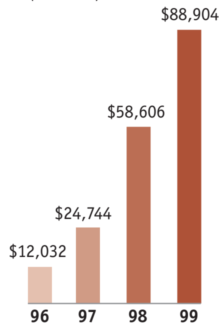
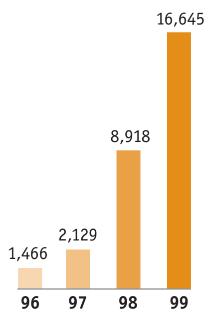
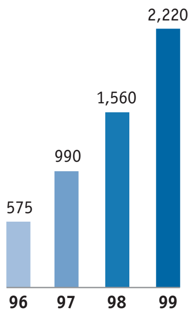






1999 was a stellar year for Cognizant, and the future has never looked brighter. We successfully completed our Y2K-related projects and strongly positioned ourselves for short- and long-term growth as a leading e-business and applications management service provider, thus the theme for this year's annual report: "Applying e-business to everyday business."

Our other achievements for the year included great financial results, a 40 percent increase in our staff, and higher-than-ever customer satisfaction and employee retention. Cognizant's 1999 financial performance clearly reflects these successes. Our high level of expertise in the development, delivery and ongoing management of innovative software solutions, the efficiency and quality of our offshore/on-site business model and our commitment to our clients has enabled us to reach and exceed ever-higher financial goals.

To recap our financial results, for the year ended December 31, 1999, total revenues increased 52 percent to $88.9 million, from $58.6 million for the prior year. Non-Y2K-related revenues grew 129.1 percent. This growth was driven not only by a 40 percent rise in our total number of customers, but also by a recurring revenue in excess of $73 million from existing customers. Net income for 1999 was up 86 percent to $11.2 million, or $0.58 per share, diluted, based on 19.4 million common and dilutive shares outstanding, from $0.37 per share, diluted, based on 16.5 million common and dilutive shares outstanding for the prior year. Gross margin was about 48 percent for the year.

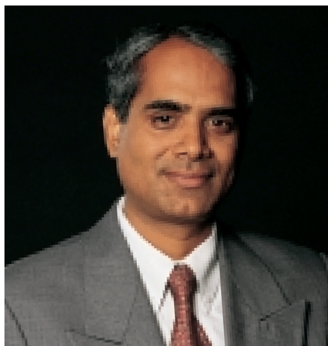
Turning to our balance sheet, we finished 1999 with no debt and $42.6 million in cash and cash equivalents, or $14.2 million more than 1998's figure. We also saw a 39 percent rise in stockholders' equity. Cognizant continued to generate cash in 1999, in part helped by the $4.3 million increase in our deferred tax balance. This deferred tax balance results from the tax holiday we enjoy on our profits from our operations in India. As a result of the tax holiday, our cash tax rate was only 14.2 percent, although our policy has been to accrue taxes at a full rate of 37.4 percent.

The Internet has not only inspired an entirely new industry, but it has also given companies in virtually all other industries unprecedented opportunities for growth. Applying e-business to everyday business – for Cognizant and its clients – is at the heart of our new solution offerings and strategies. We help companies in both existing and new industries gain and maintain a competitive edge by maximizing their ability to implement and benefit from their e-business strategies.

Cognizant is now successfully positioned as an e-business service provider. And since e-business needs map so well to our business model, we believe we will be able to make e-business 50 percent of our business. Already, we have taken many steps toward that goal. Much of our R&D outlays for 1999 went toward developing and defining e-business-related offerings, and we will continue to enhance these R&D efforts throughout this year. Cognizant is concentrating first on delivering services to its strongest vertical markets, including financial and information services and healthcare, and then expanding the number of industries it is able to support. We will also continue to partner with other consulting companies and software vendors and to collaborate with academic institutions to build our business and deliver top solutions to our clients.

> Applying e-business to everyday business is at the heart of our new solutions.

We've continued to improve our operations by training and hiring more than 400 programmers in e-commerce technologies. In addition, Cognizant's internal operations systems are now Web-based. The Company opened two new software centers in India, bringing the total to eight, which gives us space for our expanded staff and the dedicated technical support for our e-business efforts. In 2000, we plan to further expand our infrastructure to support our ongoing anticipated growth in e-business and applications management. We ended the year with a billable headcount of 2,000, up from 1,390. We also installed a new high-performance telecommunications network in 1999, linking our development center in India with our clients, and doubled our bandwidth, which we will continue to upgrade in the coming years.



Lakshmi Narayanan
President and
Chief Operating Officer

Cognizant invested significantly in sales and marketing in 1999, and it's paying off. The Company opened a new office in Frankfurt to ramp up sales in Germany and to develop its presence in Continental Europe. We hired a vice president of marketing and a vice president of large account sales, and built a highly effective, industry-leading sales and marketing organization, to support our growth and to build brand recognition for Cognizant and its offerings. We also boosted our investment in account management and significantly increased our ability to forge stronger, long-lasting relationships with our clients and to expand those relationships to include multiple Cognizant services.

Customer satisfaction is extremely important to us, so we are compelled to provide the best service and support. And our efforts in this area are paying off. Cognizant's customer satisfaction has never been higher according to our yearly surveys. A big driver of Cognizant's high

customer satisfaction is our achievement of Level 4 certification by the Software Engineering Institute's (SEI's) Capability Maturity Model (CMM). This is a very rare and meaningful achievement in our industry. Widely viewed as the standard for measuring software development and maintenance processes, SEI-CMM Level 4 proficiency certification has been achieved by only a small percentage of companies in the industry.

Wijeyaraj Mahadeva
Chairman and
Chief Executive Officer

Cognizant provides the best service and support to its customers because we have great people. We recruit the cream of the crop from the best universities in India and provide extensive leadership and technical training. Each member of our staff is highly valued and respected, and, as a result, our employee turnover rate is a meager 11 percent, or roughly half the industry average. Our Company benefits greatly from its ability to retain talented employees, not only by reaping the long-term rewards of its training efforts, but also by being able to provide continuity of quality service to its clients. Cognizant is able to make itself an indispensable extension of our clients' IT organizations because of the talent, expertise and work ethic of its people.

We've also received terrific public recognition in the past year. In November 1999, Forbes magazine named Cognizant the number one best small company in its list of the "200 Best Small Companies" in America, and the New Jersey Technology Council selected us as "Public Company of the Year." We consider these and the other numerous honors we've received as added validation of our efforts to deliver maximum results to our shareholders.

We thank our employees for their innovative thinking and hard work, our shareholders and the financial community for their continued support, and our clients for their business. We look forward to bringing you more good news in 2000 as we build upon the successes of 1999.

Sincerely,

Wijeyaraj Mahadeva
Chairman and Chief Executive Officer

Lakshmi Narayanan
President and Chief Operating Officer

Cognizant applies e-business to everyday business

The E-Business Opportunity

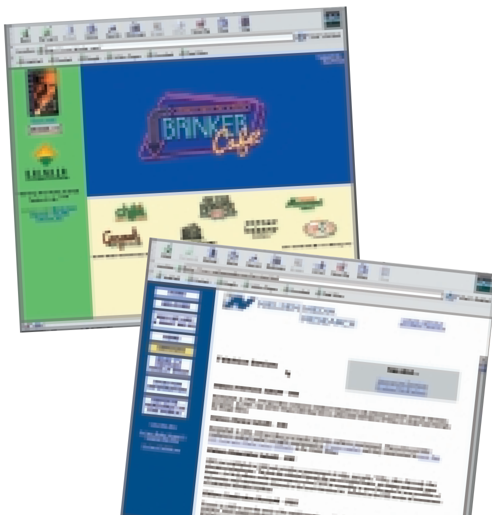
The Internet represents some of the most exciting and challenging opportunities for businesses since the advent of the information age. E-business, which most consumers simply think of as Web sites and online shopping, has the potential to completely transform the way companies manage their business and the way they reach and interact with their suppliers and customers. Indicative of the tremendous opportunities in this area, the market for e-business consulting services is expected to grow from $8 billion this year to $87 billion in 2008.*

Despite these opportunities, the road to e-business success is littered with IT-related obstacles for many companies, hindering their ability to apply e-business to their everyday business and win big in a high-stakes, hyper-competitive environment. Cognizant has the expertise to partner with CIOs and help them remove the obstacles and reach their goals.

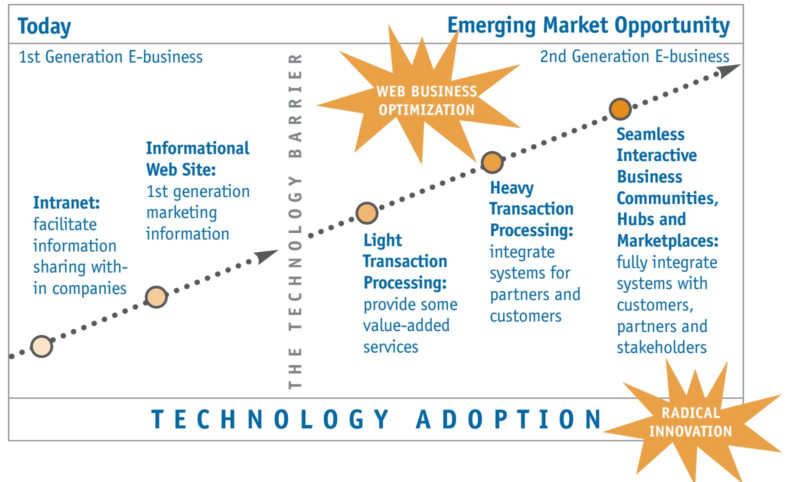
Just as most companies are completing construction of their initial Web presence, the pressure is on for them to rapidly expand their functionality, and to apply e-business technology to seamlessly integrate internal business processes, customers, suppliers and partners in new business arrangements.

Analysts estimate that companies will spend $7 on this second-generation of e-business applications for every $1 they spend on developing their digital strategy and establishing their initial Web presence.** Cognizant focuses on building these second generation, industrial-strength, e-business applications. We then integrate the new systems seamlessly with clients' legacy applications. Our established competencies in large-scale transaction processing systems, large databases, sophisticated distributed networks, and high availability requirements provide us with the insight and experience to apply e-business to everyday business.

Indicative of our own successful transition to e-business solutions, we expanded the size and training of our staff of consultants. Cognizant now has 400 consultants able to expertly deliver the latest Internet technologies, and many more with expertise in back-end development and integration — vital components of second-generation e-business applications.



Market opportunity is exploding for Cognizant as companies adopt new technology



Cognizant's onsite/offshore model offers many unique benefits to e-businesses. Our Company does not suffer from the same resource shortages that are constraining the growth of e-businesses in the US and Europe. So far, we have barely tapped the resource pool in India, and as an employer of choice in India, our ability to attract and retain the best people is very strong. The savings we realize by operating offshore allow us to invest heavily in R&D, so we are vendor neutral and have a vast selection of technologies from which to choose to ensure that our clients get robust, scaleable and extensible systems that will best support

E-business has the potential to completely transform the way companies manage their business, reach customers and interact with suppliers.

We have strategically positioned ourselves as a leading provider of 2nd generation e-business solutions, and are focused on building and managing industrial strength Internet applications.

their business growth. We also boost our technological capabilities and offerings by forming alliances with other consulting companies and software vendors and collaborating with academic institutions. Moreover, because the time difference between the US and India allows us to "follow the sun" and operate on a 24x7 cycle, we are able to significantly increase the speed at which we can execute client projects, thereby reducing their time to market. And we can efficiently deliver an array of technology solutions without compromising on quality. We have been awarded SEI-CMM Level 4 certification, the industry standard for measuring software development and maintenance processes and an achievement only a very small percentage of companies in our industry can claim.

Cognizant has won e-business contracts from our long-standing clients and from new dot-coms.

As we successfully build our business, we will also be helping our clients build their businesses by providing end-to-end solutions. A good example of this is our recently announced partnership with Viant Corporation, a leading digital business strategist. Viant chose us specifically for our ability to deliver high-quality technology solutions and for our reputation for customer satisfaction. This partnership enables Viant and Cognizant to offer clients end-to-end solutions, from digital strategy, application development and integration to on-going e-business application management.

The process of supporting our customers' digital transformation from traditional business to e-business is a journey for which Cognizant is well equipped. Companies are increasingly recognizing the advantages of choosing Cognizant to lead their way. We've not only won e-business contracts from a

Nielsen Media Research
The leader in television audience measurement and related services in the US and Canada, Nielsen Media Research serves television networks and affiliates, cable networks and systems, advertisers and their agencies and others in the media industry. Nielsen Media Research derives enormous value from being a leader in providing strategic information-based services to its customers.

"Nielsen Media Research first partnered with Cognizant in 1995, and since then, the relationship has blossomed. Most recently, Cognizant has been working on a variety of Internet application development projects, which will transform our business processes and interaction with our customers. Cognizant is also working with us on Web-enabling existing applications and on a new system for managing research panel recruitment and tracking for Nielsen//NetRatings, our new Internet-use and advertising measurement service."

Kim Ross
CIO
Nielsen Media Research

number of our long-standing application management clients, but also from venture-capital-funded dot-coms that recognize the value of working with an industrial-strength Internet solutions provider that can enhance their growth prospects. We will foster these relationships, so that as these companies grow, we can expand with them over the long term and cross-sell our full range of services, including applications management.

Cognizant's e-business offerings include architecture and application development, e-business integration, and e-business application management.

Application Management Solutions

Companies worldwide currently have over $1 trillion invested in legacy IT systems, and since today's new e-business technology is destined to become tomorrow's legacy, that investment is growing. Cognizant has a tremendous opportunity in this area for managing these systems and adapting them to e-business, freeing up companies' resources for efforts more central to the growth of their core business.

Offshore application management offers a strong value proposition

Cognizant's on-site/offshore business model helps deliver optimal results in application management by employing the IT talent to provide round-the-clock service by combining an onsite team with a cost-efficient offshore team that handles night-time support and routine maintenance. In fact, we not only maintain our clients' systems, but also improve them on an ongoing basis, which reduces the potential for future problems, enhances stability and functionality, and prepares them for e-business. And all this is achieved with substantial cost savings to the client.

> The relationships we forge with clients are built to last – as demonstrated by our high rate of client retention.

Like e-business, application management is a robust growth business. Cognizant's application management revenues grew more than 200 percent in 1999 and accounted for more than 46 percent of revenues by year end. We expect to continue benefiting from the dynamic growth of this business for many years.

Customer Focus

Cognizant has a strong sense of purpose in regard to its clients: to provide the most talented IT consultants in the industry from the top universities in India, and to deliver the highest quality, most innovative services and solutions in the most time and cost-efficient manner possible. Our first priority is the care of our clients. We vigorously measure our success at meeting our customer-service goals by conducting an annual customer satisfaction survey, which, in 1999, produced the best results we've ever recorded — results that are among the highest in the industry.

The relationships we forge with our clients are built to last. This is demonstrated not only by our high rate of client retention and repeat business, but also by our successful long-term recurring revenue model — business from existing clients accounted for over 80 percent of our total revenues for 1999. By providing a high ratio of account managers-to-customers and becoming an invaluable extension of IT departments, Cognizant's clients have little incentive to invest their time and resources in reaching past their relationship with us. In fact, in many cases, Cognizant becomes such an integral part of larger, established clients' IT operations that we are entrusted with a large percentage of

their IT business. Our hard work and expertise perfectly position us to expand client relationships year-over-year to earn a higher percentage of each client's total IT spending. As a result, our business is much more secure than project-oriented companies that have to rebuild their client books yearly, and our foundation for growth is solid.

As we've grown and expanded, our Company has been focusing on addressing the needs of some of the most IT-intensive vertical markets. We are still in the very early stages of growth in

Brinker International

The world's premier multi-unit restaurant operator, Brinker International is the parent company of nine popular restaurant concepts, including Chili's Grill and Bar, Romano's Macaroni Grill, and On The Border Mexican Café.

"Cognizant's reputation for building strong relationships with its partners and providing innovative application management solutions is well earned. Our partnership with Cognizant enables us to maintain the information systems we need to accomplish our primary objective of providing our customers with a great dining experience."

Johnny Earl
Vice President of Information Technology
Brinker International

Our unique on-site/offshore model employs proprietary software tools

application management and e-business, and we believe that some of the greatest opportunities for growth lie ahead.

People and Infrastructure

Cognizant's greatest asset is its people. Since we are considered an employer of choice in India, we are able to recruit the best IT consultants. And our annual internal survey of employee satisfaction indicates that our people are some of the most satisfied in the business. Their efforts make it possible for us to deliver the most effective and innovative solutions around the clock and around the world.

Cognizant is an "employer of choice" in India and thus we are able to hire the best IT consultants.

In 1999, Cognizant increased the size of its staff by over 40 percent to more than 2,200 and made several key hires with Internet experience. Instead of merely adding more people, we added more people with more experience. We also instituted management-training programs to expand the leadership skills of our top people and encourage the advancement of our most talented employees.

By opening two new state-of-the-art software development centers in India during 1999, our Company has made another important investment in its ongoing growth. Moreover, Cognizant upgraded its communications network and doubled its bandwidth in 1999 to keep all of its offices throughout the world smoothly connected with Cognizant's clients.

* Forrester Research, Inc.

** Gartner Group, Inc.

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Overview

The Company delivers high-quality, cost-effective, full life cycle solutions to complex software development and maintenance problems that companies face as they transition to e-business. These services are delivered through the use of a seamless on-site and offshore consulting project team. The Company's primary service offerings include: application development and integration; application management; re-engineering; and mass change.

The Company began its software development and maintenance services business in early 1994, as an in-house technology development center for The Dun & Bradstreet Corporation and its operating units. In 1996, the Company, along with Erisco, IMS International, Nielsen Media Research, Pilot Software and Sales Technologies and certain other entities, plus a majority interest in Gartner Group were spun-off from The Dun & Bradstreet Corporation to form a new company, Cognizant Corporation. In 1997, the Company purchased the 24.0% minority interest in its Indian subsidiary from a third party for $3.4 million, making the Indian subsidiary wholly owned by the Company.

On February 11, 2000, the Board of Directors declared a 2-for-1 stock split effected by a 100% dividend payable on March 16, 2000 to stockholders of record on March 2, 2000. The stock split has been reflected in the accompanying financial statements, and all applicable references as to the number of outstanding common shares and per share information have been restated. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options. Stockholders' equity accounts have been restated to reflect the reclassification of an amount equal to the par value of the increase in issued common shares from the capital in excess of par value account to the common stock accounts.

In June 1998, the Company completed its initial public offering. On June 30, 1998, a majority interest in the Company, Erisco, IMS International and certain other entities were spun-off from Cognizant Corporation to form IMS Health. At December 31, 1999, IMS Health owned approximately 61% of the outstanding stock of the Company and held approximately 94% of the combined voting power of the Company's common stock.

During 1996, the Company made a strategic decision to attract customers that were not affiliated with Cognizant Corporation or any of the former affiliates of The Dun & Bradstreet Corporation. As a result of the implementation of this strategy, the Company has successfully transitioned from a company primarily serving affiliated customers to a company whose customer base now consists primarily of unaffiliated third parties. For example, revenues derived from customers not currently or previously affiliated with The Dun & Bradstreet Corporation, Cognizant Corporation, IMS Health, and any of their respective subsidiaries grew from $6.5 million, or 26.4% of revenues, in 1997 to $26.9 million, or 46.0% of revenues, in 1998 and $50.5 million, or 56.8% of revenues, in 1999. Approximately 73.6%, 54.0% and 43.2% of the Company's revenues in 1997, 1998 and 1999, respectively, were generated from current and former affiliates including approximately 23.7%, 18.0% and 16.7%, respectively, from IMS Health and its current subsidiaries.

The Company has derived and believes that it will continue to derive a significant portion of its revenues from a limited number of large third-party customers. During 1997, 1998 and 1999, the Company's five largest customers (other than IMS Health and its current subsidiaries) accounted for 50.8%, 43.7% and 44.9% of revenues, respectively. In 1997, Cognizant Corporation and ACNielsen accounted for more than 40.0% and 10.0% of revenues, respectively. In 1998, IMS Health, First Data Corporation and ACNielsen each accounted for more than 10.0% of revenue. In 1999, IMS Health and First Data Corporation accounted for more than 10.0% of revenue. The volume of work performed for IMS Health and its subsidiaries and other customers is likely to vary from year to year. Major customers, whether affiliated or unaffiliated, in one year may not provide the same level of revenues in any subsequent year.

Historically, Year 2000 compliance services were an important element of the Company's service offerings. Approximately 44.4%, 44.1% and 15.6% of the Company's revenues were derived from Year 2000 compliance services in 1997, 1998 and 1999, respectively. Revenues derived from providing Year 2000 compliance services have become an increasingly less significant component of the Company's overall revenue base. The Company believes that it has successfully utilized its Year 2000 compliance expertise to establish relationships with new customers and deepen its relationships with existing customers. The knowledge of customers' systems gained while performing Year 2000 compliance services gave the Company a competitive advantage in securing additional application development and application management projects and projects for such customers.

Application development and integration services represented approximately 19.4%, 25.8% and 32.3% of revenues in 1997, 1998 and 1999, respectively. Application management services accounted for 28.4%, 21.1% and 44.0% of revenues in 1997, 1998 and 1999, respectively.

The Company's services are performed on either a time-and-materials or fixed-price basis. The Company expects that an increasing number of future projects will be fixed-price rather than time-and-materials (which has historically been the basis for its contracts). Revenues related to time-and-materials contracts are recognized as the service is performed. Revenues related to fixed-price contracts are recognized using the percentage-of-completion method of accounting. Under such method, the sales value of performance, including earnings thereon, is recognized on the basis of the percentage that each contract's cost to date bears to the total estimated contract cost. Estimates are subject to adjustment as a project progresses, to reflect changes in expected completion costs. The cumulative impact of any revision in estimates of the percentage of work completed is reflected in the financial reporting period in which the change in the estimate becomes known. Additionally, any anticipated losses are recognized immediately. Since the Company bears the risk of cost over-runs and inflation associated with fixed-price projects, the Company's operating results may be adversely affected by changes in estimates of contract completion costs.

The majority of the Company's revenues are earned within North America. Revenues outside of North America totaled $3.5 million, $10.7 million and $17.7 million in 1997, 1998 and 1999, respectively. Revenues from customers located outside of North America have been generated primarily in the United Kingdom and Germany. As a percentage of revenues, revenues outside of North America represented 14.3%, 18.3% and 19.9% in 1997, 1998 and 1999, respectively. The primary denomination for invoices issued by the Company is U.S. dollars, with the exception of invoices issued in Canada, Germany and the United Kingdom. Invoices issued in Canada, Germany and the United Kingdom are issued in local currency. Gains and losses as a result of fluctuations in foreign currency exchange rates have not had a significant impact on historical results of operations.

Results of Operations

The following table sets forth for the periods indicated certain financial data expressed as a percentage of total revenue:

	Year Ended December 31,		
	1999	1998	1997
Total revenues	**100.0%**	100.0%	100.0%
Cost of revenues	**51.9**	54.5	58.0
Gross profit	**48.1**	45.5	42.0
Selling, general and administrative expenses	**25.9**	26.5	27.8
Depreciation and amortization expense	**3.4**	3.8	5.6
Income from operations	**18.8**	15.2	8.6
Other income:			
Interest income	**1.4**	1.1	0.1
Other income	**–**	0.1	–
Total other income	**1.4**	1.2	0.1
Income before provision for income taxes	**20.2**	16.4	8.7
Provision for income taxes	**(7.6)**	(6.2)	(2.3)
Minority interest	**–**	–	(2.2)
Net income	**12.6%**	10.3%	4.2%

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Revenue. Revenue increased by 51.7%, or $30.3 million, from $58.6 million during 1998 to $88.9 million during 1999. This increase resulted primarily from a $42.3 million (129.1%) increase in application development and integration, application management, reengineering and other services partially offset by an approximately $12.0 million (46.4%) decrease in Year 2000 compliance services. The percentage of revenues derived from unrelated parties increased from 76.8% during 1998 to 83.3% during 1999. This increase resulted primarily from the Company's continued efforts to pursue unaffiliated third-party customers and the impact of the spin-off in June 1998

of a majority interest in the Company, Erisco, IMS International and certain other entities to form IMS Health. For statement of operations purposes, revenues from related parties only include revenues recognized during the period in which the related party was affiliated with the Company. During 1999, sales to one related party customer accounted for 16.7% of revenues and one third-party customer accounted for 17.4% of revenues. During 1998, sales to one related party customer accounted for 23.2% of revenues and two third-party customers accounted for 12.5% and 11.3% of revenues, respectively.

Gross profit. The Company's cost of revenues consists primarily of the cost of salaries, payroll taxes, benefits, immigration and travel for technical personnel, and the cost of sales commissions related to revenues. The Company's cost of revenues increased by 44.6%, or $14.2 million, from $31.9 million during 1998 to $46.2 million during 1999. The increase was due primarily to the increased cost resulting from the increase in the number of the Company's technical professionals from approximately 1,400 employees at December 31, 1998 to approximately 2,000 employees at December 31, 1999. The increased number of technical professionals is a direct result of greater demand for the Company's services. The Company's gross profit increased by 60.2%, or approximately $16.1 million, from approximately $26.7 million during 1998 to approximately $42.7 million during 1999. Gross profit margin increased from 45.5% of revenues during 1998 to 48.1% of revenues during 1999. The increase in such gross profit margin was primarily attributable to the increased third-party revenue and the shift toward newer, higher margin customers.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of salaries, employee benefits, travel, promotion, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 46.9%, or $8.3 million, from $17.8 million during 1998 to $26.1 million during 1999, but decreased as a percentage of revenue from 30.3% to 29.4%, respectively. The dollar increase in such expenses was primarily due to expenses incurred to expand the Company's sales and marketing activities and increased infrastructure expenses to support the Company's revenue growth. The decrease in selling, general and administrative expenses as a percentage of revenue resulted from the Company's increased revenues.

Income from Operations. Income from operations increased 86.6%, or $7.7 million, from $8.9 million during 1998 to $16.6 million during 1999, representing 15.2% and 18.7% of revenues, respectively. The increase in operating margin was primarily due to the increased third-party revenue and the shift toward newer, higher margin customers, discussed above.

Other Income. Other income consists primarily of interest income and foreign currency exchange gains. Interest income increased by approximately $625,000, from $638,000 during 1998 to approximately $1.3 million during 1999. The increase in such interest income was attributable primarily to the investment of the net proceeds generated from the Company's initial public offering and generally higher operating cash balances. The Company recognized a net foreign currency exchange loss of approximately $32,000 during 1999, as a result of changes in exchange rates on its transactions.

Provision for Income Taxes. Historically, through the date of the IPO, the Company had been included in the consolidated federal income tax returns of The Dun & Bradstreet Corporation and Cognizant Corporation. The Company's provision for income taxes in the consolidated statements of income reflects the federal and state income taxes calculated on the Company's stand alone basis. The provision for income taxes increased from $3.6 million in 1998 to $6.7 million in 1999, with an effective tax rate of 37.4% in both 1998 and 1999.

Net Income. Net income increased from approximately $6.0 million in 1998 to $11.2 million in 1999, representing 10.3% and 12.6% as a percentage of revenues, respectively.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue. Revenue increased by 136.8%, or $33.9 million, from $24.7 million in 1997 to $58.6 million in 1998. This increase included $14.9 million of increased Year 2000 compliance services, and $19.0 million of increased sales of application development and integration, application management, reengineering and other services. Revenue growth resulted, in part, from the successful implementation of the Company's Year 2000 rollover strategy, pursuant to which Year 2000 clients have been converted to include non-Year 2000 assignments including software development and maintenance. The percentage of revenues from unrelated parties increased from 56.2% in 1997 to 76.8% in 1998. This increase resulted primarily from the Company's continued efforts to pursue unaffiliated third-party cus-

tomers and the impact of the spin-off in June 1998 of a majority interest in the Company's company, Erisco, IMS International and certain other entities to form IMS Health, and the establishment of Nielsen Media Research as a separate publicly traded company. For statement of operations purposes, revenues from related parties only include revenues recognized during the period in which the related party was affiliated with the Company. Accordingly, as of July 1, 1998, Nielsen Media Research was no longer deemed to be a related party. During 1998, sales to one related party customer accounted for 23.2% of revenues and two third-party customers accounted for 12.5% and 11.3% of revenues, respectively. During 1997, sales to one related party customer accounted for 44.3% of revenues and one third-party customer accounted for 13.9% of revenues.

Gross profit. The Company's cost of revenues increased by 122.3%, or $17.6 million, from $14.4 million in 1997 to $31.9 million in 1998. The increase was due primarily to the increased cost resulting from the increase in the number of the Company's technical professionals from approximately 900 employees at December 31, 1997 to approximately 1,400 employees at December 31, 1998. The Company's gross profit increased by 157.0%, or approximately $16.3 million, from approximately $10.4 million in 1997 to approximately $26.7 million in 1998. Gross profit margin increased from 42.0% of revenues in 1997 to 45.5% of revenues in 1998. The increase in gross profit margin was primarily attributable to the increased third party revenue which have higher margins and a higher utilization level of technical professionals during 1998 compared to 1997.

Selling, general and administrative expenses. Selling, general and administrative expenses, including depreciation and amortization, increased by 115.2%, or $9.5 million, from $8.3 million in 1997 to $17.8 million in 1998, but decreased as a percentage of revenue from 33.4% to 30.3%, respectively. The increase in such expenses in absolute dollars was primarily due to expenses incurred to expand the Company's sales and marketing activities and increased infrastructure expenses to support the Company's revenue growth. The decrease in selling, general and administrative expenses as a percentage of revenue resulted from the Company's continued ability to leverage the significant investments it made in the beginning of 1997 to establish a sales and marketing organization and to create the infrastructure necessary to operate as an independent company.

Income from Operations. Income from operations increased 318.9% or $6.8 million, from $2.1 million in 1997 to $8.9 million in 1998, representing 8.6% and 15.2% of revenues, respectively. The increase in operating margin was primarily due to the increased third-party revenue, which generally has higher margins and the higher utilization level of technical professionals mentioned above.

Other Income. Interest income increased by $613,000 from $25,000 in 1997 to $638,000 in 1998. The increase in such interest income was attributable primarily to increased interest income resulting from the investment of the net proceeds generated from the Company's initial public offering and generally higher cash balances. The Company recognized a net foreign currency exchange gain of $83,000 in 1998, as a result of the effect of changing exchange rates on the Company's transactions.

Provision for Income Taxes. The provision for income taxes increased from $581,000 in 1997 to $3.6 million in 1998 resulting in an effective tax rate of 27.0% in 1997 and 37.4% in 1998. Without the effect of minority interest, the effective tax rate would have been approximately 35.0% in 1997.

Minority Interest. In 1997, minority interest expense was $545,000. This expense was attributable to profitability of the Company's Indian subsidiary in which an unaffiliated third party held a 24.0% minority interest. The Company purchased the minority interest in October 1997 for $3.4 million. The Company has not recognized any minority expense subsequent to such purchase. In 1997 and 1998 the Company recorded $76,000 and $317,000 of amortization expense, respectively, in connection with the goodwill recorded on the acquisition of the remaining portion of its Indian subsidiary.

Net Income. Net income increased from $1.0 million in 1997 to $6.0 million in 1998, representing 4.2% and 10.3% as a percentage of revenues, respectively.

Backlog

The Company generally enters into written contracts with its customers at the time it commences work on a project. These written contracts contain varying terms and conditions and the Company does not generally believe it is appropriate to characterize such written contracts as creating backlog. Additionally, because these written contracts often provide that the arrangement can be terminated with limited advance notice and without penalty, the Company does not believe that projects in progress at any one time are a reliable indicator or measure of expected future revenue.

Liquidity and Capital Resources

Historically, through the date of the IPO, the Company's primary sources of funding had been cash flow from operations and intercompany cash transfers with its majority owner and controlling parent company IMS Health. In June 1998, the Company consummated its initial public offering of 5,834,000 (2,917,000 pre-split) shares of its Class A Common Stock at a price to the public of $5.00 ($10.00 pre-split) per share, of which 5,000,000 (2,500,000 pre-split) shares were issued and sold by the Company and 834,000 (417,000 pre-split) shares were sold, at that time, by Cognizant Corporation. The net proceeds to the Company from the offering were approximately $22.4 million after $845,000 of direct expenses. The funds received by the Company from the initial public offering were invested in short-term, investment grade, interest bearing securities, after the Company used a portion of the net proceeds to repay approximately $6.6 million of non-trade related party balances to Cognizant Corporation. The Company expects to use the remainder of the net proceeds from the offering for (i) expansion of existing operations, including its offshore software development centers; (ii) continued development of new service lines and possible acquisitions of related businesses; and (iii) general corporate purposes including working capital.

Net cash provided by operating activities was approximately $1.7 million, $13.3 million and $18.6 million for the years ended December 31, 1997, 1998 and 1999, respectively. The increase for 1998 compared to 1997 results primarily from a higher level of accrued liabilities, increased net income, and an increase in deferred taxes, partially offset by increased other current assets. The increase for 1999 compared to 1998 results primarily from increased net income and a decrease in accounts receivable partially offset by a lower increase in accrued liabilities versus the prior year. Accounts receivable increased from $7.4 million at December 31, 1997 to $11.1 million at December 31, 1998 and decreased to $10.0 million at December 31, 1999. The decrease in accounts receivable during 1999 was due primarily to improved collection efforts and earlier than expected year-end payments due to Year 2000 preparations by our customers. The Company monitors turnover, aging and the collection of accounts receivable through the use of management reports which are prepared on a customer basis and evaluated by the Company's finance staff.

The Company's investing activities used net cash of $6.4 million, $3.7 million and $5.9 million for the years ended December 31, 1997, 1998 and 1999, respectively. The decrease in 1998 of net cash used in investing activities compared to 1997 primarily reflects the payment in 1997 for the acquisition of the minority interest of the Company's Indian subsidiary. The increase in 1999 of net cash used in investing activities compared to 1998 primarily reflects increased purchases of equipment to expand the Company's offshore development infrastructure.

The Company's financing activities provided net cash of $5.7 million, $16.1 million and $1.6 million for the years ended December 31, 1997, 1998 and 1999, respectively. The increase in 1998 compared to 1997 resulted primarily from the net proceeds generated from the initial public offering of $22.4 million, offset by the repayment of non-trade related party balances of approximately $6.6 million. The decrease in 1999 compared to 1998 similarly resulted from the absence of the net IPO proceeds discussed above.

As of December 31, 1999, the Company had no significant third-party debt.

The Company had working capital of $43.5 million at December 31, 1999 and $29.4 million at December 31, 1998.

The Company believes that its available funds and the cash flows expected to be generated from operations, will be adequate to satisfy its current and planned operations and needs for at least the next 12 months. The Company's ability to expand and grow its business in accordance with current plans, to make acquisitions and form joint ventures and to meet its long-term capital requirements beyond this 12-month period will depend on many factors, including the rate, if any, at which its cash flow increases, its ability and willingness to accomplish acquisitions and joint ventures with capital stock and the availability to the Company of public and private debt and equity financing. The Company cannot be certain that additional financing, if required, will be available on terms favorable to it, if at all.

Foreign Currency Translation

The assets and liabilities of the Company's Canadian and European subsidiaries are translated into U.S. dollars at current exchange rates and revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments are recorded in a separate component of stockholders' equity. For the Company's Indian subsidiary, the functional currency is the U.S. dollar since its sales are made primarily in the United States, the sales price is predominantly in U.S. dollars; and there is a high volume of intercompany transactions denominated in U.S. dollars between the Indian subsidiary and the Company's U.S. affiliates. Non-monetary assets and liabilities are translated at historical exchange rates, while monetary assets and liabilities are translated at current exchange rates. A por-

tion of the Company's costs in India are denominated in local currency and subject to exchange fluctuations, which has not had any material effect on the Company's results of operations.

Effects of Inflation

The Company's most significant costs are the salaries and related benefits for its programming staff and other professionals. Competition in India and the United States for professionals with advanced technical skills necessary to perform the services offered by the Company have caused wages to increase at a rate greater than the general rate of inflation. As with other IT service providers, the Company must adequately anticipate wage increases, particularly on its fixed-price contracts. There can be no assurance that the Company will be able to recover cost increases through increases in the prices that it charges for its services in the United States and elsewhere.

Risks Associated with the Year 2000

Historically, certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing a date using "00" as the year 1900 rather than 2000. This in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000 Problem". The Company did not experience any significant computer or systems problems relating to the Year 2000 Problem. Upon review of the Company's internal and external systems during 1999, the Company determined that it did not have any material exposure to such computer problems and that the software and systems required to operate its business and provide its services were Year 2000 compliant. As a result, the Company did not incur, and does not expect to incur, any material expenditures relating to Year 2000 systems issues.

Recent Accounting Pronouncements

During 1999, various new accounting pronouncements were issued which may impact the Company's financial statements. (See Note 2. to the Consolidated Financial Statements.)

Forward Looking Statements

The statements contained in this Annual Report on Form 10-K that are not historical facts are forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended) that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as "believes," "expects," "may," "will," "should" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in various filings made by the Company with the Securities and Exchange Commission, or press releases or oral statements made by or with the approval of an authorized executive officer of the Company. These forward-looking statements, such as statements regarding anticipated future revenues, contract percentage completions, capital expenditures, and other statements regarding matters that are not historical facts, involve predictions. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Potential risks and uncertainties that could affect the Company's future operating results include, but are not limited to: (i) the significant fluctuations of the Company's quarterly operating results caused by a variety of factors, many of which are not within the Company's control, including (a) the number, timing, scope and contractual terms of software development and maintenance projects, (b) delays in the performance of projects, (c) the accuracy of estimates of costs, resources and time to complete projects, (d) seasonal patterns of the Company's services required by customers, (e) levels of market acceptance for the Company's services, and (f) the hiring of additional staff; (ii) changes in the Company's billing and employee utilization rates; (iii) the Company's ability to manage its growth effectively, which will require the Company (a) to increase the number of its personnel, particularly skilled technical, marketing and management personnel, and (b) to continue to develop and improve its operational, financial, communications and other internal systems, both in the United States and India; (iv) the Company's limited operating history with unaffiliated customers; (v) the Company's reliance on key customers and large projects; (vi) the highly competitive nature of the markets for the Company's services; (vii) the Company's ability to successfully address the continuing changes in information technology, evolving industry standards and changing customer objectives and preferences; (viii) the Company's reliance on the continued services of its key executive officers and leading technical personnel; (ix) the Company's ability to attract and retain a sufficient number of highly skilled employees in the future; (x) the Company's ability to protect its intellectual property rights; (xi) general economic conditions; (xii) year 2000 compliance of vendors' products and related issues, including impact of the year 2000 problem on customer buying patterns; and (xiii) the outcome of the impact of Year 2000 on the Company. The Company's actual results may differ materially from the results disclosed in such forward-looking statements.

Statement of Management's Responsibility for Financial Statements

To the Shareholders of
Cognizant Technology Solutions Corporation:

Management is responsible for the preparation of the consolidated financial statements and related information that are presented in this report. The consolidated financial statements, which include amounts based on management's estimates and judgments, have been prepared in conformity with generally accepted accounting principles. Other financial information in the report to shareholders is consistent with that in the consolidated financial statements.

The Company maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities and careful selection and training of qualified personnel.

The Company engaged PricewaterhouseCoopers LLP, independent accountants, to audit and render an opinion on the consolidated financial statements in accordance with generally accepted auditing standards. These standards include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

The Board of Directors, through its Audit Committee consisting solely of outside directors of the Company, meets periodically with management and our independent accountants to ensure that each is meeting its responsibilities and to discuss matters concerning internal controls and financial reporting. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

Wijeyaraj Mahadeva
Chairman and Chief Executive Officer

Gordon J. Coburn
Chief Financial Officer, Secretary & Treasurer

Report of Independent Accountants

The Board of Directors and Stockholders'
Cognizant Technology Solutions Corporation:

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Cognizant Technology Solutions Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. 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 of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
New York, New York
February 7, 2000
(Except for the stock split as to which the date is March 16, 2000)

(in thousands, except par values)	December 31, 1998	1999
Assets		
Current assets		
Cash and cash equivalents	$ 28,418	**$ 42,641**
Trade accounts receivable, net of allowances of $274 and $225, respectively	9,230	**8,166**
Trade accounts receivable – related party	1,877	**1,848**
Unbilled accounts receivable	1,088	**1,144**
Other current assets	1,754	**2,912**
Total current assets	42,367	**56,711**
Property and equipment - net of accumulated depreciation of $4,121 and $6,817 respectively	6,270	**9,474**
Goodwill, net	1,830	**1,513**
Other assets	1,212	**1,328**
Total assets	$ 51,679	**$ 69,026**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,744	**$ 1,435**
Accrued and other liabilities	11,207	**11,769**
Total current liabilities	12,951	**13,204**
Deferred income taxes	6,103	**10,361**
Due to related party	9	**—**
Total liabilities	19,063	**23,565**
Commitments and contingencies (See Note 11. and 12. to the Consolidated Financial Statements)		
Stockholders' equity:		
Preferred stock, $.10 par value, 15,000 shares authorized, none issued	—	**—**
Class A common stock, $.01 par value, 100,000 shares authorized, 7,010 shares and 7,202 shares issued and outstanding at December 31, 1998 and 1999, respectively (1)	70	**72**
Class B common stock, $.01 par value, 15,000 shares authorized, 11,290 shares issued and outstanding at December 31, 1998 and 1999, respectively (1)	114	**114**
Additional paid-in capital	24,474	**26,081**
Retained earnings	7,969	**19,203**
Cumulative translation adjustment	(11)	**(9)**
Total stockholders' equity	32,616	**45,461**
Total liabilities and stockholders' equity	$ 51,679	**$ 69,026**

(1) See Note 14. to the Consolidated Financial Statements

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share values)	Years Ended December 31,		
	1997	1998	**1999**
Revenues	$13,898	$45,031	**$74,084**
Revenues-related party	10,846	13,575	**14,820**
Total revenues	24,744	58,606	**88,904**
Cost of revenues	14,359	31,919	**46,161**
Gross profit	10,385	26,687	**42,743**
Selling, general and administrative expense	6,898	15,547	**23,061**
Depreciation and amortization expense	1,358	2,222	**3,037**
Income from operations	2,129	8,918	**16,645**
Other income:			
Interest income	25	638	**1,263**
Other income, net	—	83	**37**
Total other income	25	721	**1,300**
Income before provision for income taxes	2,154	9,639	**17,945**
Provision for income taxes	(581)	(3,606)	**(6,711)**
Minority interest	(545)	—	**—**
Net income	$ 1,028	$ 6,033	**$11,234**
Net income per share, basic[1]	$ 0.08	$ 0.38	**$ 0.61**
Net income per share, diluted[1]	$ 0.08	$ 0.36	**$ 0.58**
Weighted average number of common shares outstanding - Basic	13,094	15,886	**18,342**
Dilutive Effect of Shares Issuable as of Period-End Under Stock Option Plans	116	652	**1,074**
Weighted average number of common shares outstanding - Diluted	13,210	16,538	**19,416**
Comprehensive Income:			
Net income	$ 1,028	$ 6,033	**$11,234**
Foreign currency translation adjustment	(2)	(9)	**2**
Total comprehensive income	$ 1,026	$ 6,024	**$11,236**

(1) See Note 14. to the Consolidated Financial Statements

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands)	Class A Common Stock[1]		Class B Common Stock[1]		Additional Paid-in Capital[1]	Retained Earnings	Cumulative Transaction Adjustment	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 1996	834	$ 8	12,166	$ 122	$ 1,768	$ 908	$ —	$ 2,806
Net transfers (to) from related party	—	—	—	—	(413)	—	—	(413)
Translation adjustment	—	—	—	—	—	—	(2)	(2)
Net income	—	—	—	—	—	1,028	—	1,028
Balance, December 31, 1997	834	8	12,166	122	1,355	1,936	(2)	3,419
Net transfers (to) from Related party	—	—	—	—	62	—	—	62
Translation adjustment	—	—	—	—	—	—	(9)	(9)
Net Proceeds from IPO/ Issued Shares	5,226	54	—	—	22,791	—	—	22,845
Exercise of Overallotment Stock	876	8	(876)	(8)	—	—	—	—
Exercise of Stock Options	74	—	—	—	144	—	—	144
Compensatory Grant	—	—	—	—	248	—	—	248
Less Unearned portion	—	—	—	—	(126)	—	—	(126)
Net income	—	—	—	—	—	6,033	—	6,033
Balance, December 31, 1998	7,010	$ 70	11,290	$ 114	$ 24,474	$ 7,969	$ (11)	$ 32,616
Translation adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**2**
Exercise of Stock Options	**192**	**2**	**—**	**—**	**549**	**—**	**—**	**551**
Tax Benefit related to Option Exercises	**—**	**—**	**—**	**—**	**886**	**—**	**—**	**886**
Compensatory Grant	**—**	**—**	**—**	**—**	**340**	**—**	**—**	**340**
Less Prior year charge	**—**	**—**	**—**	**—**	**(122)**	**—**	**—**	**(122)**
Less Unearned portion	**—**	**—**	**—**	**—**	**(46)**	**—**	**—**	**(46)**
Net income	**—**	**—**	**—**	**—**	**—**	**11,234**	**—**	**11,234**
Balance, December 31, 1999	**7,202**	**$ 72**	**11,290**	**$ 114**	**$26,081**	**$19,203**	**$ (9)**	**$45,461**

(1) See Note 14. to the Consolidated Financial Statements

The accompanying notes are an integral part of the consolidated financial statements.

(in thousands, except per share values)	Years Ended December 31, 1997	1998	**1999**
Cash flows from operating activities:			
Net income	$ 1,028	$ 6,033	**$ 11,234**
Adjustments to reconcile net income to			
net cash provided by operating activities:			
Depreciation and amortization	1,358	2,222	**3,037**
Provision/(reduction) for doubtful accounts	239	45	**(31)**
Deferred income taxes	1,170	3,510	**4,258**
Minority interest	545	—	**—**
Changes in assets and liabilities:			
Accounts receivable	(4,933)	(3,959)	**1,068**
Other current assets	(591)	(1,854)	**(1,143)**
Other assets	(390)	(410)	**(116)**
Accounts payable	842	201	**(309)**
Accrued and other liabilities	2,386	7,548	**562**
Other adjustments for non-cash items	2	22	**—**
Net cash provided by operating activities	1,656	13,358	**18,560**
Cash flows used in investing activities:			
Purchase of property and equipment	(3,025)	(3,743)	**(5,924)**
Payment for acquisition of minority interest in subsidiary	(3,418)	—	**—**
Net cash (used in) investing activities	(6,443)	(3,743)	**(5,924)**
Cash flows from financing activities:			
Proceeds from Initial Public Offering	—	23,250	**—**
Costs associated with Initial Public Offering	—	(843)	**—**
Proceeds from option exercises/compensatory grant/ contributed capital	25	327	**723**
Tax benefit related to option exercises	—	—	**886**
Payments to/proceeds from related party	5,669	(6,637)	**(24)**
Net cash provided by financing activities	5,694	16,097	**1,585**
Effect of Currency Translation	(2)	(9)	**2**
Increase in cash and cash equivalents	905	25,703	**14,223**
Cash and cash equivalents, at beginning of year	1,810	2,715	**28,418**
Cash and cash equivalents, at end of year	$ 2,715	$ 28,418	**$ 42,641**
Supplemental information:			
Cash paid for income taxes during the year	$ 158	$ 53	**$ 2,546**

The accompanying notes are an integral part of the consolidated financial statements.

1. Basis of Presentation

The Company is principally engaged in providing high-quality, cost-effective, full life cycle solutions to complex software development and maintenance requirements that companies face as they transition to e-business. The Company has operations and subsidiaries in India, the United Kingdom, Germany, Canada and the United States. These services are delivered through the use of a seamless on-site and off-shore consulting project team. These solutions include application development and integration services, application management, re-engineering and mass change implementation.

The Company is a Delaware corporation originally organized in 1988. The Company began its software development and maintenance services business in early 1994, as an in-house technology development center for The Dun & Bradstreet Corporation and its operating units. In 1996, the Company, Erisco, Inc. ("Erisco"), IMS International Inc. ("IMS International"), Nielsen Media Research, Inc., Pilot Software Inc. and Sales Technologies, Inc. and certain other entities, plus a majority interest in Gartner Group, Inc. were spun-off from The Dun & Bradstreet Corporation to form Cognizant Corporation ("Cognizant"). In 1997, the Company purchased the 24.0% minority interest in its Indian subsidiary from a third party for $3.4 million, making the Indian subsidiary wholly owned by the Company. In June 1998, the Company completed its IPO. On June 30, 1998, a majority interest in the Company, Erisco, IMS International and certain other entities were spun-off from Cognizant to form IMS Health Incorporated ("IMS Health"), the "accounting successor" to Cognizant, the Company's majority owner and controlling parent company.

IMS Health currently provides the Company with certain administrative services, including payroll and payables processing, e-mail, tax planning and compliance, and permitted the Company to participate in IMS Health's insurance and employee benefit plans. Costs for these services for all periods prior to the IPO were allocated to the Company based on utilization of certain specific services. All subsequent services were performed under the CTS IMS Health intercompany services agreement. (See also Note 10. to the Consolidated Financial Statements.)

2. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements reflect the consolidated financial position, results of operations and cash flows of the Company and its consolidated subsidiaries as if it were a separate entity for all periods presented.

Cash and Cash Equivalents. Cash and cash equivalents primarily include time and demand deposits in the Company's operating bank accounts. The Company considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment. Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated on the 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 term of the lease or the estimated useful life of the improvement. Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized.

Goodwill. Goodwill represents the excess of the purchase price of the former minority interest in the Company's Indian subsidiary over the fair values of amounts assigned to the incremental net assets acquired. Amortization expense is recorded using the straight-line method over a period of seven years. Amortization expense was $317 for each of the years ended December 31, 1999 and 1998. Accumulated amortization was $711 and $393 at December 31, 1999 and 1998, respectively. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, the Company will recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such assets. The measurement for such an impairment loss is then based on the fair value of the asset.

Revenue Recognition. The Company's services are entered into on either a time-and-materials or fixed-price basis. Revenues related to time-and-material contracts are recognized as the service is performed. Revenues related to fixed-price contracts are recognized as the service is performed using the percentage-of-completion method of accounting, under which the sales value of performance, including

estimated earnings thereon, is recognized on the basis of the percentage that each contract's cost to date bears to the total estimated cost. Fixed price contracts are cancellable subject to a specified notice period. All services provided by the Company through the date of cancellation are due and payable under the contract terms. The Company issues invoices related to fixed price contracts based upon achievement of milestones during a project. Estimates are subject to adjustment as a project progresses to reflect changes in expected completion costs. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the change in estimate becomes known and any anticipated losses on contracts are recognized immediately. A reserve for warranty provisions under such contracts, which generally exist for ninety days past contract completion, is estimated and accrued during the contract period.

Unbilled Accounts Receivable. Unbilled accounts receivable represent revenues on contracts to be billed, in subsequent periods, as per the terms of the contracts.

Foreign Currency Translation. The assets and liabilities of the Company's Canadian and European subsidiaries are translated into U.S. dollars from local currencies at current exchange rates and revenues and expenses are translated from local currencies at average monthly exchange rates. The resulting translation adjustments are recorded in a separate component of stockholders' equity. For the Company's Indian subsidiary ("CTS India"), the functional currency is the U.S. dollar, since its sales are made primarily in the United States, the sales price is predominantly in U.S. dollars and there is a high volume of intercompany transactions denominated in U.S. dollars between CTS India and its U.S. affiliates. Non-monetary assets and liabilities are translated at historical exchange rates, while monetary assets and liabilities are translated at current exchange rates. The resulting gain (loss) is included in other income.

Risks and Uncertainties. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. The most significant estimates relate to the allowance for doubtful accounts, reserve for warranties, depreciation of fixed assets and long-lived assets and the recognition of revenue and profits based on the percentage of completion method of accounting for fixed bid contracts. Actual results could vary from the estimates and assumptions used in the preparation of the accompanying financial statements.

All of the Company's software development centers, including a substantial majority of its employees and assets, are located in India. As a result, the Company may be subject to certain risks associated with international operations, including risks associated with foreign currency exchange rate fluctuations and risks associated with the application and imposition of protective legislation and regulations relating to import and export or otherwise resulting from foreign policy or the variability of foreign economic conditions. To date, the Company has not engaged in any significant hedging transactions to mitigate its risks relating to exchange rate fluctuations. Additional risks associated with international operations include difficulties in enforcing intellectual property rights, the burdens of complying with a wide variety of foreign laws, potentially adverse tax consequences, tariffs, quotas and other barriers.

Net Income Per Share. In 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share," which replaces the presentation of primary net income (loss) per share ("EPS") and fully diluted EPS with a presentation of basic EPS and diluted EPS, respectively. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Similar to fully diluted EPS, diluted EPS includes all dilutive potential common stock in the weighted average shares outstanding. (See Note 14. to the Consolidated Financial Statements)

Concentration of Credit Risk. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains its cash and cash equivalents with high credit quality financial institutions.

Income Taxes. Prior to the consummation of the Company's IPO, the Company had been included in the federal and certain state income tax returns of Cognizant and The Dun & Bradstreet Corporation. The provision for income taxes in the Company's consolidated financial statements has been calculated on a separate company basis. Income tax benefits realized by the Company and utilized by Cognizant or

The Dun & Bradstreet Corporation are included in stockholders' equity. The Company is no longer included in the consolidated return of its majority owner and controlling parent company, and is required to file separate income tax returns.

On a stand-alone basis, the Company provides for income taxes utilizing the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of 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. If it is determined that it is more likely than not that future tax benefits associated with a deferred tax asset will not be realized, a valuation allowance will be provided. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date.

CTS India is an export oriented company that is entitled to claim a tax holiday for a period of nine years from April 1995 through March 2004 in respect to its export profits. Under the Indian Income Tax Act of 1961, substantially all of the earnings of the Company's Indian subsidiary are currently exempt from Indian Income Tax as profits are attributable to export operations. However, since management currently intends to repatriate all accumulated earnings from India to the United States, the Company has provided deferred U.S. income taxes on all undistributed earnings.

Stock-Based Compensation. With respect to stock options granted to employees, SFAS No. 123 "Accounting for Stock-Based Compensation" permits companies to continue using the accounting method promulgated by the Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," to measure compensation or to adopt the fair value based method prescribed by SFAS No. 123. Management has determined not to adopt the SFAS No. 123's accounting recognition provisions, but has included the required pro forma disclosures.

Reclassifications. Certain prior-year amounts have been reclassified to conform with the 1998 presentation.

Recently Issued Accounting Standards. In July 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of the FASB Statement No. 133, an Amendment of FASB Statement No. 133". SFAS No. 137 defers the effective date of FASB No. 133, which establishes accounting and reporting standards for derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. FASB No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variability in cash flows attributable to a particular risk, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security and a forecasted transaction. As a result of FASB No. 137, the Company will be required to implement SFAS No. 133 for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect the adoption of this pronouncement to have a material effect on the Company's results of operations, financial position or cash flows.

3. Initial Public Offering

On June 24, 1998, the Company consummated its Initial Public Offering ("IPO") of 5,834,000 (2,917,000 pre-split) shares of its Common Stock at a price of $5.00 ($10.00 pre-split) per share, 5,000,000 (2,500,000 pre-split) of which were issued and sold by the Company and 834,000 (417,000 pre-split) of which were sold by Cognizant Corporation ("Cognizant"), the Company's then majority owner and controlling parent company. The net proceeds to the Company from the IPO were approximately $22.4 million after $845 of direct expenses. In July 1998, IMS Health (the accounting successor to Cognizant) sold 875,100 (437,550 pre-split) shares of Class B Common Stock, which were converted to Class A Common Stock pursuant to an over allotment option granted to the underwriters of the IPO. Of the total net proceeds received by the Company upon the consummation of its IPO, approximately $6.6 million was used to repay the related party balance then owed to Cognizant. The related party balance resulted from certain advances to the Company from Cognizant used to purchase

the minority interest of the Company's Indian subsidiary and to fund payroll and accounts payable. Concurrent with the IPO, the Company reclassified the amounts in mandatorily redeemable common stock to stockholders' equity as the redemption feature was voided. (See Note 8. to the Consolidated Financial Statements.)

4. Supplemental Financial Data

Property and Equipment

Property and equipment consist of the following:

	Estimated Useful Life (Years)	December 31, 1999	December 31, 1998
Computer equipment and purchased software	3	**$ 8,397**	$ 5,542
Furniture and equipment	5 – 9	**4,760**	3,044
Leasehold improvements	Various	**3,134**	1,805
Sub-total		**$ 16,291**	$ 10,391
Accumulated depreciation and amortization		**(6,817)**	(4,121)
Property and Equipment - Net		**$ 9,474**	$ 6,270

Accrued Expenses and Other Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31, 1999	December 31, 1998
Accrued bonuses and commissions	**$ 5,143**	$ 6,600
Accrued vacation	**1,217**	800
Accrued travel and entertainment	**948**	707
Deferred revenue	**677**	604
Other	**3,784**	2,496
	$ 11,769	$ 11,207

5. Acquisition of Minority Interest

On July 3, 1997, the Company signed a memorandum of understanding to purchase the 24.0% minority interest in CTS India from a third party. On October 31, 1997, the Company paid $3,468 to the minority shareholder increasing the Company's ownership in CTS India from 76.0% to 100.0%. The Company accounted for the acquisition of the minority interest using the purchase method. The incremental assets acquired have been recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of the incremental net assets acquired has been recorded as goodwill and is being amortized on a straight-line basis over a seven year period. The following is a summary of the purchase price allocation for the acquisition of the minority interest:

Fair value of assets	**$1,727**
Deferred taxes	**(482)**
Goodwill	**2,223**
Total purchase price	**$3,468**

The results of operations of CTS India have been included in the Company's operations since the acquisition date. Had the acquisition of the minority interest taken place on January 1, 1997, the results of operations would not have reflected minority interest expense in each year and would have reflected amortization of the related goodwill of $317 for 1997.

6. Employee Benefits

Beginning in 1997, certain U.S. employees of the Company were eligible to participate in Cognizant's and now IMS Health's 401(k) plan. The Company matches up to 50.0% of the eligible employee's contribution. The amount charged to expense for the matching contribution was $49 and $55 for the year ended December 31, 1999 and 1998, respectively.

Certain of the Company's employees participate in IMS Health's defined benefit pension plan. The costs to the Company recognized as postretirement benefit costs and related liabilities were not material to the Company's results of operations or financial position for the years presented. (See Note 10. to the Consolidated Financial Statements.)

CTS India maintains an employee benefit plan that covers substantially all India-based employees. The employees' provident fund, pension and family pension plans are statutory defined contribution retirement benefit plans. Under the plans, employees contribute up to twelve percent of their base compensation, which is matched by an equal contribution by CTS India. Contribution expense recognized was $338, $186 and $128 for the years ended December 31, 1999, 1998 and 1997 respectively.

CTS India also maintains a statutory gratuity plan that is a statutory postemployment benefit plan providing defined lump sum benefits. CTS India makes annual contributions to an employees' gratuity fund established with a government-owned insurance corporation to fund a portion of the estimated obligation. The Company estimates its obligation based upon employee salary and projected turnover rates. Expense recognized by the Company was $358, $135 and $94 for the years ended December 31, 1999, 1998 and 1997, respectively.

7. Income Taxes

Income (loss) before provision for income taxes consisted of the following for years ended December 31:

	1999	1998	1997
U.S.	**$ 7,553**	$ (2,862)	$ (1,812)
Non-U.S.	**10,392**	12,501	3,966
Total	**$ 17,945**	$ 9,639	$ 2,154

The provision (benefit) for income taxes consists of the following for the years ended December 31,

	1999	1998	1997
U.S. Federal and state:			
Current	**$ 3,079**	$ 75	$ (607)
Deferred	**3,354**	3,516	1,178
Total U.S. Federal and state	**$ 6,433**	$ 3,591	$ 571
Non-U.S.:			
Current	**$ 315**	$ 20	$ 18
Deferred	**(37)**	(5)	(8)
Total non-U.S.	**278**	15	10
Total	**$ 6,711**	$ 3,606	$ 581

The following table sets forth the significant differences between the U.S. federal statutory taxes and the Company's provision for income taxes for consolidated financial statement purposes:

	1999	1998	1997
Tax expense at statutory rate	**$ 6,101**	$ 3,277	$ 732
State and Local Income Taxes	**398**	(110)	—
Goodwill	**109**	108	26
Effect of minority interest on foreign earnings	**—**	—	(185)
Other	**103**	331	8
Total Income Taxes	**$ 6,711**	$ 3,606	$ 581

The Company's deferred tax assets (liabilities) are comprised of the following at December 31:

	1999	1998
Deferred tax assets:		
Net Operating Losses	**$ 37**	$ 940
Net deferred tax assets	**$ 37**	$ 940
Deferred tax liabilities:		
Undistributed Indian income	**(10,398)**	(7,043)
Total deferred tax liabilities	**(10,398)**	(7,043)
Net deferred tax liability	**$ (10,361)**	$ (6,103)

At December 31, 1999, the Company had $37 of tax credit carry forwards related to Germany net operating losses, which do not expire.

CTS India is an export oriented company that is entitled to claim a tax holiday for a period of nine years from April 1995 through March 2004 in respect to its export profits. Under the Indian Income Tax Act of 1961, substantially all of the earnings of the Company's Indian subsidiary are currently exempt from Indian Income Tax as profits are attributable to export operations. However, since management intends to repatriate all earnings from India to the United States, the Company has provided deferred U.S. income taxes on all undistributed earnings. The Company has determined that the income taxes recorded by the Company would not be materially different in the absence of the current tax exemption and, therefore, the tax exemption had no material effect on earnings per share.

8. Capital Stock

A. Common Stock. On June 12, 1998, the Company amended and restated its certificate of incorporation to authorize 100,000,000 shares of Class A common stock, par value $.01 per share, 15,000,000 shares of Class B common stock, par value $.01 per share, and 15,000,000 shares of preferred stock, par value $.10 per share, and effected a 0.65 for one reverse stock split. All applicable shares and per share amounts in the accompanying financial statements have been retroactively adjusted to reflect this recapitalization. Holders of Class A common stock have one vote per share and holders of Class B common stock have ten votes per share. Holders of Class B common stock are entitled to convert their shares into Class A common stock at any time on a share for share basis. Shares of Class B Common Stock transferred to stockholders of IMS Health in a transaction intended to be on a tax-free basis (a "Tax-Free Spin-Off") under the Code shall not convert to shares of Class A Common Stock upon the occurrence of such Tax-Free Spin-Off. No preferred stock has been issued. (See Note 14. to the Consolidated Financial Statements)

Subsequent to the IPO, the underwriters exercised their right to purchase an additional 875,100 (437,550 pre-split) shares of Class A Common Stock. As a result, IMS Health, the majority owner and controlling parent of the Company, converted 875,100 shares of Class B Common stock into Class A Common Stock and subsequently sold such shares.

B. Redeemable Common Stock. On July 25, 1997, certain management employees of the Company and its affiliates subscribed and subsequently purchased Common Stock under the "Key Employees Restricted Stock Purchase Plan." These shares were purchased by the employees at the then estimated fair market value of $1.93 per share. Holders of the stock may put, at any time, to the Company their shares at the lower of the purchase price or the share price based on a valuation of the Company at the time of the put. Upon consummation of the IPO, this put right terminated. The Company initially recorded the value of the purchased stock outside the equity section. In 1998, upon the completion of the initial public offering, all redemption conditions were removed, and the shares have been reclassified to common stock.

9. Employee Stock Options Plans

In July 1997, CTS adopted a Key Employees Stock Option Plan, which provides for the grant of up to 1,397,500 stock options to eligible employees. Options granted under this plan may not be granted at an exercise price less than fair market value of the underlying shares on the date of grant. As a result of the IPO all options have a life of ten years, vest proportionally over four years and have an exercise price equal to the fair market value of the common stock on the grant date.

In December 1997, CTS adopted a Non-Employee Directors' Stock Option Plan, which provides for the grant of up to 143,000 stock options to eligible directors. Options granted under this plan may not be granted at an exercise price less than fair market value of the underlying shares on the date of grant. As a result of the IPO all options have a life of ten years, vest proportionally over two years and have an exercise price equal to the fair market value of the common stock on the grant date.

In March 1998, CTS granted non-qualified stock options to purchase an aggregate of 97,500 shares to CTS's Chairman and Chief Executive Officer at an exercise price of $13.84 per share, an amount less than the fair market value of the shares on the date of the grant.

In May 1999, CTS adopted the 1999 Incentive Compensation Plan, which provides for the grant of up to 2,000,000 stock options to eligible employees, nonemployee Directors and independent contractors. Options granted under this plan may not be granted at an exercise price less than fair market value of the underlying shares on the date of grant. All options have a life of ten years, vest proportionally over four years, unless specified otherwise, and have an exercise price equal to the fair market value of the common stock on the grant date.

A summary of the Company's stock option activity, and related information is as follows:

	December 31,					
	1999		1998		1997	
	Shares	**Weighted Average Exercise Price**	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**1,370,052**	**$ 2.93**	1,079,650	$ 2.02	—	$ —
Granted, Employee Option Plan	**122,400**	**13.73**	371,900	4.87	1,040,650	1.93
Granted, Directors Option Plan	**40,000**	**11.16**	73,000	5.00	39,000	4.54
Granted, 1999 Incentive Comp. Plan	**1,277,000**	**12.58**	—	—	—	—
Exercised	**(191,494)**	**2.88**	(74,222)	1.93	—	—
Canceled	**(66,150)**	**4.51**	(80,276)	2.79	—	—
Outstanding - end of year	**2,551,808**	**$ 8.37**	1,370,052	$2.93	1,079,650	$ 2.02
Exercisable - end of year	**441,902**	**$ 3.40**	224,130	$ 2.35	—	—

The following summarizes information about the Company's stock options outstanding and exercisable by price range at December 31, 1999 and 1998, respectively:

1999					
Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$1.93 - $1.93	748,126	7.6 years	$ 1.93	286,626	$ 1.93
$3.46 - $5.00	324,782	8.4 years	$ 4.50	109,776	$ 4.20
$5.44 - $8.07	39,000	8.7 years	$ 6.38	4,500	$ 6.61
$10.75 - $15.36	1,423,900	9.4 years	$ 12.47	41,000	$ 11.18
$25.44 - $30.94	16,000	9.9 years	$ 27.69	—	—
$1.93 - $30.94	2,551,808	8.7 years	$ 8.37	441,902	$ 3.40

Compensation cost recognized by the Company under APB 25 was $172 and $122 for 1999 and 1998, respectively. No compensation cost was recognized by the Company under APB 25 for 1997.

Had compensation cost for the Company's stock-based compensation plans, as well as the IMS Health options held by certain executive officers (See Note 10. to the Consolidated Financial Statements), been determined based on the fair value at the grant dates for awards under those plans, consistent with the method prescribed by SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	December 31,		
	1999	1998	1997
Net income			
As reported	**$11,234**	$6,033	$1,028
Pro forma	**$10,047**	$5,747	$778
As reported			
Net income per share, basic	**$0.61**	$0.38	$0.08
Net income per share, diluted	**$0.58**	$0.36	$0.08
Pro forma			
Net income per share, basic	**$0.55**	$0.36	$0.06
Net income per share, diluted	**$0.52**	$0.35	$0.06

The pro forma disclosures shown above are not representative of the effects on net income and earnings per share in future years.

For purposes of pro forma disclosures only, the fair value for all Company options was estimated at the date of grant using the Black Scholes option model with the following weighted average assumptions in 1999; risk free interest rate of 5.6%, expected dividend yield of 0.0%, expected volatility of 75.0% and expected life of 3.9 years. 1998 assumptions; risk free interest rate of 5.4%, expected dividend yield of 0.0%, expected volatility of 48.0% and expected life of 3.6 years. 1997 assumptions: risk-free interest rate of 6.3%, expected dividend yield of 0.0%, expected volatility of 40.0% and expected life of 8.7 years. The weighted-average fair value of the Company's options granted during 1999 was $7.45. The weighted-average fair value of the Company's options granted during 1998 was $2.34. The weighted-average fair value of the Company's options granted during 1997 was $1.19. The assumptions used in 1999 for IMS Health stock options were: risk-free interest rate of 4.8%, expected dividend yield of 0.3%, expected volatility of 35.0% and expected life of 3.0 years. The assumptions used in 1998 for IMS Health stock options were: risk-free interest rate of 5.5%, expected dividend yield of 0.3%, expected volatility of 25.0% and expected life of 3.0 years. The assumptions used in 1997 for Cognizant stock options were: risk-free interest rate of 5.9%, expected dividend yield of 0.3%, expected volatility of 25.0% and expected life of 4.5 years. The weighted average fair value of IMS Health stock options granted to certain executive officers in 1998 was $7.14. The weighted average fair value of Cognizant stock options granted to certain executive officers in 1997 was $9.76.

10. Other Transactions with Affiliates

Background. The Company began its software development and maintenance services business in early 1994 as an in-house technology development center for The Dun & Bradstreet Corporation and its operating units. These operating units principally included A.C.Nielsen, Dun & Bradstreet Information Services, Dun & Bradstreet Software, Erisco, Inc. ("Erisco"), IMS International, Inc. ("IMS International"), NCH Promotional Services, Inc. ("NCH Promotional Services"), Nielsen Media Research, Inc. ("Nielsen Media Research"), The Reuben H. Donnelley Corporation ("RHDonnelley"), Pilot Software, Inc. ("Pilot Software") and Sales Technologies, Inc. ("Sales Technologies"), and a majority interest in Gartner Group, Inc. ("Gartner Group"). In November 1996, the Company, Erisco, IMS International, Nielsen Media Research, Pilot Software, Sales Technologies and certain other entities, plus a majority interest in Gartner Group, were spun-off from The Dun & Bradstreet Corporation to form Cognizant, the then majority owner and controlling parent of the Company. At that time, ACNielsen was separately spun-off from The Dun & Bradstreet Corporation and Dun & Bradstreet Software was sold to GEAC Software. In 1997, Cognizant sold Pilot Software to a third party.

On January 15, 1998, Cognizant announced that it would, subject to certain conditions, reorganize itself (the "Reorganization"), by spinning the Nielsen Media Research business from the rest of its businesses, creating two publicly traded companies, IMS Health Corporation ("IMS Health") and Nielsen Media Research. The reorganization became effective on July 1, 1998. The shares of the Company previously held by Cognizant are now held by IMS Health and all services previously provided to the Company by Cognizant are now being provided by IMS Health.

In July 1998, IMS Health sold 875,100 (437,550 pre-split) shares of Class B Common Stock pursuant to an over allotment option granted to the underwriters of the IPO. As of December 31, 1999, IMS Health owned a majority and controlling interest in the outstanding Common Stock of the Company and held approximately 94% of the combined voting power of the Company's Common Stock. (See also Note 3. to the Consolidated Financial Statements.)

IMS Health currently provides the Company with certain administrative services including payroll and payables processing, e-mail, tax planning and compliance, and permits the Company to participate in IMS Health's insurance and employee benefit plans. Costs for these services for all periods prior to the IPO were allocated to the Company based on utilization of certain specific services. All subsequent services were performed under the CTS IMS Health intercompany services agreement.

Affiliated Agreements. In 1997, the Company entered into various agreements with Cognizant which were assigned to IMS Health as part of the 1998 spin-off. The agreements include an Intercompany Services Agreement for services provided by IMS Health such as payroll and payables processing, tax, finance, personnel administration, real estate and risk management services, a License Agreement to use the "Cognizant" trade name and an Intercompany Agreement. On July 1, 1998, IMS Health transferred all of its rights to the "Cognizant" name and related trade and service marks to the Company.

Revenues. In 1997, the Company recognized related party revenues totaling $10,846 including revenues from Erisco, IMS International, Nielsen Media Research, Strategic Technologies, Pilot Software and Gartner Group for the full year. In 1998, the Company recognized related party revenues totaling $13,575 including revenues from IMS Health, Nielsen Media Research (through June 30, 1998), Strategic Technologies and Gartner Group. In 1999, the Company recognized related party revenues totaling $14,820 including revenues from IMS Health and Strategic Technologies.

Services. The Company, IMS Health and Nielsen Media Research have entered into Master Services Agreements pursuant to which the Company provides IT services to such subsidiaries. IMS Health, Cognizant and The Dun & Bradstreet Corporation provided the Company with certain administrative services, including financial planning and administration, legal, tax planning and compliance, treasury and communications, and permitted the Company to participate in Cognizant's insurance and employee benefit plans. Costs for these services for all periods prior to the IPO were allocated to the Company based on utilization of certain specific services. All subsequent services were performed under the CTS IMS Health intercompany services agreement. Management believes that these allocations are reasonable.

Total costs charged to the Company by IMS Health in connection with these services were $350, $1,666, and $835 for the years ended December 31, 1999, 1998 and 1997, respectively. The decrease in such costs during 1999 was a result of the majority of the Company's employees no longer participating in IMS Health's employee benefits plan effective January 1, 1999.

The Company financed the acquisition of the minority interest and its operations through intercompany balances with Cognizant, which were repaid with proceeds from the IPO. No interest was charged on these transactions.

Such transactions in 1999, 1998 and 1997 are as follows:

	1999	1998	1997
Loans and advances (repayments), net	**$(24)**	$(6,637)	$2,251
Purchase of minority interest	**—**	—	3,418
Proceeds (to) from related party	**$(24)**	$(6,637)	$5,669

Leases. Beginning January 1, 1997 and ended December 31, 1998, the Company leased office space from a subsidiary of IMS Health. The Company made annual lease payments to the subsidiary of $107 and $99 in 1998 and 1997, respectively.

Pension Plans. Certain U.S. employees of the Company participate in IMS Health's defined benefit pension plans. The plans are cash balance pension plans under which six percent of creditable compensation plus interest is credited to the employee's retirement account on a monthly basis. The cash balance earns monthly investment credits based on the 30-year Treasury bond yield. At the time of retirement, the vested employee's account balance is actuarially converted into an annuity. The Company's cost for these plans is included in the allocation of expense from IMS Health for employee benefits plans.

Stock Options. In November 1996, in consideration for services to the Company, Cognizant Corporation granted an executive officer and director of the Company options to purchase an aggregate of 114,900 shares (on a pre-split basis) of the common stock of Cognizant Corporation at an exercise price of $33.38 per share. Such executive officer and director agreed to forfeit options to purchase 58,334 shares (on a pre-split basis) of Cognizant Corporation common stock upon the consummation of the Company's initial public offering. In July 1998, IMS Health granted an executive officer options to purchase an aggregate of 8,158 shares (on a pre-split basis) of the common stock of IMS Health at an exercise price of $30.17 per share. All remaining such options have since been converted into options to purchase the common stock of IMS Health as a result of the Reorganization that occurred on July 1, 1998, the two-for-one split of IMS Health stock that occurred on January 15, 1999 and the distribution of Gartner Group shares that occurred on July 26, 1999. At December 31, 1999, after adjusting for the Reorganization, the split of IMSH stock and the distribution of Gartner Group shares, such officer had 168,113 options outstanding at a weighted average exercise price of $16.36 per share. At December 31, 1999, 114,569 options were exercisable.

In November 1996, Cognizant Corporation granted an executive officer options to purchase an aggregate of 60,000 shares (on a pre-split basis) of the common stock of Cognizant Corporation at an exercise price of $33.38 per share. In addition, in November 1996, such executive officer was granted options to purchase an aggregate of 20,000 shares (on a pre-split basis) of the common stock of Cognizant Corporation at an exercise price of $33.38 per share, which was equal to the fair market value at the grant date, by paying ten percent of the option exercise price as an advance payment toward such exercise. The unvested portion of such advance payment is refundable under certain conditions. The remaining 90 percent is payable at exercise. In July 1998, IMS Health granted an executive officer options to purchase an aggregate of 9,106 shares (on a pre-split basis) of the common stock of IMS Health at an exercise price of $30.17 per

share. All remaining such options have since been converted into options to purchase the common stock of IMS Health as a result of the Reorganization, the two-for-one split of IMS Health stock, and the distribution of Gartner Group shares discussed above. At December 31, 1999, after adjusting for the Reorganization, the split of IMSH stock and the distribution of Gartner Group shares, such officer had 124,285 options outstanding at a weighted average exercise price of $16.71 per share. At December 31, 1999, 32,925 options were exercisable.

11. Commitments

The Company leases office space under operating leases, which expire at various dates through the year 2007. Certain leases contain renewal provisions and generally require the Company to pay utilities, insurance, taxes, and other operating expenses. Future minimum rental payments under operating leases that have initial or remaining lease terms in excess of one year as of December 31, 1999 are as follows:

2000	1,803
2001	1,689
2002	1,226
2003	1,041
2004	515
Thereafter	85
Total minimum lease payments	$6,359

Rental expense totaled $1,823, $1,260 and $509 for years ended December 31, 1999, 1998 and 1997, respectively.

12. Contingencies

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, many of the Company's engagements involve projects that are critical to the operations of its customers' business and provide benefits that are difficult to quantify. Any failure in a customer's computer 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 contractually limit its liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering its software development and maintenance services, there can be no assurance that the limitations of liability set forth in its contracts will be enforceable in all instances or will otherwise protect the Company from liability for damages. Although the Company has general liability insurance coverage, including coverage for errors or omissions, 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, would have a material adverse effect on the Company's business, results of operations and financial condition.

13. Segment Information

The Company delivers high-quality, cost-effective, full life cycle solutions to complex software development and maintenance problems that companies face as they transition to e-business. These services are delivered through the use of a seamless on-site and offshore consulting project team. These solutions include application development and integration services, application management, re-engineering and mass change implementation. The Company has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." Information about the Company's operations and total assets in North America, Europe and Asia for the three years ended December 31, 1999, 1998 and 1997 are as follows:

	1999	1998	1997
Revenues (1)			
North America	**$71,171**	$47,883	$21,217
Europe	**17,352**	10,481	3,177
Asia	**381**	242	350
Consolidated	**$88,904**	$58,606	$24,744
Operating income (1)			
North America	**$13,328**	$6,724	$1,685
Europe	**3,245**	2,098	400
Asia	**72**	96	44
Consolidated	**$16,645**	$8,918	$2,129
Identifiable assets			
North America	**$43,671**	$36,294	$9,930
Europe	**3,408**	2,846	60
India	**21,947**	12,539	8,308
Consolidated	**$69,026**	$51,679	$18,298

(1) Revenues and resulting operating income are attributed to regions based upon customer location.

The Company, operating globally, provides software development and maintenance services for medium and large businesses. North American operations consist primarily of software development and maintenance consulting services in the United States and Canada. European operations consist primarily of software development and maintenance services principally in the United Kingdom and Germany. Asian operations consist primarily of software development and maintenance consulting services principally in India.

During 1997, 1998 and 1999, the Company's top five customers accounted for 77.5%, 60.5% and 57.3% of revenues, respectively. The Company's ten largest customers accounted for, in the aggregate, approximately 92.3%, 81.0% and 75.3% of the Company's revenues in 1997, 1998 and 1999, respectively. In 1999, sales to one related party customer accounted for 16.7% of revenues and one third party customer accounted for 17.4% of revenues. In 1998, sales to one related party customer accounted for 23.2% of revenues and two third party customers accounted for 12.5% and 11.3% of revenues, respectively. In 1997, sales to one related party customer accounted for 44.3% of revenues and one third party customer accounted for 13.9% of revenues. For statement of operations purposes, revenues from related parties only include revenues recognized during the period in which the related party was affiliated with the Company.

14. Subsequent Event

On February 11, 2000, the Board of Directors declared a 2-for-1 stock split effected by a 100% dividend payable on March 16, 2000 to stockholders of record on March 2, 2000. The stock split has been reflected in the accompanying financial statements, and all applicable references as to the number of outstanding common shares and per share information have been restated. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options. Stockholders' equity accounts have been restated to reflect the reclassification of an amount equal to the par value of the increase in issued common shares from the capital in excess of par value account to the common stock accounts.

Quarterly Financial Data (Unaudited)

1999	Three Months Ended March 31	June 30	Sept. 30	Dec. 31	Full Year
Operating Revenue	**$20,426**	**$21,498**	**$22,876**	**$24,104**	**$88,904**
Gross Profit	**$9,715**	**$10,349**	**$11,003**	**$11,676**	**$42,743**
Operating Income	**$4,070**	**$3,863**	**$4,176**	**$4,536**	**$16,645**
Net Income	**$2,759**	**$2,555**	**$2,860**	**$3,061**	**$11,234**
Earnings Per Share of Common Stock					
Basic	**$0.15**	**$0.14**	**$0.16**	**$0.17**	**$0.61**
Diluted	**$0.14**	**$0.13**	**$0.15**	**$0.15**	**$0.58**

1998	Three Months Ended March 31	June 30	Sept. 30	Dec. 31	Full Year
Operating Revenue	$10,238	$12,668	$16,200	$19,500	$58,606
Gross Profit	$4,309	$5,342	$7,276	$9,760	$26,687
Operating Income	$1,124	$1,582	$2,435	$3,777	$8,918
Net Income	$712	$1,066	$1,700	$2,555	$6,033
Earnings Per Share of Common Stock					
Basic	$0.05	$0.08	$0.09	$0.14	$0.38
Diluted	$0.05	$0.07	$0.09	$0.13	$0.36

Selected Consolidated Financial Data

The following table sets forth selected consolidated historical financial data of the Company as of the dates and for the periods indicated. The selected consolidated financial data set forth below for the Company as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 are derived from the audited financial statements included elsewhere herein. The selected consolidated financial data set forth below for the Company as of December 31, 1995, 1996 and 1997 and for each of the years ended December 31, 1995 and 1996 are derived from the audited financial statements not included elsewhere herein. The selected consolidated financial information for 1997, 1998 and 1999 should be read in conjunction with the Consolidated Financial Statements and the Notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" which are included elsewhere in this Annual Report.

	Year Ended December 31,				
(in thousands, except per share data)	1995	1996	1997	1998	**1999**
Statements of Income Data:					
Revenues	$ 298	$ 2,775	$ 13,898	$ 45,031	**$ 74,084**
Revenues - related party	6,877	9,257	10,846	13,575	**14,820**
Total revenues	7,175	12,032	24,744	58,606	**88,904**
Cost of revenues	3,567	6,020	14,359	31,919	**46,161**
Gross profit	3,608	6,012	10,385	26,687	**42,743**
Selling, general and administrative expenses	2,213	3,727	6,898	15,547	**23,061**
Depreciation and amortization expense	376	819	1,358	2,222	**3,037**
Income from operations	1,019	1,466	2,129	8,918	**16,645**
Other income:					
Interest income	7	8	25	638	**1,263**
Other income - net	44	1	—	83	**37**
Total other income	51	9	25	721	**1,300**
Income before provision for income taxes	1,070	1,475	2,154	9,639	**17,945**
Provision for income taxes	(247)	(341)	(581)	(3,606)	**(6,711)**
Minority interest	(362)	(492)	(545)	—	**—**
Net income	$ 461	$ 642	$ 1,028	$ 6,033	**$ 11,234**
Basic earnings per share[1]	$ 0.04	$ 0.05	$ 0.08	$ 0.38	**$ 0.61**
Diluted earnings per share[1]	$ 0.04	$ 0.05	$ 0.08	$ 0.36	**$ 0.58**
Weighted average number of common shares outstanding	13,000	13,000	13,094	15,886	**18,342**
Weighted average number of common shares and stock options outstanding	13,000	13,000	13,210	16,538	**19,416**
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 546	$ 1,810	$ 2,715	$ 28,418	**$ 42,641**
Working capital	1,126	2,781	5,694	29,416	**43,507**
Total assets	5,451	7,827	18,298	51,679	**69,026**
Due to related party	662	976	6,646	9	**—**
Stockholders' equity	1,766	2,806	3,419	32,616	**45,461**

(1) See Note 14. to the Consolidated Financial Statements