SATYAM COMPUTER SERVICES LTD
Form 6-K
January 27, 2006

Table of Contents

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 December 31, 2005
Commission File Number 001-15190
Satyam Computer Services Limited
(Exact name of Registrant as specified in its charter)
Not Applicable
(Translation of 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, Andhra Pradesh
India
(91) 40-5523-3505
(Address of principal executive offices)

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

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): Yes o No þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): Yes o No þ

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 þ

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

TABLE OF CONTENTS

Table of Contents

Currency of Presentation and Certain Defined Terms

Unless otherwise stated in this Quarterly Report or unless the context otherwise requires, references herein to we, our, us, Satyam and our company are to Satyam Computer Services Limited and our consolidated subsidiari

In this Quarterly Report, references to US , Dollars 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. References to $, Dollars or U.S. dolla are to the legal currency of the United States, and references to Rs., rupees or 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 December 31, 2005 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on December 31, 2005 was Rs. 44.95 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.

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Please see Exhibit 99.6 under Item 6 of this Form 6-K for our unaudited U.S. GAAP Consolidated Financial Statements for the nine months ended December 31, 2005.

Item 2. Operating and financial review and prospects

We are a global IT solutions provider, offering a comprehensive range of IT services to our customers, including application development and maintenance services, consulting and enterprise business solutions extended engineering solutions, infrastructure management services. We also offer BPO services through our wholly-owned subsidiary, Nipuna. We are currently the fourth largest Indian IT software and services company, based on the amount of export revenues generated during our fiscal year ended March 31, 2005. Our total revenues for fiscal 2005 were $793.6 million and over the past three fiscal years our revenues have grown at a compound annual growth rate of 24.2%.

On May 12, 2005, we acquired a 75% interest in Citisoft Plc or Citisoft, a specialist business and systems consulting firm that has focused on the investment management industry since 1986. Citisoft is a UK-based firm, with operating presences in London, Boston and New York. The operating results of Citisoft are evaluated by the management under IT services segment.

In May 2005, we completed a sponsored ADS offering of 15,000,000 ADSs representing 30,000,000 equity shares including the green-shoe option. The issue was priced at $21.5 per ADS. The net proceeds after expenses of the offering were returned to all the selling shareholders. We did not receive any proceeds of the offering.

On July 21, 2005, we announced our intention to acquire 100% of the shares of Knowledge Dynamics, a leading Data Warehousing and Business Intelligence Solutions provider. The transaction was consummated on October 1, 2005, the date of transfer of shares to Satyam Computer Services. Knowledge Dynamics has been consolidated by us from October 1, 2005. The acquisition has been accounted for by following the purchase method of accounting. The consideration for this acquisition amounted to $3.3 million comprising of initial consideration of $1.8 million including direct acquisition costs of $11 thousand and deferred consideration of $1.5 million. We are also required to pay earn out consideration on April 30, 2006, 2007 and 2008 based on the achievement of targeted revenues and profits. The maximum consideration payable by us towards earn out consideration will amount to $2.2 million. The purchase consideration has been allocated to the assets acquired and liabilities assumed as of the date of acquisition, on a preliminary basis based on management s estimates. The finalization of the purchase price allocation, which is expected to be completed within one year from the date of the acquisition, may result in certain adjustments to the purchase price allocation. The preliminary allocation of the purchase price resulted in goodwill of $2.8 million. The goodwill has been allocated to the IT services segment

On November 7, 2005, we offered to sell an aggregate of 11,182,600 equity shares, representing our entire investment of 31.6% of the outstanding equity shares of Sify. The sale transaction was consummated on November 9, 2005 at a sale price of US$5.60 per equity share aggregating to US$62.6 million. We accounted for our share of equity in earnings/(losses) of Sify under the equity method of accounting up to November 9, 2005. The excess of sale proceeds (net of transaction costs) over the carrying value of investment in Sify as on the date of sale amounting to US$43.6 million has been recognized as gain in the statement of income during the nine months ended December 31, 2005.

We believe customers are increasingly demanding full-service IT providers that have expertise in both existing systems and new technologies, access to a large pool of highly-skilled technical personnel and the ability to service customers globally at competitive rates. To meet these requirements, we offer our customers an integrated global delivery model, which we refer to as the Right Sourcing Model, to provide flexible delivery alternatives to our customers through our offshore centers located in India, offsite centers which we have established in our major markets, nearshore centers located geographically near our customers premises and through our onsite teams

Table of Contents

operating at our customers premises. In addition, we use the expertise resident in our focused industry groups to provide specialized services and solutions to our customers in the manufacturing, banking and financial services, insurance, TIMES (telecommunications, infrastructure, media, entertainment and semiconductors), healthcare, retail and transportation industries.

Our revenues and profitability have grown rapidly in recent years. Our total revenues increased by 39.9% to $795.7 million during the nine months ended December 31, 2005, as compared to $568.6 million during the nine months ended December 31, 2004. Our net income grew to $186.9 million during the nine months ended December 31, 2005 from $108.0 million during the nine months ended December 31, 2004. Our revenue and profitability growth is attributable to a number of factors including the expansion of our business, increase in the volume of projects completed for our widening customer base, increase in our employee or associate numbers, increased growth in our consulting and enterprise business solutions and a strengthening of our customer base in North America and Europe. Our net income of $186.9 million during the nine months ended December 31, 2005 includes gain on sale of investments in Sify amounting to $43.6 million.In the nine months ended December 31, 2005 and fiscal 2005, our five largest customers accounted for 24.6% and 29.2% respectively of our total revenues. As of December 31, 2005, we had 25,191 associates (including associates of Nipuna) worldwide as compared to 20,690 associates as of March 31, 2005. With our continuing geographical expansion we now have offshore facilities in India and overseas facilities located in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States. We also have sales and marketing offices located in Canada, Germany, Italy, the Netherlands, Spain, Sweden, United Kingdom and United States and sales and marketing offices in the rest of the world.

Our management evaluates our operating results primarily based on two business segments: IT services and BPO. Each of these segments is discussed below.

IT services: We provide a comprehensive range of IT services, including application development and maintenance, consulting and enterprise business solutions, extended engineering solutions, and infrastructure management services. We seek to be the single service provider capable of servicing all of our customers IT requirements. Our consulting and enterprise business solutions includes services in the area of enterprise resource planning, customer relationship management and supply chain management, data warehousing and business intelligence, knowledge management, document management and enterprise application integration. We also assist our customers in making their existing computing systems accessible over the Internet.

BPO: We provide outsourced BPO services in areas such as human resources, finance and accounting, customer care (such as voice, email and chat) besides also providing industry-specific transaction processing services. We target our BPO services at the insurance, healthcare, banking and financial services, transportation, tourism, manufacturing, automotive, telecommunications, media, utilities and retail industries. Revenues from this business segment currently do not constitute a significant proportion of our total revenues; however, we anticipate that this proportion will increase over time. Our BPO services are offered through our majority-owned subsidiary, Nipuna. As part of the investor rights and securities subscription agreements which we have entered into with Nipuna s two other investors, we have agreed not to compete with Nipuna. Pursuant to these agreements, we and our affiliates are restricted from engaging in activities that are or could directly or indirectly be competitive with the business of Nipuna. Such activities include among others providing BPO, soliciting existing or prospective customers of Nipuna to obtain the services offered by Nipuna from other service providers and investing in companies engaged in the same or similar business as Nipuna. These non-compete restrictions apply until the investors redeem all of their preference shares in Nipuna or their equity interest in Nipuna falls below 5% after an initial public offering.

Table of Contents

Revenues

We generate revenues through fees for professional services rendered in our two segments, namely, IT services and BPO services.

The following table sets forth the total revenues (excluding inter-segment sales) for our business segments for the three months and nine months ended December 31, 2005 and 2004:

	Three months ended December 31,				Nine months ended December 31,			
	2005		2004		2005		2004	
	(in millions, except percentages)							
Segment	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
IT services	$ 278.7	98.9%	$ 202.7	99.0%	$ 787.9	99.0	$ 563.9	99.2%
BPO	3.1	1.1	2.0	1.0	7.8	1.0	4.7	0.8
Total	**$ 281.8**	**100.0%**	**$ 204.7**	**100.0%**	**$ 795.7**	**100.0%**	**$ 568.6**	**100.0%**

We discuss below the components of our IT services revenues by technology type, contract type, offshore or onshore designation, top customers and customer geography:

Revenues by technology

The vast majority of our revenues are generated from our various IT service offerings. The following table presents our IT services revenues (excluding inter-segment revenues) by type of service offering for the periods indicated:

	Three months ended December 31,				Nine months ended December 31,			
	2005		2004		2005		2004	
	(in millions, except percentages)							
Technology type	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Application development and maintenance services	$ 138.0	49.5%	$ 108.8	53.7%	$ 393.7	50.0%	$ 310.3	55.0%
Consulting and enterprise business solutions	112.2	40.3	70.7	34.9	311.9	39.6	191.6	34.0
Extended engineering solutions	17.4	6.2	14.9	7.4	51.3	6.5	38.8	6.9
Infrastructure management services	11.1	4.0	8.3	4.0	31.0	3.9	23.2	4.1
Total	**$ 278.7**	**100.0%**	**$ 202.7**	**100.0%**	**$ 787.9**	**100.0%**	**$ 563.9**	**100.0%**

Revenues by contract type

Our IT services are provided on a time-and-material basis or on a fixed-price basis. Revenues from IT services provided on a time-and-material basis are recognized in the period that the services are performed. Revenues from IT services provided on a fixed-price basis are recognized under the percentage of completion method of accounting and are recorded when we can reasonably estimate the time period to complete the work. The percentage of completion estimates are subject to periodic revisions and the cumulative impact of any revision in the estimates of the percentage of completion is reflected in the period in which the changes become known to us. Although we have revised our project completion estimates from time to time, such revisions have not materially affected our reported revenues to date. In recent years, we have experienced some pricing pressure from our customers, which has had a negative impact on margins. In response to current market trends, we are considering the viability of introducing performance-based or variable-pricing contracts.

The following table presents our IT services revenues (excluding inter-segment revenues) by type of contract for the periods indicated:

	Three months ended December 31,				Nine months ended December 31,			
	2005		2004		2005		2004	
	(in millions, except percentages)							
Contract type	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Time and material basis	$ 182.5	65.5%	$ 132.1	65.2%	$ 506.8	64.3%	$ 375.6	66.6%
Fixed-price basis	96.2	34.5	70.6	34.8	281.1	35.7	188.3	33.4
Total	**$ 278.7**	**100.0%**	**$ 202.7**	**100.0%**	**$ 787.9**	**100.0%**	**$ 563.9**	**100.0%**

5

Table of Contents

Revenues based on offshore and onsite/offsite

We provide IT services through a combination of (i) offshore centers located throughout India, (ii) teams working onsite at a customer s location, (iii) nearshore centers located in Canada, China and Hungary to service U.S.-based, Asia Pacific based and Europe based customers, respectively, and (iv) offsite centers located in Australia, Canada, China, Hungary, Japan, Malaysia, Singapore, United Arab Emirates, United Kingdom and United States. Offshore IT services revenues consist of revenues earned both from IT services work conducted at our offshore centers in India as well as onsite work conducted at customers premises which is related to offshore work. Offshore IT services revenues do not include revenues from our offsite or nearshore centers located outside of India or revenues from onsite work which is not related to any offshore work. These later revenues are included in onsite/offsite revenues.

We generally charge higher rates and incur higher compensation expenses for work performed by our onsite teams at our customer s premises or at our offsite and nearshore centers, as compared to work performed at our offshore centers in India. Services performed by our onsite teams or at our offsite centers typically generate higher revenues per capita, but at a lower gross margin, than the same amount of services performed at our offshore centers in India.

The following table presents our IT services revenues (excluding inter-segment revenues) based on the location where services are performed for the periods indicated:

	Three months ended December 31,				**Nine months ended December 31,**			
	2005		**2004**		**2005**		**2004**	
	(in millions, except percentages)							
Location	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Offshore	$ 127.8	45.9%	$ 82.9	40.9%	$ 355.6	45.1%	$ 229.9	40.8%
Onsite /Offsite	150.9	54.1	119.8	59.1	432.3	54.9	334.0	59.2
Total	**$ 278.7**	**100.0%**	**$ 202.7**	**100.0%**	**$ 787.9**	**100.0%**	**$ 563.9**	**100.0%**

The onsite revenues increased during the three months and nine months ended December 31, 2005 as a result of new engagements in consulting and enterprise business solutions and the need for extensive interactions with customers in the early stages of new engagements to understand their business needs and create the relevant processes before we move the appropriate portion of the work offshore.

Revenues by top customers

Our top two customers accounted for 14.3% of our IT services revenues during the nine months ended December 31, 2005, as compared to 19.2% of IT services revenues during the nine months ended December 31, 2004. Our top five customers accounted for 24.8% of IT services revenues during the nine months ended December 31, 2005 as compared to 30.4% of IT services revenues during the nine months ended December 31, 2004.

Revenues based on customer location

We have experienced increasing volumes of business from customers located in North America and Europe, attributable to both new customers and additional business from existing customers. We expect that most of our revenues will be generated in North America followed by Europe in fiscal 2006.

6

Table of Contents

The following table gives the composition of our IT services revenues (excluding inter-segment revenues) based on the location of our customers for the periods indicated:

	Three months ended December 31,				Nine months ended December 31,			
	2005		2004		2005		2004	
	(in millions, except percentages)							
Geographic location	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
North America	$ 175.1	62.8%	$ 136.5	67.3%	$ 513.3	65.1%	$ 388.3	68.9%
Europe	54.9	19.7	36.3	17.9	148.3	18.8	92.7	16.4
Japan	3.5	1.3	2.2	1.1	10.1	1.3	8.5	1.5
India	13.2	4.7	7.1	3.5	32.2	4.1	18.7	3.3
Rest of the world	32.0	11.5	20.6	10.2	84.0	10.7	55.7	9.9
Total	**$ 278.7**	**100.0%**	**$ 202.7**	**100.0%**	**$ 787.9**	**100.0%**	**$ 563.9**	**100.0%**

Expenses

Cost of revenues

Our cost of revenues consists primarily of salary and other compensation and benefits, stock-based compensation expense, depreciation, data communication expenses, computer maintenance, cost of software, sub-contracting charges, expenses relating to the opening of new onsite, offsite, nearshore and offshore centers, and foreign travel expenses.

The principal component of our cost of revenues is the wage cost of our technical associates. Wage cost in India, including in the IT services industry, have historically been significantly lower than wage cost in the United States and Europe for comparably skilled professionals. However, as wages in India increase at a faster rate than in the United States, we may experience increase in our costs of personnel, particularly project managers and other mid-level professionals.

The utilization levels of our technical associates also affect our revenue and gross profits. We calculate utilization levels on a monthly basis, based on the ratio of the actual number of hours billed by technical associates in such month to the total number of billable hours. For purposes of such calculation, we assume that an associate is 100.0% utilized if he or she works 157 hours per month. We manage utilization by monitoring project requirements and timetables. The number of associates assigned to a project will vary according to size, complexity, duration, and demands of the project. Associate utilization levels for IT services were 84.8% and 82.9% during the nine months ended December 31, 2005 and 2004, respectively. The utilization levels for our technical associates have been increasing in recent periods, mainly on account of new business and an increase in business from existing customers, and we expect this trend to continue in the near future.

Selling, general and administrative expenses

Selling, general and administrative expenses generally include the compensation costs of sales, management and administrative personnel, travel costs, advertising, business promotion, depreciation on assets, application software costs, rent, repairs, electricity and other general expenses not attributable to the cost of revenues.

Subsidiaries

As of December 31, 2005, we have four wholly-owned subsidiaries, Nipuna Services Ltd., or Nipuna, Satyam Technologies Inc., or STI, Satyam Computer Services (Shanghai) Company Limited, or Satyam Shanghai, Knowledge Dynamics Pte Ltd, or Knowledge Dynamics and one majority-owned subsidiary, Citisoft Plc, or Citisoft. These five subsidiaries have been consolidated in our consolidated financial statements as of December 31, 2005. The results of Citisoft s operations have been consolidated by Satyam Computer Services from the acquisition date of May 12, 2005 and the results of Knowledge Dynamics Pte Ltd have been consolidated by Satyam Computer Services from the acquisition date of October 1, 2005.

Table of Contents

Citisoft

On May 12, 2005, we acquired a 75% interest in Citisoft Plc or Citisoft, a specialist business and systems consulting firm located in the United Kingdom that has focused on the investment management industry since 1986. The results of Citisoft s operations have been consolidated by us from the consummation date of May 12, 2005. The acquisition has been accounted for by following the purchase method of accounting.

The consideration for the 75% equity interest in Citisoft amounted to $14.3 million including direct acquisition costs of $906 thousand. We are also required to pay a deferred consideration and earn out consideration on April 30, 2006 based on continuing employment and achievement of targeted revenues and profits. We are also required to fund an Employee Benefit Trust (EBT) formed by Citisoft and funding is contingent on Citisoft achieving certain revenue and profit performance targets. We have a call option and the minority shareholders have a put option to acquire / sell the balance 25% equity shares in two tranches 12.5% on April 30, 2007 and 12.5% on April 30, 2008. The consideration payable by us for the balance 25% equity shares would also comprise of a deferred consideration and earn out consideration. The maximum consideration payable by us towards deferred consideration and earn out consideration will amount to $ 20.4 million.

The purchase consideration has been allocated to the assets acquired and liabilities assumed as of the date of acquisition, on a preliminary basis based on management s estimates. The finalization of the purchase price allocation, which is expected to be completed within one year from the date of the acquisition, may result in certain adjustments to the purchase price allocation. The preliminary allocation of the purchase price resulted in goodwill of $6.6 million and $5.2 million of intangible assets, which are subject to amortization. The goodwill has been allocated to the IT services segment.

Knowledge Dynamics

On July 21, 2005, we announced our intention to acquire 100% of the shares of Knowledge Dynamics, a leading Data Warehousing and Business Intelligence Solutions provider. The transaction was consummated on October 1, 2005, the date of transfer of shares to Satyam Computer Services. Knowledge Dynamics has been consolidated by us from October 1, 2005. The acquisition has been accounted for by following the purchase method of accounting.

The consideration for this acquisition amounted to $3.3 million comprising of initial consideration of $1.8 million including direct acquisition costs of $11 thousand and deferred consideration of $1.5 million. We are also required to pay earn out consideration on April 30, 2006, 2007 and 2008 based on the achievement of targeted revenues and profits. The maximum consideration payable by us towards earn out consideration will amount to $2.2 million.

The purchase consideration has been allocated to the assets acquired and liabilities assumed as of the date of acquisition, on a preliminary basis based on management s estimates. The finalization of the purchase price allocation, which is expected to be completed within one year from the date of the acquisition, may result in certain adjustments to the purchase price allocation. The preliminary allocation of the purchase price resulted in goodwill of $2.8 million. The goodwill has been allocated to the IT services segment.

Associate Sify

In addition to our subsidiaries, as of September 30, 2005, we owned 31.6% of the equity shares of Sify. On November 7, 2005, we offered to sell an aggregate of 11,182,600 equity shares, representing our entire investment of 31.6% of the outstanding equity shares of Sify. The sale transaction was consummated on November 9, 2005 at a sale price of US$5.60 per equity share aggregating to US$62.6 million.

We accounted for our share of equity in earnings/(losses) of Sify under the equity method of accounting upto November 9, 2005. The excess of sale proceeds (net of transaction costs) over the carrying value of investment in Sify as on the date of sale amounting to US$43.6 million has been recognized as gain in the statement of income during the nine months ended December 31, 2005.

Table of Contents

Income Taxes

The statutory corporate income tax rate in India is currently 30.0%. This tax rate is presently subject to a 10% surcharge. The amount of tax and surcharge payable is further subject to a 2.0% education cess, resulting in an effective tax rate of 33.66%. The provision for foreign taxes is due to income taxes payable in overseas tax jurisdictions by our offsite, nearshore and onsite centers, principally in the United States. We benefit from tax incentives provided to software entities as an exemption from payment of Indian corporate income taxes until the earlier of fiscal 2009 or 10 consecutive years of operations of software development facilities designated as Software Technology Parks, or STP units. The benefits of this tax incentive have historically resulted in our effective tax rate being well below statutory rates. The exemption for our STP units is expected to expire between fiscal 2006 and fiscal 2010. Exemption for two of our STP units in Hyderabad expired during the nine months ended December 31, 2005. We also earn certain other foreign income and domestic income, which are taxable irrespective of the tax holiday as stated above.

Our subsidiaries are subject to income taxes of the countries in which they operate. Our subsidiaries operating loss carried forward for tax purposes amounted to approximately $23.3 million as of December 31, 2005, which is available as an offset against future taxable income of such entities These carried forward amounts expire at various dates primarily over eight to twenty years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the loss carried forward. A valuation allowance is established attributable to deferred tax assets and losses carried forward in subsidiaries where, based on available evidence, it is more likely than not that they will not be realized. Currently, a full valuation allowance has been made for such losses.

Table of Contents

Results of Operations

The following table sets forth operating data in dollars and as a percentage of revenues for the periods indicated:

	Three months ended December 31,				Nine months ended December 31,			
	2005		2004		2005		2004	
Statement of Operations data:	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(dollars in thousands)							
Revenues:								
IT services	$ 278,863	98.9%	$ 203,008	99.2%	$ 788,313	99.0%	$ 564,569	99.3%
BPO	4,869	1.7	2,759	1.3	12,373	1.6	6,714	1.2
Inter segment	(1,888)	(0.6)	(1,088)	(0.5)	(4,951)	(0.6)	(2,688)	(0.5)
Total revenues	281,844	100.0%	204,679	100.0%	795,735	100.0%	568,595	100.0%
Cost of revenues: (1)								
IT services	(174,132)	(61.8)	(132,912)	(64.9)	(499,068)	(62.7)	(354,747)	(62.4)
BPO	(4,231)	(1.5)	(2,670)	(1.3)	(11,975)	(1.5)	(5,687)	(1.0)
Inter segment	1,689	0.6	999	0.5	4,535	0.6	2,310	0.4
Total cost of revenues	(176,674)	(62.7)	(134,583)	(65.8)	(506,508)	(63.7)	(358,124)	(63.0)
Gross profit:								
IT services	104,731	37.2	70,096	34.2	289,245	36.3	209,822	36.9
BPO	638	0.2	89	0.0	398	0.0	1,027	0.2
Inter segment	(199)	(0.1)	(89)	(0.0)	(416)	(0.1)	(378)	(0.1)
Total gross profit	105,170	37.3	70,096	34.2	289,227	36.3	210,471	37.0
Operating expenses:								
Selling, general and administrative expenses: (2)								
IT services	(44,034)	(15.6)	(26,630)	(13.0)	(125,241)	(15.7)	(86,743)	(15.3)
BPO	(2,922)	(1.1)	(2,893)	(1.4)	(8,181)	(1.0)	(7,570)	(1.3)
Inter segment	199	0.1	89	0.0	416	0.1	378	0.1
Total selling, general and administrative expenses	(46,757)	(16.6)	(29,434)	(14.4)	(133,006)	(16.7)	(93,935)	(16.5)
Operating income:								
IT services	60,697	21.5	43,466	21.2	164,004	20.6	123,079	21.6
BPO	(2,284)	(0.8)	(2,804)	(1.4)	(7,783)	(1.0)	(6,543)	(1.2)
Inter segment								
Total operating income/(loss)	58,413	20.7	40,662	19.9	156,221	19.6	116,536	20.5
Interest income	6,647	2.4	5,544	2.7	19,469	2.4	16,026	2.8
Interest expense	(611)	(0.2)	(103)	(0.1)	(917)	(0.1)	(321)	(0.1)
Gain on sale of shares in associated companies/ others	43,634	15.5	11	0.0	43,634	5.5	66	0.0

Gain/(loss) on foreign exchange transactions	4,683	1.7	(10,698)	(5.2)	4,115	0.5	(4,668)	(0.8)
Other income/(expense), net	(4,278)	(1.5)	5,402					