

## Management's Discussion and Analysis of Financial Condition and 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	2001	2002
Total revenues	100.0%	100.0%	100.0%
Cost of revenues	51.4	51.1	53.6
Gross profit	48.6	48.9	46.4
Selling, general and administrative expenses	26.2	25.3	23.3
Depreciation and amortization expense	3.3	3.6	3.4
Income from operations	19.1	20.0	19.7
Other income (expense):			
Interest income	1.9	1.4	0.8
Split-off costs	—	—	(0.7)
Impairment loss on Investment	—	(1.1)	—
Other income / (expense)	(0.4)	(0.4)	(0.1)
Total other income / (expense)	1.5	(0.1)	—
Income before provision for income taxes	20.6	19.9	19.7
Provision for income taxes	(7.7)	(7.4)	(4.6)
Net income	12.9%	12.5%	15.1%

#### Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

**Revenue.** Revenue increased by 28.9%, or approximately \$51.3 million, from approximately \$177.8 million during 2001 to approximately \$229.1 million in 2002. This increase resulted primarily from an increase in application management and application development and integration services. The Company provides services through time and materials ("T&M") and fixed-bid contracts. Over the course of the last three years revenues recognized under fixed-bid contracts have increased as a percent of total revenues from 15.1% in 2000 to 23.9% in 2001 and 24.6% in 2002. This increase is attributable primarily to increased demand for such services due to the customer's ability to specifically quantify project costs prior to entering into contracts.

Sales to related parties on a year-over-year basis were 10.6% in 2001 compared to 8.9% in 2002. 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 2001 and 2002, no third party accounted for greater than 10% 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 35.1%, or approximately \$31.9 million, from approximately \$90.8 million during 2001 to approximately \$122.7 million in 2002. The increase was due primarily to the increased cost resulting from the increase in the number of the Company's technical professionals from approximately 3,470 employees at December 31, 2001 to over 6,100 employees at December 31, 2002. The increased number of

technical professionals is a direct result of greater demand for the Company's services and on employees acquired through acquisitions. (See Note 4 to the Consolidated Financial Statements.) The Company's gross profit increased by 22.4%, or approximately \$19.5 million, from approximately \$86.9 million during 2001 to approximately \$106.4 million during 2002. Gross profit margin decreased from 48.9% of revenues during 2001 to 46.4% of revenues in 2002. The decrease in such gross profit margin was primarily attributable to higher incentive compensation costs in 2002 as compared to 2001, due to the significantly increased performance of the Company.

**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 19.2%, or approximately \$9.9 million, from approximately \$51.3 million during 2001 to approximately \$61.2 million during 2002, and decreased as a percentage of revenue from approximately 28.9% to 26.7%, respectively. The increase in such expenses in absolute dollars was due primarily to expenses incurred to expand the Company's sales and marketing activities and increased infrastructure expenses to support the Company's growth. The decrease in such expenses as a percentage of revenue was due primarily to the increased revenues that have resulted from the Company's expanded sales and marketing activities in the current and prior years.

**Income from Operations.** Income from operations increased 26.9%, or approximately \$9.6 million, from approximately \$35.6 million during 2001 to approximately \$45.2 million during 2002, representing approximately 20.0% and 19.7% of revenues, respectively. The decrease in operating margin was due primarily to higher incentive compensation costs in 2002 as compared to 2001.

**Other Income/Expense.** Other income/expense consists primarily of interest income offset, by foreign currency exchange losses and, in 2001, an impairment loss on an investment, and in 2002, split-off costs related to the exchange offer in which IMS Health has offered to its stockholders to exchange its holdings of the Company's Class B common stock for shares of IMS Health. Interest income decreased by approximately 27.7%, from approximately \$2.5 million during 2001 to approximately \$1.8 million during 2002. The decrease in such interest income was attributable primarily to lower interest rates, offset, in part, by higher operating cash balances. The Company recognized a net foreign currency exchange loss of approximately \$767,000 during 2001 compared to an exchange loss of approximately \$235,000 during 2002, as a result of the effect of changing exchange rates on the Company's transactions. The Company recognized an impairment loss on its investment in Qestra Corporation ("Qestra") of approximately \$2.0 million during the fourth quarter of 2001 in recognition of an other than temporary decline in value. The impairment loss was based upon an implied valuation of Qestra as a result of a recent new round of venture capital funding in which the Company's equity interest in Qestra was substantially diluted and investors, other than the Company, received preferential liquidation rights. The impairment loss, net of tax