Command Systems Inc.

COMMAND SYSTEMS INC.

ANNUAL REPORT AND ACCOUNTS 2000

Directors
Edward G. Caputo, *Chairman*
Stephen Wilcox
John T Crawford
John J. C. Herndon
Theodore Ketterer
James M. Oates
Joseph D. Sargent.

Auditors
Ernst & Young LLP
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Hartford, Connecticut 06103

Registered Office
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Farmington, CT 06032

directors' report

to the members

Your Directors have pleasure in presenting the Annual Report of the Company together with the audited consolidated financial statements of the Company for the year ended December 31, 2000.

Overview

The prior year has been of significant achievements for the Company. The marketplace has validated Company's multi-site strategy as evidenced by the new off-shore work the Company has undertaken during the year. Company has numerous pilots up and running at several major financial services clients and will be assuming ownership of maintenance and production support activities in the near future.

Also, while Company's total revenue for the year does not compare favorably to that of 1999, the improvement in the quality of results does. The Company has continued to shift the business towards higher-margin value-added services that will position the Company as strategic partners with its customers, not just suppliers of temporary services. Projects now constitute 42% of Company's business compared to 22% just a year ago, and its gross profit margin has increased to 31%, reflecting the success in profit improvement programs.

Acquisition of the Company

As a part of its strategy to achieve growth in revenue and profitability and maximize shareholders' value, the Company entered into an agreement with ICICI Infotech Inc. and its subsidiary, ICICI Acquisition Corportion, Delaware corporations for acquisition of its entire outstanding shares @ US$ 5 per share. As per the agreement, on complying with all the legal formalities and purchase of all outstanding share by ICICI Acquisition Corporation. ICICI Acquisition Corporation would merge with the Company and your Company would become a subsidiary of ICICI Infotech Inc..

Directors

The Board of Directors of the Company consists of Mr. Edward G. Caputo, Chairman, Mr. Stephen Wilcox, Mr. John T Crawford, Mr. John J. C. Herndon, Mr. Theodore Ketterer, Mr. James M. Oates, and Mr. Joseph D. Sargent.

Financial Performance

The Company incurred a loss of US$ 2.8 million for the year ended December 31, 2000 compared to a loss of US$ 2.9 million for the year ended December 31, 1999. Revenue for the year ended December 31, 2000 decreased by 6% to US$ 25.5 million from US$ 27.1 million for the year ended December 31, 1999. Gross profit margin for the year ended December 31, 2000 increased by 4 points to 31% from 27% for the year ended December 31, 1999 as a result of an increase in Company's higher margin service offerings.

Capital

At December 31, 2000, 7,657,926 shares of US$0.01 par value common stock were outstanding.

Subsidiaries

The Company has four subsidiaries viz. Command International Holdings LLC., Command Delaware Holdings, LLC; Command International Software and Nova Technology Inc. The financials of the subsidiaries are reflected in the consolidated accounts of the Company.

Acknowledgement

The Company is grateful to its clients, bankers and all regulatory authorities for their continued support. The Directors would like to express their sincere thanks and appreciation to all employees for their teamwork, professionalism and contribution during the year.

On behalf of the Board

EDWARD G. CAPUTO
Chairman

Farmington, January 26, 2001

report of independent auditors

the board of directors and stockholders of Command Systems Inc.

We have audited the accompanying consolidated balance sheets of Command Systems, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Command Systems, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Hartford, Connecticut
January 19, 2001, except for Note 15, as
to which the date is January 26, 2001

consolidated balance sheet

as at December 31, 2000

	US $	December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	**9,388,972**	*3,900,751*
Marketable securities	**6,968,288**	*14,347,828*
Accounts receivable, net of allowance for doubtful accounts of $ 330,000 and $ 500,000 in 2000 and 1999	**4,729,291**	*3,490,764*
Pre-paid expenses and other assets	**230,351**	*197,112*
Income taxes recoverable		*402,528*
Total current assets	**21,316,902**	*22,338,983*
Equipment and improvements:		
Furniture and equipment	**2,661,497**	*2,906,685*
Leasehold improvements	**949,307**	*1,005,486*
	3,610,804	*3,912,171*
Less accumulated depreciation and amortization	**(2,544,031)**	*(2,342,874)*
Net equipment and improvements	**1,066,773**	*1,569,297*
Other assets:		
Goodwill, net of accumulated amortization of $1,436,020 and $931,427 in 2000 and 1999	**5,552,648**	*6,057,241*
Deposits	**428,874**	*454,712*
Other non-current assets	**186,300**	*48,310*
	28,551,497	*30,468,543*

	US$	December 31, 1999
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**742,540**	*608,125*
Accrued transaction costs	**970,000**	
Accrued payroll and related costs	**987,260**	*843,188*
Accrued warranty	**270,603**	*270,603*
Deferred revenue	**15,108**	*209,815*
Accrued other expenses	**1,106,105**	*1,181,252*
Total liabilities	**4,091,616**	*3,112,983*
Stockholders' equity:		
Common stock, 25,000,000 shares authorized, $0.01 par value; 7,657,926 and 7,656,750 shares issued and outstanding in 2000 and 1999	**34,830**	*34,818*
Additional paid in capital	**33,403,468**	*33,400,480*
Accumulated deficit	**(8,450,861)**	*(5,600,105)*
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	**(519,202)**	*(380,838)*
Unrealized loss on marketable securities	**(8,354)**	*(98,795)*
Total stockholders' equity	**24,459,881**	*27,355,560*
Total liabilities and stockholders' equity	**28,551,497**	*30,468,543*

See accompanying notes.

consolidated statement of operations

Command Systems Inc.

	US $ Year ended December 31		
	2000	*1999*	*1998*
Revenue	**25,490,270**	*27,192,278*	*35,214,586*
Cost of revenue	**17,652,531**	*19,820,066*	*24,527,627*
Gross profit	**7,837,739**	*7,372,212*	*10,686,959*
Selling, general and administrative expense	**10,513,209**	*11,346,573*	*11,925,572*
Transaction related expenses	**995,000**		
Shareholder litigation and related expenses			*1,800,000*
Operating loss	**(3,670,470)**	*(3,974,361)*	*(3,038,613)*
Other:			
Other income	**66,123**	*222,171*	*86,975*
Interest income	**957,681**	*934,280*	*907,328*
Interest expense	**(4,498)**	*(24,398)*	*(40,536)*
Loss on disposal of furniture and equipment	**(92,091)**	*(27,975)*	
	927,215	*1,104,078*	*953,767*
Loss before income taxes	**(2,743,255)**	*(2,870,283)*	*(2,084,846)*
Income tax provision (benefit)	**107,501**	*65,753*	*(317,589)*
Net loss	**(2,850,756)**	*(2,936,036)*	*(1,767,257)*
Preferred stock dividends and accretion			*(260,303)*
Loss applicable to common stockholders	**(2,850,756)**	*(2,936,036)*	*(2,027,560)*
Basic and diluted loss per share applicable to common stockholders	**(0.37)**	*(0.38)*	*(0.29)*

See accompanying notes

consolidated statement of stockholders' equity

US $

	CommonStock Shares	Amount	Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 1997	*4,275,000*	*1,000*		*(636,509)*	*(86,905)*	*(722,414)*
Net loss				*(1,767,257)*		*(1,767,257)*
Other comprehensive loss:						
Foreign currency translation adjustment					*(228,978)*	*(228,978)*
Comprehensive loss						*(1,996,235)*
Issuance of common stock, net	*2,200,000*	*22,000*	*23,188,822*			*23,210,822*
Conversion of preferred stock	*1,181,750*	*11,818*	*10,211,658*			*10,223,476*
Preferred stock dividends and accretion				*(260,303)*		*(260,303)*
Balance at December 31, 1998	*7,656,750*	*34,818*	*33,400,480*	*(2,664,069)*	*(315,883)*	*30,455,346*
Net loss				*(2,936,036)*		*(2,936,036)*
Other comprehensive loss:						
Foreign currency translation adjustment					*(64,955)*	*(64,955)*
Unrealized losses on marketable securities					*(98,795)*	*(98,795)*
Comprehensive loss						*(3,099,786)*
Balance at December 31, 1999	*7,656,750*	*34,818*	*33,400,480*	*(5,600,105)*	*(479,633)*	*27,355,560*
Net loss				**(2,850,756)**		**(2,850,756)**
Other comprehensive loss:						
Foreign currency translation adjustment					**(138,364)**	**(138,364)**
Unrealized gains on marketable securities					**90,441**	**90,441**
Comprehensive loss						**(2,898,679)**
Stock issued for Director compensation	**1,176**	**12**	**2,988**			**3,000**
Balance at December 31, 2000	**7,657,926**	**34,830**	**33,403,468**	**(8,450,861)**	**(527,556)**	**24,459,881**

See accompanying notes

consolidated statements of cash flow

US $	Year ended		December 31
	2000	1999	1998
Cash flows from operating activities			
Net loss	**(2,850,756)**	*(2,936,036)*	*(1,767,257)*
Adjustments to reconcile net loss to net cash (used) provided by operating activities:			
Depreciation and amortization	**1,232,674**	*1,393,133*	*1,277,727*
Bad debt expense	**(40,612)**	*158,058*	*82,049*
Realized loss on investments		*22,797*	
Deferred income taxes			*(329,946)*
Loss on disposal of equipment	**92,091**	*27,975*	
Stock compensation expense	**3,000**		
Changes in operating assets and liabilities:			
Accounts receivable	**(1,204,463)**	*3,270,334*	*(2,312,672)*
Prepaid expenses and other assets	**(37,782)**	*375,077*	*(158,312)*
Income taxes recoverable	**402,528**	*(37,636)*	*(364,892)*
Deposits and other noncurrent assets	**(150,224)**	*82,705*	*(131,163)*
Accounts payable, accrued transaction costs and accrued expenses	**1,063,875**	*(2,383,215)*	*2,012,446*
Accrued payroll and related costs	**144,072**	*52,876*	*143,359*
Deferred revenue	**(194,707)**	*77,105*	*(86,834)*
Net cash (used in) provided by operating activities	**(1,540,304)**	*103,173*	*(1,635,495)*
Cash flows from investing activities			
Acquisition of business, net of cash acquired		*(454,227)*	
Purchases of equipment and improvements	**(355,998)**	*(249,814)*	*(1,174,339)*
Sales of available-for-sale securities	**7,469,981**	*7,867,352*	*10,950,000*
Purchases of available-for-sale securities		*(19,512,355)*	*(13,774,417)*
Net cash provided by (used in) investing activities	**7,113,983**	*(12,349,044)*	*(3,998,755)*
Cash flows from financing activities			
Payments under revolving line of credit			*(857,535)*
Principal payments of bank loan			*(528,425)*
Payment of preferred stock dividend			*(297,641)*
Issuance of common stock			*24,552,000*
Cost of issuance of common stock			*(1,341,178)*
Net cash provided by financing activities			*21,527,221*
Effect of exchange rate changes on cash and cash equivalents	**(85,458)**	*(23,127)*	*(114,909)*
Increase (decrease) in cash and cash equivalents	**5,488,221**	*(12,268,998)*	*15,778,062*
Cash and cash equivalents, beginning of year	**3,900,751**	*16,169,749*	*391,687*
Cash and cash equivalents, end of year	**9,388,972**	*3,900,751*	*16,169,749*
Cash paid for			
Interest			*40,421*
Income taxes	**52,569**	*91,000*	*460,017*

See accompanying notes.

1. Organization

Command Systems, Inc. (the "Company") is an information technology company which provides a wide range of computer consulting services primarily to large financial services organizations.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition and Warranty Costs

Revenue on time-and-materials contracts is recognized as the services are performed. Revenue on fixed-price contracts is recognized using the percentage of completion method based on the labor costs incurred to total estimated labor costs for the contract. Under this method revenue on such contracts is recognized concurrently with cost incurred thereon. The Company bears the risk of cost overruns and inflation with respect to its fixed-price projects. If estimates indicate a probable ultimate loss on a fixed-price contract, provision is made at that date for the entire estimated loss. The Company provides for estimated future warranty costs as revenues are recognized.

Revenue from product sales is recognized upon shipment.

Billings in excess of revenue earned are classified as deferred revenue.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expense. Advertising costs were US $84,000, US $195,000 and US $ 300,000 in 2000, 1999 and 1998, respectively.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences of future years' differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is provided against the future benefit of deferred tax assets if it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized (see Note 8).

Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries which have a functional currency other than the U.S. dollar reflect the translation of assets and liabilities into U.S. dollars at current exchange rates with income and expense accounts being translated at average rates of exchange prevailing during the period. The resulting adjustments are recorded as a separate component of accumulated other comprehensive loss. Foreign currency transaction gains and losses are not material and are included in the determination of net loss when incurred.

Cash Equivalents

Highly liquid investments purchased with a maturity of three months or less are considered cash equivalents.

Concentration of Credit Risk

The Company markets its services primarily to the financial services industry. The Company performs periodic credit evaluations of a customer's financial condition and generally does not require collateral. Credit losses have been within management's expectations.

Marketable Securities

Marketable securities are classified as available-for-sale and are available to support current operations or to take advantage of other investment opportunities. Unrealized gains and losses, net of tax, are recorded as a separate component of accumulated other comprehensive loss. Realized gains are included in interest income; realized losses are included in interest expense. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short maturity of these items. The fair value of marketable securities is based on quoted market prices for those or similar investments.

Equipment and Improvements

Equipment and improvements are stated at cost. Depreciation on equipment is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the assets.

Goodwill

Goodwill is being amortized using the straight-line method over periods ranging from three to fifteen years. Goodwill amortization was US $ 504,593, US$475,071, and US $ 456,356 for 2000, 1999 and 1998, respectively.

Impairment of Long-Lived Assets

Long-lived assets, including goodwill, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. At December 31, 2000, no such impairment existed. The Company measures the potential impairment of long-lived assets, including goodwill, by the undiscounted value of expected operating cash flow in relation to the assets to which it applies.

Stock-Based Compensation

During 1997, the Company adopted FAS No. 123, "Accounting for Stock-Based Compensation." This statement defines a fair value based method of accounting for employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation cost is the excess, if any, of the market price of the stock at the grant date over the amount the employee must pay to acquire the stock. The Company has elected to continue to account for awards granted under the Command Systems, Inc. 1997 Employee, Directors and Consultant Stock Plan under APB No. 25.

Reclassifications

Certain reclassifications have been made to the prior year to conform to the current year presentation.

3. Marketable Securities

The Company invests in only high-quality, short-term investments. The Company views its available-for-sale portfolio as available for use in its current operations; therefore, all marketable securities have been classified as current assets. Marketable securities consist of:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
United States Treasury Notes, year 2000	**US$ 6,976,642**	**US$ 102,902**	**US$ (111,256)**	**US$ 6,968,288**
United States Treasury Notes, year 1999	*14,446,623*	*31,773*	*(130,568)*	*14,347,828*

There were no gross realized gains or losses in 2000; gross realized losses in 1999 were US $ 22,797.
The following is a summary of contractual maturities:

	Amortized Cost	Estimated Fair Value
Amounts maturing within three months	2,550,922	2,548,806
Amounts maturing after three months, within one year	4,425,720	4,419,482
	6,976,642	6,968,288

4. Debt

The Company's revolving line of credit agreement, as amended October 20, 2000, limits borrowings to a maximum of US$ 4,000,000; no amount related thereto is outstanding at December 31, 2000. The agreement expires October 15, 2001 and bears interest at the Bank Rate, as defined, or the London Interbank Offered Rate ("LIBOR") plus 1.75 basis points. Under the terms of the revolving line of credit agreement, the Company is required, among other things, to maintain certain financial ratios and minimum levels of net worth. Borrowings under the line of credit agreement are secured by all the Company's business assets, except for the assets of Command International Software Pvt. ("CIS").

In June 1998, CIS entered into a Funded and Non-Funded Credit facility. The Funded facility provides for a maximum of Rs. 7.5MM (US$ 176,500) based upon monthly export billings and an overdraft facility of Rs. 0.5MM. The export billing facility is at 10% per annum; the overdraft facility is at an interest rate of prime plus 4%. The Non-Funded facility provides for a letter of credit line in the amount of Rs. 3MM and a guarantee letter of credit line in the amount of Rs. 3MM. The letter of credit facility bears interest at 15% per annum; the guarantee letter of credit facility charge is at the Central Bank of India's internal rate plus 25%. These credit facilities are secured primarily by accounts receivable and a lien on the fixed assets of CIS; no amounts related thereto were outstanding at December 31, 2000.

5. Stockholders' Equity

The Company made its initial public offering on March 12, 1998, pursuant to an effective registration statement covering 2,400,000 shares of US$ 0.01 par value common stock (of which 300,000 shares were sold by certain shareholders) plus an additional 360,000 shares for an over-allotment option granted to the underwriters. Shortly before the effective date, the size of the offering was increased by 300,000 shares plus an additional 45,000 shares to increase the over-allotment option. The additional 345,000 shares were sold by the Company (100,000 shares) and selling stockholders (245,000 shares). All of these shares were sold at the public offering price of US$ 12.00 per share.

Of the 3,105,000 shares sold in the initial public offering, 2,760,000 shares were properly registered, but the remaining 345,000 shares were not registered. Persons who had purchased unregistered shares in the initial public offering had rescission rights under the Securities Act of 1933. However, the Company has been released from any liability for rescission by terms of the judgement entered by the court on August 11, 1999, in the purported consolidated class action discussed in Note 13.

On August 26, 1997, the Company issued 100 shares of its Series A redeemable convertible preferred stock to Phoenix Home Life Mutual Insurance Co. ("Phoenix"). The Series A redeemable convertible preferred stock had a liquidation preference of US$ 2,186,137 and had a dividend requirement of 10% per annum which accrued on a cumulative basis. Accrued and unpaid dividends amounted to US$ 75,474 at December 31, 1997. These shares were convertible at any time into 522,500 shares of the Company's common stock and were redeemable by Phoenix after July 31, 1999.

On December 31, 1997, the Company issued 100 shares of Series B redeemable convertible preferred stock to Phoenix. The Series B redeemable convertible preferred stock had a liquidation preference of US$ 8,000,000 and had a dividend requirement of 10% per annum which accrued on a cumulative basis. These shares were convertible at any time into 659,250 shares of the Company's common stock.

Simultaneously with the initial public offering, Phoenix exchanged its 200 shares of Series A and B redeemable convertible preferred stock for 1,181,750 shares of common stock. Dividends accrued during the period and previously unamortized offering expenses were recognized as a reduction to net income for 1998. The Company paid preferred stock dividends in 1998 of US$ 298,000 from the initial public offering proceeds.

The Company has authorized 4,999,800 shares of US$.01 par value undesignated preferred stock. The Board of Directors of the Company is authorized to establish, among other things, the rate of dividends payable, redemption rights and voting rights prior to issuance.

6. Stock Options

In August 1997, the Company created the Command Systems, Inc. 1997 Employee, Director and Consultant Stock Plan (the "Plan"). The Company reserved 427,500 shares of its common stock for issuance under the Plan. Options granted under the Plan generally have a five year term and generally vest in increments of 20% on the anniversary of the date of grant. During 2000, the shareholders approved an amendment to the Plan, increasing the number of shares which may be issued thereunder to 927,500.

US$

	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**423,625**	**6.55**	*214,400*	*7.32*	*150,550*	*6.96*
Granted	**344,572**	**3.06**	*255,000*	*1.75*	*94,175*	*7.80*
Forfeited	**(40,296)**	**3.99**	*(45,775)*	*7.41*	*(30,325)*	*7.03*
Outstanding, end of year	**727,901**	**3.53**	*423,625*	*3.96*	*214,400*	*7.32*
Exercisable, end of year	**182,925**	**5.68**	*104,380*	*6.55*	*76,465*	*5.89*

Options outstanding at December 31, 2000 had exercise prices as follows: 267,500 options at US$1.75, 1,000 options at US$1.78, 2,500 options at US$2.19, 800 options at US$2.75, 6,990 options at US$2.81, 13,350 options at US$3.13, 284,466 options at US$3.16, 56,500 options at US$4.00, 77,295 options at US$9.00, and 17,500 options at US$12.00. The weighted average remaining contractual life of these options is 3.6 years.

6. Stock options (continued)

If compensation costs for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates for 2000, 1999 and 1998 consistent with the method prescribed by FAS No. 123, the Company's net loss applicable to common stockholders and loss per share would have been adjusted to the pro forma amounts indicated below:

	2000	1999	1998
Net loss applicable to common stockholders			
As reported	**US$ (2,850,756)**	*US$ (2,936,036)*	*US$ (2,027,560)*
Pro forma	**(3,045,111)**	*(3,048,954)*	*(2,185,807)*
Basic and diluted loss per share			
As reported	**US$ (0.37)**	*US$ (0.38)*	*US$ (0.29)*
Pro forma	**US$ (0.40)**	*US$ (0.40)*	*US$ (0.31)*

The fair value of each stock option grant was estimated using a Black-Scholes option valuation model with the following weighted-average assumptions:

	2000	1999	1998
Risk-free interest rate	**6%**	*6%*	*6%*
Expected volatility	**105.4%**	*81.5%*	*68.5%*
Expected option life	**5**	*5*	*5*
Dividend yield	**0%**	*0%*	*0%*

The risk-free interest rate is based on short-term treasury bill rates. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	2000	1999	1998
Numerator:			
Net loss	**US$ (2,850,756)**	*US$ (2,936,036)*	*US$ (1,767,257)*
Preferred stock dividends and accretion			*(260,303)*
Numerator for basic and diluted loss per share-loss applicable to common stockholders	**(2,850,756)**	*(2,936,036)*	*(2,027,560)*
Denominator:			
Weighted-average shares outstanding for basic and diluted loss per share	**7,656,848**	*7,656,750*	*7,017,937*
Basic and diluted loss per share applicable to common stockholders	**US$ (0.37)**	*US$ (0.38)*	*US$ (0.29)*

Options to purchase 727,901, 423,625 and 214,400 shares of the Company's common stock in 2000, 1999 and 1998, respectively, and 1,181,750 shares of the Company's common stock issuable upon the conversion of the Series A and B redeemable convertible preferred stock in 1998 were not included in the computation of diluted earnings per share because the effect of their inclusion would have been antidilutive.

8. Income Taxes

Components of the income tax provision (benefit) for income taxes follow:

Year ended December 31

	2000	1999	1998
Current:			
Federal			*US$ (66,440)*
State	**US$ 39,951**	*US$ 51,500*	*78,814*
Foreign	**67,550**	*14,253*	
Total current	**107,501**	*65,753*	*12,374*
Deferred:			
Federal			*(305,991)*
State			*(23,972)*
Foreign			
Total deferred			*(329,963)*
Total provision (benefit)	**US$ 107,501**	*US$ 65,753*	*US$ (317,589)*

The effective income tax rate differed from the federal statutory rate for the following reasons:

	2000	1999	1998
Federal statutory rate	**(34.0)%**	*(34.0)%*	*(34.0)%*
State income taxes, net of federal benefit	**0.7**	*(2.2)*	*(3.6)*
Transaction costs and other capital items	**25.4**		
Foreign (profits) and losses not subject to tax	**7.6**	*8.2*	*(15.4)*
Goodwill	**6.3**	*5.3*	*7.4*
Other	**2.7**	*1.7*	*2.2*
Valuation allowance	**(4.8)**	*23.2*	*28.2*
Effective income tax rate	**3.9%**	*2.2%*	*(15.2)%*

8. Income Taxes (continued)

Significant components of the Company's deferred income tax assets and (liabilities) are as follows:

	2000	**December 31 1999**
Deferred tax assets:		
Federal and state net operating loss carryforwards	**US$ 862,541**	*US$ 1,095,952*
Allowance for doubtful accounts	**129,090**	*199,073*
Equipment and improvements	**31,137**	
Accrued warranty, legal and other	**155,780**	*271,297*
Accrued wages	**17,633**	*33,881*
Unrealized gains	**7,736**	*34,806*
	1,203,917	*1,635,009*
Deferred tax liabilities:		
Tax effect of conversion from S Corporation to C Corporation, related primarily to accounting method change		*(212,552)*
Equipment and improvements		*(19,274)*
Cash to accrual conversions	**(65,943)**	*(134,174)*
	(65,943)	*(366,000)*
Net deferred income tax asset	**1,137,974**	*1,269,009*
Less valuation allowance	**1,137,974**	*1,269,009*
Net deferred income tax asset (liability)	**US$ —**	*US$ —*

The Company has net operating loss ("NOL") carryforwards for federal and state tax purposes of approximately US$2,100,000 and US$3,200,000 respectively at December 31, 2000 and US$2,700,000 and US$2,800,000 for federal and state tax purposes at December 31, 1999 that expire through 2019. The valuation allowance decreased by US$131,035 during 2000 and increased by US$681,830 during 1999.

Under Indian tax laws CIS's export income is fully exempt from income tax. The exemption is available for a period of 10 years from the year in which it commenced business (exemption period March 31, 1997 through March 31, 2006). The foreign income tax provision in 1999 and 2000 relates to income from sources other than export of software (e.g. interest income, rental income). Command International Holdings LLC ("CIH") is also eligible for certain tax exemptions under the laws of Mauritius. As a result of such exemptions, no deferred tax asset or liability is recognized. During 2000, 1999 and 1998, (loss) income of the Company's foreign subsidiaries before minority interest which is exempt from income taxes was US$(768,053), US$(708,930) and US$943,104, respectively.

Undistributed foreign earnings of approximately US$221,000 and US$704,000 at December 31, 2000 and December 31, 1999, respectively are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes has been made thereon, nor is it practicable to determine the amount. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes.

9. Related Party Transactions

The Company provides various information technology services to Phoenix; revenues related thereto were US$1,177,000, US$1,690,000 and US$2,165,000 for 2000, 1999 and 1998, respectively. At December 31, 2000 and 1999, receivables from Phoenix approximated US$128,000 and US$199,000, respectively.

10. Leases

The Company has non-cancelable long-term operating leases for various office facilities and equipment.

Rent expense under operating leases was US$841,477, US$795,887 and US$618,425 in 2000, 1999 and 1998, respectively.

Future minimum lease payments at December 31, 2000 for these non-cancelable operating leases, net of minimum rentals to be received under non-cancelable subleases of US$312,579 and US$344,514 in 2001 and 2002, respectively, follow:

2001	US$ 478,781
2002	368,504
2003	417,249
2004	324,552
2005	243,414
	US$ 1,832,500

The Company is required to maintain security deposits for office space rented in Bangalore, India; the amounts related thereto were US$374,893 and US$403,402 at December 31, 2000 and 1999, respectively.

11. Reportable Segments

The Company operates in one industry segment providing a wide range of computer consulting services to large financial services organizations primarily in North America. The Company operates in two geographic areas; the United States and India. The accounting policies of each geographic area are substantially the same as those described in Note 2.

	United States	**India**	**Elimination**	**Consolidated**
2000				
Revenue	**US$ 25,266,757**	**US$ 1,110,589**	**US$ (887,076)**	**US$ 25,490,270**
Operating (loss)	**(3,136,076)**	**(534,394)**		**(3,670,470)**
Identifiable assets	**26,284,309**	**2,267,188**		**28,551,497**
1999				
Revenue	*27,049,120*	*1,064,274*	*(921,116)*	*27,192,278*
Operating (loss)	*(3,025,487)*	*(948,874)*		*(3,974,361)*
Identifiable assets	*27,698,022*	*2,770,521*		*30,468,543*
1998				
Revenue	*35,214,586*	*3,942,217*	*(3,942,217)*	*35,214,586*
Operating (loss) income	*(3,863,899)*	*825,286*		*(3,038,613)*
Identifiable assets	*31,004,269*	*4,643,422*		*35,647,691*

11. Reportable Segments (continued)

For the year ended December 31, 2000, two customers accounted for approximately 18% and 15% of revenue. For the year ended December 31, 1999, two customers accounted for approximately 16% and 12% of revenue. For the year ended December 31, 1998, two customers accounted for approximately 15% and 10% of revenue.

The following table sets forth the revenue percentages by line of business:

	Year ended December 31		
	2000	**1999**	**1998**
Staff augmentation	**64%**	*68%*	*57%*
Year 2000	**1**	*14*	*27*
Software and hardware	**1**	*2*	*10*
Projects	**34**	*15*	*5*
Other		1	*1*
Total	**100%**	*100%*	*100%*

12. Acquisition

On August 1, 1999, the Company acquired 100% of the outstanding stock of Nova Technology, Inc. (Nova), a privately owned Oracle IT consulting, systems integration and custom software application developer for approximately US$454,000. The acquisition has been accounted for as a purchase; accordingly, the excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over three years. The results of operations of Nova are included in the accompanying financial statements from the date of acquisition. This acquisition did not materially affect the financial statements of the Company in 1999 nor would it have materially affected the financial statements of prior periods had the results of its operations been included in them.

Concurrent with the acquisition, the Company entered into employment agreements with the former shareholders of Nova. The agreements, which are for a period of four years, provide for specific salary levels and additional incentive bonuses that are contingent upon the Nova business achieving certain performance criteria; performance based payments were US$173,522 in 2000.

13. Legal Proceedings

On or about May 6, 1998, plaintiffs Don M. Doney, Jr. and Madelyn J. McCabe filed a lawsuit in the United States District Court for the Southern District of New York. The lawsuit was filed against the Company, certain of its officers and directors (Edward G. Caputo, Stephen L. Willcox, Robert B. Dixon, John J.C. Herndon, James M. Oates and Joseph D. Sargent) and the managing underwriters of the initial public offering (Cowen & Company and Volpe Brown Whelan & Company LLC). On or about June 22, 1998, the same plaintiffs amended their complaint in the lawsuit they had filed with the United States District Court for the Southern District of New York. On or about May 8, 1998, another plaintiff, Chaile B. Steinberg, filed a new lawsuit against the same defendants in the same court. On or about June 26, 1998, named plaintiff Michael Makinen, filed a lawsuit in the same court against the same defendants. Each of the plaintiffs purported to represent a class consisting of purchasers of common stock pursuant to the initial public offering. These lawsuits were consolidated into one lawsuit by order of the United States District Court for the Southern District of New York. Consequently, the plaintiffs filed a consolidated complaint named *In Re Command Systems, Inc. Securities Litigation* on September 30, 1998, seeking to represent a class of purchasers of common stock from March 12, 1998, the date of the initial public offering, through April 29, 1998. The consolidated complaint alleged that the defendants violated the Securities Act of 1933 in that the Company failed to properly register 345,000 shares of common stock that were sold in the initial public offering, and consequently the defendants sold unregistered securities to the public, and the prospectus for the initial public offering contained untrue statements of material fact and omitted to state other facts necessary to make the statements made in the prospectus not misleading with respect to the unregistered shares, the Company's business strategy and other matters.

The plaintiffs sought rescission of the sales of the shares in the initial public offering and unspecified damages, including rescissionary damages, interest, costs and fees. On May 20, 1999, a definitive settlement agreement (the "Stipulation of Settlement" or "Stipulation") was executed by the parties via their counsel. Pursuant to the terms of the Stipulation, the parties agreed to a total payment from the Company to the plaintiffs of $5.75 million in cash plus accrued interest, minus approved attorneys' fees and related expenses. The US$5.75 million accumulated interest as of June 11, 1999, the date of the preliminary court approval of the Stipulation of Settlement. The court entered a judgment approving this settlement on August 11, 1999, which became final and no longer subject to appeal on September 10, 1999. On September 10, 1999 the settlement fund was also established. The Company may also be responsible for certain legal fees and related expenses incurred in connection with the litigation. The Company recognized a charge to operations of US$1.8 million in the fourth quarter of 1998 for costs of the settlement and related expenses.

Of the US$5.75 million deposited in the settlement fund established September 10, 1999 by the Company, the Company has been reimbursed for all but US$1.65 million. This reimbursement came in part from the Company's insurance carrier and the rest pursuant to the indemnification agreement with the Company's former counsel in the initial public offering.

In the settlement, the members of the class represented by plaintiffs gave up their right to assert individual claims against the Company or its underwriters, based on their purchase of the Company's common stock in the initial public offering and in the open market during the period from March 12, 1998 through April 29, 1998. In return for this concession, class members became entitled to share pro rata in the US$5.75 million cash settlement fund, plus interest, minus approved attorneys' fees and related expenses. No class member chose not to participate in, or to "opt-out" of, the settlement.

14. Risks and Uncertainties of Doing Business

Many of the Company's engagements involve projects that are critical to the operations of its customers' businesses and provide benefits that may be difficult to quantify. Any failure in a customer's system could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from errors, mistakes or omissions in rendering its information technology services, there can be no assurance that the limitations of liability set forth in its services contracts will be enforceable in all instances or would otherwise protect the Company from liability for damages. Although the Company maintains general liability insurance coverage, including coverage for errors or omissions in the amount of US$5.0 million, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the Company that exceed available insurance coverage, or changes in the Company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect the Company's business, financial condition and results of operations.

15. Subsequent Event

On January 26, 2001, the Company announced that it had signed an agreement and Plan of Merger (the Agreement) with ICICI Infotech Inc. (ICICI) whereby the Company would be acquired by ICICI. Under the terms of the Agreement, which was approved by the Boards of Directors of both companies, ICICI will commence an all-cash tender offer for all the Company's common shares outstanding at US$5.00 per share. Under certain circumstances, the Company may terminate the Agreement. In the event the Company terminates the Agreement, it would be required to pay a termination fee of approximately US$3,400,000 to ICICI, plus out-of-pocket expenses not to exceed US$950,000. The Company's primary shareholders, who own approximately 59% of the outstanding shares, have signed a Stock Tender Agreement with ICICI to sell their shares at US$5.00 per share. Completion of the acquisition is expected to occur by the end of the first quarter. In connection with the transaction, the Company has incurred investment banking, legal, accounting and other related costs; US$995,000 related thereto was charged to operations in 2000.