128,472**	**543,197**	**6,587,768**
For the six months ended 30 June 2007							
Sales and service income	**1,923,472**	**3,238,913**	**2,952,655**	**1,923,160**	**2,262,585**	**1,083,240**	**13,384,025**
Balances as at 30 June 2007							
Sundry debtors	**719,331**	**950,313**	**1,185,151**	**789,305**	**962,436**	**611,103**	**5,217,639**
Cost and estimated earnings in excess of billings	**158,858**	**207,471**	**262,364**	**310,321**	**262,411**	**137,386**	**1,338,811**
Billings in excess of cost and estimated earnings	**(7,646)**	**(3,570)**	**(36,186)**	**(44,433)**	**(31,506)**	**(6,970)**	**(130,311)**
Advance from customers	**(2,105)**	**(638)**	**(1,823)**		**(1,482)**	**(1,643)**	**(7,691)**

As on 30 June 2006 and for the quarter ended

Particulars	Financial services	Insurance services	Manufacturing	Telecom	Product Engineering Services	Others	Total
For the three months ended 30 June 2006							
Sales and service income	1,008,313	1,510,312	1,388,390	1,297,144	895,293	391,433	6,490,885
For the six months ended 30 June 2006							
Sales and service income	1,918,711	2,898,068	2,557,837	2,376,311	1,702,470	787,066	12,240,463
Balances as at 31 December 2006							
Sundry debtors	729,738	943,801	1,174,494	1,005,557	750,026	519,149	5,122,765
Cost and estimated earnings in excess of billings	107,409	45,076	210,680	461,246	108,332	78,591	1,011,334
Billings in excess of cost and estimated earnings	(9197)	(9375)	(32229)	(21696)	(36242)	(38507)	(147246)
Advance from customers	(214)	(805)	(5,391)		(1,715)	(112)	(8,237)

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.

Until 31 December 2006, the Company reported Product Engineering Services (PES) and Independent Software Vendors (ISV) as separate business segments. The PES business is primarily related to embedded technology services for products and the ISV unit provided the user interface for these products. Both these segments form part of technology services. The integration of these business segments would faciliate improved client service. Accordingly, effective 1 January 2007, the Company has integrated these two business segments with the primary focus on the following synergies (i) demand for providing end-to-end solutions from product engineering clients, and (ii) leveraging the domain skills & platform skills to provide end -toend solutions. Segment data for previous period has been reclassified to conform to current period presentation.

7 In July 2007, Patni Computer Systems (UK) Limited, a wholly owned subsidiary of the Company, acquired Logan-Orviss International (LOI), a European telecommunications consulting services company. Patni Computer Systems, Inc.(USA) a wholly owned subsidiary of the Company acquired Taratec Development Corporation (Taratec), a US based consulting company in Life Sciences industry. The Company has also set up a subsidiary in Brazil.

8 Previous period figures have been appropriately reclassified /regrouped to conform to the current period s presentations.

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) (Unaudited)

Rs. in thousands except share data

	Quarter ended 30 June		Six months ended 30 June		Year ended 31 December
	2007	**2006**	**2007**	**2006**	**2006**
Consolidated net income as per Indian GAAP	**1,479,487**	(933,239)	**2,818,840**	(227,170)	2,447,821
Income taxes	**7,861**	(83,933)	**(1,708)**	(71,567)	(133,791)
Foreign currency differences	**(86,717)**	145,297	**(149,709)**	111,309	(153,501)
Employee retirement benefits	**19,636**	10,530	**23,616**	16,436	3,895
ESOP related Compensation Cost	**(44,559)**	(48,833)	**(90,243)**	(88,545)	(182,732)
Business acquisition	**(9,793)**	(9,904)	**(20,270)**	(19,571)	(41,176)
Prior period adjustment		774,816		774,816	765,595
Others	**3,522**	(436)	**17,606**	(243)	(21,878)
Total	**(110,051)**	787,537	**(220,706)**	722,635	236,412
Consolidated net income as per US GAAP	**1,369,436**	(145,702)	**2,598,133**	495,465	2,684,233

Note:

The consolidated net income as per USGAAP shown in the table above differs from the consolidated net income shown under Summary of financials statements prepared as per USGAAP - Convenience Translation for reasons explained below the same table.

Audited financial results of Patni Computer Systems Limited for the quarter and six months ended 30 June 2007, as per Indian GAAP (Standalone)

Rs. in thousands except share data

	Quarter ended 30 June		Six months ended 30 June		Year ended 31 December
	2007 (Audited)	**2006 (Audited)**	**2007 (Audited)**	**2006 (Audited)**	**2006 (Audited)**
Income					
Sales and service income	**2,801,856**	2,448,574	**5,467,738**	4,760,804	9,978,301
Other income	**772,447**	11,455	**1,114,373**	57,066	477,509
	3,574,303	2,460,029	**6,582,111**	4,817,870	10,455,810
Expenditure					
Personnel costs	**1,356,784**	1,155,260	**2,521,232**	2,171,603	4,461,532
Selling, general and administration costs	**677,799**	516,669	**1,269,922**	1,018,316	2,120,996
Depreciation	**206,453**	177,910	**403,328**	345,082	725,602
Interest costs	**19,820**	62,277	**30,827**	89,461	88,792
	2,260,856	1,912,116	**4,225,309**	3,624,462	7,396,922
Profit for the period / year before taxation	**1,313,447**	547,913	**2,356,802**	1,193,408	3,058,888
Provision for taxation	**189,810**	709,229	**282,844**	847,474	971,681
MAT credit entitlement	**(93,031)**		**(110,823)**		(5,735)
Provision for taxation-Fringe benefits	**9,715**	10,000	**17,895**	21,500	35,313
Profit/ (Loss) for the period after taxation	**1,206,953**	(171,316)	**2,166,886**	324,434	2,057,629
	277,327	275,826	**277,327**	275,826	276,564
Paid up equity share capital (Rs. per equity share of Rs 2 each)					
Reserves excluding revaluation reserves					21,801,849
Earnings per equity share of Rs 2 each					
- Basic	**8.71**	(1.24)	**15.65**	2.35	14.91
- Diluted	**8.60**	(1.24)	**15.48**	2.33	14.80

Notes

1 The above statement of financial results was reviewed by the audit committee and approved by the Board of Directors at its adjourned meeting held on 26 July 2007.

2 Investor complaints for the quarter ended 30 June 2007:

Pending as on 1 April 2007	**Received during the quarter**	**Disposed of during the quarter**	**Unresolved at the end of the quarter**

	27	27

3 Statement of Utilisation of ADS Funds as of 30 June 2007

	No of shares	Price	Amount
Amount raised through ADS (61,56,250 ADSs @ $ 20.34 per ADS)	12,312,500	466	5,739,262
Share issue expenses			369,406
Net proceeds			**5,369,856**
Deployment :			
1 Held as short term investments			3,058,194
2 Utilised for Capital expenditure for office facilities			2,190,839
3 Exchange loss			120,823
Total			**5,369,856**

4 During 2006, the Company received a demand from the Income tax department for Rs. 630,166 (Including interest demand of Rs. 186,850) for the Assessment Year 2004-05.The tax demand is mainly on account of disallowance of deduction claimed by the Company under Section 10A of the Income Tax Act 1961, in respect of profits earned by its various eligible undertakings.The Company has filed an appeal challenging the disallowance within the time available under the Income Tax Act. The Company has made payment of Rs. 147,436 as deposit in this regard. Considering the facts and nature of disallowance and based on the advice obtained from the Company s legal counsel, management believes that the disallowance is not tenable, is confident of a favourable outcome in appeal proceedings and hence no provision for such income tax demand is considered necessary.

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6 In July 2007, Patni Computer Systems (UK) Limited, a wholly owned subsidiary of the Company, acquired Logan-Orviss International (LOI), a European telecommunications consulting services company. Patni Computer Systems, Inc.(USA) a wholly owned subsidiary of the Company acquired Taratec Development Corporation (Taratec), a US based consulting company in Life Sciences industry. The Company has also set up a subsidiary in Brazil.

7 Paid up equity share capital does not include Rs 3,966 (2006 : Rs 2,688) which represents share application money received from employees, on exercise of stock options, pending allotment of shares.

8 Aggregate of Non-Promoter Shareholding

	As of 30 June		As of 31 December
	2007	**2006**	**2006**
- Number of Shares	**77,690,548**	76,320,051	77,309,051
- Percentage of Shareholding	**56.03%**	55.34%	55.91%

9 Previous period figures have been appropriately reclassified to conform to the current period s presentations.

10 Text of this advertisement was approved by the Board of Directors at the meeting held on 26 July 2007.

By Order of the Board
for Patni Computer Systems Limited

Mumbai
26 July 2007

Narendra K. Patni
Chairman and Chief Executive Officer

For Press Release

Patni s Q2 2007 Revenues up 14.2% YoY at $163.3 million (Rs. 6,628.1 million),

Net Income up 98.9 % at $ 33.2 million (Rs 1,347.5 million)

Mumbai, India, Cambridge, USA, July 26th 2007: Patni Computer Systems Limited (**Patni**) today announced its financial results for the second quarter ended 30th June 2007.

Performance Highlights

Important note:

As stated in our Q2 2006 release, prior years tax review by the IRS and a review by the Department of Labor of Patni s US operations had resulted in additional provisions which led to an increase in gross profit and operating income by approximately US$ 7.0 million and decrease in net income by US$ 19.9 million for Q2 2006. Variations in Patni s Q2 2006 financial performance as a result of these reviews had been referred to as additional provisions in the said press release. Financial Performance for Q2 2006 excluding these additional provisions has been considered for comparative performance review with Q2 2007 in this release.

Performance Highlights for the quarter ended June 30th 2007

Revenues for the quarter at US$ 163.3 million (Rs. 6,628.1 million)

Up 4.7% sequentially from US$ 156.0 million (Rs. 6,724.0 million)

Up 14.2% YoY from US$ 143.0 million (Rs 6,560.7 million)

Operating Income for the quarter at US$ 32.4 million (Rs. 1,313.5 million)

Up 6.8% sequentially from US$ 30.3 million (Rs 1,306.0 million)

Rupee Appreciation impact of ~200 basis points.

Compensation increase impact of ~260 basis points

Up 87.5% YoY from US$ 17.3 million (Rs 792.0 million)

Net Income for the quarter at US$ 33.2 million (Rs 1,347.5 million)

Up 19.2% sequentially from US$ 27.8 million (Rs 1,200.3 million)

Up 98.9% YoY from US$ 16.7 million (Rs 766.0 million)

EPS for the quarter at US$ 0.24 per share(US$ 0.48 per ADS) up 19.0% sequentially and 97.8% YoY

Stock based expense for the quarter was US$ 1.1 million as compared to US$ 1.0 million during previous quarter.

Top Customer contribution towards revenue decreased to 10.7% during the quarter from 11.1% in Q1 2007. Revenue concentration of Top 10 clients also reduced to 46.9% from 48.8% in the previous quarter.

Acquired 25 new clients during the quarter. Number of active clients was 267 at quarter end as compared to 252 in Q1 2007.

Future Outlook:

Q3 2007 revenues are expected to be in the range of US$ 167 - 168 million and net income (excluding the foreign exchange gain/loss) is expected to be in the range of US$ 18.5- US$ 19.0 million at a constant $ value of Re. 40.8 per US $ for the quarter.

1

Management comments

Commenting on the Q2 2007 performance, **Mr. Narendra K Patni**, **Chairman and CEO, Patni Computer Systems Ltd.,** said *We continue to invest in our business to strengthen our long term prospects. We are focusing heavily in Europe in line with our strategy and have strengthened the leadership team and also made inorganic investment in the region. We are confidently optimistic about the future and are committed to enhancing all round stake-holder value.*

Commenting on the performance, **Mr. Mrinal Sattawala**, **Chief Operating Officer, Patni,** said, *Our client and service offering profiles have strengthened over the last quarter. During the quarter we not only added 25 new clients but also reduced dependence on the Top 5 and Top 10 clients. Inorganic assets acquired recently are being integrated to drive synergy benefits faster*

Speaking on the occasion, **Mr. Surjeet Singh, Chief Financial Officer, Patni**, added, *Timely and effective hedging of our foreign currency exposures enabled us to neutralize the negative foreign exchange effect for the quarter besides overall control of operating metrics and costs. We continue to make organic and inorganic investments in our business for long term profitable growth*

Management Discussion & Analysis of Performance

(Figures in Million US$ except EPS and Share Data)

CONSOLIDATED STATEMENT OF INCOME

For the quarter / period ended

Particulars	Jun 30 2007	Mar 31 2007	QoQ Change %	Jun 30 2006	2006	Additional Provision in 2006	2006 (Excluding additional provisions)	Jun 30 2006 (Excluding additional provisions)
Revenue	163.3	156.0	4.7%	143.0	578.9		578.9	143.0
Cost of revenues	106.0	97.5	8.7%	86.8	359.8	-7.0(1)	366.9	93.9
Depreciation	4.4	3.8	14.3%	3.2	13.2		13.2	3.2
Gross Profit	**52.9**	**54.7**	**-3.2%**	**53.0**	**205.8**	**7.0(1)**	**198.8**	**45.9**
Sales and marketing expenses	11.9	11.2	5.5%	11.0	43.1		43.1	11.0
General and administrative expenses	16.7	15.1	10.6%	17.6	64.3		64.3	17.6
Provision for doubtful debts and advances	0.6	0.6	-10.8%	0.2	1.2		1.2	0.2
Foreign exchange (gain) / loss, net	(8.6)	(2.6)	225.9%	(0.1)	2.7		2.4	(0.1)
Operation income	**32.4**	**30.3**	**6.8%**	**24.3**	**94.5**	7.0(1)	**87.4**	**17.3**
Other income / (expense), net	7.1	3.6	97.3%	3.9	12.5	**0.2**	12.4	3.8
Income before income taxes	**394**	**33.9**	**16.4%**	**28.3**	**106.9**	**7.2(2)**	**99.8**	**21.1**
Income taxes	6.2	6.0	3.2%	31.5	47.7	27.1	20.6	4.4
Net income/(loss)	**33.2**	**27.8**	**19.2%**	**(3.2)**	**59.3**	**-19.9(3)**	**79.2**	**16.7**
Earning per share								
- Basic	$ 0.24	$ 0.20		$ (0.02)	$ 0.43		$ 0.57	$ 0.12
- Diluted	$ 0.24	$ 0.20		$ (0.02)	$ 0.43		$ 0.57	$ 0.12
Weighted average number of common shares used in computing earnings per share								
- Basic	138,646,132	138,342,512		137,889,376	137,957,477		137,957,477	137,889,376
- Diluted	139,978,442	139,413,330		137,889,376	138,904,860		138,904,860	137,889,376

** Prior year s tax review by IRS and the Department of Labor Review by Patni s US Operations has resulted in the net reversal of additional provisions leading to an increase in Q2 2006 Gross Profit and Operation Income and a decrease in Q2 2006 Net Income.

(1) due to reversal of payroll taxes for earlier years, net of accrual from DOL review

(2) impact of 1, net of write-back of interest/penalty for earlier years

(3) impact of re-assessed corporate taxes for earlier years, net of 2

Revenues

Revenues during the quarter were in line with expectations at US$ 163.3 million (Rs 6,628.1 million) representing sequential increase of 4.7% and 14.2% on YoY basis. 25 new clients were added during the quarter.

Gross profit

Gross margins were at 32.4% as compared to 35.0% in Q1 2007 due to the following

Rupee appreciation impact of ~200 basis points.

Annual wage increase impact of ~260 basis points

Positive impact due to period costs reduction of ~180 basis points largely due to visa costs

Other efficiency gains of around 20 basis points.

Gross Margins in Q2 07 at US$ 52.9 million (Rs 2,148.4 million) were lower by 3.2% sequentially and increased by 15.3% on YoY basis.

Selling and Marketing Expenses

Overall sales and marketing costs were stable at 7.2% of sales with marginal absolute increase to US$ 11.9 million (Rs. 481.4 million), as compared to $11.2 million (Rs. 484.6 million) in the previous quarter

G&A expenses

Overall G&A increase to 10.2% against 9.7% to US $16.7 million (Rs. 678.1 million) compared to US $ 15.1 million (Rs. 651.2 million) in the previous quarter on account of increase in people costs due to compensation increase and forex impact.

Foreign exchange gain/loss

The Foreign exchange gain for the quarter was US$ 8.6 million (Rs.347.9 million) on account of mark to market of forex contracts , revalution of debtors and tax liabilities, as compared to a similar gain of US$ 2.6 million (Rs 113.4 million) in Q1 2007.

The quarter end rate for debtors revaluation was Rs 40.72. At the end of Q2 2007, we had outstanding contracts of about US$ 211 million taken in the range of Rs. 41.07 to Rs. 46.44.

Operating income

Net of Gross margin and SG&A cost changes and foreign exchange gain, Operating income including foreign exchange gain on hedging was higher at 19.8% at $32.4 million (Rs 1,313.5 million) against 19.4% or $30.3 million (Rs 1,306.0 million) in Q1 2007. Without hedging gain /loss the operating margins declined sequentially from 17.7% to 14.6% . Operating Income grew 87.5% on YoY basis as compared to $17.3 million (Rs 792.0 million) in corresponding quarter of previous year (after adjusting for additional provisions) and grew by 38.6% excluding foreign exchange (gain)/loss on like to like basis.

Other income

Other income (including interest and dividend income net of interest expenses, profit/loss on sale of investments and other miscellaneous income) was higher at US$ 7.1 million (Rs 286.7 million) as compared to US $ 3.6 million (Rs 154.4 million) in the previous quarter. This is on account of higher amount of fixed maturity treasury investments maturing during the quarter per estimates

Profit before tax

Profit before tax for the quarter was consequently higher by 16.4% at US$ 39.4 million (Rs. 1,600.2 million) as compared to US$ 33.9 million (Rs. 1,460.3 million) during previous quarter.

Income taxes

Income tax for the quarter was at US$ 6.2 million (Rs 252.7 million) at 15.8% effective tax rate on profit before tax lower than the previous quarter rate of 17.8%. Part of the reduction in Effective Tax rate sequentially is due to higher component of other income during the quarter.

Net income

Consequently, net income for the quarter was at US$ 33.2 million (Rs 1,347.5 million), an increase of 19.2% as compared to Q1 2007 net income of US$ 27.8 million (Rs 1,200.3 million). Increased focus on margin improvement during previous few quarters resulted in YoY increase of Net Income at 98.9% as compared to corresponding quarter of previous year after adjusting it for additional provisions.

EPS

EPS for the quarter was at US$ 0.24 and US$ 0.48 per ADS marginally higher than US$ 0.20 per share and US $ 0.40 per ADS. EPS increased by 97.8 % on YoY basis from $0.12 per share or $0.24 per ADS after adjusting it for additional provisions.

Balance Sheet and Cash Flow changes

During the quarter, against net income of US$ 33.2 million (Rs 1,347.5 million), cash from operating activities was at US$ 36.2 million (Rs 1,467.9) net of changes in current assets and liabilities of US$ 2.0 million and non cash charges of US$ 1.0 million. These non cash charges comprise of depreciation and amortization of US$ 7.3 million and other charges of US$ (-)6.3 million.

Net Cash used in investing activities was at US$ 9.4 million (Rs 381.7 million) which include net capital expenditure of US$ 18.5 million (Rs 750.1 million) and net investment in securities at US$ 9.1 million (Rs. 368.4 million).

Net cash inflow used in financing activities was at US$ 10.1 million (Rs 408.4 million) consisting of proceeds from common shares issued of US$ 0.2 million (Rs. 9.1 million) and dividend on common shares of US$ 10.2 (Rs. 412.8 million) and 0.1 million (Rs. 4.6 million) on other financing activities.

Overall cash and cash equivalents (including short term investments) at the close of 30th June 2007 were at US$ 330.7 million (Rs 13,418.2 million), compared to US$ 295.1 million (Rs 12,717.5 million) at the close of Q1 2007.

At the end of Q2 2007, receivables were at US$ 123.8 million (Rs 5,024.5 million) as compared to US$ 122.6 million (Rs 5,281.9 million) in the previous sequential quarter. Days outstanding for the current quarter were at 70 days as compared to 72 days in Q1 2007.

Figures in Million INR except EPS and Share Data

CONSOLIDATED STATEMENT OF INCOME (RS. 000): BASED ON CONVENIENCE TRANSLATION

For the quarter / period ended

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006	Additional Provision in 2006	2006 (Excluding additional provisions)	Jun 30 2006 (Excluding additional provisions)
Exchange rate $1 = INR	**40.58**	**43.10**	**45.87**	**44.11**	**44.11**	**44.11**	**45.87**
Revenue	6,628.1	6,724.1	6,560.7	25,533.1		25,533.1	6,560.7
Cost of revenues	4,303.0	4,203.8	3,982.9	15,872.2	(312.3)	16,184.5	4,307.6
Depreciation	176.7	164.2	146.3	581.1		581.1	146.3
Gross Profit	**2,148.4**	**2,356.1**	**2,431.5**	**9,079.9**	**312.3(1)**	**8,767.6(1)**	**2,106.7**
Sales and marketing expenses	481.4	484.6	505.7	1,900.7		1,900.7	505.7
General and administrative expenses	678.1	651.2	806.1	2,838.2		2,838.2	806.1
Provision for doubtful debts and advances	23.3	27.7	7.4	52.5		52.5	7.4
Foreign exchange (gain) / loss, net	(347.9)	(113.4)	(4.5)	121.2		121.2	(4.5)
Operation income	**1,313.5**	**1,306.0**	**1,116.8**	**4,167.2**	**312.3**	**3,855.0**	**792.0**
Other income / (expense), net	286.7	154.4	180.8	550.0	4.6	545.4	176.0
Income before income taxes	**1,600.2**	**1,460.3**	**1,297.6**	**4,717.2**	**316.9(2)**	**4,400.4(2)**	**968.1**
Income taxes	252.7	260.1	1,444.5	2,103.7	1,194.8	908.9	202.1
Net income/(loss)	**1,347.5**	**1,200.3**	**(146.9)**	**2,613.6**	**(877.9)(3)**	**3,491.4(3)**	**766.0**
Earning per share							
- Basic	9.72	8.68	(1.07)	18.94		25.31	5.55
- Diluted	9.63	8.61	(1.07)	18.82		25.14	5.55
Weighted average number of common shares used in computing earnings per share							
- Basic	138,646,132	138,342,512	137,889,376	137,957,477		137,957,477	137,889,376
- Diluted	139,978,442	139,413,330	137,889,376	138,904,860		138,904,860	137,889,376

** Prior year s tax review by IRS and the Department of Labor Review by Patni s US Operations has resulted in the net reversal of additional provisions leading to an increase in Q2 2006 Gross Profit and Operation Income and a decrease in Q2 2006 Net Income.

(1) due to reversal of payroll taxes for earlier years, net of accrual from DOL review

(2) impact of 1, net of write-back of interest/penalty for earlier years

(3) impact of re-assessed corporate taxes for earlier years, net of 2

Important Notes to this release:

Fiscal Year

Patni follows a January - December fiscal year. The current review covers the financial and operating performance of the Company for the second quarter ended 30th June 2007

U.S. GAAP

A Consolidated Statement of Income in US GAAP is available on page 3 of the Fact Sheet attached to this release

Percentage analysis

Any percentage amounts, as set forth in this release, unless otherwise indicated, have been calculated on the basis of the U.S. Dollar amounts derived from our consolidated financial statements prepared in accordance with U.S. GAAP, and not on the basis of any translated Rupee amount. Calculation of percentage amounts on the basis of Rupee amounts may lead to results that are different, in a material way, from those calculated as per U.S. Dollar amounts.

Convenience translation

A Consolidated Statement of Income as per Convenience Translation prepared in accordance with US GAAP is available on page 8 of the Fact Sheet attached to this release. We have translated the financial data derived from our consolidated financial statements prepared in accordance with U.S. GAAP for each period at the noon buying rate in the City of New York on the last business day of such period for cable transfers in Rupees as certified for customs purposes by the Federal Reserve Bank of New York. The translations should not be considered as a representation that such US Dollar amounts have been, could have been or could be converted into Rupees at any particular rate, the rate stated elsewhere in this document, or at all. Investors are cautioned to not rely on such translated amounts.

Attached Fact Sheet (results & analysis tables)

About Patni Computer Systems Ltd:

About Patni

Patni Computer Systems Limited **(BSE: PATNI COMPUT, NSE: PATNI, NYSE: PTI)** is a global provider of IT Services and business solutions, servicing Global 2000 clients. Patni caters to its clients through its industry-focused practices, including insurance, financial services, manufacturing, telecommunications and media, and its technology-focused practices.

With an employee strength of over 12,000; multiple global development centres spread across 12 cities worldwide; 21 international offices across the Americas, Europe and Asia-Pacific; Patni has registered revenues of US$ 579 million for the year 2006.

Patni s service offerings include application development and maintenance, enterprise application solutions, product engineering services, infrastructure management services, business process outsourcing, quality assurance and engineering services.

Committed to quality, Patni adds value to its client s businesses through well-established and structured methodologies, tools and techniques. Patni is an ISO 9001: 2000 certified and SEI-CMMi Level 5 organization, assessed enterprise wide at P-CMM Level 3. In keeping with its focus on continuous process improvements, Patni adopts Six Sigma practices as an integral part of its quality and process frameworks.

For more information on Patni, visit www.patni.com.

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IMPORTANT NOTE:

Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve a number of risks, and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, liability for damages on our service contracts, the success of the companies in which Patni has made strategic investments, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property and general economic conditions affecting our industry. The company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Ends

PATNI COMPUTER SYSTEMS LIMITED

FINANCIAL AND OPERATIONS INFORMATION FOR THE

SECOND QUARTER ENDED JUN 30, 2007

July 26, 2007

NOTES:

Fiscal Year

Patni follows a January - December fiscal year. The current review covers the financial and operating performance of the Company for the quarter ended Jun 30, 2007.

U.S. GAAP

All figures in this release pertain to accounts presented as per U.S. GAAP unless stated otherwise.

Percentage analysis

Any percentage amounts, as set forth in this release, unless otherwise indicated, have been calculated on the basis of the U.S. Dollar amounts derived from our consolidated financial statements prepared in accordance with U.S. GAAP, and not on the basis of any translated Rupee amount. Calculation of percentage amounts on the basis of Rupee amounts may lead to results that are different, in a material way, from those calculated as per U.S. Dollar amounts.

Convenience translation

We have translated the financial data derived from our consolidated financial statements prepared in accordance with U.S. GAAP for each period at the noon buying rate in the City of New York on the last business day of such period for cable transfers in Rupees as certified for customs purposes by the Federal Reserve Bank of New York. The translations should not be considered as a representation that such US Dollar amounts have been, could have been or could be converted into Rupees at any particular rate, the rate stated elsewhere, or at all. Investors are cautioned to not rely on such translated amounts.

Fact Sheet Summary Index

A1) CONSOLIDATED STATEMENT OF INCOME - US GAAP (US$ 000)
For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	YoY Change %	Mar 31 2007	QoQ Change %	2006
Revenue	163,334	143,027	14.2%	156,011	4.7%	578,851
Cost of revenues	106,039	86,830	22.1%	97,535	8.7%	359,832
Depreciation	4,353	3,190	36.5%	3,809	14.3%	13,173
Gross Profit	**52,942**	**53,007**	**-0.1%**	**54,667**	**-3.2%**	**205,846**
Sales and marketing expenses	11,862	11,024	7.6%	11,244	5.5%	43,090
General and administrative expenses	16,710	17,574	-4.9%	15,109	10.6%	64,343
Provision for doubtful debts and advances	574	161	256.3%	643	-10.8%	1,191
Foreign exchange (gain) / loss, net	(8,572)	(98)	8644.6%	(2,630)	225.9%	2,748
Operating income	**32,368**	**24,346**	**32.9%**	**30,301**	**6.8%**	**94,474**
Other income / (expense), net	7,065	3,941	79.3%	3,581	97.3%	12,468
Income before income taxes	**39,433**	**28,287**	**39.4%**	**33,882**	**16.4%**	**106,942**
Income taxes	6,226	31,492	-80.2%	6,034	3.2%	47,692
Net income/(loss)	**33,207**	**(3,205)**	**-1136.3%**	**27,848**	**19.2%**	**59,250**
Earning per share						
- Basic	$ 0.24	$ (0.02)	-1130.8%	$ 0.20	19.0%	$ 0.43
- Diluted	$ 0.24	$ (0.02)	-1121.0%	$ 0.20	18.8%	$ 0.43
Weighted average number of common shares used in computing earnings per share						
- Basic	138,646,132	137,889,376		138,342,512		137,957,477
- Diluted	139,978,442	137,889,376		139,413,330		138,904,860

A2) CONSOLIDATED BALANCE SHEET USGAAP (US$ 000)

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Assets			
Total current assets	529,718	477,983	426,014
Goodwill	51,246	39,832	39,883
Intangible assets, net	9,163	9,425	10,212
Property, plant, and equipment, net	159,000	142,040	101,368
Other assets	19,692	15,445	14,502
Total assets	**768,819**	**684,724**	**591,980**
Liabilities			
Total current liabilities	145,054	120,755	144,228
Capital lease obligations excluding current installments	280	381	480
Other liabilities	13,222	12,543	12,525
Total liabilities	**158,556**	**133,679**	**157,232**
Total shareholders equity	610,262	551,045	434,747
Total liabilities & shareholders equity	**768,819**	**684,724**	**591,980**

A3) CONSOLIDATED CASH FLOW STATEMENT USGAAP (US$ 000)

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Net cash provided by operating activities	**36,173**	**14,140**	**16,787**	**59,091**
Net cash used in investing activities	**(9,406)**	**(26,123)**	**(12,046)**	**(155,426)**
Capital expenditure, net	(18,484)	(18,394)	(12,656)	(48,537)
Investment in securities, net	9,078	(7,729)	1,107	(94,547)
Investment in subsidiary incl tax benefit on incentive stock option of Patni Telecom			(498)	(12,342)
Net cash provided / (used) in financing activities	**(10,063)**	**1,137**	**(7,303)**	**(7,106)**
Others	(114)	(121)	(99)	(391)
Common shares issued, net of expenses incl tax benefit arising on exercise of stock options	224	1,258	184	1,848
Dividend on common shares	(10,174)	(0)	(7,388)	(8,563)
Net increase / (decrease) in cash and equivalents	**16,704**	**(10,845)**	**(2,563)**	**(103,441)**
Effect of exchange rate changes on cash and equivalents	7,511	1,942	(5,061)	1,132
Cash and equivalents at the beginning of the period	37,607	46,510	60,652	148,820
Cash and equivalents at the end of the period	**61,822**	**37,607**	**53,027**	**46,510**

B1) CONSOLIDATED STATEMENT OF INCOME - INDIAN GAAP (RS. 000)
For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	Y_Y Change %	Mar 31 2007	Q_Q Change %	2006
Sales and service income	6,587,768	6,490,885	1.5%	6,796,257	-3.1%	26,080,258
Other income	761,320	49,775	1429.5%	365,019	108.6%	556,869
Total income	**7,349,088**	**6,540,660**	**12.4%**	**7,161,276**	**2.6%**	**26,637,127**
Staff costs	3,871,450	3,538,407	9.4%	3,706,781	4.4%	14,447,266
Selling, general and administration expenses	1,685,230	1,648,341	2.2%	1,820,190	-7.4%	6,763,551
Interest	38,699	128,655	-69.9%	30,553	26.7%	189,635
Total expenditure	**5,595,379**	**5,315,403**	**5.3%**	**5,557,524**	**0.7%**	**21,400,452**
Net profit before tax and adjustments	**1,753,709**	**1,225,257**	**43.1%**	**1,603,752**	**9.4%**	**5,236,675**
Provision for taxation	274,222	1,866,598	-85.3%	264,399	3.7%	2,567,682
Prior period adjustment		291,898				221,172
Profit/(loss) for the year after taxation	**1,479,487**	**(933,239)**	**-258.5%**	**1,339,353**	**10.5%**	**2,447,821**
Profit and loss account, brought forward	11,993,647	9,583,348	25.2%	10,646,309	12.7%	8,877,279
Add: Adjustment on account of Employee Benefits				7,985		
Amount available for appropriation	**13,473,134**	**8,650,109**	**55.8%**	**11,993,647**	**12.3%**	**11,325,100**
Proposed dividend on equity shares	1,144	289				414,846
Dividend on equity shares of subsidiary						
Dividend tax	12,515	40				58,182
Transfer to general reserve						205,763
Profit and loss account, carried forward						
	13,459,475	**8,649,780**	**55.6%**	**11,993,647**	**12.2%**	**10,646,309**
Earning per share (Rs. per equity share of Rs. 2 each)						
- Basic	10.67	(6.77)		9.68		17.74
- Diluted	10.54	(6.77)		9.59		17.60
Weighted average number of common shares used in computing earnings per share						
- Basic	138,646,132	137,889,376		138,342,512		137,957,477
- Diluted	140,340,936	137,889,376		139,652,025		139,067,699

B2) CONSOLIDATED BALANCE SHEET - INDIAN GAAP (RS. 000):

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Assets			
Current assets, loans and advances	10,414,510	9,405,367	9,233,033
Goodwill	3,705,687	3,374,817	3,506,131
Fixed assets(Net of Depreciation)	6,888,925	6,464,593	4,887,766
Investments	10,861,216	11,042,104	9,921,888
Deferred tax asset, net	429,501	539,687	594,815
Total assets	**32,299,839**	**30,826,568**	**28,143,633**
Liabilities			
Current liabilities and provisions	6,341,723	6,127,642	6,884,978
Secured loans	24,679	29,377	31,462
Deferred tax liability, net		18,820	95,354
Total liabilities	**6,366,402**	**6,175,839**	**7,011,794**
Total shareholders equity	25,933,437	24,650,729	21,131,839
Total liabilities & shareholders equity	**32,299,839**	**30,826,568**	**28,143,633**

B3) CONSOLIDATED CASH FLOW STATEMENT - INDIAN GAAP (RS 000)

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Cash flows from / (used in) operating activities (A)	1,379,839	489,142	891,573	2,292,436
Cash flows used in investing activities (B)	(261,690)	(1,015,863)	(572,121)	(6,631,107)
Cash flows from / (used in) from financing activities (C)	(415,533)	59,390	(594,040)	(310,356)
Effect of changes in exchange rates (D)	179,631	42,118	6,673	2,296
Net decrease in cash and cash equivalents during the period (A+B+C+D)	**882,247**	**(425,213)**	**(267,915)**	**(4,646,731)**
Cash and cash equivalents at the beginning of the period	1,635,385	2,060,598	2,704,497	6,707,329
Cash and cash equivalents at the end of the period	**2,517,632**	**1,635,385**	**2,436,582**	**2,060,598**

C) Reconcilation of Income as per Indian GAAP and US GAAP(RS. 000):

Particulars	Jun 30 2007	Jun 30 2006	Mar 31 2007	2006
Consolidated net income as per Indian GAAP	**1,479,487**	**(933,239)**	**1,339,353**	**2,447,821**
Acquisition of entity under common control				
Income taxes	7,861	(83,933)	(9,569)	(133,791)
Fixed assets and depreciation				
Amortisation of miscellaneous expenditure				
Foreign currency differences	(86,717)	145,297	(62,991)	(153,501)
Employee retirement benefits	19,636	10,530	3,980	3,895
ESOP related Compensation Cost	(44,559)	(48,833)	(45,683)	(182,732)
Short provision for branch profit taxes in earlier years under Indian GAAP				
Provision for decline in fair value of investment				
Amortisation of Intangibles , arising on Business acquisition	(9,793)	(9,904)	(10,477)	(41,176)
Prior period adjustment - Impact of prior period tax estimate		774,816		765,595
Others	3,522	(436)	14,085	(21,878)
Total	**(110,051)**	**787,537**	**(110,655)**	**236,412**
Consolidated net income as per US GAAP	**1,369,436**	**(145,702)**	**1,228,698**	**2,684,233**

D1) CONSOLIDATED STATEMENT OF INCOME (RS. 000): BASED ON CONVENIENCE TRANSLATION
For the quarter / period ended

Particulars	Jun 30 2007	Jun 30 2006	Mar 31 2007	2006
Exchange rate$1 = INR	**40.58**	**45.87**	**43.10**	**44.11**
Revenues	6,628,074	6,560,658	6,724,053	25,533,112
Cost of revenues	4,303,041	3,982,891	4,203,757	15,872,183
Depreciation	176,651	146,314	164,154	581,072
Gross Profit	**2,148,382**	**2,431,453**	**2,356,141**	**9,079,857**
Sales and marketing expenses	481,367	505,678	484,613	1,900,705
General and administrative expenses	678,110	806,120	651,189	2,838,156
Provision for doubtful debts and advances	23,285	7,387	27,719	52,536
Foreign exchange (gain) / loss, net	(347,853)	(4,497)	(113,352)	121,211
Operating income	**1,313,473**	**1,116,765**	**1,305,972**	**4,167,249**
Other income / (expense), net	286,727	180,801	154,376	549,986
Income before income taxes	**1,600,200**	**1,297,566**	**1,460,348**	**4,717,235**
Income taxes	252,660	1,444,527	260,068	2,103,684
Net income/(loss)	**1,347,540**	**(146,961)**	**1,200,280**	**2,613,551**
Earning per share				
- Basic	9.72	(1.07)	8.68	18.94
- Diluted	9.63	(1.07)	8.61	18.82
Weighted average number of common shares used in computing earnings per share				
- Basic	138,646,132	137,889,376	138,342,512	137,957,477
- Diluted	139,978,442	137,889,376	139,413,330	138,904,860

D2) CONSOLIDATED BALANCE SHEET USGAAP (RS. 000): BASED ON CONVENIENCE TRANSLATION

Particulars	As on 30-Jun-07	As on 31-Mar-07	As on 30-Jun-06
Exchange rate $1 = INR	**40.58**	**43.10**	**45.87**
Assets			
Total current assets	21,495,966	20,601,059	19,541,278
Goodwill	2,079,563	1,716,745	1,829,424
Intangible assets, net	371,824	406,221	468,432
Property, plant, and equipment, net	6,452,229	6,121,934	4,649,758
Other assets	799,089	665,667	665,220
Total assets	**31,198,670**	**29,511,625**	**27,154,112**
Liabilities			
Total current liabilities	5,886,300	5,204,555	6,615,720
Capital lease obligations excl. installments	11,370	16,426	22,008
Other liabilities	536,549	540,589	574,516
Total liabilities	**6,434,219**	**5,761,570**	**7,212,244**
Total shareholders equity	24,764,451	23,750,055	19,941,868
Total liabilities & shareholders equity	**31,198,670**	**29,511,625**	**27,154,112**

D3) CONSOLIDATED CASH FLOW STATEMENT USGAAP (RS 000): BASED ON CONVENIENCE TRANSLATION

Particulars	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Exchange rate $1 = INR	**40.58**	**43.10**	**45.87**	**44.11**
Net cash provided by operating activities	**1,467,914**	**609,452**	**770,001**	**2,606,508**
Net cash used in investing activities	**(381,692)**	**(1,125,912)**	**(552,570)**	**(6,855,856)**
Capital expenditure, net	(750,073)	(792,789)	(580,526)	(2,140,979)
Investment in securities, net	368,381	(333,122)	50,794	(4,170,457)
Investment in subsidiary, net of cash acquired			(22,838)	(544,421)
Net cash provided / (used) in financing activities	**(408,365)**	**49,025**	**(335,002)**	**(313,441)**
Others	(4,624)	(5,194)	(4,536)	(17,242)
Common shares issued, net of expenses	9,102	54,240	8,418	81,500
Dividend on common shares	(412,843)	(21)	(338,884)	(377,699)
Net increase / (decrease) in cash and equivalents	**677,857**	**(467,434)**	**(117,570)**	**(4,562,790)**
Effect of exchange rate changes on cash and equivalents	304,798	83,706	(232,164)	49,914
Cash and equivalents at the beginning of the period	1,526,084	2,004,581	2,782,103	6,564,433
Cash and equivalents at the end of the period	**2,508,739**	**1,620,853**	**2,432,370**	**2,051,557**

E1) REVENUE ANALYSIS

Revenue By Geographical Segments	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
United States	77.4%	78.7%	81.0%	80.8%
Europe	14.2%	14.2%	11.2%	11.6%
Japan	3.0%	3.0%	3.9%	3.8%
Asia-Pacific (excluding Japan)	3.5%	2.8%	2.3%	2.3%
Rest of the world	2.0%	1.3%	1.7%	1.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Revenue by Industry Verticals	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Insurance	23.6%	24.4%	23.2%	23.2%
Manufacturing	22.0%	21.9%	21.4%	21.7%
Financial Services	14.6%	14.0%	15.5%	15.3%
Telecommunications	14.1%	14.7%	20.2%	18.9%
Growth Industries	8.4%	8.2%	5.8%	6.7%
Product Engineering Servcies	17.3%	16.8%	13.9%	14.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Revenue by Service Offerings	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Application Development & Maintenance	64.4%	65.6%	71.8%	70.8%
Enterprise Application Systems	14.3%	13.5%	13.6%	13.2%
Embedded Technology Services	11.5%	11.5%	9.0%	9.5%
Enterprise Systems Management	5.8%	5.6%	4.0%	4.6%
Others	4.0%	3.8%	1.6%	1.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Revenue by Project Type	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Time and Material	68.1%	67.9%	64.0%	64.8%
Fixed Price (including Fixed Price SLA)	31.9%	32.1%	36.0%	35.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

E2) CLIENT- REVENUE METRICS

Particulates	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Top client	10.7%	11.1%	14.5%	14.6%
Top 5 Clients	33.5%	35.9%	38.2%	37.1%
Top 10 Clients	46.9%	48.8%	54.1%	53.1%
Client data				
No of $1 million clients	72	74	64	74
No of new clients	25	26	23	92
No. of active Clients	267	252	220	239
% of Repeat Business	92.7%	93.8%	92.0%	91.5%

E3) EFFORTS AND UTLISATION

Efforts Mix	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Onsite efforts	30.7%	31.7%	33.7%	33.3%
Offshore efforts	69.3%	68.3%	66.3%	66.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Utilisation	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Utilisation	71.7%	72.8%	70.2%	71.4%

E4) EMPLOYEE METRICS

	Jun 30 2007	Mar 31 2007	Jun 30 2006	2006
Total Employees	**13,723**	**13,096**	**12,608**	**12,804**
Offshore	10,832	10,169	9,908	10,009
Onsite	2,891	2,927	2,700	2,795
Total	**13,723**	**13,096**	**12,608**	**12,804**
Sales & Support Staff	1,370	1,273	1,306	1,251
Net Additions	627	292	460	1,002
Attrition (LTM) excluding BPO	30.1%	29.2%	20.8%	27.5%

SIGNATURES

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

PATNI COMPUTER SYSTEMS LIMITED

Dated: July 26, 2007 By: /s/ ARUN KANAKAL
Arun Kanakal
Company Secretary