SATYAM COMPUTER SERVICES LTD
Form 6-K
August 14, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the quarter ended June 30, 2003

Commission File Number 001-15190

Satyam Computer Services Limited

(Exact name of Registrant as specified in its charter)

Not Applicable
(Translation at Registrant s name into English)

Republic of India
(Jurisdiction of incorporation or organization)

Satyam Technology Center
Bahadurpally Village
Qutbullapur Mandal,
R.R.District 500855
Hyderabad, Andra Pradesh
India
(91) 40-2309-7505
(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file annual reports under cover Form 20-F or Form 40-F. Form 20-F x Form 40-F o.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes o No x

If Yes is marked, indicate below the file number assigned to registrant In connection with Rule 12g3-2(b). Not applicable.

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The Company is incorporating by reference the information and exhibits set forth in this Form 6-K into its registration statement on Form S-8 (Registration No. 333-13772).

Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references herein to we, us, the company, SAY or Satyam are to Satyam Computer Services Limit limited liability company organized under the laws of the Republic of India, and its consolidated subsidiaries. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. We are a leading Indian information technology services company which is traded on the New York Stock Exchange, or NYSE, under the symbol SAY as well as the major Indian stock exchanges. Satyam is a trademark owned by Satyam Computer Services. Sify.com, SatyamOnline, Satyam: Net , satyamonline.com and Satyam iway are trademarks used by our associate company, Sify Limited, or Sify , for which registration applications are pending in India. All other trademarks or tradenames used in this Report on Form 6-K (the Quarterly Report) are the property of their respective owners.

In this Quarterly Report, references to $, Dollars or U.S. dollars are to the legal currency of the United States, and references to Rs., rupees Indian rupees are to the legal currency of India. References to a particular fiscal year are to our fiscal year ended March 31 of such year.

For your convenience, this Quarterly Report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this Quarterly Report, all translations from Indian rupees to U.S. dollars contained in this Quarterly Report have been based on the noon buying rate in the City of New York on June 30, 2003 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on June 30, 2003 was Rs. 46.40 per $1.00.

Information contained in our websites, including our corporate website, www.satyam.com, is not part of this Quarterly Report.

Forward-Looking Statements May Prove Inaccurate

IN ADDITION TO HISTORICAL INFORMATION, THIS QUARTERLY REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED RISK FACTORS AND ELSEWHERE IN THIS QUARTERLY REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT S ANALYSIS ONLY AS OF THE DATE OF THIS QUARTERLY REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS QUARTERLY REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC) FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, WWW.SEC.GOV.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Please see our Form 6K dated July 31, 2003 submitted to the SEC on August 1, 2003 for our unaudited U.S. GAAP Consolidated Financial Statements for the three months ended June 30, 2003, which are incorporated herein by reference.

Item 2. Operating and financial review and prospects

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the financial statements and the related notes included in our Form 6K dated July 31, 2003 and the audited financial statements and related notes contained in our Annual Report on Form 20-F for the fiscal year ended March 31, 2003. This discussion contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see Risk Factors . We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

We are the fourth largest provider of IT services in India, based on the amount of export revenues generated during our fiscal year ended March 31, 2003. We offer a comprehensive range of services, including software development, system maintenance, packaged software integration, engineering design services and internet services. We use our global infrastructure to deliver value-added services to our customers to address IT needs in specific industries and to facilitate eBusiness initiatives. Our total revenues increased by 14.4% to $121.6 million in the three months ended June 30, 2003 from $106.3 in the three months ended June 30, 2002. Our worldwide technical headcount increased to 9,930 as of June 30, 2003 compared to 8,595 as of June 30, 2002. Our reportable operating segments are divided into IT services, Business Process Outsourcing, or BPO, and software products.

We own 100% of the outstanding stock of VisionCompass Inc., or VCI, which has developed and markets our software product, VisionCompass. VCI had revenues of $115 thousand and a net profit of $76 thousand for the three months ended June 30, 2003. Following a restructuring, VCI was able to generate modest profits during the three months ended June 30, 2003. However, keeping in view the present business and economic conditions, the relative size and managerial time, we have decided to discontinue the operations of VisionCompass so as to focus on our core business of IT services. The services of all employees in VisionCompass have been terminated and we have initiated the closure procedures.

On June 5, 2002, we formed Nipuna Services Limited, or Nipuna, a wholly owned subsidiary in Secunderabad, Andhra Pradesh, India to provide various services connected with business process outsourcing, or BPO. As of June 30, 2003, we had invested $0.2 million in Nipuna. Nipuna had revenues of $290 thousand and a net loss of $758 thousand for the three months ended June 30, 2003.

On July 24, 2003, we announced that we had entered into an agreement with two global investors for their investing US$20 million in the Company s wholly-owned subsidiary, Nipuna Services Ltd.

Consolidation of Subsidiaries

As of June 30, 2003, we had invested $27.7 million in VCI, $5.1 million in Sify and $20.2 million representing equity and other advances in six of our other subsidiaries. Since its inception in January 1999, VCI has incurred significant operating losses and negative cash flows. As of June 30, 2003, the cumulative net losses incurred were $27.2 million by VCI and $15.8 million by our other subsidiaries. The results of VCI and our other subsidiaries are reflected in our unaudited consolidated financial statements under U.S. GAAP.

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Satyam Manufacturing Technologies, Inc.

On March 28, 2003, we acquired Northrop Grumman s 24% interest in Satyam Manufacturing Technologies Inc., or SMTI, and SMTI became our 100% owned subsidiary. We issued Northrop Grumman a non interest bearing unsecured promissory note with a principal amount of $3.5 million, which is payable in four quarterly installments from April 1, 2003 to January 1, 2004 in payment of the purchase price. As on June 30, 2003, we have paid $2.0 million to Northrop Grumman and the outstanding amount is $1.5 million.

Our Investment in Associated Companies

Our investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are referred to as associated companies and are accounted for by the equity method.

The following table gives details regarding our percentage holding, carrying value and share of earnings / (losses) of our associated companies for the three months ended June 30, 2003 and 2002 (in million, except percentages)

	June 30, 2003			June 30, 2002		
Name of the associated company	% holding	Share of earnings / (losses) during the period	Carrying value as at June 30, 2003	% holding	Share of earnings / (losses) during the period	Carrying value as at June 30, 2002
Sify	36.0	$ (1.3)	$ 25.6			
Satyam Venture	50.0	0	1.2	50.0	$ 0.1	$ 1.1
CA Satyam	50.0	(0.3)	0.9	50.0	0	0.4
Satyam GE				50.0	0.2	3.3
Cricinfo				25.0	(1.8)	2.6
Refco-Sify				40.0	(0.1)	2.4
Placements.com				27.0	0	0
Total		$ (1.6)	$ 27.7		$ (1.6)	$ 9.8

Sify

We continue to be the single largest shareholder of Sify, which provides Internet services in India, even though our ownership interest in Sify was reduced from 37.15% as at March 31, 2003 to 35.00% as at July 31, 2003 due to the private placement completed by Sify to Softbank Asia Infrastructure Fund (SAIF) and VentureTech Solutions Private Ltd. (VentureTech) in December 2002, May 2003 and July 2003. Subsequent to December 9, 2002, we have accounted for our interest in Sify under the equity method of accounting, as we no longer hold a controlling interest in Sify. We are under no future obligation to provide additional funds to Sify.

In April 2003 and pursuant to the VentureTech subscription agreement, Sify sold 1,017,442 additional equity shares to VentureTech and agreed to sell an additional 1,017,441 ADSs to VentureTech or its affiliate no later than July 31, 2003. Subsequently, in July 2003, an affiliate of VentureTech purchased 1,017,441 ADSs to complete VentureTech s subscription obligation under the subscription agreement.

Satyam Venture

On October 28, 2000, we entered into an agreement with Venture Industries to form an equally held joint venture company Satyam Venture Engineering Services Private Limited or Satyam Venture. We hold 50% of Satyam Venture. Satyam Venture is engaged in providing engineering solutions, software development and customization services specifically for the automotive industry worldwide.

CA Satyam

On December 29, 2000, we entered into an agreement with Computer Associates International, Inc. to form an equally held joint venture company, CA Satyam ASP Private Limited or CA Satyam. We hold 50% of CA Satyam. As per the agreement, both we and Computer

Associates have invested $1.5 million each in the joint venture.

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Satyam GE

In January 2002, we initiated the process of transfer our 50% shareholding in Satyam GE Software Services Private Limited, or Satyam GE, to our joint venture partner, GE Pacific (Mauritius) Limited, Mauritius, or GEPL, in accordance with the shareholders agreement for a consideration of approximately US$4,000 thousand. The transfer was subject to fulfillment of terms and conditions specified in the agreement and obtaining necessary approvals from appropriate authorities. After the transfer process was initiated, we continued to have the ability to exercise significant influence over the operating and financial policies of Satyam GE and hence accounted for its 50% interest in Satyam GE using the equity method upto June 30, 2002. During the year ended March 31, 2003 the necessary approvals were received and we recorded a gain of US$830 thousand, the excess of sales consideration received over the carrying value as of June 30, 2002, in the statement of operations.

Deferred Stock based Compensation

We have 3 associate stock option plans: our Associate Stock Option Plan, or ASOP, established in May 1998; our Associate Stock Option Plan B, or ASOP B, established in May 1999; and our Associate Stock Option Plan ADS, or ASOP ADS, established in 2000.

ASOP

The aspects of the ASOP differ significantly from typical U.S. stock option plans. We established a controlled associate welfare trust called the Satyam Associate Trust, to administer the ASOP, and issued warrants to purchase 13,000,000 equity shares of Satyam Computer Services. To give our associates the benefit of our stock split (in the form of stock dividend) in September 1999, the Trust exercised its warrants to acquire our shares before the split using the proceeds from bank loans. The Trust periodically grants eligible associates warrants to purchase equity shares held by or reserved for issuance by the Trust. The warrants may vest immediately or may vest over a period ranging from two to three years, depending on the associate s length of service and performance. Upon vesting, employees have 30 days in which to exercise their warrants. Each warrant issued by the Trust currently entitles the associate holding the warrant to purchase 10 equity shares of our company at a price of Rs.450 ($9.7), plus an interest component associated with the loan the Trust assumed, for the conversion of the warrants it held. The interest component is computed based on a fixed vesting period and a fixed interest rate. This exercise price has been substantially below the market price of our shares at the time the warrants have been granted by the Trust. Neither we nor the Trust may increase the exercise price of the warrants.

We account for the ASOP as a fixed plan in accordance with Accounting Principles Board Opinion No. 25. Under U.S. GAAP, the difference between the exercise price and the market price on the date the warrants are granted to associates is required to be treated as a non-cash compensation charge and amortized over the vesting period of the equity shares underlying the warrants. Under U.S. GAAP, in the three months ended June 30, 2003 and 2002, we recognized deferred stock based compensation of $(64) thousand and $(35) thousand, respectively, and $271 thousand and $469 thousand was amortized and charged to earnings, respectively. As of June 30, 2003, warrants (net of forfeited and cancelled) to purchase 11,927,760 equity shares have been granted to associates pursuant to ASOP, and warrants to purchase 10,944,380 equity shares have been exercised. As of June 30, 2003, the Trust held warrants to purchase 1,072,240 equity shares that had not yet been granted to associates pursuant to the ASOP but are expected to be granted in the future. Under current accounting rules, we expect to recognize amortization of deferred stock based compensation expense in respect of our ASOP in the approximate amounts of $2.5 million in fiscal 2004 and $0.3 million in fiscal 2005 based on the price of our equity shares on June 30, 2003 and in connection with both granted and ungranted warrants on such date. Depending on the market value of our equity shares on the dates future grants are made, amortization of deferred stock based compensation expense with respect to ungranted warrants may cause the expected amounts to change.

ASOP B

The ASOP B is substantially similar to the ASOP and is administered by a committee of our board of directors. Under U.S. GAAP, in the three months ended June 30, 2003 and 2002, we recognized deferred stock based compensation of $(13) thousand and $0.2 thousand, respectively, and $7 thousand and $16 thousand was amortized and charged to earnings, respectively. As of June 30, 2003, options (net of forfeited and cancelled) to purchase 15,866,578 equity shares have been granted to associates under this plan. Under current accounting rules, we expect to recognize amortization of deferred stock based compensation expense in respect of these granted options in the approximate amounts of $27 thousand in fiscal 2004 and $1 thousand in fiscal 2005. We expect that the exercise prices of options granted in the future under the ASOP B will generally not be less than the fair market value of the underlying shares and therefore we do not expect to incur compensation expense with respect to those future grants under current accounting rules. We also account for the ASOP B as a fixed option plan.

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ASOP ADS

Under ASOP ADS, we periodically issue grants to eligible associates to purchase ADSs. As of June 30, 2003, warrants (net of forfeited and cancelled) for 1,316,099 ADSs representing 2,632,198 equity shares have been granted to associates under the ASOP ADS. The warrants issued under ASOP-ADS could be at a price per option which is not less than 90% of the value of one ADS as reported on NYSE (fair market value) on the date of grant converted into Indian Rupees at the rate of exchange prevalent on the day of grant. We account for the ASOP ADS as a fixed option plan. We expect that the exercise prices of options granted in the future under the plan will not be less than the fair market value of the underlying ADSs and therefore we do not expect to incur compensation expense with respect to those future grants under current accounting rules.

Revenues

Our revenues are generated from professional services fees / product development provided through three segments, IT services, business process outsourcing (or BPO) and software products. Management evaluates performance based on stand-alone revenues and net income for the companies in Satyam. Up to March 31, 2003, Satyam provided segmental disclosures based on three business groups: IT services, Internet services and software products. Subsequent to March 31, 2003, our executive management evaluates Satyam s operating segments based on the following three business groups:

IT services, providing a comprehensive range of services, including software development, packaged software integration, system maintenance, engineering design services and internet services. Satyam Computer Services provides its customers the ability to meet all of their information technology needs from one service provider. Satyam Computer Services eBusiness services include designing, developing integrating and maintaining Internet-based applications, such as eCommerce websites, and implementing packaged software applications, such as customer or supply chain management software applications. Satyam Computer Services also assists its customers in making their existing computing systems accessible over the Internet.

BPO, providing services covering HR, Finance & Accounting, Customer Contact (Voice, Mail and Chat), and Transaction Processing (industry-specific offerings).

Software Products, product development and creation of propriety software.

The following table sets forth the revenues for our three business segments for the three months ended June 30, 2003 and 2002 (in millions, except percentages).

	Three months ended June 30, 2003		Three months ended June 30, 2002	
Segment	**Amount**	**%**	**Amount**	**%**
IT Services	$121.4	99.8	$106.1	99.8
BPO	0.1	0.1		
Software Products	0.1	0.1	0.2	0.2
Total	**$121.6**	**100.0**	**$106.3**	**100.0**

Our total revenues increased by 14.4% to $121.6 million in the three months ended June 30, 2003 from $106.3 in the three months ended June 30, 2002. Our top two customers accounted for 25.3% of total revenues in the three months ended June 30, 2003 from 24.7% of total revenues in the three months ended June 30, 2002. Additionally, our top 5 customers accounted for 36.5% of the revenues in the three months ended June 30, 2003 as compared to 40.9% in the three months ended June 30, 2002. Our worldwide technical headcount increased to 9,930 as of June 30, 2003 compared to 8,595 as of June 30, 2002. We expect our revenue to grow by approximately 18%-20% in fiscal 2004.

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IT services

Our IT services revenues (excluding inter-segment revenues) represented 99.8% of our total revenues in each of the three month periods ended June 30, 2003 and June 30, 2002. These revenues increased by 14.4% to $121.4 million in the three months ended June 30, 2003 from $106.1 million in the three months ended June 30, 2002.

BPO

On June 5, 2002 we formed Nipuna Services Limited or Nipuna, a wholly owned subsidiary in Secunderabad, Andhra Pradesh, India to provide various services connected with business process outsourcing. As of June 30, 2003, we had invested $0.2 million in Nipuna. In the three months ended June 30, 2003, Nipuna generated revenues of $290 thousand, of which $260 thousand was from inter-segment revenues. Nipuna generated a loss of $758 thousand in the three months ended June 30, 2003.

Software products

We own 100% of the outstanding stock of VisionCompass Inc., or VCI, which has developed and markets our software product, VisionCompass. VCI had revenues of $115 thousand and a net profit of $76 thousand for the three months ended June 30, 2003. Following a restructuring, VCI was able to generate modest profits during the three months ended June 30, 2003. However, keeping in view the present business and economic conditions, the relative size and managerial time, we decided to discontinue the operations of VisionCompass so as to focus on our core business of IT services. The services of all employees in VisionCompass have been terminated and we have initiated the closure procedures. Revenues from software products in the current quarter have been immaterial.

Expenses

Cost of revenues. Cost of revenues increased by 14.3% to $74.3 million in the three months ended June 30, 2003 from $65.0 million in the three months ended June 30, 2002. Cost of revenues represented 61.1% of revenues in the three months ended June 30, 2003 and 61.1% in the three months ended June 30, 2002. Inter-segment cost of revenues were $349 thousand in the three months ended June 30, 2003 and have not been allocated to the individual components that make up cost of revenues; we did not record any inter-segment cost of revenues in the three months ended June 30, 2002. The increase in cost of revenues to $74.3 million in the three months ended June 30, 2003 from $65.0 million in the three months ended June 30, 2002 was attributable primarily to increase in associate compensation and benefits expenses, traveling expenses and other expenses.

Gross profit. Our gross profit was $47.3 million for the three months ended June 30, 2003, representing an increase of 14.5% over gross profit of $41.3 million for the three months ended June 30, 2002. As a percentage of total revenues, gross profit stood at 38.9% for the three months ended June 30, 2003 as compared to 38.9% for the three months ended June 30, 2002.

Selling, general and administrative expense. Selling, general and administrative expenses decreased 27.5% to $19.8 million in the three months ended June 30, 2003 from $27.3 million in the three months ended June 30, 2002. This decrease was a result primarily of decreases in associate compensation and benefits, traveling expenses and depreciation expense. Inter-segment selling, general and administrative expenses were $73 thousand in the three months ended June 30, 2003 as compared to $71 thousand in the three months ended June 30, 2002 and have not been allocated to the individual components that make up selling, general and administrative expenses. Selling, general and administrative expenses represented 16.3% of revenues in the three months ended June 30, 2003 as compared to 25.7% of revenues in the three months ended June 30, 2002. The decrease in selling, general and administrative expense to $19.8 million in the three months ended June 30, 2003 from $27.3 million in the three months ended June 30, 2002 was attributable primarily to decrease in associate compensation and benefits expenses.

Operating income (loss). Our operating income was $27.4 million for the three months ended June 30, 2003, representing an increase of 95.7% over the operating income of $14.0 million for the three months ended June 30, 2002. As a percentage of revenues, operating income increased to 22.6% for the three months ended June 30, 2003, from 13.2% for the three months ended June 30, 2002.

Net income. Our net income was $23.6 million for the three months ended June 30, 2003, representing an increase of 46.6% over net income of $16.1 million for the three months ended June 30, 2002. As a percentage of total revenues, net income increased to 19.4% for the three months ended June 30, 2003 from 15.2% for the three months ended June 30, 2002.

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Foreign Currency Transactions / Translation

In the three months ended June 30, 2003 and 2002, 86.7% and 81.2%, respectively, of our total revenues were generated in U.S. dollars. A significant amount of our expenses were incurred in Indian Rupees and the balance was primarily incurred in U.S. dollars, European currencies and Japanese yen. Our functional currency and the functional currency for our subsidiaries located in India is the Indian rupee; however, the Japanese yen, U.S. dollars, Sterling pounds and Singapore dollars are the functional currencies of our foreign subsidiaries located in Japan, the U.S., the U.K. and Singapore, respectively. The translation of such foreign currencies into U.S. dollars (our reporting currency) is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using monthly simple average exchange rates prevailing during the reporting periods. Adjustments resulting from the translation of functional currency financial statements to reporting currency are accumulated and reported as other comprehensive income, a separate component of shareholders equity.

Risk management policy

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

We manage risk on account of foreign currency fluctuations through treasury operations. Our risk management strategy is to identify risks we are exposed to, evaluate and measure those risks, decide on managing those risks, regular monitoring and reporting to management. The objective of our risk management policy is to minimize risk arising from adverse currency movements by managing the uncertainty and volatility of foreign exchange fluctuations by hedging the risk to achieve greater predictability and stability. Our risk management policies are approved by senior management and include implementing hedging strategies for foreign currency exposures, specification of transaction limits; specifying authority and responsibility of the personnel involved in executing, monitoring and controlling such transactions. We purchase forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on cash flows denominated in certain foreign currencies. We enter into forward foreign exchange contracts where the counter party is generally a bank. We consider the risks of non-performance by the counter party as non-material. These foreign forward exchange contracts mature between one to three months**.** These contracts do not qualify for hedge accounting under SFAS 133, as amended. Any derivative that is either not a designated hedge, or is so designated but is ineffective per SFAS 133, is marked to market and recognized in earnings.

The following table gives details in respect of Satyam s outstanding foreign exchange forward contracts:

(in thousands)

	As of June 30,	
	2003	**2002**
Aggregate Contracted Principal amounts of Forward exchange contracts (sell)	$44,500	
Gain on outstanding foreign exchange forward contracts	388	

We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs as well as capital and operating expenditures, will continue to be denominated in Indian rupees. Consequently, our results of operations will be affected to the extent the rupee appreciates/ depreciates against the U.S. dollar. During the three months ended June 30, 2003, the rupee appreciated to 46.40 against 47.53 in March 31, 2003. During the three months ended June 30, 2002, the rupee depreciated to 48.91 to $1.00 against 48.83 as on March 31, 2002. As a result, loss on foreign exchange transactions was $2.3 million in the three months ended June 30, 2003 as compared to a gain of $1.1 million in the three months ended June 30, 2002.

As of July 31, 2003, we had outstanding foreign exchange contracts worth $48 million with maturity dates over the next 9 months to cover the risks of U.S. dollar to Indian rupee fluctuations.

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Results of Operations

The following tables set forth selected operating data as value and as a percentage of revenues by segment (including inter-segment revenues) for the periods indicated:

(in thousands)

	Three Months Ended June 30, 2003				
	IT Services	**BPO**	**Software Products**	**Elimination**	**Total**
Statement of Operations Data:					
Revenues External customers	$121,474	$ 30	$ 43		$121,547
Revenue Inter segment	90	260	72	$(422)	
Total Revenues	**121,564**	**290**	**115**	**(422)**	**121,547**
Cost of Revenues(1)	73,880	766		(349)	74,297
Gross Profit	**47,684**	**(476)**	**115**	**(73)**	**47,250**
Operating expenses:					
Selling, general and administrative expenses(2)	19,582	277	40	(73)	19,826
Total Operating Expenses	**19,582**	**277**	**40**	**(73)**	**19,826**
Operating income/(loss)	**28,102**	**(753)**	**75**		**27,424**
Interest income	4,443		0.2		4,444
Interest expense	(134)	(2)			(136)
Loss on foreign exchange transactions	(2,265)	(3)			(2,268)
Other income/(expense), net	276				276
Income before income taxes, minority interest and equity in losses of associated companies	**30,422**	**(758)**	**76**		**29,740**
Income taxes	(4,526)				(4,526)
Equity in losses of associated companies, net of taxes	(1,609)				(1,609)
Net income (loss)	**$ 24,287**	**$(758)**	**$ 76**		**$ 23,605**
Depreciation	$ 6,223	$ 72	$ 2		$ 6,297
Deferred stock based compensation	$ 278				$ 278

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(in thousands)

	Three Months Ended June 30, 2002				
	IT Services	**BPO**	**Software Products**	**Elimination**	**Total**
Statement of Operations Data:					
Revenues External customers	$106,083		$ 187		$106,270
Revenue Inter segment			71	(71)	
Total Revenues	**106,083**		**258**	**(71)**	**106,270**
Cost of Revenues(1)	64,980				64,980
Gross Profit	**41,103**		**258**	**(71)**	**41,290**
Operating expenses:					
Selling, general and administrative expenses(2)	27,138		228	(71)	27,295
Total Operating Expenses	**27,138**		**228**	**(71)**	**27,295**
Operating income	**13,965**		**30**		**13,995**
Interest income	874				874
Interest expense	(276)				(276)
Gain on foreign exchange transactions	1,074				1,074
Other income/(expense), net	68				68
Income before income taxes, minority interest and equity in losses of associated companies	**15,705**		**30**		**15,735**
Income taxes	(2,250)				(2,250)
Minority interest	4,259				4,259
Equity in losses of associated companies, net of taxes	(1,628)				(1,628)
Net income	**$ 16,086**		**$ 30**		**$ 16,116**
Depreciation	$ 9,211		$ 29		$ 9,240
Deferred stock based compensation	$ 618				$ 618

1. Inclusive of deferred stock based compensation expenses of $207 thousand for IT services in the three months ended June 30, 2003 and $274 thousand for IT services in the three months ended June 30, 2002.

2. Inclusive of deferred stock based compensation expenses of $71 thousand for IT services in the three months ended June 30, 2003 and $344 thousand for IT services, in the three months ended June 30, 2002.

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	Three Months Ended June 30, 2003			
	IT Services	BPO	Software Products	Total
Statement of Operations Data:				
Revenues External customers	99.9%	10.3%	37.4%	100.0
Revenue Inter segment	0.1	89.7	62.6	
Total Revenues	**100.0**	**100.0**	**100.0**	**100.0**
Cost of Revenues(1)	60.8	264.1		61.1
Gross Profit	**39.2**	**(164.1)**	**100.0**	**38.9**
Operating expenses:				
Selling, general and administrative expenses(2)	16.1	95.5	34.8	16.3
Total Operating Expenses	**16.1**	**95.5**	**34.8**	**16.3**
Operating income/(loss)	**23.1**	**(259.7)**	**65.2**	**22.6**
Interest income	3.7		0.1	3.7
Interest expense	(0.1)	(0.7)		(0.1)
Loss on foreign exchange transactions	(1.9)	(1.0)		(1.9)
Other income/(expense), net	0.2			0.2
Income before income taxes, minority interest and equity in losses of associated companies	**25.0**	**(261.4)**	**65.2**	