

## Balance Sheets as of

	December 31, (Unaudited)	December 31, (Unaudited)	March 31, 2000 (Audited)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 110,891,708	\$ 106,789,758	\$ 116,599,486
Trade accounts receivable, net of allowances	65,102,262	31,814,100	31,233,515
Prepaid expenses and other current assets	14,306,584	8,661,562	11,256,295
<b>Total current assets</b>	<b>190,300,554</b>	<b>147,265,420</b>	<b>159,089,296</b>
Property, plant and equipment – net	97,928,035	39,761,952	47,554,772
Deferred income taxes	2,766,266	1,788,180	2,566,266
Investments	6,057,693	177,938	3,177,938
Advance income taxes	208,740	-	-
Other assets	7,237,419	6,191,282	6,894,598
<b>Total assets</b>	<b>\$ 304,498,707</b>	<b>\$ 195,184,772</b>	<b>\$ 219,282,870</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 353,474	\$ 157,661	\$ 976,840
Client deposits	1,565,962	56,323	425,724
Other accrued liabilities	20,809,471	9,016,543	13,835,635
Income taxes payable	-	1,423,527	1,878,977
Unearned revenue	10,627,986	5,314,826	4,029,173
<b>Total current liabilities</b>	<b>33,356,893</b>	<b>15,968,880</b>	<b>21,146,349</b>
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, \$ 0.16 par value; 100,000,000 equity shares authorized, Issued and outstanding – 66,152,567, 66,138,800 and 66,150,700 as of December 31, 2000, December 31, 1999 and March 31, 2000	8,593,713	8,592,137	8,593,510
Additional paid-in-capital	121,683,464	121,355,706	121,506,726
Accumulated other comprehensive income	(29,392,947)	(13,728,428)	(14,137,933)
Deferred stock compensation	(13,776,773)	(18,880,344)	(17,598,813)
Retained earnings	184,034,357	81,876,821	99,773,031
<b>Total stockholders' equity</b>	<b>271,141,814</b>	<b>179,215,892</b>	<b>198,136,521</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 304,498,707</b>	<b>\$ 195,184,772</b>	<b>\$ 219,282,870</b>

*See accompanying notes to financial statements*

## Statements of Income

	Three months ended December 31,		Nine months ended December 31,		Year ended March 31,
	2000	1999	2000	1999	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
<b>REVENUES</b>					
Revenues	\$ 114,911,366	\$ 52,158,059	\$ 293,108,249	\$ 139,828,639	\$ 203,443,754
Cost of revenues	60,583,336	28,524,750	152,743,812	75,248,686	111,080,546
Gross profit	54,328,030	23,633,309	140,364,437	64,579,953	92,363,208
<b>OPERATING EXPENSES</b>					
Selling and marketing expenses	4,752,598	2,489,414	13,944,138	6,643,894	9,643,970
General and administrative expenses	10,112,440	4,158,083	25,803,921	11,485,654	17,102,550
Amortization of stock compensation expense	1,270,448	1,293,002	3,822,040	3,836,104	5,117,635
Total operating expenses	16,135,486	7,940,499	43,570,099	21,965,652	31,864,155
Operating income	38,192,544	15,692,810	96,794,338	42,614,301	60,499,053
Other income, net	97,184	1,636,637	7,792,422	7,052,919	9,038,792
Income before income taxes	38,289,728	17,329,447	104,586,760	49,667,220	69,537,845
Provision for income taxes	4,282,892	1,912,519	10,966,366	6,218,902	8,193,317
Net income	\$ 34,006,836	\$ 15,416,928	\$ 93,620,394	\$ 43,448,318	\$ 61,344,528
<b>EARNINGS PER EQUITY SHARE</b>					
Basic	0.52	\$ 0.24	1.43	\$ 0.66	\$ 0.93
Diluted	0.51	\$ 0.24	1.40	\$ 0.66	\$ 0.93
<b>WEIGHTED EQUITY SHARES USED IN COMPUTING EARNINGS PER EQUITY SHARE</b>					
Basic	65,593,767	65,643,334	65,625,556	65,667,845	65,659,625
Diluted	66,410,844	65,718,420	66,877,762	65,692,873	65,863,990

See accompanying notes to financial statements

## Statements of Stockholders' Equity

(Information as of and for the nine months ended December 31, 2000 and December 31, 1999 is unaudited)

*in \$ except share numbers*

	Common Stock		Additional paid-in capital	Comp-rehensive income	Accumulated other comp-rehensive income	Deferred stock compensation	Loan to Trust	Retained earnings	Total stockholders' equity
	Shares	Amount							
Balance as of March 31, 1998	64,068,800	\$ 4,545,811	\$ 24,415,920		\$ (7,042,229)	\$ (7,831,445)	\$ (936,365)	\$ 27,994,268	\$ 41,145,960
Stock split	-	3,800,949	-		-	-	-	(3,800,949)	-
Cash dividends	-	-	-		-	-	-	(3,152,863)	(3,152,863)
Common stock issued	2,070,000	245,377	70,134,623		-	-	-	-	70,380,000
ADR issue expenses	-	-	(4,108,924)		-	-	-	-	(4,108,924)
Compensation related to stock option grants	-	-	30,407,892		-	(30,407,892)	-	-	-
Amortization of compensation related to stock option grants	-	-	-		-	16,552,538	-	-	16,552,538
Comprehensive income									
Net income available for common stockholders	-	-	-	\$ 17,446,088	-	-	-	17,446,088	17,446,088
Other comprehensive income									
Translation adjustment	-	-	-	(2,058,433)	(2,058,433)	-	-	-	(2,058,433)
Comprehensive income	-	-	-	\$ 15,387,655	-	-	-	-	-
Adjustment on de-consolidation of subsidiary	-	-	-		-	-	-	2,468,831	2,468,831
Repayment of loan to trust	-	-	-		-	-	936,365	-	936,365
Balance as of March 31, 1999	66,138,800	8,592,137	120,849,511		(9,100,662)	(21,686,799)	-	40,955,375	139,609,562
Common stock issued	-	-	(523,454)		-	-	-	-	(523,454)
Cash dividends	-	-	-		-	-	-	(2,526,872)	(2,526,872)
Compensation related to stock option grants	-	-	1,029,649		-	(1,029,649)	-	-	-
Amortization of compensation related to stock option grants	-	-	-		-	3,836,104	-	-	3,836,104
Comprehensive income									
Net income available for common stockholders	-	-	-	\$ 43,448,318	-	-	-	43,448,318	43,448,318
Other comprehensive income									
Translation adjustment	-	-	-	(4,627,766)	(4,627,766)	-	-	-	(4,627,766)
Comprehensive income	-	-	-	\$ 38,820,552	-	-	-	-	-
Balance as of December 31, 1999	66,138,800	\$ 8,592,137	\$ 121,355,706		\$ (13,728,428)	\$ (18,880,344)	-	\$ 81,876,821	\$ 179,215,892

## Statements of Stockholders' Equity (contd.)

(Information as of and for the nine months ended December 31, 2000 and December 31, 1999 is unaudited)

*in \$ except share numbers*

	Common Stock		Additional paid-in capital	Comp-rehensive income	Accumulated other comp-rehensive income	Deferred stock compensation	Loan to Trust	Retained earnings	Total stockholders' equity
	Shares	Amount							
Balance as of December 31, 1999	66,138,800	\$ 8,592,137	\$ 121,355,706		\$ (13,728,428)	\$ (18,880,344)	-	\$ 81,876,821	\$ 179,215,892
Common stock issued	11,900	1,373	928,943		-	-	-	-	930,316
ADR issue expenses	-	-	(777,923)		-	-	-	-	(777,923)
Amortization of compensation related to stock option grants	-	-	-		-	1,281,531	-	-	1,281,531
Comprehensive income									
Net income available for common stockholders	-	-	-	\$ 17,896,210	-	-	-	17,896,210	17,896,210
Other comprehensive income									
Translation adjustment	-	-	-	(409,505)	(409,505)	-	-	-	(409,505)
<b>Comprehensive income</b>	-	-	-	<b>\$ 17,486,705</b>	-	-	-	-	-
Balance as of March 31, 2000	66,150,700	8,593,510	121,506,726		(14,137,933)	(17,598,813)	-	99,773,031	198,136,521
Cash dividends	-	-	-		-	-	-	(9,359,068)	(9,359,068)
Common stock issued	1,867	203	176,738		-	-	-	-	176,941
Amortization of compensation related to stock option grants	-	-	-		-	3,822,040	-	-	3,822,040
Comprehensive income									
Net income available for common stockholders	-	-	-	93,620,394	-	-	-	93,620,394	93,620,394
Other comprehensive income									
Translation adjustment	-	-	-	(15,255,014)	(15,255,014)	-	-	-	(15,255,014)
<b>Comprehensive income</b>	-	-	-	<b>78,365,380</b>	-	-	-	-	-
Balance as of December 31, 2000	66,152,567	\$ 8,593,713	\$ 121,683,464		\$ (29,392,947)	\$ (13,776,773)	-	\$ 184,034,357	\$ 271,141,814

See accompanying notes to financial statements

## Statement of cash flows

	Nine months ended		Year ended
	December 31, 2000 (Unaudited)	December 31, 1999 (Unaudited)	March 31, 2000 (Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 93,620,394	\$ 43,448,318	\$ 61,344,528
Adjustments to reconcile net income to net cash provided by operating activities			
(Gain) / loss on sale of property, plant and equipment	(17,330)	(20,139)	(20,153)
Depreciation	16,381,961	7,976,831	12,268,169
Deferred tax expense/(benefit)	(200,000)	(72,805)	(850,891)
Amortization of deferred stock compensation expense	3,822,040	3,836,104	5,117,635
Provision for Investments	3,000,000	--	--
Changes in assets and liabilities			
Trade accounts receivable	(33,868,747)	(11,757,422)	(11,176,837)
Prepaid expenses and other current assets	(1,674,166)	(2,926,239)	(2,390,039)
Income taxes	(2,087,717)	467,730	923,180
Accounts payable	(623,366)	82,356	901,535
Client deposits	1,140,238	37,803	407,204
Unearned revenue	6,598,813	716,214	(569,439)
Other accrued liabilities	6,889,655	616,743	5,435,835
Net cash provided by operating activities	92,981,775	42,405,494	71,390,727
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Expenditure on property, plant and equipment	(66,783,392)	(23,840,967)	(35,926,030)
Proceeds from sale of property, plant and equipment	45,497	22,636	23,555
Loans to employees	(1,718,943)	(2,994,276)	(6,828,525)
Purchase of investments	(5,879,755)	-	(3,000,000)
Net cash used in investing activities	(74,336,593)	(26,812,607)	(45,731,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of equity shares	176,941	(523,454)	406,862
ADR issue expenses		-	(777,923)
Payment of cash dividends	(9,274,887)	(2,526,872)	(2,526,872)
Net cash used in financing activities	(9,097,946)	(3,050,326)	(2,897,933)
Effect of exchange rate changes on cash	(15,255,014)	(4,627,766)	(5,037,271)
Net increase in cash and cash equivalents during the period	(5,707,778)	7,914,795	17,724,523
Cash and cash equivalents at the beginning of the period	116,599,486	98,874,963	98,874,963
Cash and cash equivalents at the end of the period	\$ 110,891,708	\$ 106,789,758	\$ 116,599,486
<b>Supplementary information:</b>			
Cash paid towards taxes	\$ 13,045,342	\$ 5,751,172	\$ 7,270,137

See accompanying notes to financial statements

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**Notes to Financial Statements as of and for the nine months ended December 31, 2000**

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**1 Company overview and significant accounting policies****1.1 Company overview**

Infosys Technologies Limited (the “company”) is a publicly held company providing information technology (“IT”) solutions principally to Fortune 1000 and emerging new economy companies. Infosys’ range of services includes IT consulting, IT architecture, application development, e-commerce and Internet consulting, and software maintenance. In addition, the company develops and markets certain software products. Headquartered in Bangalore, India, the company has 17 state-of-the-art offshore software development facilities located throughout India that enable it to provide high quality, cost-effective services to clients in a resource-constrained environment. The company also maintains offices throughout North America, Europe and Asia.

**1.2 Basis of preparation of financial statements**

The accompanying financial statements are prepared in accordance with US Generally Accepted Accounting Principles (“GAAP”). All amounts are stated in US dollars, except as specified.

**1.3 Principles of consolidation**

The financial statements of the company were consolidated with the accounts of its wholly owned subsidiary, Yantra Corporation (“Yantra”) during fiscal 1998. On October 20, 1998, the company’s voting control of Yantra declined to approximately 47%. Accordingly, the company has followed the equity method of accounting for Yantra in fiscal 1999. On June 14, 1999, Yantra sold Series C Convertible Preferred Stock amounting to US\$ 15 million to unrelated existing and new investors, reducing the company’s voting control to approximately 25%. In July 2000, Yantra sold Series D Convertible Preferred Stock amounting to \$ 40 million, to unrelated existing and new investors, further reducing the company’s voting control to approximately 16%.

The company owns 63% of the outstanding common shares of Yantra, but has no financial obligations or commitments to Yantra and does not intend to provide Yantra with financial support. Accordingly, the company recognized no losses of Yantra after October 20, 1998. The excess of the company’s previously recognized losses over the basis of its investments in Yantra as of October 20, 1998 were credited to retained earnings.

Yantra was incorporated in the United States in fiscal 1996 for the development of software products in the retail and distribution areas.

**1.4 Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the period. Examples of estimates include accounting for contract costs expected to be incurred to complete software development, allowance for uncollectible accounts receivable, future obligations under employee benefit plans and the useful lives of property, plant and equipment. Actual results could differ from those estimates.

**1.5 Revenue recognition**

The company derives its revenues primarily from software services and also from the licensing of software products. Revenue on time-and-material contracts is recognized as the related costs are incurred. Revenue from fixed-price, fixed-time frame contracts is recognized upon the achievement of specified milestones identified in the related contracts, as per the percentage-of-completion method. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. The company provides its clients with a fixed-period warranty for corrections of errors and telephone support on all its fixed-price, fixed-time frame contracts. Costs associated with the support services are accrued at the time related revenues are recorded.

Revenue from licensing of software products is recognized upon shipment of products and fulfillment of acceptance terms, if any, provided that no significant vendor obligations remain and the collection of the related receivable is probable. When the company receives advances for software products, such amounts are reported as client deposits until all conditions for revenue recognition are met. Maintenance revenue is deferred and recognized rateably over the term of the underlying maintenance agreement, generally 12 months. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed.

### 1.6 Cash and cash equivalents

The company considers all highly liquid investments with a remaining maturity at the date of purchase/ investment of three months or less to be cash equivalents. Cash and cash equivalents comprise cash, cash on deposit with banks, marketable securities and deposits with corporations.

### 1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

Buildings	15 years
Furniture and fixtures	5 years
Computer equipment	2-5 years
Plant and equipment	5 years
Vehicles	5 years

The cost of software purchased for use in software development and services is charged to the cost of revenues at the time of acquisition. The amount of third party software expensed in the nine months ended December 31, 2000 and December 31, 1999 and in fiscal 2000 was \$ 6,127,359, \$ 3,169,694 and \$ 3,816,840 respectively.

Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed as "Capital work-in-progress".

### 1.8 Impairment of long-lived assets

The company evaluates the recoverability of its long-lived assets and certain identifiable intangibles, if any, whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying value or the fair value less the cost to sell.

### 1.9 Research and development

Research and development costs are expensed as incurred. Software product development costs are expensed as incurred until technological feasibility is achieved. Software product development costs incurred subsequent to achieving technological feasibility are not significant and are expensed as incurred.

### 1.10 Foreign currency translation

The accompanying financial statements are reported in US dollars. The functional currency of the company is the Indian rupee ("Rs."). The translation of Rs. to US dollars is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date, and for revenue and expense accounts using a monthly average exchange rate for the respective periods. The gains or losses resulting from such translation are reported as "Other comprehensive income", a separate component of stockholders' equity. The method for translating expenses of overseas operations depends upon the funds used. If the payment is made from a rupee denominated bank account, the exchange rate prevailing on the date of the payment would apply. If the payment is made from a foreign currency, i.e., non-rupee denominated account, the translation into rupees is performed at the average monthly exchange rate.

### 1.11 Foreign currency transactions

The company enters into foreign exchange forward contracts to limit the effect of exchange rate changes on its foreign currency receivables. Gains and losses on these contracts are recognized as income or expense in the statements of income as incurred, over the life of the contract.

### 1.12 Earnings per share

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, *Earnings Per Share*, basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options and warrants, except where the result would be anti-dilutive.

### **1.13 Income taxes**

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred tax assets and liabilities is recognized as income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits of which future realization is uncertain.

### **1.14 Fair value of financial instruments**

The carrying amounts reflected in the balance sheets for cash, cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short maturities of these instruments.

### **1.15 Concentration of risk**

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash equivalents, trade accounts receivable and hedging instruments. By their nature, all such financial instruments involve risk including the credit risk of non-performance by counterparties. In management's opinion, as of December 31, 2000, December 31, 1999 and March 31, 2000, there was no significant risk of loss in the event of non-performance of the counterparties to these financial instruments. Exposure to credit risk is managed through credit approvals, establishing credit limits and monitoring procedures. The company's cash resources are invested with corporations, financial institutions and banks with high investment grade credit ratings. Limitations are established by the company as to the maximum amount of cash that may be invested with any such single entity.

### **1.16 Retirement benefits to employees**

#### **1.16.1 Gratuity**

In accordance with Indian law, the company provides for gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment of an amount based on the respective employee's salary and the years of employment with the company. The company established the Infosys Technologies Limited Employees' Group Gratuity Fund Trust (the "Gratuity Fund Trust") on April 1, 1997. Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, based upon which the company makes contributions to the Gratuity Fund Trust. Trustees administer the contributions made to the Gratuity Fund Trust. The funds contributed to the Gratuity Fund Trust are invested in specific securities as mandated by the law and generally consist of federal and state government bonds and the debt instruments of government-owned corporations.

#### **1.16.2 Superannuation**

Apart from being covered under the Gratuity Plan described above, the senior officers of the company are also participants in a defined contribution plan maintained by the company. The plan is termed the superannuation plan (the "plan") to which the company makes monthly contributions based on a specified percentage of each covered employee's salary. The company has no further obligations under the plan beyond its monthly contributions.

#### **1.16.3 Provident fund**

In addition to the above benefits, all employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and the company make monthly contributions to the plan, each equal to 12% of each covered employee's salary. The company established a provident fund trust in August 1996, to which a part of the contributions are made each month. The remainder of the contributions is made to the Government's provident fund. The company has no further obligations under provident fund beyond its monthly contributions.



### 1.17 Investments

Investments where the company controls between 20% and 50% of the voting interest are accounted for using the equity method. Investment securities in which the company controls less than 20% voting interest are currently classified as "Available-for-sale securities".

Investment securities designated as "available-for-sale" are carried at their fair value based on quoted market prices, with unrealized gains and losses, net of deferred income taxes, reported as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in the statements of income. The cost of securities sold is based on the specific identification method. Interest and dividend income is recognized when earned.

### 1.18 Stock-based compensation

The company uses the intrinsic value-based method of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, to account for its employee stock-based compensation plan. The company has therefore adopted the pro forma disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

### 1.19 Dividends

Dividends are recognized on actual payment.

### 1.20 Notes to financial statements

#### 1.20.1 Cash and cash equivalents

The cost and fair values for cash and cash equivalents as of December 31, 2000 and 1999 and March 31, 2000, respectively are as follows:

	As of December 31,		As of March 31,
	2000	1999	2000
Cost and fair values			
Cash and bank deposits	\$ 78,191,662	\$ 90,879,330	\$ 99,035,223
Deposits with corporations	32,700,046	15,910,428	17,564,263
	\$ 110,891,708	\$ 106,789,758	\$ 116,599,486

#### 1.20.2 Trade accounts receivable

Trade accounts receivable, as of December 31, 2000 and 1999 and March 31, 2000, net of allowance for doubtful accounts of \$ 3,084,311, \$ 783,495 and \$ 507,487, respectively amounted to \$ 65,102,262, \$ 31,814,100 and \$ 31,233,515, respectively. The age profile of trade accounts receivable is given below.

Period (in days)	As of December 31,		As of March 31,
	2000	1999	2000
0 – 30	48.3	51.3	64.7
31 – 60	37.1	30.7	31.8
61 – 90	10.2	9.1	1.8
More than 90	4.4	8.9	1.7
	100.0	100.0	100.0

Trade accounts receivable includes accounts receivable from Yantra amounting to \$ 401,749, \$ 231,888 and Nil as of December 31, 2000 and 1999 and March 31, 2000, respectively.

#### 1.20.3 Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	As of December 31,		As of March 31,
	2000	1999	2000
Prepaid expenses	\$ 4,497,879	\$ 2,692,995	\$ 3,602,334
Rent deposits	2,226,754	1,754,705	1,798,738
Deposits with government organizations	739,465	352,183	721,476
Loans to employees	6,490,374	3,845,537	5,114,253
Costs in excess of billings	281,573	-	-
Other advances	70,539	16,142	19,494
	\$ 14,306,584	\$ 8,661,562	\$ 11,256,295

Other advances represent advance payments to vendors for the supply of goods and rendering of services. Deposits with government organizations relate principally to leased telephone lines and electricity supplies.

Costs in excess of billings represent costs incurred on fixed price contracts in respect of which milestones are yet to be achieved.

#### 1.20.4 Property, plant and equipment – net

Property, plant and equipment consist of the following:

	As of December 31,		As of March 31,
	2000	1999	2000
Land	\$ 7,658,656	\$ 4,027,893	\$ 4,833,786
Buildings	27,668,822	9,171,521	13,509,409
Furniture and fixtures	15,744,158	6,489,863	9,156,208
Computer equipment	37,155,519	23,576,766	25,742,780
Plant and equipment	19,717,383	10,263,152	11,871,138
Vehicles	40,103	31,370	31,292
Capital work-in-progress	34,293,333	12,929,569	13,064,301
	142,277,974	66,490,134	78,208,914
Accumulated depreciation	(44,349,939)	(26,728,182)	(30,654,142)
	\$ 97,928,035	\$ 39,761,952	\$ 47,554,772

Depreciation expense amounted \$ 16,381,961, \$ 7,976,831 and \$ 12,268,169 for the nine months ended December 31, 2000 and December 31, 1999 and the year ended March 31, 2000, respectively.

#### 1.20.5 Investments

The amortized cost and fair values of available-for-sale securities by major investment type and class of investment are as follows:

	Amortized cost	Fair value
<b>As of December 31, 2000</b>		
M-Commerce Ventures Pte Ltd – 70 units, each unit representing 1 Ordinary Share of S\$ 1 each at par and 9 Redeemable Preference Shares of S\$ 1 each at par, with a premium of S\$ 1,110 per Redeemable Preference Share	\$ 399,485	\$ 399,485
Asia Net Media BVI Limited – 30,000,000 Ordinary Shares, par value \$ 0.01 each	1,500,000	1,500,000
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, par value \$ 0.0001 each	-	-
Alpha Thinx Mobile Services AG - 27,790 Bearer Shares, par value EUR 1 each	480,300	480,300
CiDRA Corporation – 33,333 Series D Convertible Preferred Stock, par value \$ 0.01 each	2,999,970	2,999,970
JASDIC Park Company – 480 Common Stock, par value ¥ 50,000 each	177,576	177,576
Purple Yogi Inc. – 276,243 Series D Convertible Preferred Stock, par value \$ 0.001 each	500,000	500,000
Others	362	362
	\$ 6,057,693	\$ 6,057,693
<b>As of December 31, 1999</b>		
JASDIC Park Company – 480 Common Stock, par value ¥ 50,000 each	\$ 177,576	\$ 177,576
Others	362	362
	\$ 177,938	\$ 177,938
<b>As of March 31, 2000</b>		
EC Cubed Inc. – 1,300,108 Series D Convertible Preferred Stock, par value \$ 0.0001 each	\$ 3,000,000	\$ 3,000,000
JASDIC Park Company – 480 Common Stock, par value ¥ 50,000 each	177,576	177,576
Others	362	362
	\$ 3,177,938	\$ 3,177,938

During the quarter ended December 31, 2000, EC Cubed Inc., one of the companies in which Infosys had made a strategic investment, filed for liquidation. Consequently, the Company made a provision for its entire investment in EC Cubed Inc. in the amount of \$ 3,000,000, as there was a diminution in the value of this investment that is considered other than temporary.

#### 1.20.6 Other assets

Other assets mainly represent the non-current portion of loans to employees.

#### 1.20.7 Related parties

The company grants loans to employees for acquiring assets such as property and cars. Such loans are repayable over fixed periods ranging from 1 to 100 months. The rates at which the loans have been made to employees vary between 0% to 4%. No loans have been made to employees in connection with equity issues. The loans are generally secured by the assets acquired by the employees. As of December 31, 2000

and 1999 and March 31, 2000, amounts receivable from officers amounting to \$ 152,234, \$ 382,632 and \$ 309,835, respectively are included in prepaid expenses and other current assets, and other assets in the accompanying balance sheets.

The required repayments of loans by employees are as detailed below.

	As of December 31,		As of March 31,
	2000	1999	2000
2000		\$ 3,845,537	-
2001	\$ 6,490,374	1,703,585	\$ 5,114,252
2002	2,332,307	1,283,160	1,887,808
2003	1,572,307	799,396	1,383,397
2004	929,801	668,118	861,752
2005	700,522	-	696,581
Thereafter	1,702,482	1,737,023	2,065,061
<b>Total</b>	<b>\$ 13,727,793</b>	<b>\$ 10,036,819</b>	<b>\$ 12,008,851</b>

The estimated fair values of related party receivables amounted to \$ 10,566,802, \$ 9,420,503 and \$ 8,959,996 as of December 31, 2000, December 31, 1999 and March 31, 2000, respectively. These amounts were determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop these estimates of fair value. Consequently, these estimates are not necessarily indicative of the amounts that the company could realize in the market.

### 1.20.8 Other accrued liabilities

Other accrued liabilities comprise the following:

	As of December 31,		As of March 31,
	2000	1999	2000
Accrued compensation to staff	\$ 10,600,704	\$ 4,230,913	\$ 7,747,965
Accrued dividends	150,053	373,662	65,872
Provision for post sales client support	1,581,636	1,244,062	1,265,849
Employee withholding taxes payable	-	-	1,530,832
Others	8,477,078	3,167,906	3,225,117
	<b>\$ 20,809,471</b>	<b>\$ 9,016,543</b>	<b>\$ 13,835,635</b>

### 1.20.9 Employee post retirement benefits

#### 1.20.9.1 Gratuity

The company recognized net costs in relation to the Gratuity Plan in the financial statements amounting to \$ 3,417,048, \$ 1,260,199 and \$ 4,474,274 for the nine months ended December 31, 2000 and December 31, 1999 and fiscal 2000 respectively.

#### 1.20.9.2 Superannuation

The company contributed \$ 598,970, \$ 169,696 and \$ 244,248 to the superannuation plan in the nine months ended December 31, 2000 and 1999 and fiscal 2000, respectively.

#### 1.20.9.3 Provident fund

The company contributed \$ 1,641,939, \$ 865,029 and \$ 1,198,772 to the provident fund in the nine months ended December 31, 2000 and 1999 and fiscal 2000, respectively.

### 1.20.10 Preferred stock of Yantra

In September 1997, Yantra, sold 5,000,000 shares of Series A Convertible Preferred Stock, par value \$ 0.01 per share ("Series A Convertible Preferred") at \$ 0.75 per share for \$ 3,750,000 in cash. The related offering costs of \$ 49,853 were offset against the proceeds of the issue. Of these, 2,000,000 shares were issued to the company and 3,000,000 shares were issued to third party investors. The preferred stock issued to the company was eliminated upon consolidation. Preferred stock issued to third party investors was reported in the balance sheet as preferred stock of subsidiary.

In August 1998, Yantra sold 4,800,000 shares of Series B Convertible Preferred Stock, par value \$ 0.01 per share ("Series B Convertible Preferred") at \$ 1.25 per share for \$ 6,000,000 in cash to venture capitalists. The related offering costs of \$ 44,416 were offset against the proceeds of the issue. In connection with this sale, Yantra issued warrants to purchase 810,811 shares of Series B-1 Convertible Preferred Stock, par value \$ 0.01 per share ("Series B-1 Convertible Preferred"), at \$ 0.01 per share for \$ 8,108 in cash. Such warrants are immediately exercisable and expire in seven years. The exercise price of the warrants is based upon the then current market price of the Series B-1 Convertible Preferred at the time of exercise.

Holders of Series A Convertible Preferred vote with holders of common stock on an as-converted basis, except as otherwise required by Delaware law. The Series A Convertible Preferred are convertible into common stock at a 1:1 ratio (subject to certain adjustments): (i) automatically in the event of an initial public offering with gross proceeds of \$ 10,000,000 or more; or (ii) at any time at the holder's option. The holders of Series A Convertible Preferred are entitled to a 6% cumulative dividend (\$ 0.045 per share) and to receive additional dividends at the same rate of dividends, if any, declared and paid on the common stock, calculated on an as-converted basis. Upon a liquidation or sale of Yantra, holders of the Series A Convertible Preferred are entitled to a liquidation preference of \$ 0.75 per share plus accrued and unpaid dividends; and any remaining assets will be distributed to holders of the common stock. The Series A Convertible Preferred is redeemable at the election of holders of 75% of the outstanding shares of Series A Convertible Preferred at any time after September 29, 2004 at a redemption price of \$ 0.75 per share plus accrued but unpaid dividends.

The holders of Series B and B-1 Convertible Preferred are entitled to similar rights, privileges and restrictions as that of Series A Convertible Preferred.

In October 1998, Infosys sold 1,363,637 shares of Series A Convertible Preferred in Yantra, having a cost basis of \$ 879,042 to a third party investor for \$ 1,500,000 thereby recognizing a gain of \$ 620,958 and reducing its voting interest in Yantra to approximately 47%. The company presently accounts for Yantra by the equity method. Deconsolidation of Yantra has resulted in a credit to the company's retained earnings of an amount of \$ 2,468,831 representing the excess of Yantra's losses previously recognized by the company, amounting to \$ 4,445,903, over the company's residual investment basis in Yantra amounting to \$ 1,977,072.

#### **1.20.11 Stockholders' equity**

The company has only one class of capital stock referred to herein as equity shares. In fiscal 1999, the board of directors authorized a two-for-one stock split of the company's equity shares effected in the form of a stock dividend. Also, in November 1999, the board of directors authorized a two-for-one stock split of the company's equity shares, whereby each issued and outstanding equity share, par value \$ 0.32 each, was split into two equity shares, par value \$ 0.16 each. All references in the financial statements to number of shares, per share amounts and market prices of the company's equity shares have been retroactively restated to reflect the stock splits.

#### **1.20.12 Equity shares**

##### **1.20.12.1 Voting**

Each holder of equity shares is entitled to one vote per share.

##### **1.20.12.2 Dividends**

Should the company declare and pay dividends, such dividends will be paid in Indian Rupees and pro rata from the date of holding such shares. The company paid cash dividends of \$ 9,274,887 during the nine months ended December 31, 2000.

Indian law mandates that any dividend be declared out of distributable profits only after the transfer of up to 10 percent of net income computed in accordance with current regulations to a general reserve. Also, the remittance of dividends outside India is governed by Indian law on foreign exchange. Such dividend payments are also subject to applicable taxes.

##### **1.20.12.3 Liquidation**

In the event of any liquidation of the company, the holders of common stock shall be entitled to receive all of the remaining assets of the company, after distribution of all preferential amounts, if any. Such amounts will be in proportion to the number of shares of equity shares held by the stockholders.

##### **1.20.12.4 Stock options**

There are no voting, dividend or liquidation rights to the holders of warrants issued under the company's stock option plan.

**1.20.13 Other income, net**

Other income, net, consists of the following:

	Nine months ended December 31,		Year ended
	2000	1999	March 31, 2000
Interest income and others	\$ 6,251,912	\$ 4,464,709	\$ 5,687,962
Income from sale of special import licenses	15,084	468,098	468,098
Exchange gains	4,525,426	2,120,112	2,882,732
Provision for investments	(3,000,000)	-	-
	\$ 7,792,422	\$ 7,052,919	\$ 9,038,792

**1.20.14 Operating leases**

The company has various operating leases for office buildings that are renewable on a periodic basis at its option. Rental expense for operating leases in the nine months ended December 31, 2000 and 1999 and in fiscal 2000 were \$ 738,059, \$ 1,704,656 and \$ 2,387,334, respectively. The operating leases are cancelable at the company's option.

The company leases some of its office space under several non-cancelable operating leases for periods ranging between three through ten years. The schedule of future minimum rental payments in respect of these leases is set out below.

Period ending December 31,	
2001	2,206,717
2002	2,154,366
2003	2,192,537
2004	1,987,536
2005	1,517,185
Thereafter	1,054,641
	11,112,982

**1.20.15 Research and development**

General and administrative expenses in the accompanying statements of income include research and development expenses of \$ 2,609,759, \$ 1,337,656 and \$ 1,904,123 for the nine months ended December 31, 2000 and 1999 and fiscal 2000, respectively.

**1.20.16 Employees' Stock Offer Plans ("ESOP")**

*1994 Employees Stock Offer Plan (the "1994 Plan"):* In September 1994, the company established the 1994 Plan which provided for the issuance of 6,000,000 warrants (as adjusted for the stock split effective June 1997, December 1998 and December 1999) to eligible employees. The warrants were issued to an employee welfare trust (the "Trust") at Rs. 1 each and were purchased by the Trust using the proceeds of a loan obtained from the company. The Trust holds the warrants and transfers them to eligible employees at Rs. 1 each. Each warrant entitles the holder to purchase one of the company's equity shares at a price of Rs. 100 per share. The warrants and the equity shares received upon the exercise of warrants are subject to a five-year aggregate vesting period from the date of issue of warrants to employees. The warrants expire upon the earlier of five years from the date of issue or September 1999. The fair market value of each warrant is the market price of the underlying equity shares on the date of the grant.

In 1997, in anticipation of a share dividend to be declared by the company, the Trust exercised all warrants held by it and converted them into equity shares with the proceeds of a loan obtained from the company. In connection with the warrant exercise and the share dividend, on an adjusted basis, 3,011,200 equity shares were issued to employees of the company who exercised stock purchase rights and 2,988,800 equity shares were issued to the Trust for future issuance to employees pursuant to the 1994 Plan. Following such exercise, there were no longer any rights to purchase equity shares from the company in connection with the 1994 Plan. Only equity shares held by the Trust remained for future issues to employees, subject to vesting provisions. The equity shares acquired upon the exercise of the warrants vests 100% upon the completion of five years of service. The warrant holders were entitled to exercise early, but the shares received are subject to the five-year vesting period. As of December 31, 2000, the company's outstanding equity shares included 558,800 equity shares held by the Trust of which 332,200 equity shares were allotted to employees, subject to vesting provisions and are included in the earnings per share calculation. The remaining 226,600 equity shares were not considered outstanding for purposes of calculating earnings per share. The warrants allotted and the underlying equity shares are not subject to any repurchase obligations by the company.

The company has elected to use the intrinsic value-based method of APB 25 to account for its employee stock-based compensation plan. Accordingly, for the nine months ended December 31, 2000, the Company recorded no deferred stock compensation and for the nine months ended December 31, 1999 and for fiscal 2000, the company recorded deferred stock compensation of \$ 1,029,649 and \$ 1,029,649, respectively for the difference, on the grant date, between the exercise price and the fair value as determined by quoted market prices of the common stock underlying the warrants. The deferred stock compensation is amortized on a straight-line basis over the vesting period of the warrants/equity shares.

In fiscal 1999, the company declared a stock split of two equity shares for each equity share outstanding to all its stockholders including participants in the 1994 Plan in the form of a stock dividend and consequently recognized an accelerated compensation charge at the time of the stock dividend amounting to \$ 12,906,962.

*1998 Employees Stock Offer Plan (the "1998 Plan").* The company's 1998 Plan provides for the grant of non-statutory stock options and incentive stock options to employees of the company. The establishment of the 1998 Plan was approved by the board of directors in December 1997 and by the stockholders in January 1998. The Government of India has approved the 1998 Plan, subject to a limit of 1,470,000 equity shares representing 2,940,000 American Depositary Shares ("ADS") to be issued under the 1998 Plan. Unless terminated sooner, the 1998 Plan will terminate automatically in January 2008. All options under the 1998 Plan will be exercisable for equity shares represented by American Depositary Shares (ADSs). The board of directors or a committee of the board may administer the 1998 Plan. All options under the 1998 Plan are exercisable for equity shares represented by ADSs.

*1999 Stock Offer Plan (the "1999 Plan").* In fiscal 2000, the company instituted the 1999 Plan. The stockholders and the Board of Directors approved the 1999 Plan in June 1999. The 1999 Plan provides for the issue of 6,600,000 equity shares to employees. The 1999 Plan is administered by a Compensation Committee comprising a maximum of seven members, the majority of whom are independent directors on the Board of Directors. Under the 1999 Plan, options will be issued to employees at an exercise price, which shall not be less than the Fair Market Value ("FMV"). Under the 1999 Plan, options may also be issued to employees at exercise prices that are less than FMV only if specifically approved by the members of the company in a general meeting.

The activity in the warrants/equity shares of the 1994, 1998 and 1999 Employees Stock Offer Plans in the nine months ended December 31, 2000 and 1999 and in fiscal 2000 is set out below.

	Nine months ended December 31, 2000		Nine months ended December 31, 1999		Year ended March 31, 2000	
	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price	Shares arising out of options	Weighted average exercise price
<b>1994 Option plan:</b>						
Outstanding at the beginning of the period	341,400		328,000		328,000	
Granted	-	-	30,000	\$ 1.16	30,000	\$ 1.15
Forfeited	(8,400)	1.15	(12,800)	\$ 1.16	(16,600)	\$ 1.15
Exercised	(800)	1.15	-	-	-	-
Outstanding at the end of the period	332,200		345,200		341,400	
Exercisable at the end of the period	332,200		345,200		341,400	
Weighted-average fair value of grants during the period at less than market	=			\$ 35.48		\$ 35.48
<b>1998 Option plan:</b>						
Outstanding at the beginning of the period	344,750		213,000		213,000	
Granted	156,400	\$ 304.03	116,000	\$ 179.00	147,150	\$ 228.60
Forfeited	(27,450)	\$ 132.55	(3,500)	\$ 34.00	(3,500)	\$ 34.00
Exercised	(1,367)	\$ 97.64	-	-	(11,900)	\$ 34.00
Outstanding at the end of the period	472,333		325,500		344,750	
Exercisable at the end of the period	472,333		325,500		344,750	
Weighted-average fair value of grants during the period		\$ 304.03		-		\$ 228.60
<b>1999 Option plan:</b>						
Outstanding at the beginning of the period	1,006,800		-		-	
Granted	1,132,300	\$ 146.50	953,200	\$ 94.03	1,014,500	\$ 99.12
Forfeited	(126,600)	\$ 108.52	-	-	(7,700)	\$ 127.98
Exercised	(500)	\$ 93.67	-	-	-	-
Outstanding at the end of the period	2,012,000		953,200		1,006,800	
Exercisable at the end of the period	2,012,000		953,200		1,006,800	
Weighted-average fair value of grants during the period		\$ 146.50		\$ 94.03		\$ 99.12

**1.20.16 Employees' Stock Offer Plans (continued)**

The following table summarizes information about stock options outstanding as of December 31, 2000:

Range of exercise prices	Outstanding			Exercisable	
	Number of shares arising out of options	Weighted average remaining contractual life	Weighted average exercise price	Number of shares arising out of options	Weighted average exercise price
\$ 1.15 - \$ 304.03	2,816,533	2.16 years	\$ 155.77	2,816,533	\$ 155.77

**1.20.17 Income taxes**

The provision for income taxes comprises:

	Nine months ended December 31,		Year ended
	2000	1999	March 31, 2000
Current taxes			
Domestic taxes	\$ 3,168,478	\$ 1,844,357	\$ 2,505,952
Foreign taxes	7,997,888	4,447,350	6,538,256
	11,166,366	6,291,707	9,044,208
Deferred taxes			
Domestic taxes	(200,000)	(72,805)	(850,891)
Foreign taxes	-	-	-
	(200,000)	(72,805)	(850,891)
Aggregate taxes	\$ 10,966,366	\$ 6,218,902	\$ 8,193,317

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the financial statement items that created these differences are as follows:

	Nine months ended December 31,		Year ended
	2000	1999	March 31, 2000
Deferred tax assets:			
Property, plant and equipment	\$ 3,400,637	\$ 2,238,180	\$ 2,480,883
Others	2,342,460	-	195,383
	5,473,097	2,238,180	2,676,266
Less: Valuation allowance	(2,976,831)	(450,000)	(110,000)
Net deferred tax assets	\$ 2,766,266	\$ 1,788,180	\$ 2,566,266

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not the company will realize the benefits of those deductible differences, net of the existing valuation differences at December 31, 2000. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

All deferred tax expenses (benefits) are allocated to the continuing operations of the company.



**1.20.17 Income taxes (continued)**

A reconciliation of the income tax provision to the amount computed by applying the statutory income tax rate to the income before provision for income taxes is summarized below.

	Nine months ended December 31,		Year ended
	2000	1999	March 31, 2000
Net income before taxes	\$ 104,586,760	\$ 49,667,220	\$ 69,537,845
Enacted tax rates in India	38.5%	38.5%	38.5%
Computed expected tax expense	40,265,903	19,121,880	26,772,070
Less: Tax effect due to non-taxable			
export income	(39,749,830)	(18,905,103)	(24,019,942)
Others	2,145,637	(235,820)	(1,121,972)
Effect of tax rate change	-	1,738,353	(29,771)
Effect of prior period tax adjustments	306,768	52,242	54,676
Provision for domestic income taxes	2,968,478	1,771,552	1,655,061
Effect of tax on foreign income	7,997,888	4,447,350	6,538,256
Aggregate taxes	\$ 10,966,366	\$ 6,218,902	\$ 8,193,317

The provision for foreign taxes is due to income taxes payable overseas, principally in the United States. The company benefits from certain significant tax incentives provided to software firms under Indian tax laws. These incentives presently include: (i) an exemption from payment of Indian corporate income taxes for a period of ten consecutive years of operation of software development facilities designated as "Software Technology Parks" (the "STP Tax Holiday"); and (ii) a tax deduction for profits derived from exporting computer software (the "Export Deduction"). All but one of the company's software development facilities are located in a designated Software Technology Park ("STP"). The Government of India has recently amended the tax incentives available to companies set up in designated STPs. The period of the STP tax holiday available to such companies is restricted to 10 consecutive years beginning from the financial year when the unit started producing computer software or March 31, 2000, whichever is earlier. Additionally, the export deduction will be phased out equally over a period of five years starting from fiscal 2001. The benefits of these tax incentive programs have historically resulted in an effective tax rate for the company well below statutory rates.

**1.20.18 Earnings per share**

A reconciliation of the equity shares used in the computation of basic and diluted earnings per equity share is set out below.

	Nine months ended December 31,		Year ended March 31
	2000	1999	2000
Basic earnings per equity share – weighted average number of common shares outstanding excluding unallocated shares of ESOP	65,625,556	65,667,845	65,659,625
Effect of dilutive common equivalent shares – stock options outstanding	1,252,206	25,028	204,365
Diluted earnings per equity share – weighted average number of common shares and common equivalent shares outstanding	66,877,762	65,692,873	65,863,990

**1.20.19 Lines of credit**

The company has a line of credit from its bankers for its working capital requirement of \$ 1,071,000 bearing interest at prime lending rates as applicable from time to time. The prime lending rate of interest as of December 31, 2000 was 15.8%. This line of credit is secured by inventories and accounts receivable. The line of credit contains certain financial covenants and restrictions on indebtedness and is renewable every 12 months. As of December 31, 2000, the company had no outstanding balance under this facility.

**1.20.20 Financial instruments****Foreign exchange forward contracts**

The company enters into foreign exchange forward contracts to offset the foreign currency risk arising from the accounts receivable denominated in currencies other than the Indian rupee, primarily the US dollar. The counter party to the company's foreign currency forward contracts is generally a bank. Management believes that the risks or economic consequences of non-performance by the counter party are not material to its financial position or results of operations. There were no significant foreign exchange gains and losses on foreign exchange forward contracts during the nine months ended December 31, 2000 and 1999 and

fiscal 2000. There were no open foreign exchange forward contracts as of December 31, 2000, December 31, 1999 and March 31, 2000, respectively.

## 1.20.21 Segment reporting

### 1.20.21.1 Revenue by geographic area

	Nine months ended December 31,		Year ended March 31, 2000
	2000	1999	
North America	\$ 217,779,566	\$ 109,421,935	\$ 158,723,649
Europe	53,168,697	20,077,366	30,064,939
India	3,756,654	1,576,174	2,912,091
Rest of the world	18,403,332	8,753,164	11,743,075
	\$ 293,108,249	\$ 139,828,639	\$ 203,443,754

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information requires that an enterprise report a measure of profit or loss and total assets for each reportable segment. Certain expenses such as personnel costs, communication, depreciation on plant and machinery, etc., which form a significant component of total expenses, are not specifically allocable to these geographic segments as the underlying services are used interchangeably between reportable segments. Management believes that it is not practical to provide segment disclosures relating to segment costs and expenses, and consequently segment profits or losses, since a realistic allocation cannot be made. The fixed assets used in the company's business are not identifiable to any particular reportable segment and can be used interchangeably among segments. Consequently, management believes that it is not practical to provide segment disclosures relating to total assets since a realistic analysis among the various geographic segments is not possible.

### 1.20.21.2 Significant clients

No client accounted for more than 10 percent of the revenues in the nine months ended December 31, 2000 and 1999 and fiscal 2000, respectively.

## 1.20.22 Commitments and contingencies

The company has outstanding performance guarantees for various statutory purposes totaling \$ 26,270,388, \$ 365,239 and \$ 1,207,110 as of December 31, 2000, December 31, 1999 and March 31, 2000, respectively. These guarantees are generally provided to governmental agencies.

## 1.20.23 Litigation

The company is subject to legal proceedings and claims, which have arisen, in the ordinary course of its business. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect on the results of operations or the financial position of the company.

## 1.20.24 Non-monetary transaction

During the nine months ended December 31, 2000, the company transferred certain Intellectual Property Rights ("IPR") that it had developed and owned in a product called Onscan to Onscan Inc. Onscan is a comprehensive web-enabled wireless notification product. In exchange for the transfer, the company received consideration in the form of securities including 100,000 Common Stock, par value \$ 0.001 each, 100,000 Series A Voting Convertible Preferred Stock, par value \$ 0.001 each and 4,400,000 Series A Nonvoting Convertible Preferred Stock, par value \$ 0.001 each. Convertible Preferred Stock is convertible into Common Stock automatically upon the closing of an Initial Public Offering by Onscan Inc.

As of December 31, 2000, the company's controlling interest in Onscan Inc. was approximately 12%. The transfer was recorded at historic cost and, accordingly, no gain was recognized on this transaction as of the date of transfer of the IPR.

## 1.20.25 Recent accounting pronouncements

In June 1998, SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, was issued which will be effective for fiscal year 2001. This statement was amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, in June 2000 to further clarify SFAS No. 133. These statements establish accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. These statements also require that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. SFAS 133 and SFAS 138 are not anticipated to have a significant impact on the company's financial position or results of operations when adopted, since the company currently does not engage in hedging activities.