2000 ANNUAL REPORT

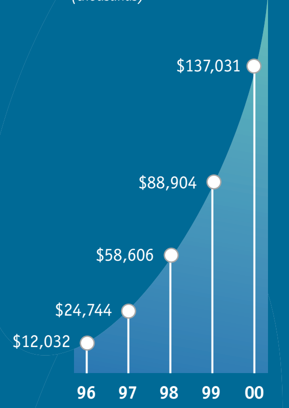
Navigating the Seas of Change

Cognizant Technology Solutions

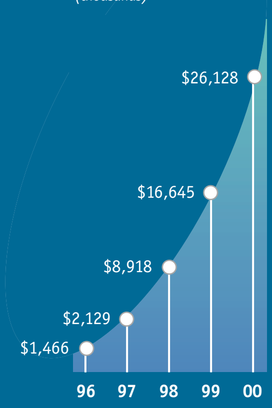
Company Profile:

Specializing in e-business and application management, Cognizant Technology Solutions delivers high-quality, cost-effective, full life-cycle solutions to complex software development and management problems. The Company employs more than 3,000 computer-science and engineering professionals in the US and Europe and at its SEI-CMM Level 5 certified development centers in India.

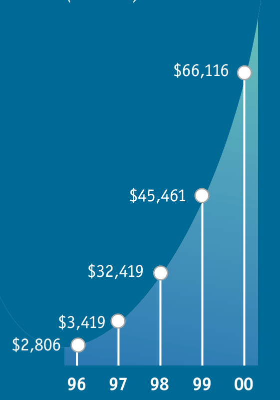
Revenue
(thousands)



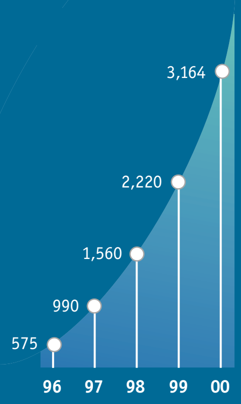
Operating Income
(thousands)



Stockholders' Equity
(thousands)



Employees



For Cognizant Technology Solutions, navigating the seas of change means successfully anticipating and rapidly responding to each new wave of technology. We are able to expertly ride different waves of technology and continue to meet customers' increasing needs in changing times. Cognizant has demonstrated its skill by deftly moving from mainframe to Y2K to client server to the Internet and then to wireless – all without missing a beat. And we've done it while continuing to rapidly grow revenues and earnings – a feat which has been achieved by very few in our industry. These accomplishments are the result of the strategic foresight of our management team and our cost-effective on-site/offshore model, which allows us to invest in extensive R&D and training operations without sacrificing earnings. Our achievements are also the result of our unique client partnerships. We work with clients over the course of years and deliver results through many technology cycles, resulting in some of the deepest and most enduring client relationships in the industry. These factors are the keys to Cognizant's ongoing success.

Strong Financial Results

As our results demonstrate, business has remained strong despite an economic landscape that has signaled a slowdown for many other IT-services organizations. The fourth quarter of 2000 marked our 17th consecutive quarter of revenue growth. Fueled primarily by the popularity of our application-management and e-business services along with highly productive sales and

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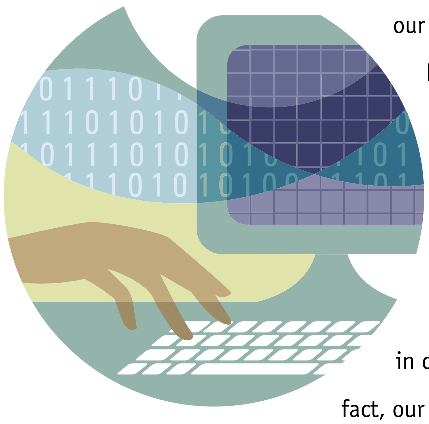
marketing investments, our Company's total revenues rose 54 percent to $137.0 million for 2000, from $88.9 million for the prior year. Recurring revenue from our existing customer base accounted for 82 percent of our total revenues for 2000 – a testament to the strength of our client partnerships, the quality of our work and our ability to continuously provide increasing value to clients. These ongoing client relationships also provide us with excellent visibility for revenues and earnings. We increased our net income for 2000 by 57 percent to $17.7 million, or $0.87 per diluted share, from $11.2 million, or $0.58 per diluted share for 1999. In addition, we improved our operating margins by 35 basis points from 1999 to 2000 by continuing our shift toward newer, higher-rate customers and services.



Our balance sheet is rock solid. We finished 2000 with $62.0 million in cash and no debt. In fact, our operating activities generated $13 million in cash for the fourth quarter alone – a period of time in which so many companies in our industry were burning through cash, rather than making it. Stockholders' equity grew 45 percent for the one-year period ended Dec. 31, 2000. In addition, we completed a two-for-one stock split early in 2000, increasing the liquidity of our shares.

R&D and The Cognizant Academy Help Us Navigate

Knowledge and foresight are keys to providing successful IT services. In line with that belief, Cognizant increased its R&D team by more than 30 percent in 2000 for the purpose of further expanding its expertise in e-business and developing new competencies. The knowledge and proof-of-concept capability of our R&D groups has proven to be a key competitive advantage, allowing us to advise and partner with clients as they map their strategies to prepare their businesses for the next generation of technology. This further strengthens our client relationships and creates a pipeline of new projects for the future.

Cognizant's commitment to knowledge building does not end with R&D. The Cognizant Academy, our in-house university, ensures that our associates stay current with leading-edge technologies, Cognizant's quality processes, project management tools and methodologies, and client management skills so that they can perform with maximum effectiveness and efficiency. In 2000, the Cognizant Academy offered over 350 classroom courses and an extensive array of distance learning options.

Growing Recognition of Offshore Delivery

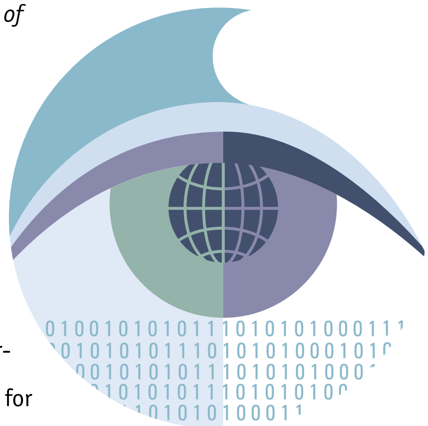
Recently, offshore development has moved to the forefront of strategic IT initiatives among many Fortune 1000 companies. In addition to the cost benefits, Cognizant is able to deliver top-notch quality and provide faster time to market, which has attracted many new clients. Increased economic uncertainty and pressure to find ways to maximize IT budgets have also contributed to the recent boom.

Cognizant's onsite/offshore model is the best solution for large companies looking for an IT partner who can quickly deliver realizable return on investment. Our success is driven by our ability to develop and deploy large-scale systems that integrate e-business with legacy, substantially improving business productivity. Additionally, through application management services, we can ensure that the systems are functioning efficiently and effectively, while delivering considerable cost savings.

A Strong Flow of Customers, a Flood of Recognition

Cognizant's value proposition attracted a record number of new clients to Cognizant throughout 2000. During the year, we increased our customer base by over 50 percent. We added several blue chip clients, such as Ace Hardware, RadioShack, Hewitt Associates, a major money center bank, a leading telecommunications company and Blue Cross plans. We are pleased to be entering 2001 with a record number of blue chip clients who are poised to substantially expand their relationship with Cognizant.

Our Company also received great recognition from industry groups and the media last year. We were assessed by KPMG at SEI-CMM Level 5 for all major development centers – the highest certification level granted by the Software Engineering Institute at Carnegie Mellon. This means that our customers get the best-built software available anywhere. We also won the *"Best of Best Practices Award"* given by the Carnegie Mellon Center for Information Systems Engineering. In addition, we ranked highly on a number of important "best of" lists, including *Forbes' Best Small Companies of 2000; BusinessWeek's "200 Hottest Growth Companies"*, and *Deloitte & Touche's "Fastest-Growing Technology Companies."* This positive attention has brought about a better understanding of and appreciation for Cognizant in both the technical and financial community.



SALES AND MARKETING

Our continued success at adding new customers is based on our investment in sales and marketing, which started in 1997 when we began to transition the Company's revenue base away from Y2K-based projects. Our sales force has always been involved in complex sales cycles based on return on investment. As the dot.com bubble burst, we did not have to change our target audience or selling approach, and therefore did not see a lengthened sales cycle.

During 2000, we opened sales offices in Atlanta, Cincinnati, Dallas, Los Angeles and Minneapolis.

RECOGNITION

Cognizant received a great deal of positive attention during 2000. ***Forbes*** and ***BusinessWeek*** both included Cognizant on "best of" lists in recognition of our Company's strong management, financial performance and growth

We focused marketing campaigns on blue chip companies with solutions to meet real ongoing needs.

Expanding the Depth and Breadth of Our Competencies

Over the years, Cognizant has acquired extensive experience in several of the industries with the highest growth rates in IT spending, including financial services, healthcare, information services, retail, restaurant, telecom and transportation. In 2000, we organized around industry practices to leverage the considerable expertise we have gained through our work. We also invested in recruiting experienced industry practice leaders and developing new industry solutions. For example, in healthcare we made a significant investment in a HIPAA (Health Insurance Portability and Accountability Act of 1996) compliance solution, which we expect will be a strong growth center in coming years.

We also continued to deepen our technology expertise in such important areas as e-business platforms, legacy to web integration, EAI, XML, wireless, data ware-housing, business intelligence, and legacy consolidation, transformation and re-engineering.

Also during 2000, we upgraded our application management processes and tools and began quantifying the dramatic improvements in response time, quality and costs that clients are able to achieve as a result of Cognizant's work. Our Company also invested in developing and launching a new service for e-business application management, leveraging our knowledge base and extensive experience in managing legacy applications. We initiated "e-testing" to ensure that our Web solutions meet our clients' needs for performance and functionality. And since many customers have asked about our

WORLDWIDE OPERATIONS • regional headquarters • sales offices • development centers

willingness to extend ourselves into platform and infrastructure hosting, Cognizant formed a strategic relationship with Loudcloud. In conjunction with the other notable partnerships and alliances we made last year, this new relationship has enabled us to provide our customers with end-to-end e-services.

(left)
Wijeyaraj Mahadeva
Chairman and
Chief Executive Officer

(right)
Lakshmi Narayanan
President and
Chief Operating Officer

PEOPLE AND INFRASTRUCTURE

During 2000, we opened our ninth state-of-the-art development center, in Bangalore, India, and expanded our facilities in Calcutta, Chennai and Pune. Over the next two years, Cognizant will be investing about $30 million in the construction of two new state-of-the-art office complexes on Company-owned land. These fully networked “intelligent” offices will not only geographically consolidate our operations, but will also give us the room to accommodate our ongoing growth and provide our employees with more amenities and recreational facilities. We have been able to maintain our position as an employer of choice and an extremely high level of employee satisfaction, which is a strong competitive edge as the demand for IT professionals worldwide continues to increase. Once again, we are combining the best of India, Europe and the US.

Our Business Model: Carefully Constructed and Hard to Replicate

The time and effort that our Company has dedicated to building its offshore operations have been well invested. Cognizant is a respected member of India’s tightly-knit IT community, thoroughly understands India’s business and cultural environment and has a strong relationship with the country’s major academic institutions. At the same time, we have established a strong presence close to our clients in the US and Europe, which is tightly integrated with our Indian operations. This makes our business model difficult to replicate, and we believe that this will enable us to maintain our competitive edge as the demand for IT talent and services continues to grow.

As always, we are truly grateful for the quick, able minds and strong work ethic of our employees, the confidence and support of our shareholders and the financial community, and the spirit of partnership we enjoy with our growing number of clients. You are all integral to the ongoing success of our Company.

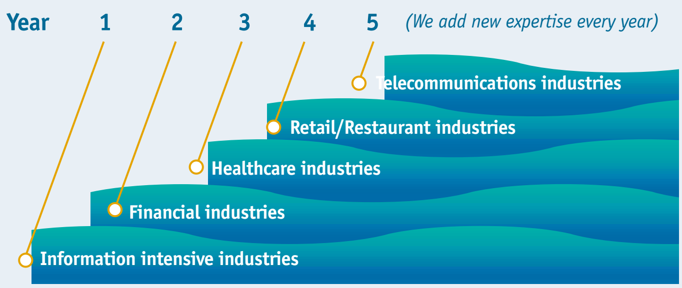
Sincerely,
Wijeyaraj Mahadeva
Chairman and Chief Executive Officer

Lakshmi Narayanan
President and Chief Operating Officer

COGNIZANT: THE CLEAR CHOICE FOR IT SERVICES

Cognizant makes choosing an IT-services vendor easier for IT-intensive industries, including health-care, retail, and financial and information services, because we offer many bottom-line advantages. In fact, after experiencing our quality, time to market and cost-savings benefits, many of our clients expand their relationship with us to include multiple services.

A recognized leader in the industry, Cognizant uses an onsite/offshore delivery model to provide companies with the best of both worlds – top-notch IT talent, tools and methodologies, and cost-effective solutions – to help them realize the greatest return on their IT investment. Because 70 percent of the work we do for clients is done in India – where Cognizant is an employer of choice – we don't suffer the same resource shortages plaguing the industry in the US and Europe. We use the time difference between the US and India to our clients' advantage, "following the sun," so we can work on a 24x7 cycle to dramatically speed up the execution of client projects and reduce time to market. Moreover, by operating offshore, we realize significant savings, which, in addition to passing on to our clients, we use to fund R&D. This ongoing investment makes us vendor neutral and able to offer a wide selection of outstanding technology solutions. In fact, all of our major development centers in India were awarded SEI-CMM Level 5 certification in 2000. This means that the industry considers our software-development and maintenance processes to be of the very highest quality – an achievement that can be claimed by only 13 IT services companies worldwide.



Building Vertical-Market Strength

By developing both technology expertise and specific industry expertise, Cognizant is increasing critical mass in such vertical markets as healthcare, retail and telecommunications, where the need for IT services is expanding.

With so many advantages, it's no wonder that US companies are expected to increase their offshore outsourcing at a compounded annualized growth rate (CAGR) of 35% through 2008, according to McKinsey and Company. And, thanks to an established presence in India and outstanding reputation as a company that delivers across the board, Cognizant and its clients are well positioned to optimally benefit from this trend.

COGNIZANT'S SERVICE OFFERINGS:

> e-business

Cognizant has successfully completed large-scale end-to-end e-business projects for dozens of blue chip companies in a variety of data-intensive industries. And demand is growing. E-business outsourcing is expected to rise at a CAGR of 39 percent through 2004, according to Data Monitor, Inc.

Cognizant's proprietary five-stage e-Launchpad™ methodology speeds up, smoothes out and maximizes the success of the e-business transition process. Moreover, strategic partnerships with digital-business consultants, procurement and marketplace vendors, security and payment experts, platform providers and mobile-computing experts enable us to deliver best-of-breed solutions for every link of the B2B e-business delivery chain. Cognizant is recognized as a leader in the e-services space by both IDC and The Gartner Group.

During 2000, we became the first company to introduce application management services specifically for e-business applications, enabling clients to outsource to Cognizant the support, maintenance and ongoing enhancement of critical e-business applications. Our Company ensures 24x7 availability and quick response to changing user needs and requirements. We have been able to rapidly expand this new business, both organically and through our strategic partnerships, by quickly responding with creative solutions to the industry's growing need for e-services. Through 2004, Data Monitor, Inc., estimates a CAGR of 118 percent for this segment of the e-services industry.

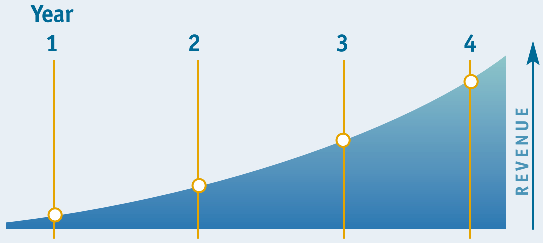
> Application Management

Cognizant can assume complete responsibility for the maintainence and support of legacy software systems to ensure that they are fully operational and responsive to clients' needs. In addition, we raise the quality of all existing applications to the highest level, boosting uptime and increasing throughput. Our services allow our clients to save money, work more efficiently and focus more of their time, attention and resources on their core business.

Our on-site/offshore delivery model is ideally suited to the time- and talent-intensive demands of application management. Routine maintenance, such as modifications, enhancements and documentation, is cost-efficiently handled in our development centers in India. And our onsite team is available around the clock to cover emergencies. Moreover, our low risk, rapid-transition process delivers guaranteed results and significant cost savings. According to our calculations, clients typically save 40-50 percent annually by outsourcing their application management work to Cognizant, while achieving better service levels and greater systems stability.

In addition to ongoing application management work, changes in law or business practice periodically necessitate mass change in IT, requiring many lines of code to be changed by a specific date. Cognizant's business model, depth of talent and strong background in remediation and systems improvement makes it well equipped to handle such time-sensitive projects as HIPAA* Compliance, which is currently in high demand.

Cognizant will continue to utilize its offshore advantage to reap the greatest benefits from its R&D endeavors and close client relationships, so that we may remain at the forefront of new technology services and best meet the growing needs of our customers.



First we may do legacy application management.

Then we may build e-business applications and integrate them with legacy systems.

Then the e-business applications may need a data warehouse to maximize effectiveness.

Then the whole system may need to be managed.

Our Client Relationships Are Built On Recurring Revenue from application management work maintaining and enhancing mission critical systems. Through this work we gain a solid understanding of our clients' business and their legacy systems which we can leverage to propose and build valuable new systems. We can then manage these new systems further expanding our recurring revenue base.

* Health Insurance Portability and Accountability Act of 1996

"We credit Cognizant for helping us to maximize our product revenue."

NIELSEN MEDIA RESEARCH

In 1995, we began working with Nielsen Media Research, the leading provider of real-time information services for television networks, affiliates, advertisers and their agencies in the US and Canada.

Kim Ross
Chief Information Officer
Nielsen Media Research

This fast-paced, highly competitive industry demands maximum IT productivity – one of the core competencies on which Cognizant has built its reputation. In the past five years, our partnership with Nielsen Media Research has evolved from application maintenance, Y2K and client/server projects, to large end-to-end e-business initiatives. Cognizant's revenues from Nielsen Media Research have increased every year since 1994 and reached nearly $8.7 million for 2000.

When we began our relationship with Nielsen Media Research, the company was starting to move very aggressively from mainframe to a client/server platform. Cognizant provided Nielsen Media Research with the staffing flexibility it needed to complete the platform migration quickly and efficiently.

In 1997, Nielsen Media Research awarded Cognizant its first major end-to-end project – a huge initiative to develop a custom software application that would enable Nielsen Media Research's clients to compete more effectively by providing them with more efficient access to industry information. By outsourcing this project to Cognizant, Nielsen Media Research was able to venture into adjacent market space without assuming a substantial financial risk and diverting the attention of its own IT employees. The success of this project illustrates the kind of results that are possible when two experienced companies achieve a seamless partnership.

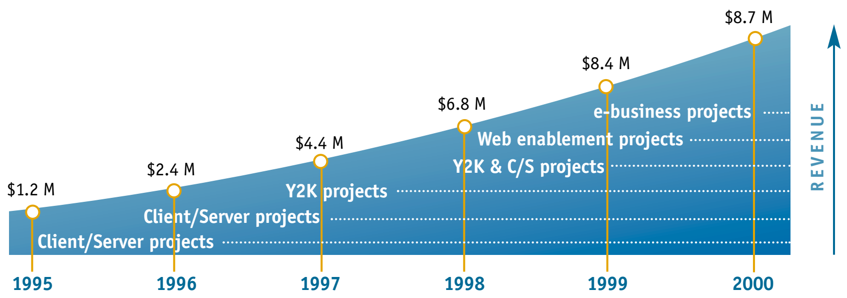
In 1998, Nielsen Media Research named Cognizant as the primary partner for a key e-business initiative. As Cognizant worked to upgrade Nielsen Media Research's Internet-based rating-sample system, the developers and business users added functionality requirements, vastly increasing the size of the project. To meet these new demands, Cognizant responded quickly by nearly doubling the team of programmers working on the project. Recently completed, the new system offers business users the speed, efficiency and functionality they need to accurately assess Internet ratings. Moreover, Cognizant's work has enabled Nielsen Media Research to cost-effectively maintain its competitive edge in this important aspect of its business.

Currently, Cognizant is helping Nielsen Media Research increase its efficiency and provide more accurate information by building another new data-management system for the company. Cognizant will be responsible for the full life cycle of this time-sensitive, data-intensive project, including all the subsequent enhancements and maintenance.

"Cognizant has really become an extension of our own IT department, and, as a result, we give more than 90 percent of our outsourcing work to them. By working with Cognizant, we can move into new business areas without diverting the attention of our top developers, reducing our financial risk on such advanced technology initiatives by nearly 50 percent."

"Because Cognizant is such a big contributor to the development, enhancement and maintenance of our software platform – the vehicle of delivery for all of our products – we credit them for helping us to maximize our product revenue, which was more than $500 million for 2000."

– Kim Ross



RELATIONSHIP GROWTH

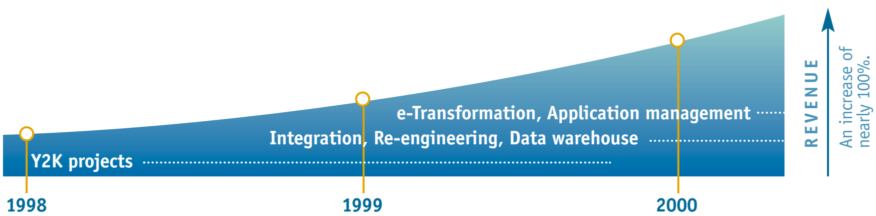
"With Cognizant there is no 'us and them'."

ROYAL & SUNALLIANCE USA

In a relatively short period of time, Cognizant's relationship with Royal & SunAlliance USA, a leading property/casualty insurer, has evolved to become a deep partnership that includes end-to-end projects in e-business, data warehousing and application management. We have nurtured this relationship from the beginning, building trust and proving the value of our services by saving Royal & SunAlliance USA substantial amounts of money, achieving or surpassing their goals for quality, efficiency and time to market, and enabling them to maximize their revenue growth from new IT initiatives. As a result, the size of our relationship with Royal & SunAlliance USA, in terms of annual revenues, has nearly doubled in only a few years.

We were originally hired in January 1998, for a Y2K-remediation project. The expertise and strong work ethic of our people and the around-the-clock service afforded us by our onsite/offshore business model enabled Cognizant to cost-effectively complete the job under a tight deadline.

Confident in our ability to deliver excellent results and in our ever-expanding knowledge of their system and industry, Royal & SunAlliance USA assigned us progressively larger and more complex projects. In 1999, Cognizant began helping the insurer expedite the integration of multiple acquisitions by integrating, upgrading and converting disparate platforms and operating systems. That same year, we also began doing data-warehousing work for them, allowing them to establish and maintain easy access to crucial information and increasing their operating efficiency. By 2000, Royal & SunAlliance USA's Personal Insurance Division (PID) was ready to take another major step toward revolutionizing its business by partnering with Cognizant for much of its e-transformation. This work has further boosted



RELATIONSHIP GROWTH

Royal & SunAlliance USA's efficiency and overall service level by providing its agents with 24x7, real-time Internet access to billing information and direct online policy processing. This year, in addition to ongoing projects in platform integration, data warehousing and e-transformation, we are working with Royal & SunAlliance USA to help them maintain the highest level of quality for their primary and secondary systems.

Betty Higby
Chief Information Officer
Personal Insurance Division
Royal & SunAlliance USA

In only three years, Cognizant has enabled Royal & SunAlliance USA to integrate its acquisitions more quickly, provide better service, and cut time to market and operating expenses for the day-to-day support of rate changes, forms and product initiatives. Royal & SunAlliance USA estimates that by working with Cognizant, they saved more than 30 percent compared with what other IT consultants would have charged, plus they received faster turn-around with higher quality results. Most importantly, Royal & SunAlliance USA derived substantial bottom-line business benefits from Cognizant's work.

"We've invested millions of dollars for services from Cognizant, and it has been well worth it. With Cognizant; there is no 'us and them'. Their onsite, offsite and offshore consultants work seamlessly with our in-house team to greatly improve our functionality and efficiency."

–Betty Higby

OFFSHORE OUTSOURCING

"Today, offshore outsourcing is a way for companies of all sizes to harness the cutting-edge skill sets of foreign IT workers in sophisticated, high end development work."

– Cynthia Doyle, IDC

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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 service offerings include:

- application development and integration;
- application management; and
- re-engineering.

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 Strategic 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.

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, 2000, IMS Health owned approximately 60.5% of the outstanding stock of the Company and held approximately 93.9% of the combined voting power of the Company's common stock.

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 consolidated financial statements, and all applicable references as to the number of 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. Stockholder 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 additional paid-in-capital account to the common stock accounts.

On May 23, 2000, the stockholders of the Company approved an increase in the number of authorized Class B common Stock from 15,000,000 shares to 25,000,000 shares.

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 $26.9 million, or 46.0% of revenues, in 1998 to $50.5 million, or 56.8% of revenues, in 1999 and $92.3 million, or 67.4% of revenues, in 2000. Approximately 54.0%, 43.2% and 32.6% of the Company's revenues in 1998, 1999 and 2000, respectively, were generated from current and former affiliates including approximately 18.0%, 16.7% and 10.4%, 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 1998, 1999 and 2000, the Company's five largest customers (other than IMS Health and its current subsidiaries) accounted for 43.7%, 44.9% and 34.5% 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. In 2000, IMS Health accounted for more than 10.0% of revenues. 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.

Prior to fiscal 2000, Year 2000 compliance services were an important element of the Company's service offerings. Approximately 44.1%, 15.6% and 0.4% of the Company's revenues were derived from Year 2000 compliance services in 1998, 1999 and 2000, respectively. The Company believes that it has successfully utilized its Year 2000 compliance expertise to establish new client relationships and to 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 for such customers.

Application development and integration services represented approximately 25.8%, 32.3% and 46.1% of revenues in 1998, 1999 and 2000, respectively. Application management services accounted for 21.1%, 44.0% and 47.0% of revenues in 1998, 1999 and 2000, respectively.

The Company's services are performed on either a time-and-materials or fixed-price basis. 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 $10.7 million, $17.7 million and $22.1 million, in 1998, 1999 and 2000, respectively, based upon where the customers are located. 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 18.3%, 19.9% and 16.1% in 1998, 1999 and 2000, 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,		
	2000	**1999**	**1998**
Total revenues	100.0%	100.0%	100.0%
Cost of revenues	51.4	51.9	54.5
Gross profit	48.6	48.1	45.5
Selling, general and administrative expenses	26.2	25.9	26.5
Depreciation and amortization expense	3.3	3.4	3.8
Income from operations	19.1	18.8	15.2
Other income (expense):			
Interest income	1.9	1.4	1.1
Other income (expense)	(0.4)	–	0.1
Total other income	1.5	1.4	1.2
Income before provision for income taxes	20.6	20.2	16.4
Provision for income taxes	(7.7)	(7.6)	(6.2)
Net income	12.9%	12.6%	10.3%

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Revenue. Revenue increased by 54.1%, or $48.1million, from $88.9 million during 1999 to $137.0 million during 2000. This increase resulted primarily from a $61.5 million (82.0%) increase in application development and integration, application management, re-engineering and other services partially offset by an approximately $13.4 million (96.5%) decrease in Year 2000 compliance services. The percentage of revenues derived from unrelated parties increased from 83.3% during 1999 to 89.6% during 2000. This increase resulted primarily from the Company's continued efforts to pursue unaffiliated third-party customers and expanded service offerings to existing unaffiliated customers. 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 2000, sales to related party customers accounted for 10.4% of revenues and no third party accounted for greater than 10% of revenues. During 1999, sales to related party customers accounted for 16.7% of revenues and one third-party customer accounted for 17.4% of revenues.

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 52.6%, or $24.3

million, from $46.2 million during 1999 to $70.4 million during 2000. The increase was due primarily to the increased cost resulting from the increase in the number of the Company's technical professionals from approximately 2,000 employees at December 31, 1999 to approximately 2,800 employees at December 31, 2000. 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 55.8%, or approximately $23.9 million, from approximately $42.7 million during 1999 to approximately $66.6 million during 2000. Gross profit margin increased from 48.1% of revenues during 1999 to 48.6% of revenues during 2000. 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 55.1%, or $14.4 million, from $26.1 million during 1999 to $40.5 million during 2000, and increased as a percentage of revenue from approximately 29.4% to 29.5%, respectively. The increase in such expenses in absolute dollars and as a percentage of revenue 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.

Income from Operations. Income from operations increased 57.0%, or approximately $9.5 million, from approximately $16.6 million during 1999 to approximately $26.1 million during 2000, representing approximately 18.7% and 19.1% of revenues, respectively. The increase in operating margin was primarily due to the increased third-party revenue and the shift toward newer, higher margin customer services.

Other Income. Other income consists primarily of interest income offset, in part, by foreign currency exchange losses. Interest income increased by approximately 109.7%, from $1.3 million during 1999 to approximately $2.6 million during 2000. The increase in such interest income was attributable primarily to generally higher operating cash balances. The Company recognized a net foreign currency exchange loss of approximately $538,000 during 2000, as a result of the effect of changing exchange rates on the Company's 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 $6.7 million in 1999 to $10.6 million in 2000, with an effective tax rate of 37.4% in both 1999 and 2000.

Net Income. Net income increased from approximately $11.2 million in 1999 to approximately $17.7 million in 2000, representing approximately 12.6% and 12.9% as a percentage of revenues, respectively.

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 related party customers accounted for 16.7% of revenues and one third-party customer accounted for 17.4% of revenues. During 1998, sales to related party customers 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 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, 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 approximately 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 approximately $7.7 million, from approximately $8.9 million during 1998 to approximately $16.6 million during 1999, representing approximately 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. 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 approximately $11.2 million in 1999, representing 10.3% and 12.6% as a percentage of revenues, respectively.

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 Cognizant Corporation and IMS Health. In June 1998, the Company consummated its initial public offering of 5,834,000 shares of its Class A Common Stock at a price to the public of $5.00 per share, of which 5,000,000 shares were issued and sold by the Company and 834,000 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 then-existing non-trade related party balances to Cognizant Corporation. The Company has used and plans to use the remainder of the net proceeds from the offering as well as other cash 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 including cost and equity investments; and (iii) general corporate purposes including working capital.

Net cash provided by operating activities was approximately $30.2 million, $19.4 million and $13.4 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase for 2000 compared to 1999 results primarily from increased levels of accrued liabilities and accounts payable, increased net income and an increase in deferred taxes, partially offset by increases in accounts receivable and 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 decreased from $11.1 million at December 31, 1998 to $10.0 million at December 31, 1999 and increased to $20.5 million at December 31, 2000. The increase in accounts receivable during 2000 was due primarily to increased revenue. 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. At December 31, 2000, the Company's day's sales outstanding, including unbilled receivables, was approximately 50 days.

The Company's investing activities used net cash of $12.6 million, $5.9 million and $3.7 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in 2000 compared to 1999 primarily reflects the Company's increased purchases of land, buildings and equipment to expand the Company's offshore development infrastructure and an investment in Questra Corporation of approximately $2.0 million in June 2000. The increase in 1999 of net cash used in investing activities compared to 1998 primarily reflects an increase in purchases of property and equipment.

In June 2000, the Company announced a strategic relationship with Trident Capital, a leading venture capital firm, to jointly invest in emerging e-business service and technology companies. In accordance with this strategy, the Company invested approximately $2 million in Questra Corporation, an e-business software and consulting firm headquartered in Rochester, New York, in return for a 5.8% equity interest. Trident Capital also independently made a direct investment in Questra Corporation. The Company's investment is being accounted for under the cost basis of accounting.

The Company's financing activities provided net cash of $1.8 million, $0.7 million and $16.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in 2000 compared to 1999 was primarily related to a higher level of cash proceeds from the exercise of stock options. The decrease in 1999 compared to 1998 resulted from the absence of 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.

As of December 31, 2000, the Company had no significant third-party debt.

The Company had working capital of $61.5 million at December 31, 2000 and $43.5 million at December 31, 1999.

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 portion 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.

Recent Accounting Pronouncements

During 1999 and 2000, various new accounting pronouncements were issued which may impact the Company's financial statements. (See Note 2 to the Consolidated Financial Statements.)

Statement of Management's Responsibility for Financial Statements

To the Stockholders 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
Senior Vice President, Chief Financial Officer, Secretary & Treasurer

Report of Independent Accountants

To the Board of Directors and Stockholders of
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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. 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 of America, 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 our opinion.

PricewaterhouseCoopers LLP
New York, New York
February 6, 2001

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except par values)	At December 31, 2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 61,976	$ 42,641
Trade accounts receivable, net of allowances of $516 and $225, respectively	19,187	8,166
Trade accounts receivable – related party	1,361	1,848
Unbilled accounts receivable	1,941	1,071
Unbilled accounts receivable – related party	–	73
Other current assets	3,758	2,912
Total current assets	88,223	56,711
Property and equipment, net of accumulated depreciation of $10,997and $6,817, respectively	15,937	9,474
Goodwill, net	1,195	1,513
Investment	1,955	–
Other assets	2,230	1,328
Total assets	$ 109,540	$ 69,026
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,849	$ 1,435
Accounts payable – related party	8	–
Accrued expenses and other liabilities	23,865	11,769
Total current liabilities	26,722	13,204
Deferred income taxes	16,702	10,361
Total liabilities	43,424	23,565
Commitments and contingencies (See Notes 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, 7,362 shares and 7,202 shares issued and outstanding at December 31, 2000 and 1999, respectively	73	72
Class B common stock, $.01 par value, 25,000 shares authorized, 11,290 shares issued and outstanding at December 31, 2000 and 1999, respectively	113	113
Additional paid-in capital	29,094	26,082
Retained earnings	36,886	19,203
Cumulative translation adjustment	(50)	(9)
Total stockholders' equity	66,116	45,461
Total liabilities and stockholders' equity	$ 109,540	$ 69,026

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	Years Ended December 31, 2000	1999	1998
Revenues	$122,758	$ 74,084	$ 45,031
Revenues-related party	14,273	14,820	13,575
Total revenues	137,031	88,904	58,606
Cost of revenues	70,437	46,161	31,919
Gross profit	66,594	42,743	26,687
Selling, general and administrative expense	35,959	23,061	15,547
Depreciation and amortization expense	4,507	3,037	2,222
Income from operations	26,128	16,645	8,918
Other income:			
Interest income	2,649	1,263	638
Other (expense) income, net	(530)	37	83
Total other income	2,119	1,300	721
Income before provision for income taxes	28,247	17,945	9,639
Provision for income taxes	(10,564)	(6,711)	(3,606)
Net income	$ 17,683	$ 11,234	$ 6,033
Net income per share, Basic	$ 0.95	$ 0.61	$ 0.38
Net income per share, Diluted	$ 0.87	$ 0.58	$ 0.36
Weighted average number of common shares outstanding - Basic	18,565	18,342	15,886
Dilutive effect of shares issuable as of period-end under stock option plans	1,691	1,074	652
Weighted average number of common shares - Diluted	20,256	19,416	16,538
Comprehensive Income:			
Net income	$ 17,683	$ 11,234	$ 6,033
Foreign currency translation adjustment	(41)	2	(9)
Total comprehensive income	$ 17,642	$ 11,236	$ 6,024

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Transaction Adjustment	Total
Balance, December 31, 1997	834	$ 8	12,166	$ 122	$ 1,355	$ 1,936	$ (2)	$ 3,419
Net transfers from Related party	—	—	—	—	63	—	—	63
Translation adjustment	—	—	—	—	—	—	(9)	(9)
Net Proceeds from IPO/Issued Shares	5,226	53	—	—	22,791	—	—	22,844
Exercise of Overallotment Stock	876	9	(876)	(9)	—	—	—	—
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	113	24,475	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	113	26,082	19,203	(9)	45,461
Translation adjustment	—	—	—	—	—	—	(41)	(41)
Exercise of Stock Options	129	1	—	—	782	—	—	783
Tax Benefit related to Option Exercises	—	—	—	—	1,258	—	—	1,258
Employee Stock Purchase Plan	32	—	—	—	937	—	—	937
Compensatory Grant	—	—	—	—	340	—	—	340
Less Prior year charge	—	—	—	—	(294)	—	—	(294)
Less Unearned portion	—	—	—	—	(11)	—	—	(11)
Net income	—	—	—	—	—	17,683	—	17,683
Balance, December 31, 2000	7,363	$ 73	11,290	$ 113	$ 29,094	$36,886	$ (50)	$ 66,116

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net income	$ 17,683	$ 11,234	$ 6,033
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,507	3,037	2,222
Provision/(reduction) for doubtful accounts	572	(31)	45
Deferred income taxes	6,341	4,258	3,510
Tax benefit related to option exercises	1,258	886	—
Changes in assets and liabilities:			
Accounts receivable	(10,825)	1,068	(3,959)
Other current assets	(1,924)	(1,143)	(1,854)
Other assets	(902)	(116)	(410)
Accounts payable	1,414	(309)	201
Accrued and other liabilities	12,096	562	7,548
Other adjustments for non-cash items	—	—	22
Net cash provided by operating activities	30,220	19,446	13,358
Cash flows used in investing activities:			
Purchase of property and equipment	(10,652)	(5,924)	(3,743)
Investment	(1,955)	—	—
Net cash used in investing activities	(12,607)	(5,924)	(3,743)
Cash flows from financing activities:			
Proceeds from Initial Public Offering	—	—	23,250
Costs associated with Initial Public Offering	—	—	(843)
Proceeds from stock plans/compensatory grant	1,755	723	327
Payments from (payments to) related party	8	(24)	(6,637)
Net cash provided by financing activities	1,763	699	16,097
Effect of Currency Translation	(41)	2	(9)
Increase in cash and cash equivalents	19,335	14,223	25,703
Cash and cash equivalents, at beginning of year	42,641	28,418	2,715
Cash and cash equivalents, at end of year	$ 61,976	$ 42,641	$ 28,418
Supplemental information:			
Cash paid for income taxes during the year	$ 1,186	$ 2,546	$ 53

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

1. Basis of Presentation

Cognizant Technology Solutions Corporation (the "Company" or "CTS") 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 offshore consulting project team. These solutions include application development and integration, application management, and re-engineering services.

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 ("D&B") 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., Nielsen Media Research, Inc. ("Nielsen Media Research"), The Reuben H. Donnelley Corporation, Pilot Software, Inc. ("Pilot Software") and Strategic Technologies, Inc. ("Strategic Technologies"), and a majority interest in Gartner Group, Inc. ("Gartner Group"). In November 1996, the Company, Erisco, IMS International, Nielsen Media Research, Pilot Software, Strategic Technologies and certain other entities, plus a majority interest in Gartner Group, were spun-off from D&B to form Cognizant, the then majority owner and controlling parent of the Company. At that time, ACNielsen was separately spun-off from D&B and Dun & Bradstreet Software was sold to GEAC Software. In 1997, Cognizant sold Pilot Software to a third party.

In 1997, the Company purchased the 24.0% minority interest in its Indian subsidiary from a third party for $3,468 making the Indian subsidiary wholly owned by the Company.

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 June 1998, the Company completed its IPO. (See Note 3 to the Consolidated Financial Statements.) As of December 31, 2000, IMS Health owned a majority and controlling interest in the outstanding Common Stock of the Company and held approximately 93.9% of the combined voting power of the Company's Common Stock.

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 business insurance plans. Certain employees also participate in IMS Health's 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 and charged to the Company under the CTS/IMS Health intercompany services agreement. (See also Note 10 to the Consolidated Financial Statements.)

On February 11, 2000, the Board of Directors declared a 2-for-1 stock split of Class A and Class B Common Stock 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 to the number of outstanding common shares and per share information has been restated. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options. Stockholders' equity account 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.

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.

Investments. Investments in business entities in which the Company does not have control or the ability to exercise significant influence over the operating and financial policies are accounted for under the cost method. Investments are evaluated, at each balance sheet date, for impairment.

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.

Purchased Software. Purchased software that is intended for internal use is capitalized, including the salaries and benefits of employees that are directly involved in the installation of such software. The capitalized costs are amortized on a straight-line method over the lesser of three years or its useful life.

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, 2000, 1999 and 1998. Accumulated amortization was $1,028 and $711 at December 31, 2000 and 1999, respectively.

Impairment of Long-Lived Assets. In accordance with Statement of Financial Accounting Standards ("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 in the United States 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, reserves for employee benefits, 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 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 Basic earnings per share ("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. Diluted EPS includes all dilutive potential common stock in the weighted average shares outstanding. (See Note 8 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 D&B. 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 D&B 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 balance sheet date, 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 is 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 such Indian 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 decided to continue to use the provisions of APB 25 and not to adopt SFAS No. 123's accounting provisions, but has included the required pro forma disclosures.

Reclassifications. Certain prior-year amounts have been reclassified to conform with the 2000 presentation.

Recently Issued Accounting Standards. In July 1999, the Financial Accounting Standards Board ("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. SFAS 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. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133", which amends certain provisions of SFAS No. 133. As a result of SFAS No. 137, the Company intends to implement SFAS No. 133 and the corresponding amendments of SFAS No. 138 for the fiscal quarter ending March 31, 2001. The adoption of this SFAS No. 133 as amended by SFAS No. 138 will not have a material effect on the Company's results of operations, financial position or cash flows.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. The Company's revenue recognition policies and practices are in conformance with SAB 101.

In March 2000, the FASB issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25" ("FIN No. 44"). The interpretation provides guidance for certain issues relating to stock compensation involving employees that arose in applying APB Opinion 25. The provisions of FIN No. 44 are effective July 1, 2000. Adoption of FIN 44 had no effect on the Company's financial statements.

(in thousands, except share and per share data)

3. Initial Public Offering

On June 24, 1998, the Company consummated its Initial Public Offering ("IPO") of 5,834,000 shares of its Common Stock at a price of $5.00 per share (on a post-split basis), 5,000,000 of which were issued and sold by the Company and 834,000 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 $22,407 after $843 of direct expenses. In July 1998, IMS Health (the accounting successor to Cognizant) sold 875,000 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 $6,637 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, 2000	December 31, 1999
Buildings	40	$ 509	—
Computer equipment and purchased software	3	14,018	$ 8,397
Furniture and equipment	5-9	6,559	4,760
Land		1,580	—
Leasehold improvements	Various	4,268	3,134
Sub-total		$ 26,934	$ 16,291
Accumulated depreciation and amortization		(10,997)	(6,817)
Property and Equipment - Net		$ 15,937	$ 9,474

Accrued Expenses and Other Liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31, 2000	December 31, 1999
Accrued bonuses and commissions	$ 10,581	$ 5,143
Accrued vacation	1,873	1,217
Accrued travel and entertainment	2,398	948
Deferred revenue	2,199	677
Accrued income taxes	1,446	—
Other	5,368	3,784
	$ 23,865	$ 11,769

5. Investment

In June 2000, the Company announced a strategic relationship with Trident Capital, a leading venture capital firm, to jointly invest in emerging e-business service and technology companies. In accordance with this strategy, the Company invested approximately $2,000 in Questra Corporation, an e-business software and consulting firm headquartered in Rochester, New York, in return for a 5.8% equity interest. Trident Capital also independently made a direct investment in Questra Corporation. The Company's investment is being accounted for under the cost basis of accounting.

(in thousands, except share and per share data)

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 Company's matching contribution was $31, $49 and $55 for the years ended December 31, 2000, 1999 and 1998, respectively. In 2000, the Company established a 401(k) plan which certain U.S. employees of the Company became eligible to participate in. The Company matches up to 50.0% of the eligible employee's contribution. The amount charged to expense for the matching contribution was $195 for the year ended December 31, 2000.

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 $501, $338, and $186 for the years ended December 31, 2000, 1999 and 1998, 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 employees' salary and years of service. Expense recognized by the Company was $511, $358 and $135 for the years ended December 31, 2000, 1999 and 1998, respectively.

7. Income Taxes

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

	2000	1999	1998
U.S.	$ 7,469	$ 7,553	$ (2,862)
Non-U.S.	20,778	10,392	12,501
Total	$ 28,247	$ 17,945	$ 9,639

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

	2000	1999	1998
U.S. Federal and state:			
Current	$ 3,276	$ 3,079	$ 75
Deferred	6,409	3,354	3,516
Total U.S. Federal and state	$ 9,685	$ 6,433	$ 3,591
Non-U.S.:			
Current	$ 961	$ 315	$ 20
Deferred	(82)	(37)	(5)
Total non-U.S.	879	278	15
Total	$ 10,564	$ 6,711	$ 3,606

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:

	2000	1999	1998
Tax expense at statutory rate	$ 9,604	$ 6,101	$ 3,277
State and Local Income Taxes	375	398	(110)
Goodwill	108	109	108
Other	477	103	331
Total Income Taxes	$ 10,564	$ 6,711	$ 3,606

(in thousands, except share and per share data)

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

	2000	1999
Deferred tax assets:		
Net Operating Losses	$ 120	$ 37
Net deferred tax assets	$ 120	$ 37
Deferred tax liabilities:		
Undistributed Indian income	(16,822)	(10,398)
Total deferred tax liabilities	(16,822)	(10,398)
Net deferred tax liability	$ (16,702)	$ (10,361)

At December 31, 2000, the Company had $120 of tax credit carry forwards related to Germany net operating losses, which do not expire. At December 31, 2000, the Company had $33 of tax credits related to Canada net operating losses, which can be carried back for three years and carried forward for seven.

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 such 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. 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.

Subsequent to the IPO, the underwriters exercised their right to purchase an additional 875,100 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.

On February 11, 2000, the Board of Directors declared a 2-for-1 stock split of Class A and Class B Common Stock 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 to the number of outstanding common shares and per share information has been restated. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options. Stockholders' equity account 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.

On May 23, 2000, the stockholders of the Company approved an increase in the number of authorized Class B common Stock from 15,000,000 shares to 25,000,000 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 were reclassified to common stock.

(in thousands, except share and per share data)

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 then fair market value of the shares on the date of the grant. The Company has recorded the related compensation expense over the vesting period of these options.

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. On May 23, 2000, the stockholders of the Company approved an increase in the number of shares available for issuance under this plan from 2,000,000 to 3,000,000 shares.

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

	December 31, 2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,551,808	$ 8.37	1,370,052	$ 2.93	1,079,650	$ 2.02
Granted, Employee Option Plan	—	—	122,400	$ 13.73	371,900	$ 4.87
Granted, Directors Option Plan	—	—	40,000	$ 11.16	73,000	$ 5.00
Granted, 1999 Incentive Comp. Plan	1,407,900	$ 37.59	1,277,000	$ 12.58	—	—
Exercised	(129,868)	$ 6.01	(191,494)	$ 2.88	(74,222)	$ 1.93
Canceled/Expired	(148,628)	$ 26.43	(66,150)	$ 4.51	(80,276)	$ 2.79
Outstanding - end of year	3,681,212	$ 18.90	2,551,808	$ 8.37	1,370,052	$ 2.93
Exercisable - end of year	956,608	$ 5.83	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, 2000:

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	666,951	6.5 years	$ 1.93	445,285	$ 1.93
$3.46 - $5.00	309,234	7.3 years	$ 4.48	192,358	$ 4.35
$5.44 - $8.06	36,300	7.7 years	$ 6.36	13,300	$ 6.38
$10.75 - $15.36	1,324,527	8.4 years	$ 12.43	303,665	$ 12.31
$28.94 - $42.13	1,106,200	9.6 years	$ 33.43	2,000	$ 29,94
$43.88 -$65.00	234,000	9.2 years	$ 55.41	0	
$66.56 - $68.75	4,000	9.2 years	$ 67.66	0	
Total	3,681,212	8.4 years	$ 18.90	956,608	$ 5.83

(in thousands, except share and per share data)

Compensation cost recognized by the Company under APB 25 was $35, $172 and $122 for 2000 1999, and 1998, respectively.

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,		
	2000	**1999**	**1998**
Net income			
As reported	$17,683	$11,234	$6,033
Pro forma	$12,815	$10,047	$5,747
As reported			
Net income per share, basic	$0.95	$0.61	$0.38
Net income per share, diluted	$0.87	$0.58	$0.36
Pro forma			
Net income per share, basic	$0.69	$0.55	$0.36
Net income per share, diluted	$0.63	$0.52	$0.35

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 2000; risk-free interest rate of 6.1%, expected dividend yield of 0.0%, expected volatility of 75% and expected life of 3.9 years. 1999 assumptions; 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. The weighted-average fair value of the Company's options granted during 2000, 1999 and 1998 was $21.71, $7.45 and $2.34, respectively. 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 weighted average fair value of IMS Health stock options granted to certain executive officers in 1998 was $7.14 and in 1999 was $9.99.

10. Other Transactions with Affiliates

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 business insurance plans. Certain employees also participate in IMS Health's 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 Reorganization. The agreements include an Intercompany Services Agreement for services provided by IMS Health such as payroll and payables processing, tax, 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 2000, the Company recognized related party revenues totaling $14,273 including revenues from IMS Health and Strategic Technologies (through August 30, 2000). In 1999, the Company recognized related party revenues totaling $14,820 including revenues from IMS Health and Strategic Technologies. 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.

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 D&B 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 their insurance and employee benefit plans during their respective periods of ownership (See Note 1 to the Consolidated Financial Statements). 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 $254, $350 and $1,666 for the years ended December 31, 2000, 1999 and 1998, respectively. The decrease in such costs during 1999 and 2000 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.

(in thousands, except share and per share data)

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 2000, 1999 and 1998 are as follows:

	2000	1999	1998
Proceeds from (payments to), net	$8	$(24)	$(6,637)

Leases. In 1998, the Company leased office space from a subsidiary of IMS Health and made annual lease payments to the subsidiary of $107.

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, the distribution of Gartner Group shares that occurred on July 26, 1999 and the distribution of Synavant Inc. (formerly known as Strategic Technologies) shares that occurred on August 30, 2000. At December 31, 2000 after adjusting for the Reorganization, the split of IMSH stock and the distribution of Gartner Group and Synavant Inc. shares, such officer had 172,297 options in IMS Health outstanding at a weighted average exercise price of $15.96 per share. At December 31, 2000, 136,750 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, the distribution of Gartner Group and Synavant Inc. shares discussed above. At December 31, 2000, after adjusting for the Reorganization, the split of IMSH stock and the distribution of Gartner Group and Synavant Inc. shares, such officer had 19,001 options in IMS Health outstanding at a weighted average exercise price of $16.84 per share. At December 31, 2000, 19,001 options were exercisable.

(in thousands, except share and per share data)

11. Commitments

The Company leases office space under operating leases, which expire at various dates through the year 2008. 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, 2000 are as follows:

2001	$3,441
2002	2,934
2003	2,537
2004	1,454
2005	901
Thereafter	180
Total minimum lease payments	$11,447

Rental expense totaled $3,472, $1,823 and $1,260 for years ended December 31, 2000, 1999 and 1998, 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.

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 years ended December 31, 2000, 1999 and 1998 are as follows:

	2000	1999	1998
Revenues (1)			
North America	$114,932	$71,171	$47,883
Europe	20,959	17,352	10,481
Asia	1,140	381	242
Consolidated	$137,031	$88,904	$58,606
Operating income (1)			
North America	$21,918	$13,328	$6,724
Europe	3,994	3,245	2,098
Asia	216	72	96
Consolidated	$26,128	$16,645	$8,918

(in thousands, except share and per share data)

	2000	1999	1998
Identifiable assets			
North America	$71,464	$43,671	$36,294
Europe	7,293	3,408	2,846
Asia	30,783	21,947	12,539
Consolidated	$109,540	$69,026	$51,679

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

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

During 1998, 1999 and 2000, the Company's top five customers accounted for, in the aggregate, 60.5%, 57.3% and 39.5% of revenues, respectively. The Company's ten largest customers accounted for, in the aggregate, approximately 81.0%, 75.3% and 59.1% of the Company's revenues in 1998, 1999 and 2000, respectively. In 2000, sales to related party customers accounted for 10.4% of revenues. No third party customer accounted for sales in excess of 10% of revenues in 2000. In 1999, sales to related party customers accounted for 16.7% of revenues and one third party customer accounted for 17.4% of revenues. In 1998, sales to related party customers accounted for 23.2% of revenues and two third party customers accounted for 12.5% and 11.3% of revenues, respectively. 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.

Quarterly Financial Data (Unaudited)

	Three Months Ended				
2000	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Full Year**
Operating Revenue	$27,070	$31,801	$37,107	$41,053	$137,031
Gross Profit	$13,131	$15,425	$17,997	$20,041	$66,594
Income from Operations	$5,123	$6,041	$7,079	$7,885	$26,128
Net Income	$3,461	$4,017	$4,785	$5,420	$17,683
Earnings Per Share of Common Stock					
Basic	$0.19	$0.22	$0.26	$0.29	$0.95(1)
Diluted	$0.17	$0.20	$0.24	$0.27	$0.87(1)

	Three Months Ended				
1999	**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
Income from Operations	$4,070	$3,863	$4,176	$4,536	$16,645
Net Income	$2,759	$2,555	$2,860	$3,060	$11,234
Earnings Per Share of Common Stock					
Basic	$0.15	$0.14	$0.16	$0.17	$0.61(1)
Diluted	$0.14	$0.13	$0.15	$0.15	$0.58(1)

(1) The sum of the quarterly earnings per share does not equal full year earnings per share due to rounding.

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, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 have been derived from the audited financial statements included elsewhere herein. The selected consolidated financial data set forth below for the Company as of December 31, 1996, 1997 and for each of the years ended December 31, 1996, 1997 and 1998 are derived from the audited financial statements not included elsewhere herein. The selected consolidated financial information for 1998, 1999 and 2000 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.

(in thousands, except per share data)	Year Ended December 31,				
	1996	1997	1998	1999	2000
Consolidated Statements of Operations Data:					
Revenues	$ 2,775	$ 13,898	$ 45,031	$ 74,084	$122,758
Revenues - related party	9,257	10,846	13,575	14,820	14,273
Total revenues	12,032	24,744	58,606	88,904	137,031
Cost of revenues	6,020	14,359	31,919	46,161	70,437
Gross profit	6,012	10,385	26,687	42,743	66,594
Selling, general and administrative expenses	3,727	6,898	15,547	23,061	35,959
Depreciation and amortization expense	819	1,358	2,222	3,037	4,507
Income from operations	1,466	2,129	8,918	16,645	26,128
Other income:					
Interest income	8	25	638	1,263	2,649
Other income - net	1	—	83	37	(530)
Total other income	9	25	721	1,300	2,119
Income before provision for income taxes	1,475	2,154	9,639	17,945	28,247
Provision for income taxes	(341)	(581)	(3,606)	(6,711)	(10,564)
Minority interest	(492)	(545)	—	—	—
Net income	$ 642	$ 1,028	$ 6,033	$ 11,234	$ 17,683
Net earnings per share, basic	$ 0.05	$ 0.08	$ 0.38	$ 0.61	$ 0.95
Net earnings per share, diluted	$ 0.05	$ 0.08	$ 0.36	$ 0.58	$ 0.87
Weighted average number of common shares outstanding	13,000	13,094	15,886	18,342	18,565
Weighted average number of common shares and stock options outstanding	13,000	13,010	16,538	19,416	20,256
Consolidated Statements of Financial Position Data:					
Cash and cash equivalents	$ 1,810	$ 2,715	$ 28,418	$ 42,641	$ 61,976
Working capital	2,781	5,694	29,416	43,507	61,501
Total assets	7,827	18,298	51,679	69,026	109,540
Due to related party	976	6,646	9	—	8
Stockholders' equity	2,806	3,419	32,616	45,461	66,116

Directors

Wijeyaraj Mahadeva
Chairman of the Board
and Chief Executive Officer

Anthony Bellomo (1)
President
Erisco & HealtheWare
Software Engines Unit
The TriZetto® Group

John Klein (1) (2)
Chief Executive Officer
Polarex, Inc.

Venetia Kontogouris
Managing Director
Trident Capital

Robert W. Howe (1) (2)
Chairman and
Chief Executive Officer
ADS Financial Services Solutions

David M. Thomas
Chairman of the Board
and Chief Executive Officer
IMS Health, Inc.

Board Committees:
(1) Compensation Committee
(2) Audit Committee

Executive Officers

Wijeyaraj Mahadeva
Chairman of the Board
and Chief Executive Officer

Lakshmi Narayanan
President and
Chief Operating Officer

Gordon J. Coburn
Chief Financial Officer
Secretary & Treasurer

Francisco D'Souza
Senior Vice President
North American Operations
and Business Development

Transfer Agent
American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038
1-800-937-5449

Independent Accountants
PricewaterhouseCoopers L.L.P.
1301 Avenue of the Americas
New York, NY 10019

Form 10-K
The Company has filed its Annual Report on Form 10-K with the Securities and Exchange Commission. Many of the SEC's 10-K information requirements are satisfied by this 2000 Annual Report to Shareholders. However, a copy of the Form 10-K is available without charge upon request by contacting Investor Relations at the address or phone number listed below.

Common Stock Information
The Company's Class A common stock (CTSH) is listed on the Nasdaq National Market.

Trading for the Company's Class A common stock began June 19, 1998. As of March 9, 2001 there were approximately 34 holders of record of the Company's Class A common stock and 4,778 beneficial holders of the Company's Class A common stock. The Company has never paid dividends on its Class A or Class B common stock and does not anticipate paying any cash dividends in the foreseeable future. The following table sets forth the high and low sales price for the Company's Class A common stock for the calendar periods indicated, as adjusted for the Company's 2 for 1 stock split.

Fiscal 2000	High	Low
1st Quarter	$ 72 1/8	$ 36 1/2
2nd Quarter	$ 65	$ 24 1/4
3rd Quarter	$ 49	$ 30 15/16
4th Quarter	$ 45	$ 28 7/8

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Annual Meeting
The Company's annual meeting for shareholders will be held at 10:00 am on May 30, 2001 at the Company's headquarters, 500 Glenpointe Centre West Teaneck, New Jersey 07666

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Counselors at Law
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Princeton, NJ 08540

Internet
Additional company information is available on the World Wide Web: http//www.cognizant.com

Investor Relations
Requests for financial information should be sent to:
Gordon J. Coburn
Chief Financial Officer
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