DENDRITE

DENDRITE INTERNATIONAL, INC. 2000 ANNUAL REPORT

Company Overview Dendrite International is a leading global provider of highly specialized, integrated product and service offerings for Pharmaceutical and Consumer Package Goods (CPG) industries. Dendrite supports corporate strategies for a sustained competitive advantage and offers advanced software and knowledge-based services to our customers.

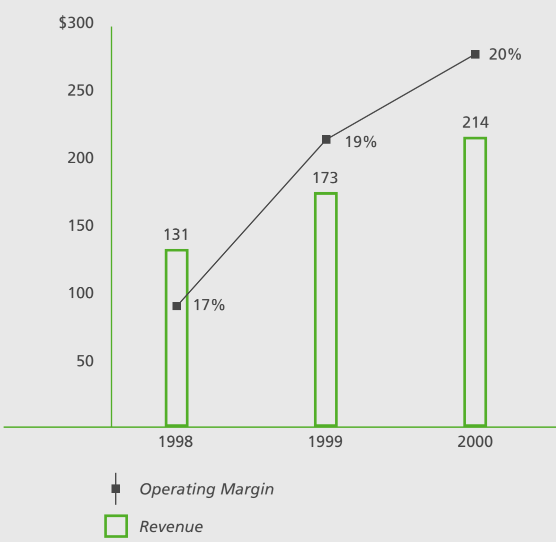
Approximately one-third of all pharmaceutical sales representatives and their managers worldwide rely on Dendrite for a unique blend of data, technology and training to improve their sales success. Focusing strongly on outcomes, Dendrite combines its modular software products with specifically tailored coaching and support services. With a global infrastructure as its foundation, Dendrite's commitment to unparalleled service has been the hallmark of its business and the basis of strong customer loyalty since the Company's inception in 1986.

(In thousands, except per share data)	Year Ended December 31, 2000	1999	1998
Revenues	$214,326	$172,685	$130,633
Operating income	43,913	29,883	20,572
Net income	30,611	19,340	12,759
Pro forma net income excluding non-recurring items	30,611	22,426	13,989
Diluted net income per share	$ 0.74	$ 0.48	$ 0.32
Pro forma net income per share excluding non-recurring items	$ 0.74	$ 0.55	$ 0.36
Shares used in computing diluted net income per share	41,344	40,599	39,392

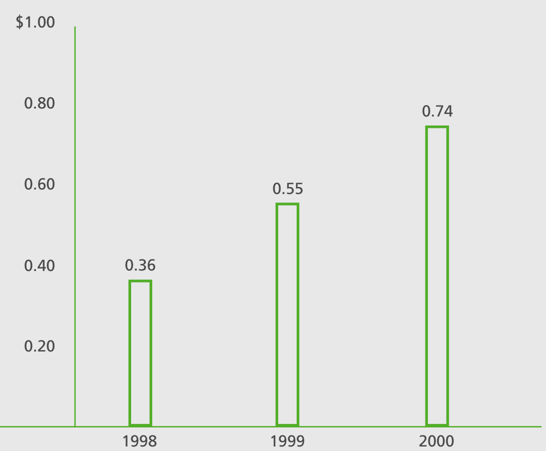
(In thousands, except per share data)	Year Ended December 31, 2000	1999	1998
Working capital	$113,738	$ 78,131	$ 50,608
Total assets	175,903	124,720	81,831
Stockholders' equity	153,298	101,116	61,049

managing today & ensuring tomorrow

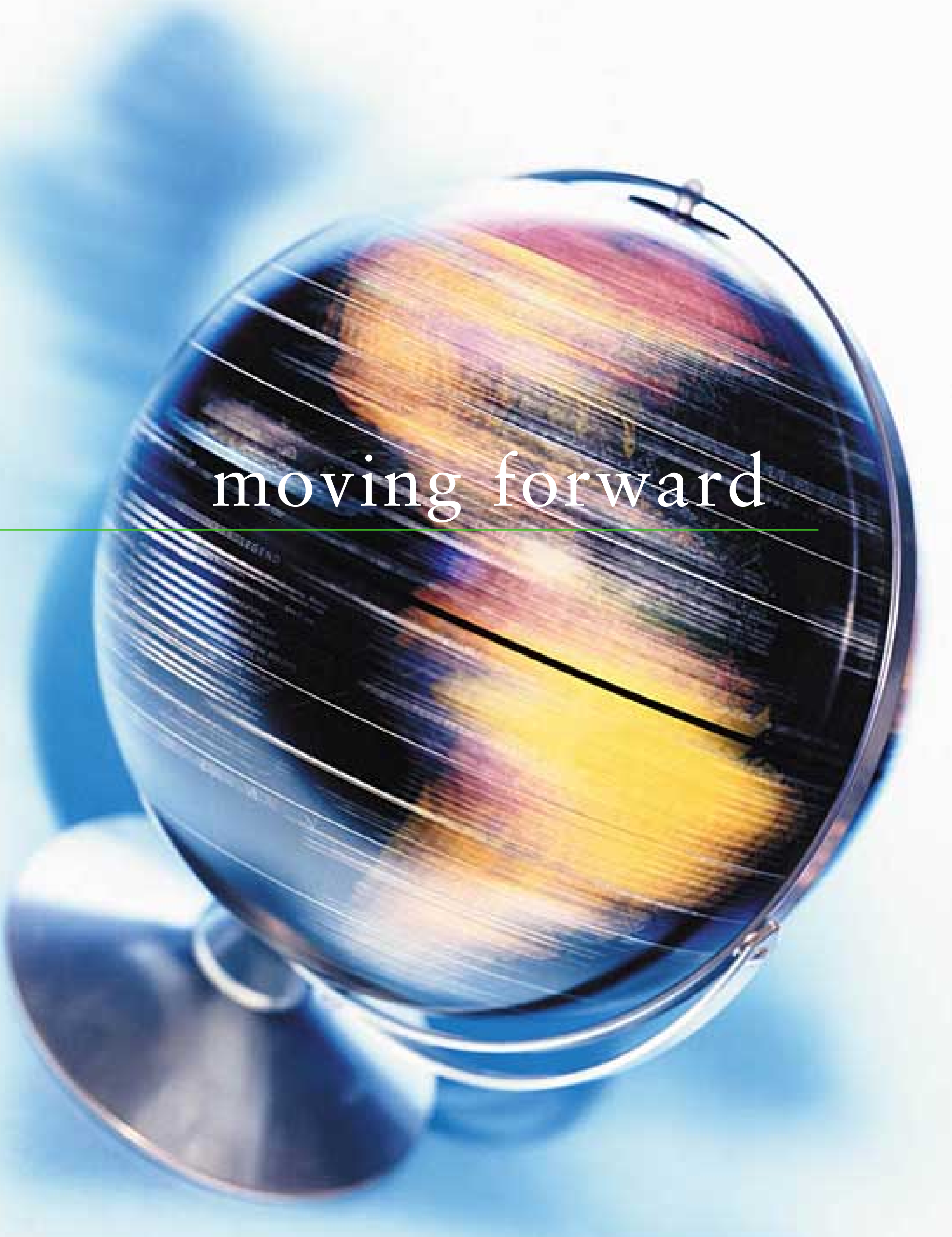
Strong Revenue Growth and Profitability ($ in Millions)



Strong EPS Growth



moving forward



one constant at Dendrite is our commitment to continuous improvement

Many of the people at Dendrite once sat on our customer's side of the desk and experienced the *"there must be a better way to do this"* conversations and scenarios. This experience, combined with a real commitment to achieve change, forms the core of Dendrite's success throughout these years. It is reflected in who we are and all that we do.

We have found *"a better way"*—and our customers are willing to attest to it. Our in-depth pharmaceutical experience, and most importantly, our passion in providing our customers with competitive advantage through the development and deployment of new and focused technologies, enables them to work smarter and more effectively in the sales, marketing and clinical arenas. These are the driving forces behind Dendrite's success in the pharmaceutical industry worldwide.

Customer Relationship Management (CRM) is the latest iteration of this drive to create and develop continuous competitive advantage to our customers, the major pharmaceutical companies. By improving our clients' business process in the sales, marketing and clinical areas with new technology—customer loyalty, revenues and ultimately profitability are enhanced. Expanding traditional sales-based customer information and data to address all areas of contact with the customer has enabled Dendrite to build on its SFA heritage…creating this wider capability for our customers whose improved view of developing value for *their* customer is our measure for success.

The Pharmaceutical Challenge

The pharmaceutical industry is fraught with exceptional barriers that go beyond the challenges shared with other industries. The industry issues facing our clients are unique. No two pharmaceutical companies are alike in their strengths, structure and needs…and all of us at Dendrite understand this. There are no cookie-cutter solutions. There are no "one-size-fits-all" applications. Dendrite possesses the intimate pharmaceutical expertise required to understand these differences and the specifics of our clients' business.

Dendrite's core staff is directly experienced in both the pharmaceutical and IT industries—representing the unique set of qualifications that has driven our corporate legacy of excellence within the pharmaceutical industry. And as we remain steadfast to our client-driven values, we will continue to provide our customers with the appropriate knowledge, services and tools needed to be profitable in the future.

2000—A Year of Accomplishments

The collective effort by all of us at Dendrite this past year continues a history of on-going, record-breaking accomplishments. Earnings for the year were $30.6 million, a remarkable 58% increase over last year's performance. Total revenues reached an all-time high of $214 million in 2000, increasing 24% over 1999.

people leading globalization

almost doubling our marketshare in Japan from 17% to

30%

Specific accomplishments during the year that helped us achieve these new levels of profitability in 2000, and on-going initiatives that will continue to position Dendrite as the world's leading healthcare-focused technology solution provider, include the following:

- As part of our orchestrated global strategy, we won new business in many international arenas. There are now over 80,000 installed Dendrite users across 57 different countries representing over 30% of the worldwide market share.

- Especially notable is our growth in Japan where the signing of several new clients and a strengthened partnership with Hitachi has resulted in almost doubling our share in this marketplace from 17% to 30%—in a one year period.

- Significant growth within the ranks of our U.S. customer base also contributed to last year's successful performance—our clients' testament to Dendrite's attainment of high customer satisfaction levels with our products, and client-driven focus on support services.

- We made significant progress with our new entry into the industry's mid-market players. This market segment, renowned for very demanding sales forces within growing pharmaceutical companies, was the focus of our SalesPlus division which extended Dendrite's total product and service offerings. As a result, our middle market users in the U.S. increased in number by a robust 50%.

- We worked to expand and create CRM capabilities to integrate call centers, eDetailing, seminars, medical department communications, and Web tools for distribution into the base SFA tools. We also expanded the data capture and management to new levels—always remaining in alignment with priorities and needs of our pharmaceutical clients.

- We enlarged the footprint of CRM technology solutions with the acquisition of Analytika, whose products assist pharmaceutical companies in planning how to maximize the use of sales and marketing tools to measure return on investment (ROI) at the physician level. Integration into our ePharma product offerings is a significant step towards our goal of providing the best deployment of CRM technologies in the world.

- We expanded the reach and success of our clinical trials business, effectively establishing Dendrite as an important player in this market niche. By providing the logistics and support around electronic data capture (EDC), we help our clients achieve reductions in both the cost and time to complete global clinical trials. These projects have significantly deepened our relationships with current and new pharmaceutical clients.

- Our construction of a new data warehousing and call center site in Virginia remains on track, and is scheduled for completion by April 2001. These improvements to our infrastructure will continue to ensure our continuing ability to provide the highest levels of service to our customers.

- We expanded our management ranks, adding substantial pharmaceutical experience, talent and collective perspective that will help us achieve continued leadership in tomorrow's markets.

People Driving Our Customers' Sales Success

In the continuing evolution of pharmaceutical selling, the sales force remains the single most effective, but costly, aspect of the pharmaceutical company's sales and marketing initiative. Nearly two-thirds of our clients' sales and marketing budgets are spent on sales representatives and product samples. Sales reps know the customer best…and are expected to deliver knowledge and value at every customer point of contact. SFA provides the rep with tools to manage the customer contacts; CRM provides the knowledge and history to enhance all customer contacts, to add value and expand each relationship. Analytics is the critical and unique CRM layer that Dendrite brings to market, along with the ability to deploy the sales tools and sales reps more effectively by providing the intelligence to choose the best tool and content relevant to each doctor, adding value to every CRM-based contact.

people driving our customers' sales success

Through continued product development and acquisition, Dendrite now offers a full complement of CRM and analytical capabilities. In 2001, we will continue to invest in our product and service offerings, thus ensuring that our clients implement the best processes to achieve competitive advantage.

People Leading Globalization

Dendrite employees are united in their commitment to a global strategy of support for our clients. Throughout 2000, we expanded our ability to offer solutions in Eastern Europe, Russia, China and Latin America. These countries represent emerging economic markets where we foresee an exciting opportunity for long-term growth. And, as previously mentioned, our extraordinary growth in Japan is important as it is the world's second largest pharmaceutical market. Looking ahead, we will continue to take steps to solidify Dendrite's leading position as the provider of choice of sales force and CRM enabling technology to this highly specialized market.

Globalization is a key objective for many pharmaceutical companies. To help our clients with their growth objective, Dendrite has created different product solutions for different market stages that can help healthcare companies gradually migrate their sales and marketing technologies into a centralized system for true globalization in the future.

Innovative People for Innovative Products

Throughout the year, we surpassed major goals in bringing innovation to market…enhancing and expanding Dendrite's services and applications for the continued success of our clients.

Among the major milestones in Dendrite's continuing success include:

Analytics to Power CRM We made outstanding progress with CRM solutions in 2000, including the development of the new Pharmacy Data Consortium and our integration of the Analytika acquisition. These initiatives will allow Dendrite to offer solutions with an unparalleled ability to help our clients organize, validate, disseminate and analyze relevant information to improve their sales success…and then measure the resulting performance. There will be much more to this segment of the Dendrite growth story in the next year.

With our expanded product offerings and growing knowledge management capabilities, Dendrite is launching the intelligent CRM solution—going far beyond a mechanism that simply manages data flow. We have surpassed our core leadership position as a Sales Force Automation vendor and are emerging as a full-scale CRM solution by applying the tools of business intelligence to actively enhance selling outcomes.

SalesPlus Dendrite has made further progress in streamlining the May 1999 merger with CorNet (now called SalesPlus) into our total portfolio of technology and service solutions. The SalesPlus offering provides ease of installation and configuration that is especially valuable and relevant to mid-tier customers in diverse national environments. The ongoing product improvements to our mid-tier product offering was a primary factor in attaining a 50% increase within this targeted customer base.

WebForce™ WebForce™, Dendrite's core sales and marketing automation system that provides the footprint for all subsequent CRM expansions further evolved in 2000 with enhancements to its architecture, making the product even more robust—offering new web-enabled features. WebForce™ leverages the Internet with extraordinary capabilities that sales representatives and their managers find easy to use, effective and intuitive. Because of the unique level of pharmaceutical knowledge in the product design, managers are better able to measure and direct their sales teams, particularly in sophisticated environments, ensuring that the company achieves maximum value from their investment in Dendrite and other technology as part of the global CRM investment.

ForceAnalyzeR$_x$® ForceAnalyzeR$_x$® is Dendrite's reporting and analysis tool that enables users at all levels to analyze and act upon information in real time. In 2000, we integrated these capabilities into our existing WebForce™ application resulting in an unparalleled product offering that takes advantage of real-time opportunities. Given the importance of the Japanese market, work was also completed in 2000 to make ForceAnalyzeR$_x$® unicode compliant for use in Japan. The progressive evolution of ForceAnalyzeR$_x$®—including the addition of mapping software and analytical support tools—makes it easier than ever for managers to help representatives to call on the right physicians, at the right total revenues reached all time high of

$214 million in 2000


innovative people for innovative products

time, with the right messages and to create corporate standards for ROI-based resource allocation decision making as an outgrowth of their overall CRM investments.

Multi-National Clinical Trials Support The management of multinational clinical trials is often prone to a variety of complications that must be resolved as quickly and efficiently as possible. While many variables are in play, success depends upon the ability of a study sponsor to ensure that data is exchanged swiftly and without interruption and that local regulatory and logistical issues do not stall the process.

Clinical trials represent a major area of largely untapped potential to improve efficiency, speed and profit for our pharmaceutical customers. As a facilitator for various vendors who supply electronic data capture (EDC) software, we believe that Dendrite is in the best position to bring more reliable and efficient processes supporting our clients' new drug development efforts. Dendrite's clinical trial support services include a 24 hour/7 day a week, multilingual help desk; software loading and validation; hardware deployment; asset management and Internet training (distance learning). We also assist clinical trials sites with issues such as connectivity and training, as well as hardware, customs and language barrier issues.

Pharmacy Data Consortium Established in 2000, we will continue the growth of and support for the Pharmacy Data Consortium partnership. This group of demographically and geographically diverse pharmacy chains represents over 50% of all U.S. retail pharmacies.

Through our partnership with these important healthcare stakeholders, Dendrite can acquire more accurate and more timely data. Dendrite's additional capabilities in statistical analysis, artificial intelligence and customized software applications transformed this data into info "intelligent information" conforming with our customers' desire to reduce the data their reps receive and replace it with actionable information to help every sales call individually. Automated marketing and ROI analysis tools are also in development. These tools will help pharmaceutical companies choose the relative balances of promotional resources and measure the ROI of all promotional activities that will create the competitive advantage for our clients by helping to allocate promotional funds more efficiently.

Led by Dendrite's integrated solutions and these expanded offerings, pharmaceutical companies are able to provide directional and "intelligent data" to both their sales reps and their physician audience. Benefits realized by adding this intellectual value to each physician engagement includes more productive meetings, more efficient use of time and improved relationships between physicians and pharmaceutical representatives.

Growing eLearning During 2000, we strengthened Dendrite's eLearning initiatives to offer our clients new solutions for training and educating their employees. Dendrite's WebSessionManager™ continues to be a highly effective way to train sales people without removing them from the field. This web-based learning tool uses a specially modified voice-over Internet protocol to facilitate training that is usually conducted at off-peak business hours… replacing traditional training sessions that usually pull reps away from prime physician call hours.

Additional eLearning initiatives will be launched in the first half of 2001, including a cutting-edge tool that incorporates a humanizing technology that goes beyond any previous computer based training environment, while also providing business rule training and compliances. Features will include an on-line knowledge management assistant that will give each sales representative a personal interactive "tutor" or "expert"…ready, whenever needed, to facilitate learning and increase productivity.

Dendrite's long history of success has been driven by our ability to provide our customers with an in-depth, experienced-based understanding of their business, of business in general, and in leveraging and implementing selected technologies that focus on business goals. To advance our leadership position within the pharmaceutical industry, we continuously strive to broaden and deepen our capabilities. Recognizing that our people form the cornerstone from which innovation is nurtured and developed, we will continue to assemble and strengthen the employee and management talent that enables us to hit the mark in our industry year after year. Through uncompromised commitment, we continue to provide our clients with an unsurpassed ability to take full advantage of the opportunities created by an increasingly connected world.

	Year Ended December 31,				
	2000	1999	1998	1997	1996
(In thousands, except per share data)					
Statement of Operations Data:					
Revenues:					
License fees	$ 23,966	$ 24,244	$ 14,955	$ 9,074	$10,310
Services	190,360	148,441	115,678	82,248	66,573
	214,326	172,685	130,633	91,322	76,883
Costs of revenues:					
Cost of license fees	3,420	2,360	2,314	1,758	832
Cost of services	88,234	72,380	57,887	45,078	37,771
	91,654	74,740	60,201	46,836	38,603
Gross margin	122,672	97,945	70,432	44,486	38,280
Operating expenses:					
Selling, general and administrative	67,884	56,927	44,046	33,305	28,519
Research and development	10,875	7,669	4,584	3,674	7,361
Mergers and acquisitions	—	3,466	—	—	—
Write-off of in-process research and development	—	—	1,230	—	2,640
	78,759	68,062	49,860	36,979	38,520
Operating income (loss)	43,913	29,883	20,572	7,507	(240)
Interest income	3,541	1,880	1,099	531	1,168
Other income (expense)	5	(189)	(466)	(261)	(240)
Income before income taxes	47,459	31,574	21,205	7,777	688
Income taxes	16,848	12,234	8,446	3,002	1,467
Net income (loss)	$ 30,611	$ 19,340	$ 12,759	$ 4,775	$ (779)
Net income (loss) per share:					
Basic	$ 0.78	$ 0.51	$ 0.35	$ 0.13	$ (0.02)
Diluted	$ 0.74	$ 0.48	$ 0.32	$ 0.13	$ (0.02)
Shares used in computing net income (loss) per share:					
Basic	39,354	37,725	36,080	35,601	35,370
Diluted	41,344	40,599	39,392	36,870	35,370

	December 31,				
	2000	1999	1998	1997	1996
(In thousands)					
Balance Sheet Data:					
Working capital	$113,738	$ 78,131	$ 50,608	$34,813	$31,530
Total assets	175,903	124,720	81,831	57,876	54,176
Capital lease obligation, less current portion	—	285	544	353	201
Stockholders' equity	153,298	101,116	61,049	40,672	37,511

Forward-Looking Statements

This annual report may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21-E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" regarding our strategy, future operations, future expectations or future estimates, financial position and objectives of management. Those statements in this annual report containing the words "believes," "anticipates," "plans," "expects" and similar expressions constitute forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our Company and the pharmaceutical and consumer packaged goods industries. All such forward-looking statements involve risks and uncertainties, including those risks identified under "Factors That May Affect Future Operating Results," many of which are beyond our control. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate and actual results may differ from those indicated by the forward-looking statements included in this annual report, as more fully described under "Factors That May Affect Future Operating Results."
In light of the significant uncertainties inherent in the forward-looking statements included in this annual report, you should not consider the inclusion of such information as a representation by us or anyone else that we will achieve such results. Moreover, we assume no obligations to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Overview

In 1991, Dendrite was the successor to a business co-founded in 1986 by John E. Bailye, the Company's Chairman and Chief Executive Officer. The business was established to provide Sales Force Effectiveness or SFE solutions, which have evolved into what is commonly referred to as customer relationship management or CRM solutions, that enable companies to manage, coordinate and control the activities of large sales forces in complex selling environments, primarily in the prescription-only pharmaceutical industry. Today, our CRM solutions combine software products with a wide range of specialized support services. These services include software implementation, technical and hardware support and sales force support. We develop, implement and service sales force software products through our own sales, support and technical personnel located in 21 offices worldwide.

The Company generates revenues from both services and licenses. Service revenues, which account for a substantial majority of our revenues, consist of fees from a wide variety of contracted services, which we make available to our customers, generally under multi-year contracts. We generate implementation fees from services provided to configure and implement the CRM software products for our customers. We receive technical and hardware support fees for services related to, among other things, ongoing technical support, maintenance of our customers' databases, operations of our customers' server computers, maintenance for our customers' remote hardware and asset control. Technical and hardware support fees also include fees for software maintenance services such as software defect resolution and performance enhancements. We generally charge fees for these maintenance services based on a percentage of total license fees. We receive sales force support fees for organizing and managing support of our customers' sales force, including training, telephone support and data analysis services. It is our experience that our larger customers increase the amount of services they purchase from us over time. Fees for these additional services are typically based on the labor and materials used to provide the applicable service.

We charge our customers license fees to use our proprietary computer software. Customers generally pay one-time perpetual license fees based upon the number of users, the territory covered and the particular software licensed by the customer.

The Company generally recognizes license fees as revenue using the percentage-of-completion method over a period of time that commences with the execution of the license agreement and ends when the product configuration is complete and it is ready for use in the field. This period of time usually includes initial customization or configuration and concludes with quality assurance and testing. When there is no initial customization or configuration, the Company generally recognizes the license fees from those products upon delivery if any services to be provided are not essential to the functionality of the software. Additionally, license revenues are recognized immediately when user count for previously delivered software increases. The Company's software licensing agreements provide for a warranty period (typically 180 days from the date of execution of the agreement). The Company's software maintenance period usually begins immediately after the warranty period. The portion of the license fee associated with the warranty period is unbundled from the license fee and is recognized ratably over the warranty period. The Company does not recognize any license fees unless persuasive evidence of an arrangement exists, delivery has occurred, the license amount is fixed or determinable and collectability is probable.

The United States, the United Kingdom, France and Japan are currently our main markets. We bill services provided by our foreign branches and subsidiaries in local currencies. Operating results generated in local currencies are translated into U.S. dollars at the average exchange rate in effect for the reporting period. We generated approximately 23% of our total revenues outside the United States during the year ended December 31, 2000; approximately 24% during the year ended December 31, 1999; and approximately 24% during the year ended December 31, 1998. Our operating profits by geographic segments are shown in Note 10 of "Notes to Consolidated Financial Statements."

Mergers and Acquisitions

We regularly evaluate opportunities to acquire products or businesses that represent strategic enhancements to our operations. Such acquisition opportunities, if they arise, may involve the use of cash or equity instruments. The Company has made the following acquisitions over the last three years:

On January 6, 2000, the Company purchased all of the assets and assumed certain liabilities of Analytika, Inc. ("Analytika"), a provider of advanced analytical products, consulting services and outsourced operations services to the pharmaceutical industry. Under the terms of the acquisition agreement, the Company paid $2,318,000 in cash, which includes transaction costs, and $6,506,000 in Dendrite common stock. The acquisition has been accounted for using the purchase method with the purchase price allocated to the fair value of the assets acquired and liabilities assumed based on their respective fair market values at the acquisition date. Of the purchase price, $2,890,000 was allocated to purchased capitalized software development costs. The excess of the purchase price over the fair value of the net assets acquired has been allocated to goodwill ($5,979,000) based upon an independent appraisal. Analytika's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

On June 30, 1999, the Company purchased all of the assets and assumed certain liabilities of Marketing Management International, Inc. and certain affiliated companies (collectively, "MMI"), providers of palm-top software and paper-based sales force effectiveness solutions and consulting services to subsidiaries of multinational pharmaceutical companies operating in emerging markets, such as Latin America, Eastern Europe and Southeast Asia. Under the terms of the acquisition agreement, the Company paid $6,640,000 in cash, which includes transaction costs, and $3,435,000 in Dendrite common stock. The acquisition has been accounted for using the purchase method with the purchase price allocated to the fair value of the assets acquired and liabilities assumed based on their respective fair market value at the acquisition date. The excess of the purchase price over the fair value of the net assets acquired, which included purchased capitalized software development costs ($1,989,000) has been allocated to goodwill ($7,235,000) based upon an independent appraisal. MMI's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

On May 27, 1999, the Company exchanged 2,220,807 shares of its common stock for all the outstanding shares of common stock of CorNet International, Ltd. ("CorNet"), a provider of sales force effectiveness solutions for the U.S. pharmaceutical, consumer and business to business markets. The merger has been accounted for under the pooling of interests method. Accordingly, all prior historical consolidated financial statements contained herein have been restated to reflect the acquisition of CorNet.

On July 24, 1998, the Company acquired 100% of the capital stock of Associated Business Computing, N.V. and an affiliated company (collectively, "ABC") for approximately $4,013,000 and transaction costs of $150,000. The acquisition was accounted for under the purchase method of accounting, with the purchase price allocated to the assets acquired and liabilities assumed based on their respective fair market values at the acquisition date. The excess of purchase price over the fair value of net assets acquired was assigned to identifiable intangibles. The Company recorded $1,230,000 of the purchase price as a charge in the consolidated statements of operation on the acquisition date as it was related to the fair value of in process research and development projects. The remaining amount by which the purchase price exceeded the net assets acquired, which included purchased software ($850,000), was allocated to goodwill ($2,226,000). ABC's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

Results of Operations

The following table sets forth our results of operations expressed as a percentage of total revenues for the periods indicated:

	Year Ended December 31,		
	2000	1999	1998
Revenues:			
License fees	11%	14%	11%
Services	89	86	89
	100	100	100
Costs of Revenues:			
Cost of license fees	2	2	2
Cost of services	41	42	44
	43	44	46
Gross margin	57	56	54
Operating Expenses:			
Selling, general and administrative	32	33	33
Research and development	5	4	4
Mergers and acquisitions	—	2	--
Write-off of in-process research and development	—	—	1
	37	39	38
Operating income	20	17	16
Interest and other income	2	1	--
Income before income taxes	22	18	16
Income taxes	8	7	6
Net Income	14%	11%	10%

Certain reclassifications have been made to prior year amounts to conform with current year presentations. During the second quarter of 1998, we determined that costs associated with certain activities that were previously classified as research and development expense should have been classified as cost of services as these expenditures related to client-specific activities. For consistency of presentation, all prior periods have been reclassified.

Years Ended December 31, 2000 and 1999

Revenues. Total revenues increased $41,641,000 to $214,326,000 in 2000, up 24% from $172,685,000 in 1999.

License fee revenues decreased $278,000 to $23,966,000 in 2000, down 1% from $24,244,000 in 1999. License fee revenues as a percentage of total revenues were 11% in 2000 as compared to 14% in 1999 due in part to the 28% growth in service revenues, as discussed below. The lack of change in license fee revenue was the result of fewer sales to new pharmaceutical customers in the U.S.

Service revenues increased $41,919,000 to $190,360,000 in 2000, up 28% from $148,441,000 in 1999. Service revenues as a percentage of total revenues were 89% in 2000 as compared to 86% in 1999. The increase in service revenues was primarily the result of an increase in the number of installed users of Dendrite sales force software products at both new and existing customers, as well as the provision of additional services for our existing customers.

Cost of Revenues. Cost of revenues increased $16,914,000 to $91,654,000 in 2000, up 23% from $74,740,000 in 1999.

Cost of license fees increased $1,060,000 to $3,420,000 in 2000, up 45% from $2,360,000 in 1999. Cost of license fees, as a percentage of license revenues, were 14% in 2000 as compared to 10% in 1999. Cost of license fees includes the amortization of capitalized software development costs and third-party vendor license fees. The increase in the costs in 2000 was primarily due to the increase in purchased capitalized software associated with the acquisitions of MMI in May 1999 and Analytika in January 2000.

Cost of services increased $15,854,000 to $88,234,000 in 2000, up 22% from $72,380,000 in 1999. This increase was primarily due to an increase in staff required to support greater client activity. As a percentage of service revenues, cost of services decreased from 49% of service revenues in 1999 to 46% in 2000. This decrease was primarily the result of increased operational efficiencies in 2000.

Total gross margin remained relatively constant at 57% in 2000 and 56% in 1999.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses increased $10,957,000 to $67,884,000 in 2000, up 19% from $56,927,000 in 1999. As a percentage of revenues, SG&A expenses decreased to 32% in 2000 from 33% in 1999. The increase in SG&A expenses was primarily attributable to an increase in sales and marketing expenses from both our existing businesses and our newly acquired businesses, due in part to an increase in the number of worldwide employees.

Research and Development (R&D) Expenses. R&D expenses increased $3,206,000 to $10,875,000 in 2000, up 42% from $7,669,000 in 1999. The increase in research and development expenses was primarily attributable to increased spending on development of internet initiatives, along with R&D spending from acquisitions. As a percentage of revenues, R&D expenses increased to 5% in 2000 from 4% in 1999. With respect to future research and development expenses, subject to market conditions, we currently anticipate that such expenses will be approximately 4% to 6% of revenues.

Mergers and Acquisitions. During the second quarter of 1999, the Company acquired CorNet in a transaction accounted for as a pooling of interests and incurred a one-time expense for the costs related to the acquisition and the cancellation of a proposed common stock offering.

Provision for Income Taxes. The effective tax rate was reduced to 35.5% in 2000 as compared to 36% excluding one-time charges in 1999. This slight decrease was the result of historical tax planning strategies. We anticipate the effective tax rate to be approximately 36% in 2001.

Years Ended December 31, 1999 and 1998

Revenues. Total revenues increased $42,052,000 to $172,685,000 in 1999, up 32% from $130,633,000 in 1998.

License fee revenues increased $9,289,000 to $24,244,000 in 1999, up 62% from $14,955,000 in 1998. License fee revenues as a percentage of total revenues were 14% in 1999 as compared to 11% in 1998. This increase was attributable primarily to sales to new pharmaceutical customers, sales force expansions and software upgrades by existing pharmaceutical customers.

Service revenues increased $32,763,000 to $148,441,000 in 1999, up 28% from $115,678,000 in 1998. Service revenues as a percentage of total revenues were 86% in 1999 as compared to 89% in 1998. The increase in service revenues was primarily the result of an increase in the number of installed users of Dendrite sales force software products at both new and existing customers, as well as the provision of additional services for our existing customers.

Cost of Revenues. Cost of revenues increased $14,539,000 to $74,740,000 in 1999, up 24% from $60,201,000 in 1998.

Cost of license fees increased $46,000 to $2,360,000 in 1999, up 2% from $2,314,000 in 1998. Cost of license fees includes the amortization of capitalized software development costs and third-party vendor license fees. The increase in the amortization of capitalized software development costs in 1999 was primarily due to the increase in purchased capitalized software associated with the acquisitions of ABC and MMI in 1999.

Cost of services increased $14,493,000 to $72,380,000 in 1999, up 25% from $57,887,000 in 1998. This increase was primarily due to an increase in staff required to support greater client activity including the use of higher cost consultants and contractors. As a percentage of service revenues, however, cost of services decreased from 50% of service revenues in 1998 to 49% in 1999. This decrease was primarily the result of increased operational efficiencies in 1999.

Total gross margin for 1999 rose to nearly 57%, up from 54% in 1998. This increase is due to the improvement in both service and license margins as described above, as well as the higher proportion of license to service revenues in 1999. This is due to the launch of several new products.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses increased $12,881,000 to $56,927,000 in 1999, up 29% from $44,046,000 in 1998. As a percentage of revenues, SG&A expenses remained constant at 33% for the years ended 1999 and 1998. The increase in SG&A expenses was primarily attributable to an increase in sales and marketing expenses from both our existing businesses and our newly acquired businesses, as well as increases related to additional leased facilities in Morristown, New Jersey.

Research and Development Expenses. Research and development expenses increased $3,085,000 to $7,669,000 in 1999, up 67% from $4,584,000 in 1998. The increase in research and development expenses during 1999 was primarily attributable to increased spending on development of our laptop pharmaceutical sales force software products and a new version of our palmtop pharmaceutical sales force software product.

Mergers and Acquisitions. During the second quarter 1999, the Company acquired CorNet in a transaction accounted for as a pooling of interests and incurred a one-time expense for the costs related to the acquisition and the cancellation of a proposed common stock offering.

Write-Off of In-Process Research and Development Costs. On July 24, 1998, the Company acquired 100% of the capital stock of ABC. We assigned $1,230,000 of the purchase price to in-process research and development and such amount was expensed in the statement of operations.

Provision for Income Taxes. The effective rate decreased to 39% in 1999 from 40% in 1998. The effective rate for both 1999 and 1998 included one-time charges, which are not deductible for tax purposes. Excluding the effect of these charges, the effective rate would have been 36% in 1999 from 38% in 1998. This decrease was due to the continued implementation of global tax planning strategies.

Quarterly Results of Operations

The following table sets forth certain unaudited consolidated statement of operations data expressed in U.S. dollars for 2000 and 1999. Our quarterly results have varied considerably in the past and are likely to vary from quarter to quarter in the future.

	Quarters Ended							
	March 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
(In thousands, except per share data)								
Statement of Operations Data:								
Revenues:								
License fees	$ 5,609	$ 6,050	$ 8,599	$ 3,708	$ 4,054	$ 6,747	$ 6,891	$ 6,552
Services	41,453	45,681	47,434	55,792	33,580	35,104	38,855	40,902
	47,062	51,731	56,033	59,500	37,634	41,851	45,746	47,454
Costs of Revenues:								
Cost of license fees	745	1,130	835	710	398	592	535	835
Cost of services	19,584	20,950	21,701	25,999	16,503	17,722	18,847	19,307
	20,329	22,080	22,536	26,709	16,901	18,314	19,382	20,142
Gross margin	26,733	29,651	33,497	32,791	20,733	23,537	26,364	27,312
Operating Expenses:								
Selling, general, and administrative	15,438	16,146	18,752	17,548	12,627	14,397	14,716	15,186
Research and development	2,639	2,701	2,703	2,832	1,638	1,835	2,393	1,803
Mergers and acquisitions	—	—	—	—	—	3,466	—	—
	18,077	18,847	21,455	20,380	14,265	19,698	17,109	16,989
Operating income	8,656	10,804	12,042	12,411	6,468	3,839	9,255	10,323
Interest income	760	757	917	1,107	418	440	408	613
Other income (expense)	—	(25)	(17)	47	(125)	43	(10)	(97)
Income before income taxes	9,416	11,536	12,942	13,565	6,761	4,322	9,653	10,839
Income taxes	3,390	4,153	4,660	4,645	2,562	2,296	3,475	3,901
Net income	$ 6,026	$ 7,383	$ 8,282	$ 8,920	$ 4,199	$ 2,026	$ 6,178	$ 6,938
Net income per share:								
Basic	$ 0.16	$ 0.19	$ 0.21	$ 0.22	$ 0.11	$ 0.05	$ 0.16	$ 0.18
Diluted	$ 0.15	$ 0.18	$ 0.20	$ 0.22	$ 0.11	$ 0.05	$ 0.15	$ 0.17
Shares used in computing net income per share:								
Basic	38,818	39,137	39,509	39,934	37,026	37,545	38,025	38,305
Diluted	41,210	41,151	41,638	41,355	39,690	40,104	41,012	41,527

Liquidity and Capital Resources

We finance our operations primarily through cash generated by operating activities. Net cash provided by operating activities was $23,262,000 for 2000, compared to $31,811,000 for 1999. This decrease was due primarily to an increase in accounts receivable at December 31, 2000. The increase in accounts receivable was due to an increase in revenues and a delay in payments, relating to certain accounts receivable balances, which were expected by December 31, 2000, but were not received until 2001. This decrease was partially offset by the increased net income during 2000 as compared to 1999.

Cash used in investing activities was $8,798,000 for 2000 as compared to $21,916,000 in 1999. This decrease was due primarily to increased sales of short-term partially offset by an increase in purchases of property and equipment.

We obtained $8,828,000 of cash from financing activities in 2000 as compared to $7,903,000 in 1999. This increase was due primarily to an increase in the issuance of common stock, which resulted from the exercise of employee stock options during the year, as well as lower payments on capital lease obligations.

We maintain a $15.0 million revolving line of credit agreement with The Chase Manhattan Bank, N.A. The agreement is available to finance working capital needs and possible future acquisitions. The terms of this agreement require us to maintain a minimum consolidated net worth, among other covenants, measured quarterly, which is equal to our net worth as of December 31, 1997, plus 50% of our net income earned after January 1, 1998 and 75% of the net proceeds to us of any stock offering (as defined in the agreement). This covenant effectively limits the amount of cash dividends we may pay. At December 31, 2000, there were no borrowings outstanding under the agreement and we satisfied all of our covenant obligations.

Our working capital was approximately $113,738,000 at December 31, 2000 and $78,132,000 at December 31, 1999. We believe that available funds, anticipated cash flows from operations and our line of credit will satisfy our currently projected working capital and capital expenditure requirements, exclusive of cash required for possible acquisitions of businesses, products and technologies, for the foreseeable future.

The Company is committed to spending approximately $11,000,000 to purchase a facility in the second quarter of 2001. We recently entered into a lease agreement for a new facility in Chesapeake, Virginia, with future minimum rental payments of approximately $15,000,000 over the next 11 years. The two building facility is comprised of approximately 100,000 total square feet. We expect capital expenditures in connection with tenant improvements, furniture and fixtures and other capital costs to be incurred through 2001. Funding for these expenditures is expected to be from operating cash flows and existing cash balances.

On January 31, 2001, the Company announced a stock repurchase program of up to $20,000,000 of its outstanding common stock over a two-year period. The Company will repurchase shares on the open market or in privately negotiated transactions from time to time. Repurchases of stock will be at management's discretion, depending on the price and availability. The repurchased shares will be held as treasury stock, which may be used to satisfy the Company's current and near term requirements under its equity incentive and other benefit plans and for corporate purposes. As of March 28, 2001, the Company has repurchased a total of 630,400 shares under the program for a total value of $8,806,074.

Recent Accounting Pronouncements

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101). SAB No. 101 summarizes certain of the Staff's views in applying generally accepted accounting principles to recognition, presentation and disclosure of revenue in financial statements. Management of the Company believes that its accounting policies for revenue recognition are in compliance with the provisions of SAB No.101

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities."* This statement established accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts and for hedging activities and is effective for all fiscal years beginning after June 15, 2000. Management believes that the adoption of SFAS No. 133 will have no impact on operating results or financial position.

Factors That May Affect Future Operating Results

Our business is heavily dependent on the pharmaceutical industry

Most of our customer relationship management products and services are currently used in connection with the marketing and sale of prescription-only drugs. This market is undergoing a number of significant changes. These include:

- the significant consolidation of the pharmaceutical industry as well as the timing and sequencing of sales to our customers may reduce the number of our existing and potential customers;
- regulatory changes that permit the over-the-counter sale of formerly prescription-only drugs; and
- competitive pressure on the pharmaceutical industry resulting from the continuing shift to delivery of healthcare through managed care organizations.

We cannot assure you that we can respond effectively to any or all of these and other changes in the marketplace. Our failure to do so could have a material adverse effect on our business, operating results or financial condition.

Our quarterly results of operations may fluctuate significantly and may not meet market expectations
Our results of operations may vary from quarter to quarter due to lengthy sales and implementation cycles for our products, our fixed expenses in relation to our fluctuating revenues and variations in our customers' budget cycles, each of which is discussed below. As a result, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is also possible that in some future period our results of operations may be below our targeted goals and the expectations of the public market analysts and investors. If this happens, the price of our common stock may decline.

Our lengthy sales and implementation cycles make it difficult to predict our quarterly revenues
The selection of a CRM solution generally entails an extended decision-making process because of the strategic implications and substantial costs associated with a customer's license of the solution. Given the importance of the decision, senior levels of management often are involved and, in some instances, its board of directors may be involved in this process. As a result, the decision-making process typically takes nine to eighteen months, and in certain cases even longer. Accordingly, we cannot control or predict the timing of our execution of contracts with customers.

In addition, an implementation process of three to six or more months before the software is rolled out to a customer's sales force is customary. However, if a customer were to delay or extend its implementation process, our quarterly revenues may decline below expected levels and could adversely affect our results of operations.

Our fixed costs may lead to fluctuations in our quarterly operating results if revenues fall below expectations
We establish our expenditure levels for product development, sales and marketing and some of our other operating expenses based in large part on our expected future revenues and anticipated competitive conditions. In particular, we frequently add staff in advance of new business to permit adequate time for training. If the new business is subsequently delayed or canceled, we will have incurred expenses without the associated revenues. In addition, we may increase sales and marketing expenses if competitive pressures become greater than originally anticipated. Since only a small portion of our expenses varies directly with our actual revenues, our operating results and profitability are likely to be adversely and disproportionately affected if our revenues fall below our targeted goals or expectations.

Our business is affected by variations in our customers' budget cycles
We have historically realized a greater percentage of our license fees and service revenues in the second half of the year than in the first half because, among other things, our customers typically spend more of their annual budget authorization for CRM solutions in the second half of the year. However, the relationship between the amounts spent in the first and second halves of a year may vary from year to year and from customer to customer. In addition, changes in our customers' budget authorizations may reduce the amount of revenues we receive from the license of additional software or the provision of additional services. As a result, our operating results could be adversely affected.

We depend on a few major customers for a significant portion of our revenues
We derive a significant portion of our revenues from a limited number of customers (considering all affiliates of each customer as part of that customer). Approximately 52% of our total revenues in 2000 came from Pfizer (which includes the former Parke-Davis division of Warner Lambert), Johnson & Johnson and Bristol-Myers Squibb. Approximately 37% of our total revenues in 1999 came from Pfizer and Johnson & Johnson. Approximately 42% of our total revenues in 1998 came from Pfizer and Johnson & Johnson. We believe that the costs to our customers of switching to a competitor's software product, or of taking significant system management functions in-house, are substantial. Nevertheless, some of our customers have switched, and in the future other customers may switch, to software products and/or services offered by our competitors or by in-house staff. If any of our major customers were to make such a change, our business, operating results or financial condition would be materially and adversely affected.

We may be unable to successfully introduce new products or respond to technological change
The market for CRM products changes rapidly because of frequent improvements in computer hardware and software technology. Our future success will depend, in part, on our ability to:
- use available technologies and data sources to develop new products and services and to enhance our current products and services;
- introduce new solutions that keep pace with developments in our target markets; and
- address the changing and increasingly sophisticated needs of our customers.

We cannot assure you that we will successfully develop and market new products or product enhancements that respond to technological advances in the marketplace, or that we will do so in a timely fashion. We also cannot assure you that our products will adequately and competitively address the needs of the changing marketplace.

Competition for software products has been characterized by shortening product cycles. We may be materially and adversely affected by this trend if the product cycles for our products prove to be shorter than we anticipate. If that happens, our business, operating results or financial condition could be adversely affected.

To remain competitive, we also may have to spend more of our revenues on product research and development than we have in the past. As a result, our results of operations could be materially and adversely affected.

Further, our software products are technologically complex and may contain previously undetected errors or failures. Such errors have occurred in the past and we cannot assure you that, despite our testing, our new products will be free from errors. Errors that result in losses or delays could have a material adverse effect on our business, operating results or financial condition.

Increased competition may result in price reductions and decreased demand for our products and services
We believe there are a number of other companies that sell CRM products and related services that specifically target the pharmaceutical industry, including:
- certain competitors that are actively selling CRM software products in more than one country; and
- certain competitors that also offer CRM support services.

We believe the SFA and CRM software products and/or services offered by most of our competitors do not address the variety of pharmaceutical customer needs that our solutions address. We also face competition from many vendors that market and sell SFA and CRM solutions in the CPG market. In addition, we also compete with various companies that provide support services similar to our services. We believe our ability to compete depends on many factors, some of which are beyond our control, including:
- the number and success of new market entrants supplying competing CRM products or support services;
- expansion of product lines by, or consolidation among, our existing competitors; and
- development and/or operation of in-house CRM software products or services by our customers and potential customers.

Some of our competitors and potential competitors are part of large corporate groups and have significantly greater financial, sales, marketing, technology and other resources than we have. We cannot assure you that we will be able to compete successfully with these companies or that competition will not have a material adverse effect on our business, operating results or financial condition.

Our international operations have risks that our domestic operations do not
The sale of our products and services in foreign countries accounts for, and is expected in the future to account for, a material part of our revenues. These sales are subject to risks inherent in international business activities, including:
- any adverse change in the political or economic environments in these countries;
- any adverse change in tax, tariff and trade or other regulations;
- the absence or significant lack of legal protection for intellectual property rights;
- exposure to exchange rate risk for service revenues which are denominated in currencies other than U.S. dollars; and
- difficulties in managing an organization spread over various jurisdictions.

We may face risks associated with acquisitions

Our business could be materially and adversely affected as a result of the risks associated with acquisitions. As part of our business strategy, we have acquired businesses that offer complementary products, services or technologies. These acquisitions are accompanied by the risks commonly encountered in an acquisition of a business, including:

- the effect of the acquisition on our financial and strategic position;
- the failure of an acquired business to further our strategies;
- the difficulty of integrating the acquired business;
- the diversion of our management's attention from other business concerns;
- the impairment of relationships with customers of the acquired business;
- the potential loss of key employees of the acquired company; and
- the maintenance of uniform, company-wide standards, procedures and policies.

These factors could have a material adverse effect on our revenues and earnings. We expect that the consideration paid for future acquisitions, if any, could be in the form of cash, stock, rights to purchase stock, or a combination of these. To the extent that we issue shares of stock or other rights to purchase stock in connection with any future acquisition, existing shareholders will experience dilution and potentially decreased earnings per share.

Our success depends on retaining our key senior management team and on attracting and retaining qualified personnel

Our future success depends, to a significant extent, upon the contributions of our executive officers and key sales, technical and customer service personnel. Our future success also depends on our continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense. We have at times experienced difficulties in recruiting qualified personnel and we may experience such difficulties in the future. Any such difficulties could adversely affect our business, operating results or financial condition.

Our inability to manage our growth could adversely affect our business

To manage our growth effectively we must continue to strengthen our operational, financial and management information systems and expand, train and manage our work force. However, we may not be able to do so effectively or on a timely basis. Failure to do so could have a material adverse effect upon our business, operating results or financial condition.

Our business depends on proprietary technology that we may not be able to protect completely

We rely on a combination of trade secret, copyright and trademark laws, non-disclosure and other contractual agreements and technical measures to protect our proprietary technology. We cannot assure you that the steps we take will prevent misappropriation of this technology. Further, protective actions we have taken or will take in the future may not prevent competitors from developing products with features similar to our products. In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. We have, on occasion, in response to a request by our customer, entered into agreements which require us to place our source code in escrow to secure our service and maintenance obligations.

Further, we believe that our products and trademarks do not infringe upon the proprietary rights of third parties. However, third parties may assert infringement claims against us in the future that may result in the imposition of damages or injunctive relief against us. In addition, any such claims may require us to enter into royalty arrangements. Any of these results could materially and adversely affect our business, operating results or financial condition.

There are characteristics in the consumer packaged goods market that differ from the pharmaceutical market

We market and sell CRM solutions to companies in the CPG market. The selling environment in this market has unique characteristics that differentiate it from the pharmaceutical market. In addition, we believe that the CPG market is composed of sub-markets, each of which may have unique characteristics. Accordingly, we cannot assure you that we will be able to replicate in this market the success we have achieved in the ethical pharmaceutical market.

Provisions of our charter documents and New Jersey law may discourage an acquisition of Dendrite
Provisions of our Restated Certificate of Incorporation, as amended, our By-laws, as amended, and New Jersey law may make it more difficult for a third party to acquire us. For example, the Board of Directors may, without the consent of the stockholders, issue preferred stock with rights senior to those of the common stock. In addition, the Company has a shareholder rights plan which may limit the ability of a third party to attempt a hostile acquisition of the Company.

Our common stock may be subject to price fluctuations
The market price of our common stock may be significantly affected by the following factors:
- the announcement or the introduction of new products by us or our competitors;
- quarter-to-quarter variations in our operating results or changes in earnings estimates or failure to meet or exceed earnings estimates;
- market conditions in the technology, healthcare and other growth sectors; and
- general consolidation in the healthcare information industry which may result in the market perceiving us or other comparable companies as potential acquisition targets.

Further, the stock market has experienced on occasion extreme price and volume fluctuations. The market prices of the equity securities of many technology companies have been especially volatile and often have been unrelated to the operating performance of such companies. These broad market fluctuations may have a material adverse effect on the market price of our common stock.

Quantitative and Qualitative Disclosures About Market Risk

Foreign currency risk
Because we have operations in a number of countries and our service agreements in such countries are denominated in a foreign currency, we face exposure to adverse movements in foreign currency exchange rates. As currency rates change, translation of the income statements of our international entities from local currencies to U.S. dollars affects year-over-year comparability of operating results. We do not hedge translation risks because we generally reinvest the cash flows from international operations.

Management estimates that a 10% change in foreign exchange rates would impact reported operating profit by less than $500,000. This sensitivity analysis disregards the possibility that rates can move in opposite directions and that losses from one area may be offset by gains from another area.

The introduction of the Euro as a common currency for members of the European Monetary Union took place on January 1, 1999. The eleven participating countries will issue sovereign debt exclusively in Euro and will redenominate outstanding sovereign debt. The legal currencies will continue to be used as legal tender through January 1, 2002, at which point the legacy currencies will be canceled and Euro bills and coins will be used for cash transactions in the participating countries. There can be no assurance that such Euro conversion will not adversely effect our business, financial condition, results of operations or cash flows. We have not determined what impact, if any, the Euro has on our foreign exchange exposure.

Interest rate risk
We earn interest income from our balances of cash and short term investments. This interest income is subject to market risk related to changes in interest rates, which primarily affects our investment portfolio. We invest in instruments that meet high credit quality standards, as specified in our investment policy. The policy also limits the amount of credit exposure to any one issue, issuer and type of investment.

As of December 31, 2000, our short-term investments consisted primarily of commercial paper maturing over the following three months. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that if the average yield of the Company's investments decreased by 100 basis points, our interest income for the year ended December 31, 2000 would have decreased by less than $700,000. This estimate assumes that the decrease occurred on the first day of 2000 and reduced the yield of each investment instrument by 100 basis points. The impact on our future interest income, of future changes in investment yields will depend largely on the gross amount of our investments.

(In thousands, except share data)	December 31, 2000	December 31, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 73,230	$ 50,024
Short-term investments	4,143	15,151
Accounts receivable, net	48,182	28,274
Prepaid expenses and other	6,987	4,759
Prepaid taxes	1,564	114
Deferred tax asset	1,160	1,368
Total current assets	135,266	99,690
Property and Equipment, net	15,924	10,249
Other Assets	3,872	—
Goodwill, net	12,305	8,716
Purchased Capitalized Software, net	4,144	2,399
Capitalized Software Development Costs, net	4,392	3,666
	$175,903	$124,720
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 5,120	$ 3,735
Accrued compensation and benefits	4,271	6,000
Other accrued expenses	8,085	8,001
Deferred revenues	4,052	3,822
Total current liabilities	21,528	21,558
Deferred Rent	25	—
Capitalized Lease Obligation	—	285
Deferred Taxes	1,052	1,761
Commitments and Contingencies (Note 8)		
Stockholders' Equity		
Preferred stock, no par value, 10,000,000 shares authorized, none issued	—	—
Common stock, no par value, 150,000,000 shares authorized; 40,729,212 and 39,042,606 shares issued; 40,127,712 and 38,441,106 shares outstanding	83,370	61,550
Retained earnings	73,949	43,338
Deferred compensation	(405)	(777)
Accumulated other comprehensive income	(1,689)	(1,068)
Less treasury stock, at cost	(1,927)	(1,927)
Total stockholders' equity	153,298	101,116
	$175,903	$124,720

The accompanying notes are an integral part of these statements.

	Year Ended December 31,		
	2000	1999	1998
(In thousands, except per share data)			
Revenues:			
License fees	$ 23,966	$ 24,244	$ 14,955
Services	190,360	148,441	115,678
	214,326	172,685	130,633
Costs of Revenues:			
Cost of license fees	3,420	2,360	2,314
Cost of services	88,234	72,380	57,887
	91,654	74,740	60,201
Gross margin	122,672	97,945	70,432
Operating Expenses:			
Selling, general and administrative	67,884	56,927	44,046
Research and development	10,875	7,669	4,584
Write-off of in-process research and development	—	—	1,230
Mergers and acquisitions	—	3,466	—
	78,759	68,062	49,860
Operating income	43,913	29,883	20,572
Interest Income	3,541	1,880	1,099
Other (Expense)/Income	5	(189)	(466)
Income before income taxes	47,459	31,574	21,205
Income Taxes	16,848	12,234	8,446
Net Income	$ 30,611	$ 19,340	$ 12,759
Net Income Per Share:			
Basic	$ 0.78	$ 0.51	$ 0.35
Diluted	$ 0.74	$ 0.48	$ 0.32
Shares Used in Computing Net Income Per Share:			
Basic	39,354	37,725	36,080
Diluted	41,344	40,599	39,392

The accompanying notes are an integral part of these statements.

	Common Stock		Retained	Deferred	Accumulated Other Comprehensive	Comprehensive	Total Treasury	Stockholders'
	Shares	Dollars	Earnings	Compensation	Income	Income	Stock	Equity
(In thousands)								
Balance, January 1, 1998	35,597	$33,342	$11,239	$(1,141)	$ (841)	—	$(1,927)	$ 40,672
Issuance of common stock	1,047	6,740	—	(1,257)	—	—	—	5,483
Amortization of deferred compensation	—	—	—	428	—	—	—	428
Stock option income tax benefits	—	1,360	—	—	—	—	—	1,360
Comprehensive income:								
Net income	—	—	12,759	—	—	$12,759	—	12,759
Currency translation adjustment	—	—	—	—	347	347	—	347
Comprehensive income	—	—	—	—	—	13,106	—	—
Balance, December 31, 1998	36,644	41,442	23,998	(1,970)	(494)	—	(1,927)	61,049
Issuance of common stock	1,797	11,621	—	899	—	—	—	12,520
Amortization of deferred compensation	—	—	—	294	—	—	—	294
Stock option income tax benefits	—	8,487	—	—	—	—	—	8,487
Comprehensive income:								
Net income	—	—	19,340	—	—	19,340	—	19,340
Currency translation adjustment	—	—	—	—	(574)	(574)	—	(574)
Comprehensive income	—	—	—	—	—	18,766	—	—
Balance, December 31, 1999	38,441	61,550	43,338	(777)	(1,068)	—	(1,927)	101,116
Acquisition of Analytika	216	6,506	—	—	—	—	—	6,506
Issuance of common stock	1,471	9,050	—	209	—	—		9,259
Amortization of deferred compensation	—	—	—	163	—	—	—	163
Stock option income tax benefits	—	6,264	—	—	—	—	—	6,264
Comprehensive income:								
Net income	—	—	30,611	—	—	30,611	—	30,611
Currency translation adjustment	—	—	—	—	(621)	(621)	—	(621)
Comprehensive income	—	—	—	—	—	29,990	—	—
Balance, December 31, 2000	40,128	$83,370	$73,949	$ (405)	$(1,689)	—	$(1,927)	$153,298

The accompanying notes are an integral part of these statements.

(In thousands)	2000	1999	1998
	Year Ended December 31,		
Operating Activities:			
Net income	$ 30,611	$ 19,340	$ 12,759
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,060	6,118	4,197
Compensation expense	309	688	—
Deferred income taxes (benefit)	(501)	24	25
Tax benefit from exercise of employee stock options	6,264	8,487	1,360
Write-off of in-process research and development	—	—	1,230
Changes in assets and liabilities, net of effect from acquisition:			
(Increase) decrease in accounts receivable	(20,058)	(4,947)	6,099
Increase in prepaid expenses and other	(2,250)	(1,471)	(870)
Increase in other assets	(76)	—	—
(Increase) decrease in prepaid income taxes	(1,481)	1,052	(921)
Increase (decrease) in accounts payable and accrued expenses	(752)	3,136	3,335
Increase (decrease) in deferred rent	25	(392)	(206)
Increase (decrease) in income taxes payable	—	(2,219)	22
Increase in deferred revenues	111	1,995	357
Net cash provided by operating activities	23,262	31,811	27,387
Investing Activities:			
Purchases of short-term investments	(19,840)	(39,341)	(13,552)
Sales of short-term investments	30,920	33,804	6,893
Acquisitions, net of cash acquired	(2,318)	(6,640)	(2,295)
Increase in other non-current assets	(3,550)	—	—
Purchases of property and equipment	(11,656)	(7,512)	(2,779)
Additions to capitalized software development costs	(2,354)	(2,227)	(1,637)
Net cash used in investing activities	(8,798)	(21,916)	(13,370)
Financing Activities:			
Payments on capital lease obligations	(285)	(788)	(302)
Issuance of common stock	9,113	8,691	3,703
Proceeds from bank loan	—	—	4,625
Repayments from bank loan	—	—	(5,555)
Net cash provided by financing activities	8,828	7,903	2,471
Effect of Exchange Rate Changes on Cash	(86)	(329)	130
Net Increase in Cash and Cash Equivalents	23,206	17,469	16,618
Cash and Cash Equivalents, Beginning of Year	50,024	32,555	15,937
Cash and Cash Equivalents, End of Year	$ 73,230	$ 50,024	$ 32,555

The accompanying notes are an integral part of these statements.

1. The Company and Summary of Significant Accounting Policies:

The Company

Dendrite International, Inc. and subsidiaries (the "Company") provides a comprehensive range of customer relationship management software products and support services to the pharmaceutical industry. The Company also markets its products to the consumer packaged goods industry. The Company's solutions combine proprietary software products with extensive system support services, sales force support services and analytical services.

Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Dendrite International, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Foreign Currency. Assets and liabilities of the Company's wholly-owned international subsidiaries are translated at their respective year-end exchange rates and revenues and expenses are translated at average currency exchange rates for the period. The resulting translation adjustments are included as "Other Comprehensive Income" and are reflected as a separate component of stockholders' equity. All foreign currency transaction gains and losses are included in other expense on the accompanying statements of operations and are immaterial in each year.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. The Company generally recognizes license fees as revenue using the percentage-of-completion method over a period of time that commences with the execution of the license agreement and ends when the product configuration is complete and it is ready for use in the field. This period of time usually includes initial customization or configuration and concludes with quality assurance and testing. When there is no initial customization or configuration, the Company generally recognizes the license fees from those products upon delivery if any services to be provided are not essential to the functionality of the software. Additionally, license revenues will be recognized immediately when user count for previously delivered software increases. Historically, the Company's software licensing agreements provide for a warranty period (typically 180 days from the date of execution of the agreement). The Company's software maintenance period usually begins immediately after the warranty period. The portion of the license fee associated with the warranty period is unbundled from the license fee and is recognized ratably over the warranty period. The Company does not recognize any license fees unless persuasive evidence of an arrangement exists, delivery has occurred, the license amount is fixed or determinable and collectability is probable.

The Company recognizes license fees from certain third party software products, which are embedded into the Company's products. The cost of third party software is included in cost of license fees in the accompanying consolidated statements of operations.

Revenues from implementation and customization services are recognized as the services are performed. Revenues from customer maintenance, support and data server rental agreements are recognized over the term of the agreements.

Sales force support services are generally provided under multi-year contracts. The contracts specify the payment terms, which are generally over the term of the contract and generally provide for termination in the event of breach, as defined in the contract.

Deferred Revenues. Deferred revenues represent amounts collected from or invoiced to customers in excess of revenues recognized. This predominantly occurs in two situations a) annual billings of software maintenance fees; and b) upfront billings of license fees that are recognized over time. The value of deferred revenue will increase and decrease based on the timing of invoices and recognition of license revenues.

Cash and Cash Equivalents. The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Supplemental Cash Flow Information. For the years ended December 31, 2000, 1999 and 1998, the Company paid interest of $13,000, $42,000 and $86,000, respectively. For the years ended December 31, 2000, 1999 and 1998, the Company paid income taxes of $11,840,000, $5,828,000 and $7,776,000, respectively.

The following table lists noncash assets that were acquired and liabilities that were assumed as a result of the acquisitions discussed in Note 2:

	Year Ended December 31,		
	2000	1999	1998
Noncash assets:			
Accounts receivable	$ 396,000	$ 1,826,000	$ 301,000
Prepaid expenses	381,000	—	59,000
Property and equipment	410,000	—	408,000
Capitalized software development costs	2,890,000	1,989,000	850,000
Goodwill	5,979,000	7,235,000	2,226,000
	10,056,000	11,050,000	3,844,000
Assumed liabilities:			
Accounts payable	(656,000)	(243,000)	(294,000)
Income taxes payable	—	(39,000)	(121,000)
Other accrued expenses	(400,000)	(300,000)	(396,000)
Deferred revenues	(176,000)	(393,000)	(107,000)
Deferred taxes	—	—	(323,000)
Net noncash assets acquired	8,824,000	10,075,000	2,603,000
Write-off of in-process research and development	—	—	1,230,000
Purchase price paid in stock	(6,506,000)	(3,435,000)	(1,538,000)
Cash paid, net of cash acquired	$ 2,318,000	$ 6,640,000	$ 2,295,000

Short-Term Investments. The Company invests in highly rated corporate and municipal bonds.

Property and Equipment. Fixed assets are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to fifteen years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the asset or the lease term, whichever is shorter. Maintenance, repairs and minor replacements are charged to expense as incurred.

Capitalized Software Development Costs. In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," the Company capitalizes certain costs related to the development of new software products or the enhancement of existing software products for sale or license. These costs are capitalized from the point in time that technological feasibility has been established, as evidenced by a working model or a detailed working program design, to the point in time that the product is available for general release to customers. Capitalized software development costs are amortized over the greater of the ratio of current revenues to total anticipated revenues or on a straight-line basis over the estimated economic lives of the products (no longer than four years), beginning with the release to the customer. Research and development costs incurred prior to establishing technological feasibility and costs incurred subsequent to general product release to customers are charged to expense as incurred. The Company continually evaluates whether events or circumstances have occurred that indicate that the remaining useful lives of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable. As of December 31, 2000, management believes that no revisions to the remaining useful lives or write-down of capitalized development costs is required.

Capitalized software development costs are net of accumulated amortization of $7,275,000 and $5,647,000 at December 31, 2000 and 1999, respectively. Amortization of capitalized software development costs for the years ended December 31, 2000, 1999 and 1998, was $1,627,000, $1,285,000 and $1,321,000, respectively, and is included in cost of license fees in the accompanying consolidated statements of operations.

In connection with certain business acquisitions (see Note 2), the Company has purchased software that was determined to have reached technological feasibility. During 2000, the Company purchased $2,890,000 of capitalized software in connection with the acquisition of Analytika, Inc. ("Analytika"). During 1999, the Company purchased $1,989,000 of capitalized software in connection with the acquisition of Marketing Management International, Inc. and subsidiaries (collectively, "MMI"). During 1998, the Company purchased $850,000 of capitalized software in connection with the acquisition of Associated Business Computing N.V. and an affiliated company (collectively, "ABC").

Purchased capitalized software is net of accumulated amortization of $1,585,000 and $440,000 at December 31, 2000 and 1999, respectively. Purchased capitalized software is being amortized on a straight-line basis over a period ranging from five to seven years. Amortization of purchased capitalized software for the years ended December 31, 2000, 1999 and 1998 was $1,145,000, $369,000 and $71,000, respectively, and is included in cost of license fees in the accompanying consolidated statement of operations.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired and is being amortized on a straight-line basis over five to seven years (see Note 2). As of December 31, 2000 and 1999, goodwill was $16,302,000 and $10,323,000, respectively. Accumulated amortization, as of December 31, 2000 and 1999, was $3,997,000 and $1,607,000, respectively. Amortization of goodwill for the years ended December 31, 2000, 1999, and 1998 was $2,390,000, $1,015,000 and $305,000, respectively.

Impairment of Long-Lived Assets. The Company follows SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company reviews its long-lived assets, including property and equipment, capitalized software development costs, and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

Income Taxes. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates that are expected to be in effect when the differences reverse.

At December 31, 2000, there were approximately $2,134,000 of accumulated undistributed earnings of non-U.S. subsidiaries that are considered to be reinvested indefinitely. If such earnings were remitted to the Company, applicable U.S. Federal income and foreign withholding taxes may be partially offset by foreign tax credits.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances and trade receivables. The Company invests its excess cash with large banks. The Company's customer base principally comprises companies within the ethical pharmaceutical industry. The Company does not require collateral from its customers. See Note 10 to the Company's Consolidated Financial Statements.

Net Income Per Share. The Company has presented net income per share pursuant to SFAS No. 128, "Earnings Per Share".

Basic net income per share was computed by dividing the net income for each year by the weighted average number of shares of common stock outstanding for each year. Diluted net income per share was computed by dividing net income for each year by the weighted average number of shares of common stock and common stock equivalents outstanding during each year.

The computation of shares used for basic and diluted net income per share is as follows:

	Year Ended December 31, *(In thousands except per share data)*								
	2000			1999			1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income......	$30,611			$19,340			$12,759		
Basic net income per share		39,354	$0.78		37,725	$0.51		36,080	$0.35
Effect of dilutive securities stock options.......		1,990			2,874			3,312	
Diluted net income per share		41,344	$0.74		40,599	$0.48		39,392	$0.32

Recently Issued Accounting Pronouncements In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to recognition, presentation and disclosure of revenue in financial statements. Management of the Company believes that its accounting policies for revenue recognition are in compliance with the provisions of SAB No.101.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities."* This statement established accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts and for hedging activities and is effective for all fiscal years beginning after June 15, 2000. Management believes that the adoption of SFAS No. 133 will have no impact on operating results or financial position.

Recapitalization. In October 1999, the Company amended its certificate of incorporation to change the number of authorized common shares to 150,000,000 and in August 1998 and October 1999, the Company effected a 2-for-1 and 3-for-2 split, respectively, of its common shares. All share and stock option data in these consolidated financial statements have been restated to reflect the stock splits.

Reclassifications. Certain reclassifications have been made to prior year amounts to conform with current year presentation.

2. Acquisitions:

On January 6, 2000, the Company purchased all of the assets and assumed certain liabilities of Analytika, Inc. a provider of advanced analytical products, consulting services and outsourced operations services to the pharmaceutical industry. Under the terms of the acquisition agreement, the Company paid $2,318,000 in cash, which includes estimated transaction costs, and $6,506,000 in the Company's common stock. The acquisition has been accounted for using the purchase method with the purchase price allocated to the fair value of the assets acquired and liabilities assumed based on their respective fair market value at the acquisition date. Of the purchase price, $2,890,000 was allocated to purchased capitalized software development costs. The excess purchase price over the fair value of the net assets acquired has been allocated to goodwill ($5,979,000) based upon an independent appraisal. Analytika's results of operation have been included in the Company's consolidated financial statements from the date of acquisition.

On June 30, 1999, the Company purchased all of the assets and assumed certain liabilities of MMI, providers of palm-top software and paper-based sales force effectiveness solutions and consulting services to subsidiaries of multinational pharmaceutical companies operating in emerging markets, such as Latin America, Eastern Europe and Southeast Asia. Under the terms of the acquisition agreement, the Company paid $6,640,000 in cash, which includes transaction costs, and $3,435,000 in Dendrite common stock. The acquisition has been accounted for using the purchase method with the purchase price allocated to the fair value of the assets acquired and liabilities assumed based on their respective fair market values at the acquisition date. The excess purchase price over the fair value of the net assets acquired, which included purchased capitalized software development costs ($1,989,000) has been allocated to goodwill ($7,235,000) based upon an independent appraisal. MMI's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

On May 27, 1999, the Company exchanged 2,220,807 shares of its common stock for all the outstanding shares of common stock of CorNet International, Ltd ("CorNet"). The merger has been accounted for under the pooling-of-interests method. Accordingly, all prior historical consolidated financial statements have been restated to reflect the acquisition of CorNet.

Separate results of the Company and CorNet for the periods prior to the consummation of the merger are as follows:

	Dendrite	CorNet	Combined
Three months ended March 31, 1999 (unaudited)			
Total revenue	$ 32,402,000	$ 5,232,000	$ 37,634,000
Net income	$ 3,688,000	$ 511,000	$ 4,199,000
Year ended December 31, 1998			
Total revenue	$112,518,000	$18,155,000	$130,633,000
Net income	$ 11,267,000	$ 1,492,000	$ 12,759,000

On July 24, 1998, the Company acquired 100% of the capital stock of ABC for approximately $4,013,000 and transaction costs of $150,000. The acquisition was accounted for under the purchase method of accounting, whereby the purchase price is allocated to the assets acquired and liabilities assumed of ABC based on their respective fair market values at the acquisition date. The excess of purchase price over the fair value of net assets acquired was assigned to identifiable intangibles. The Company recorded $1,230,000 of the purchase price as a charge in the consolidated statements of operations on the acquisition date as it was related to the fair value of in process research and development projects. The remaining amount by which the purchase price exceeded the net assets acquired, which included purchased software ($850,000), was allocated to goodwill ($2,226,000). ABC's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

3. Property and Equipment:

	December 31,	
	2000	1999
Computer hardware and other equipment	$ 25,716,000	$ 15,312,000
Furniture and fixtures	3,863,000	2,590,000
Leasehold improvements	3,727,000	2,420,000
	33,306,000	20,322,000
Less—Accumulated depreciation and amortization	(17,382,000)	(10,073,000)
	$ 15,924,000	$ 10,249,000

4. Revolving Line of Credit:

In 1998, the Company amended its revolving line of credit agreement with a bank, which provides for borrowings of up to $15,000,000 and is available to finance working capital needs and possible future acquisitions. The agreement requires, among other covenants, that the Company maintain a minimum consolidated net worth, measured quarterly, which is equal to the Company's net worth as of December 31, 1997 plus 50% of the Company's net income earned after January 1, 1998, and 75% of the net proceeds of any stock offerings. This covenant has the effect of limiting the amount of cash dividends the Company may pay. As of December 31, 2000, approximately $87,072,000 was available for the payment of dividends under this covenant. The line of credit expires on November 30, 2001. The Company has never had any borrowings under this revolving line of credit.

In addition, CorNet maintained a line of credit with a bank, which permitted short-term borrowings up to $1,500,000. Interest expense for this line of credit for the years ended December 31, 1999 and 1998 was $42,000 and $35,000, respectively. This line of credit expired on June 30, 1999 and was not renewed.

5. Income Taxes:

The components of income before income taxes were as follows:

	Year Ended December 31,		
	2000	1999	1998
Domestic	$46,227,000	$29,663,000	$20,765,000
Foreign	1,232,000	1,911,000	440,000
	$47,459,000	$31,574,000	$21,205,000

The components of income taxes were as follows:

	Year Ended December 31,		
	2000	1999	1998
Current Provision:			
Federal	$14,588,000	$ 9,528,000	$ 7,797,000
State	1,453,000	1,612,000	295,000
Foreign	1,075,000	1,070,000	329,000
	17,116,000	12,210,000	8,421,000
Deferred Provision (Benefit):			
Federal	(777,000)	524,000	(301,000)
State	(307,000)	(8,000)	366,000
Foreign	816,000	(492,000)	(40,000)
	(268,000)	24,000	25,000
	$16,848,000	$12,234,000	$ 8,446,000

The reconciliation of the statutory Federal income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2000	1999	1998
Federal statutory tax rate	35.0%	35.0%	34.0%
Impact of foreign subsidiaries subject to higher (lower) tax rates	0.8	(0.3)	—
State income taxes, net of Federal tax benefit	1.6	2.4	3.8
Nondeductible expenses	0.7	0.8	0.8
Write-off of in-process research and development	—	—	2.2
Nondeductible pooling costs	—	2.2	—
Tax credits utilized	(1.3)	(1.7)	(1.0)
Other	(1.3)	0.3	—
	35.5%	38.7%	39.8%

In the fourth quarter of 2000, the Company lowered its effective income tax rate to 35.5% for the year ended December 31, 2000 as a result of certain historical tax planning strategies. The Company anticipates the effective tax rate to be approximately 36% in 2001.

The tax effect of temporary differences as established in accordance with SFAS No. 109 that give rise to deferred income taxes is as follows:

	December 31,	
	2000	1999
Gross deferred tax asset:		
Depreciation and amortization	$ 1,343,000	$ 377,000
Foreign net operating loss	1,278,000	1,894,000
Accruals and revenues not currently deductible	1,297,000	1,026,000
Other	165,000	145,000
	$ 4,083,000	$ 3,442,000
Gross deferred tax liability:		
Capitalized software development costs	$(1,809,000)	$(1,857,000)
Other	(2,166,000)	(1,978,000)
	$(3,975,000)	$(3,835,000)

The Company has recorded a deferred tax asset of $1,278,000 reflecting the benefit of approximately $3,407,000 in foreign loss carryforwards, which expire in varying amounts commencing in 2003. Realization is dependent on generating sufficient foreign taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

6. Stockholders' Equity:

Stock Option Plans

The Company has three stock option plans that provide for the granting of options, the awarding of stock and the purchase of stock. Under the plans, the total number of shares of common stock that may be granted is 14,050,002. Options granted under the three stock option plans generally vest over a four-year period and are exercisable over a period not to exceed ten years both as determined by the Board of Directors. Incentive stock options are granted at fair value. Nonqualified options are granted at exercise prices determined by the Board of Directors.

Information with respect to the options under the three stock option plans is as follows:

	Shares	Exercise Price Per Share	Weighted Average Exercise Price
Outstanding December 31, 1997	5,485,462	$ 0.14 – $10.50	$ 4.57
Granted	1,888,620	$ 2.09 – $15.15	10.26
Exercised	(837,579)	$ 0.14 – $10.50	(3.73)
Canceled	(564,841)	$ 0.14 – $10.50	(4.38)
Outstanding December 31, 1998	5,971,662	$ 0.14 – $15.15	6.51
Granted	2,116,202	$10.97 – $27.88	17.52
Exercised	(1,551,242)	$ 0.14 – $14.92	(4.70)
Canceled	(278,467)	$ 1.45 – $19.79	(9.13)
Outstanding December 31, 1999	6,258,155	$ 0.98 – $27.88	10.56
Granted	2,531,396	$12.06 – $33.88	24.91
Exercised	(1,569,016)	$ 1.45 – $23.33	(7.10)
Canceled	(671,509)	$ 2.09 – $33.19	(16.72)
Outstanding December 31, 2000	6,549,026	$ 0.98 – $33.88	$ 16.54

At December 31, 2000, there were 2,325,272 options exercisable at $0.98–$27.88 per share. The aggregate exercise price of these options was $23,136,183 as of December 31, 2000.

The Company has adopted the disclosure requirement of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, compensation cost has been computed for the stock option plans based on the intrinsic value of the stock option at the date of grant, which represents the difference between the exercise price and the fair value of the Company's stock. As the exercise price of the stock options equaled the fair value of the Company's stock at the date of option issuance, no compensation cost has been recorded in the accompanying statements of operations. Had compensation cost for the three option plans and the employee stock purchase plan been determined consistent with SFAS No. 123, the Company's net income and net income per share would have been adjusted to the following pro forma amounts:

	Year Ended December 31,		
	2000	1999	1998
Net income:			
As reported	$30,611,000	$19,340,000	$12,759,000
Pro forma	$22,552,000	$11,483,000	$ 6,545,000
Basic net income per share:			
As reported	$ .78	$ .51	$ .35
Pro forma	$ .57	$ .30	$ .18
Diluted net income per share:			
As reported	$ .74	$ .48	$ .33
Pro forma	$ .55	$ .28	$ .17

Because the SFAS No. 123 method of accounting is not required to be applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The weighted average fair value of options granted was $17.26, $12.01 and $11.35 for the years ended December 31, 2000, 1999 and 1998, respectively.

Information with respect to the options outstanding under the three stock option plans at December 31, 2000 is as follows:

Exercise Price Per Share	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Vested Shares
$ 0.98 – $ 2.65	237,326	$ 2.38	4.1	149,915
$ 3.48 – $ 6.42	1,391,998	$ 5.51	6.6	995,611
$ 7.83 – $12.06	742,095	$ 9.80	6.8	380,806
$13.83 – $14.92	393,650	$14.28	7.8	206,765
$15.08 – $18.38	1,323,262	$16.77	8.5	441,834
$19.50 – $27.88	1,721,825	$23.52	9.4	150,341
$29.38 – $33.88	738,870	$33.11	9.2	0
	6,549,026	$16.54	8.0	2,325,272

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2000, 1999 and 1998: risk-free interest rates ranging from 5.4% to 6.9% based on the rate in effect on the date of grant; no expected dividend yield; expected lives of 4.0 to 6.0 years for the options; and expected volatility of 70%.

Employee Stock Purchase Plan

In 1997, the Company established an employee stock purchase plan that provides full-time employees the opportunity to purchase shares at 85% of fair value on dates determined by the Board of Directors, up to a maximum 10% of their eligible compensation or $21,250, whichever is less. There were 450,000 shares available for purchase under this plan, of which 93,687, 72,122 and 83,787 were purchased in 2000, 1999 and 1998, respectively.

Anniversary Stock Plan

The Company grants 200 shares of the Company's common stock to all employees who commenced employment prior to December 31, 1998 in July following their fifth anniversary of employment. The cost of the anniversary stock plan is accrued over the employment period of the employees.

Common Stock Repurchase Program

On January 31, 2001, the Company announced that its Board of Directors has authorized a stock repurchase program of up to $20,000,000 of its outstanding common stock over a two-year period. The Company will repurchase shares on the open market or in privately negotiated transactions from time to time. Repurchases of stock will be at management's discretion, depending upon price and availability. The repurchased shares will be held as treasury stock, which may be used to satisfy the Company's current and near term requirements under its equity incentive and other benefit plans and for corporate purposes. As of March 28, 2001, the Company has repurchased a total of 630,400 shares under the program for a total value of $8,806,074.

Shareholder Rights Plan

On February 16, 2001, the Company's Board of Directors adopted a shareholder rights plan (the "Rights Plan"). The Rights Plan is designed to deter coercive or unfair takeover tactics and to prevent a person or group from acquiring control of the Company without offering a fair price to all shareholders. The adoption of the plan is not in response to any known effort to acquire control of the Company.

Under the Rights Plan, each shareholder of record on March 5, 2001 will receive a distribution of one Right for each share of common stock of the Company ("Rights"). Initially, the Rights will be represented by the Company's common stock certificates, will not be traded separately from the common stock and will not be exercisable. The Rights will become exercisable only if a person acquires, or announces a tender offer that would result in ownership of 15% or more of the Company's common stock, at which time each Right would enable the holder to buy one one-hundredth of a share of the Company's Series A preferred stock at an exercise price of $120, subject to adjustment. Following the acquisition of 15% or more of the Company's common stock, the holders of Rights (other than the acquiring person or group) will be entitled to purchase shares of the Company's common stock at half-price, and in the event of a subsequent merger or other acquisition of the Company, to buy shares of common stock of the acquiring entity at one-half of the market price of those shares.

The Company may redeem the Rights for $0.01 per Right, subject to adjustment, at any time before the acquisition by a person or group of 15% or more of the Company's ordinary shares. The Rights will expire on February 20, 2011.

7. Savings and Deferred Compensation Plans:

The Company maintains Employee Savings Plans (the "Plans") that cover substantially all of its full-time U.S. and U.K. employees. All eligible employees may elect to contribute a portion of their wages to the Plans, subject to certain limitations. In addition, the Company contributes to the plans at the rate of 50% of the employee's contributions up to a maximum of 3% of the employee's salary. The Company's contributions to the Plans were $773,000, $492,000 and $416,000 in the years ended December 31, 2000, 1999 and 1998, respectively.

The Company also maintains a noncontributory pension plan that covers substantially all of its full-time Japanese employees. All contributions to this pension plan are made by the Company in accordance with prescribed statutory requirements. The Company's contributions to the Plan were $421,000, $41,000 and $74,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

In 1998, the Company created a deferred compensation plan. Under the plan, eligible, highly compensated employees (as defined) can elect to defer a portion of their compensation and determine the nature of the investments, which will be used to calculate earnings on the deferred amounts. The Company will record the deferrals as a liability and intends to place a corresponding amount into a trust fund.

8. Commitments and Contingencies:

The Company leases office facilities and equipment under various operating leases with remaining noncancelable lease terms generally in excess of one year. Rent expense was $8,410,000, $7,390,000 and $5,992,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Future minimum rental payments on these leases are as follows:

2001	$ 6,775,000
2002	5,556,000
2003	4,171,000
2004	3,322,000
2005	2,847,000
Thereafter	15,293,000
	$37,964,000

Included in these amounts is a lease that was entered into subsequent to December 31, 2000. The Company has entered into a lease prior to December 31, 2000, for a 100,000 square foot facility in Chesapeake, Virginia. Subsequent to December 31, 2000, the Company entered into a lease for 33,000 square feet of office space in New Jersey, and an agreement to purchase a 145,000 square foot building for approximately $11,000,000 in New Jersey and plans to relocate our principal facilities in the summer of 2001.

From time to time, the Company is involved in certain legal actions arising in the ordinary course of business. In the Company's opinion, the outcome of such actions will not have a material adverse effect on the Company's financial position or results of operations.

9. Related-Party Transactions:

For the years ended December 31, 2000 and 1999, the Company paid approximately $337,467 and $15,000 respectively, to an entity owned by the Chairman and Chief Executive Officer of the Company for rental and usage of an aircraft. There were no payments made to this entity during 1998.

10. Customer and Geographic Segment Data:

In the year ended December 31, 2000, the Company derived approximately 31%, 11% and 10% of its revenues from its three largest customers. In the year ended December 31, 1999, the Company derived approximately 26% and 11% of its revenues from its two largest customers. In the year ended December 31, 1998, the Company derived approximately 31% and 11% of its revenue from its two largest customers.

See Note 1 for a brief description of the Company's business. The Company is organized by geographic locations and has one reportable segment. All transfers between geographic areas have been eliminated from consolidated revenues. Operating income consists of total revenues recorded in the location less operating expenses and does not include interest income, other expense or income taxes. This data is presented in accordance with SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information."

	Year Ended December 31,		
	2000	1999	1998
Revenues:			
United States	$165,455,000	$131,682,000	$ 99,754,000
All Other	48,871,000	41,003,000	30,879,000
	$214,326,000	$172,685,000	$130,633,000
Operating income:			
United States	$ 29,864,000	$ 20,223,000	$ 16,442,000
All Other	14,049,000	9,660,000	4,130,000
	$ 43,913,000	$ 29,883,000	$ 20,572,000
Identifiable assets:			
United States	$155,843,000	$ 94,805,000	$ 67,211,000
All Other	20,060,000	29,915,000	14,620,000
	$175,903,000	$124,720,000	$ 81,831,000

For segment reporting purposes, license revenues have been allocated to the sales office of the respective country in which the sale is made, although the actual contract is with the U.S. entity for legal and tax purposes.

To Dendrite International, Inc.:

We have audited the accompanying consolidated balance sheets of Dendrite International, Inc. (a New Jersey corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of CorNet International, Ltd., a company acquired during 1999 in a transaction accounted for as a pooling of interests, as discussed in Note 2, as of December 31, 1998 or for the year ended December 31, 1998. Such statements are included in the consolidated financial statements of Dendrite International, Inc. and reflect total assets and total revenues of 9 percent and 14 percent, respectively, of the related 1998 consolidated totals. These statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for CorNet International, Ltd., is based solely upon the report of the other auditors.

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

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Dendrite International, Inc. and subsidiaries as of 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.

ARTHUR ANDERSEN LLP

Philadelphia, Pa.,
February 16, 2001

To CorNet International, Ltd.:

We have audited the accompanying consolidated balance sheet of CorNet International, Ltd. (a Pennsylvania Corporation) as of December 31, 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1998, which are not presented herein. 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 audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, which are not presented herein, present fairly, in all material respects, the financial position of CorNet International, Ltd. as of December 31, 1998, and the results of its operations and its cash flows for the year ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Allentown, Pa.,
February 16, 1999

The Company's common stock, no par value, is quoted on the Nasdaq National Market under the symbol "DRTE." As of March 1, 2001, there were approximately 188 holders of record of our common stock.

The following table sets forth for the periods indicated the high and low sale prices for our common stock as reported by the Nasdaq National Market System.

Period	High	Low
Quarter Ended March 31, 2000	$35.00	$17.19
Quarter Ended June 30, 2000	33.56	14.00
Quarter Ended September 30, 2000	33.38	21.38
Quarter Ended December 31, 2000	27.88	10.63
Quarter Ended March 31, 1999	21.17	13.63
Quarter Ended June 30, 1999	25.33	13.17
Quarter Ended September 30, 1999	33.67	19.25
Quarter Ended December 31, 1999	39.00	25.00

The Company has never paid any cash dividends on its common stock and does not intend to pay any cash dividends on common stock in the foreseeable future. The Company's line of credit agreement with The Chase Manhattan Bank, N.A. requires that we maintain a minimum net worth measured quarterly which is equal to our net worth as of December 31, 1997, plus 50% of our net income earned after January 1, 1998 plus 75% of the net proceeds to us of any stock offerings. This covenant effectively limits the amount of cash dividends we may pay. See Note 4 of "Notes to Consolidated Financial Statements" for a discussion of our line of credit agreement.

Board of Directors

John E. Bailye
Chairman and
Chief Executive Officer
Dendrite International, Inc.

Bernard M. Goldsmith
Managing Director
The Updata Group

Edward J. Kfoury
Private Investor

Paul A. Margolis
Partner
Longworth Venture Partners

John H. Martinson
Managing Partner
Edison Venture Fund

Terence H. Osborne
THO Consulting

Executive Officers

Michael G. Atieh
Senior Vice President and
Chief Financial Officer

John E. Bailye
Chief Executive Officer and
Chairman of the Board

Mark H. Cieplik
Senior Vice President
Worldwide Sales

Kathleen E. Donovan
Vice President and
Corporate Controller

Christopher J. French
Senior Vice President
Product Innovation

Marc Kustoff
Senior Vice President and
Chief Technology Officer

Christine A. Pellizzari
Vice President,
General Counsel and Secretary

George T. Robson
Executive Vice President

R. Bruce Savage
Executive Vice President and
Chief Operating Officer

Teresa F. Winslow
Senior Vice President and
President Dendrite Americas

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Benito Juarez
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MMI Venezuela
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United Kingdom
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Stock Listing

Nasdaq® National Market System
Symbol: DRTE

Form 10-K

Copies of the Company's 2000 annual report on Form 10-K, as filed with the Securities and Exchange Commission, are available without charge upon written request to Michael G. Atieh, Senior Vice President and Chief Financial Officer, Dendrite International, Inc., 1200 Mount Kemble Avenue, Morristown, NJ 07960-6797.

Transfer Agent and Registrar

Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07016
(908) 272-8511

Information Requests

To receive faxed information such as earnings announcements, press releases and other general information, please call Dendrite's On-Line Information Retrieval System at (800) 331-1217.

Inquiries from the investment community should be directed to Michael G. Atieh, Senior Vice President and Chief Financial Officer at (973) 425-1200.

If you have questions concerning stock certificates, change of address, or other registered shareholder account matters, please contact Dendrite's transfer agent and registrar.

Annual Meeting of Shareholders

Dendrite Headquarters
1200 Mount Kemble Avenue
Morristown, NJ on Tuesday,
May 15, 2001 at 9:00 a.m.
local time.

Website

www.dendrite.com

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Dendrite®
International, Inc.

UNITED STATES AUSTRALIA ARGENTINA BELGIUM BRAZIL CANADA COLOMBIA EGYPT ECUADOR FRANCE GERMANY
GREECE HUNGARY ITALY MEXICO JAPAN NEW ZEALAND PORTUGAL SPAIN TAIWAN UNITED KINGDOM VENEZUELA

Headquartered in Morristown, New Jersey, Dendrite employs over 1500 people in offices all over the world.
For more information, see the company's website: http://www.dendrite.com