

COGNIZANT TECHNOLOGY SOLUTIONS CORP

Form 10-Q

May 08, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2014

**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-24429

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**13-3728359**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**Glenpointe Centre West**

**500 Frank W. Burr Blvd.**

**Teaneck, New Jersey**  
(Address of Principal Executive Offices)

**07666**  
(Zip Code)

**Registrant's telephone number, including area code (201) 801-0233**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of May 1, 2014:

Class	Number of Shares
Class A Common Stock, par value \$.01 per share	608,453,905

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (Unaudited).  
COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(in thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenues	\$ 2,422,348	\$ 2,020,738
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	1,432,444	1,199,965
Selling, general and administrative expenses	485,395	413,204
Depreciation and amortization expense	44,473	41,662
Income from operations	460,036	365,907
Other income (expense), net:		
Interest income	13,505	13,247
Foreign currency exchange gains (losses), net	(1,217)	(3,751)
Other, net	864	1,780
Total other income (expense), net	13,152	11,276
Income before provision for income taxes	473,188	377,183
Provision for income taxes	124,310	92,974
Net income	\$ 348,878	\$ 284,209
Basic earnings per share	\$ 0.57	\$ 0.47
Diluted earnings per share	\$ 0.57	\$ 0.47
Weighted average number of common shares outstanding - Basic	607,730	603,708
Dilutive effect of shares issuable under stock-based compensation plans	5,167	6,645
Weighted average number of common shares outstanding - Diluted	612,897	610,353

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

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**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 348,878	\$ 284,209
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	1,472	(19,588)
Change in unrealized losses on cash flow hedges, net of taxes	107,050	51,150
Change in unrealized gains and losses on available-for-sale securities, net of taxes	452	(310)
Other comprehensive income (loss)	108,974	31,252
Comprehensive income	\$ 457,852	\$ 315,461

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

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**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited)

(in thousands, except par values)

	March 31, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,935,991	\$ 2,213,006
Short-term investments	1,928,993	1,534,467
Trade accounts receivable, net of allowances of \$28,475 and \$26,824, respectively	1,703,605	1,648,785
Unbilled accounts receivable	267,349	226,487
Deferred income tax assets, net	200,430	256,230
Other current assets	254,372	268,907
<b>Total current assets</b>	<b>6,290,740</b>	<b>6,147,882</b>
Property and equipment, net of accumulated depreciation of \$740,021 and \$719,336 respectively	1,090,885	1,081,164
Goodwill	445,182	444,236
Intangible assets, net	124,735	131,274
Deferred income tax assets, net	140,568	147,149
Other noncurrent assets	187,189	183,013
<b>Total assets</b>	<b>\$ 8,279,299</b>	<b>\$ 8,134,718</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 176,374	\$ 113,394
Deferred revenue	166,504	182,893
Accrued expenses and other current liabilities	1,159,988	1,478,221
<b>Total current liabilities</b>	<b>1,502,866</b>	<b>1,774,508</b>
Deferred income tax liabilities, net	20,275	21,170
Other noncurrent liabilities	133,201	203,249
<b>Total liabilities</b>	<b>1,656,342</b>	<b>1,998,927</b>
Commitments and contingencies (See Note 7)		
Stockholders Equity:		
Preferred stock, \$.10 par value, 15,000 shares authorized, none issued		
Class A common stock, \$.01 par value, 1,000,000 shares authorized, 608,445 and 607,729 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	6,084	6,077
Additional paid-in capital	572,913	543,606
Retained earnings	6,211,245	5,862,367
Accumulated other comprehensive income (loss)	(167,285)	(276,259)
<b>Total stockholders equity</b>	<b>6,622,957</b>	<b>6,135,791</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 8,279,299</b>	<b>\$ 8,134,718</b>

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

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**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(in thousands)

	For the Three Months Ended March 31,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net income	\$ 348,878	\$ 284,209
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	46,680	43,601
Provision for doubtful accounts	1,655	1,729
Deferred income taxes	36,270	23,030
Stock-based compensation expense	35,817	29,093
Excess tax benefits on stock-based compensation plans	(5,853)	(7,490)
Other	(9,835)	1,656
<b>Changes in assets and liabilities:</b>		
Trade accounts receivable	(52,662)	(149,421)
Other current assets	(24,419)	(9,020)
Other noncurrent assets	(3,308)	(20,562)
Accounts payable	65,624	16,269
Other current and noncurrent liabilities	(281,527)	(139,626)
<b>Net cash provided by operating activities</b>	<b>157,320</b>	<b>73,468</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(43,256)	(72,185)
Purchases of investments	(779,269)	(348,692)
Proceeds from maturity or sale of investments	390,506	374,279
Business combinations, net of cash acquired	(1,635)	(139,276)
<b>Net cash (used in) investing activities</b>	<b>(433,654)</b>	<b>(185,874)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock under stock-based compensation plans	26,677	31,996
Excess tax benefits on stock-based compensation plans	5,853	7,490
Repurchases of common stock	(39,103)	(22,554)
<b>Net cash (used in) provided by financing activities</b>	<b>(6,573)</b>	<b>16,932</b>
Effect of exchange rate changes on cash and cash equivalents	5,892	257
(Decrease) in cash and cash equivalents	(277,015)	(95,217)
Cash and cash equivalents, beginning of year	2,213,006	1,570,077
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,935,991</b>	<b>\$ 1,474,860</b>

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





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**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(dollar amounts in thousands)**

**Note 1 Interim Condensed Consolidated Financial Statements**

The terms Cognizant, we, our, us and company refer to Cognizant Technology Solutions Corporation unless the context indicates otherwise. We have prepared the accompanying unaudited condensed consolidated financial statements included herein in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) included in our Annual Report on Form 10-K for the year ended December 31, 2013. In our opinion, all adjustments considered necessary for a fair presentation of the accompanying unaudited condensed consolidated financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the interim periods are not necessarily indicative of results that may be expected to occur for the entire year.

During the three months ended March 31, 2014, we repurchased 600,000 shares of our Class A common stock for \$29,335, inclusive of fees and expenses, under our existing stock repurchase program approved by our Board of Directors. As of March 31, 2014, the remaining available balance under the Board authorization was \$472,778. Additional stock repurchases were made in connection with our stock-based compensation plans, whereby company shares were tendered by employees for payment of applicable statutory tax withholdings. During the first quarter of 2014, such repurchases totaled 194,542 shares at an aggregate cost of \$9,768.

*Stock Split*

On February 4, 2014, the company's Board of Directors declared a two-for-one stock split of our Class A common stock in the form of a 100% stock dividend, which was paid on March 7, 2014 to stockholders of record as of February 21, 2014. The stock split has been reflected in the accompanying condensed consolidated financial statements, and all applicable references as to the number of outstanding common shares and per share information, except par values, have been retroactively adjusted to reflect the stock split as if it occurred at the beginning of the earliest period presented. Stockholders' equity accounts have been retroactively adjusted to reflect a reclassification of an amount equal to the par value of the increase in issued shares of Class A common stock from the additional paid-in-capital account to the Class A common stock account.

*Recently Adopted Accounting Pronouncements.*

In July 2013, the Financial Accounting Standard Board issued new guidance which requires the netting of any unrecognized tax benefits against all available same-jurisdiction deferred income tax carryforward assets that would apply if the uncertain tax positions were settled. We adopted this standard on January 1, 2014. As of March 31, 2014, we netted an unrecognized tax benefit of \$79,560 against same-jurisdiction non-current deferred income tax assets. In our December 31, 2013 condensed consolidated statement of financial position, we reclassified \$74,196 from other non-current liabilities to non-current deferred income tax assets, net to conform to current period's presentation. The adoption of this standard had no effect on our condensed consolidated results of operations or stockholders' equity.

**Table of Contents****Note 2 Short-term Investments**

Our short-term investments were as follows:

	March 31, 2014	December 31, 2013
Available-for-sale investment securities:		
U.S. Treasury and agency debt securities	\$ 521,854	\$ 506,285
Corporate and other debt securities	330,199	301,841
Certificates of deposit and commercial paper	494,832	99,959
Asset-backed securities	153,399	160,267
Municipal debt securities	123,316	115,196
Mutual funds	21,343	21,136
Total available-for-sale investment securities	1,644,943	1,204,684
Time deposits	284,050	329,783
Total short-term investments	\$ 1,928,993	\$ 1,534,467

Our available-for-sale investment securities consist of U.S. dollar denominated investments primarily in U.S. Treasury notes, U.S. government agency debt securities, municipal debt securities, non-U.S. government debt securities, U.S. and international corporate bonds, certificates of deposit, commercial paper, debt securities issued by supranational institutions, mutual funds invested in fixed income securities, and asset-backed securities, including Government National Mortgage Association (GNMA) mortgage backed securities and securities backed by auto loans, credit card receivables, and other receivables. Our investment guidelines are to purchase securities which are investment grade at the time of acquisition. We monitor the credit ratings of the securities in our portfolio on an ongoing basis. The carrying value of the time deposits approximated fair value as of March 31, 2014 and December 31, 2013.

**Available-for-Sale Investment Securities**

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at March 31, 2014 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	\$ 521,619	\$ 622	\$ (387)	\$ 521,854
Corporate and other debt securities	329,194	1,161	(156)	330,199
Certificates of deposit and commercial paper	494,463	382	(13)	494,832
Asset-backed securities	153,426	214	(241)	153,399
Municipal debt securities	122,986	391	(61)	123,316
Mutual funds	22,990	222	(1,869)	21,343
Total available-for-sale investment securities	\$ 1,644,678	\$ 2,992	\$ (2,727)	\$ 1,644,943

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at December 31, 2013 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	\$ 506,094	\$ 544	\$ (353)	\$ 506,285
Corporate and other debt securities	300,994	1,090	(243)	301,841

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Certificates of deposit and commercial paper	99,897	62		99,959
Asset-backed securities	160,559	99	(391)	160,267
Municipal debt securities	114,888	348	(40)	115,196
Mutual funds	22,705	280	(1,849)	21,136
Total available-for-sale investment securities	\$ 1,205,137	\$ 2,423	\$ (2,876)	\$ 1,204,684

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The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of March 31, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency debt securities	\$ 160,033	\$ (387)	\$	\$	\$ 160,033	\$ (387)
Corporate and other debt securities	101,217	(156)			101,217	(156)
Certificates of deposit and commercial paper	34,989	(13)			34,989	(13)
Asset-backed securities	44,171	(192)	8,185	(49)	52,356	(241)
Municipal debt securities	26,306	(59)	806	(2)	27,112	(61)
Mutual funds			20,343	(1,869)	20,343	(1,869)
<b>Total</b>	<b>\$ 366,716</b>	<b>\$ (807)</b>	<b>\$ 29,334</b>	<b>\$ (1,920)</b>	<b>\$ 396,050</b>	<b>\$ (2,727)</b>

The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of December 31, 2013:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency debt securities	\$ 221,548	\$ (353)	\$	\$	\$ 221,548	\$ (353)
Corporate and other debt securities	106,485	(243)			106,485	(243)
Asset-backed securities	84,051	(333)	5,048	(58)	89,099	(391)
Municipal debt securities	10,702	(34)	1,019	(6)	11,721	(40)
Mutual funds			20,183	(1,849)	20,183	(1,849)
<b>Total</b>	<b>\$ 422,786</b>	<b>\$ (963)</b>	<b>\$ 26,250</b>	<b>\$ (1,913)</b>	<b>\$ 449,036</b>	<b>\$ (2,876)</b>

The unrealized losses for the above securities as of March 31, 2014 and December 31, 2013 are primarily attributable to changes in interest rates. As of March 31, 2014, we do not consider any of the investments to be other-than-temporarily impaired. The gross unrealized gains and losses in the above tables were recorded, net of tax, in accumulated other comprehensive income (loss).

The contractual maturities of our fixed income available-for-sale investment securities as of March 31, 2014 are set forth in the following table:

	Amortized Cost	Fair Value
Due within one year	\$ 650,086	\$ 650,745
Due after one year up to two years	292,940	293,687
Due after two years up to three years	481,426	481,826
Due after three years up to four years	43,810	43,943
Asset-backed securities	153,426	153,399
<b>Fixed income available-for-sale investment securities</b>	<b>\$ 1,621,688</b>	<b>\$ 1,623,600</b>

Asset-backed securities were excluded from the maturity categories because the actual maturities may differ from the contractual maturities since the underlying receivables may be prepaid without penalties. Further, actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.



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Proceeds from sales of available-for-sale investment securities and the gross gains and losses that have been included in earnings as a result of those sales were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Proceeds from sales of available-for-sale investment securities	\$ 179,035	\$ 161,704
Gross gains	\$ 383	\$ 319
Gross losses	(30)	(5)
Net realized gains on sales of available-for-sale investment securities	\$ 353	\$ 314

**Note 3 Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities were as follows:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Compensation and benefits	\$ 606,404	\$ 894,986
Income taxes	31,238	24,312
Professional fees	52,439	45,453
Travel and entertainment	28,495	29,645
Customer volume incentives	164,280	170,669
Derivative financial instruments	138,717	191,584
Other	138,415	121,572
Total accrued expenses and other current liabilities	\$ 1,159,988	\$ 1,478,221

**Note 4 Income Taxes**

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented and are eligible for certain income tax holiday benefits granted by the government of India for export activities conducted within Special Economic Zones, or SEZs, for periods of up to 15 years. Our Indian operations outside of SEZs are subject to corporate income tax at the current rate of 33.99%. In addition, all Indian profits, including those generated within SEZs, are subject to the Minimum Alternative Tax, or MAT, at the current rate of approximately 20.9%, including surcharges. Any MAT paid is creditable against future Indian corporate income tax, subject to limitations.

Our effective income tax rates were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Effective income tax rate	26.3%	24.6%

For the 2014 and 2013 periods, the principal difference between our effective income tax rates and the U.S. federal statutory rate is the effect of the Indian tax holiday and earnings taxed in countries that have lower rates than the United States. In 2014, our effective income tax rate increased primarily due to changes in the geographic mix of our estimated current year earnings towards countries with higher statutory rates, and a scheduled reduction of certain income tax holiday benefits in India in 2014.

**Note 5 Fair Value Measurements**

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We measure our cash equivalents, investments and foreign exchange forward contracts at fair value. The authoritative guidance defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.



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The fair value hierarchy consists of the following three levels:

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2014:

	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 772,010	\$	\$	\$ 772,010
Time deposits		166,759		166,759
Commercial paper and certificates of deposit		64,899		64,899
<b>Total cash equivalents</b>	<b>772,010</b>	<b>231,658</b>		<b>1,003,668</b>
<b>Short-term investments:</b>				
Time deposits		284,050		284,050
<b>Available-for-sale investment securities:</b>				
U.S. Treasury and agency debt securities	433,789	88,065		521,854
Corporate and other debt securities		330,199		330,199
Certificates of deposit and commercial paper		494,832		494,832
Asset-backed securities		153,399		153,399
Municipal debt securities		123,316		123,316
Mutual funds		21,343		21,343
<b>Total available-for-sale investment securities</b>	<b>433,789</b>	<b>1,211,154</b>		<b>1,644,943</b>
<b>Total short-term investments</b>	<b>433,789</b>	<b>1,495,204</b>		<b>1,928,993</b>
<b>Derivative financial instruments - foreign exchange forward contracts:</b>				
Other current assets		4,552		4,552
Accrued expenses and other current liabilities		(138,717)		(138,717)
Other noncurrent assets		34		34
Other noncurrent liabilities		(91,859)		(91,859)
<b>Total</b>	<b>\$ 1,205,799</b>	<b>\$ 1,500,872</b>	<b>\$</b>	<b>\$ 2,706,671</b>

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The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$ 694,416	\$	\$	\$ 694,416
Time deposits		128,654		128,654
Commercial paper		22,000		22,000
<b>Total cash equivalents</b>	<b>694,416</b>	<b>150,654</b>		<b>845,070</b>
<b>Short-term investments:</b>				
Time deposits		329,783		329,783
<b>Available-for-sale investment securities:</b>				
U.S. Treasury and agency debt securities	423,051	83,234		506,285
Corporate and other debt securities		301,841		301,841
Certificates of deposit and commercial paper		99,959		99,959
Asset-backed securities		160,267		160,267
Municipal debt securities		115,196		115,196
Mutual funds		21,136		21,136
<b>Total available-for-sale investment securities</b>	<b>423,051</b>	<b>781,633</b>		<b>1,204,684</b>
<b>Total short-term investments</b>	<b>423,051</b>	<b>1,111,416</b>		<b>1,534,467</b>
<b>Derivative financial instruments - foreign exchange forward contracts:</b>				
Other current assets		11,105		11,105
Accrued expenses and other current liabilities		(191,584)		(191,584)
Other noncurrent liabilities		(164,490)		(164,490)
<b>Total</b>	<b>\$ 1,117,467</b>	<b>\$ 917,101</b>	<b>\$</b>	<b>\$ 2,034,568</b>

We measure the fair value of money market funds and U.S. Treasury securities based on quoted prices in active markets for identical assets. The fair value of commercial paper, certificates of deposit, U.S. government agency securities, municipal debt securities, U.S. and international corporate bonds and foreign government debt securities is measured based on relevant trade data, dealer quotes, or model driven valuations using significant inputs derived from or corroborated by observable market data, such as yield curves and credit spreads. We measure the fair value of our asset-backed securities using model driven valuations based on significant inputs derived from or corroborated by observable market data such as dealer quotes, available trade information, spread data, current market assumptions on prepayment speeds and defaults and historical data on deal collateral performance. The value of the mutual funds invested in fixed income securities is based on the net asset value, or NAV, of the fund, with appropriate consideration of the liquidity and any restrictions on disposition of our investment in the fund.

We estimate the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model calculates the difference between the current market forward price and the contracted forward price for each foreign exchange contract and applies the difference in the rates to each outstanding contract. The market forward rates include a discount and credit risk factor. The amounts are aggregated by type of contract and maturity.

During the three months ended March 31, 2014 and the year ended December 31, 2013, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

**Note 6 Derivative Financial Instruments**

In the normal course of business, we use foreign exchange forward contracts to manage foreign currency exchange rate risk. The estimated fair value of the foreign exchange forward contracts considers the following items: discount rate, timing and amount of cash flow and counterparty

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credit risk. Derivatives may give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. We have limited our credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial

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institutions with which we do business. In addition, all the assets and liabilities related to our foreign exchange forward contracts set forth in the below table are subject to International Swaps and Derivatives Association, or ISDA, master netting arrangements or other similar agreements with each individual counterparty. These master netting arrangements generally provide for net settlement of all outstanding contracts with the counterparty in the case of an event of default or a termination event. We have presented all the assets and liabilities related to our foreign exchange forward contracts on a gross basis, with no offsets, in our accompanying unaudited condensed consolidated statements of financial position. There is no financial collateral (including cash collateral) posted or received by us related to our foreign exchange forward contracts.

The following table provides information on the location and fair values of derivative financial instruments included in our unaudited condensed consolidated statement of financial position as of:

Designation of Derivatives	Location on Statement of Financial Position	March 31, 2014		December 31, 2013	
		Assets	Liabilities	Assets	Liabilities
<b>Cash Flow Hedges Designated as hedging instruments</b>					
Foreign exchange forward contracts	Other current assets	\$ 135	\$	\$	\$
	Other noncurrent assets	34			
	Accrued expenses and other current liabilities		136,552		190,386
	Other noncurrent liabilities		91,859		164,490
	Total	169	228,411		354,876
<b>Other Derivatives Not designated as hedging instruments</b>					
Foreign exchange forward contracts	Other current assets	4,417		11,105	
	Accrued expenses and other current liabilities		2,165		1,198
	Total	4,417	2,165	11,105	1,198
<b>Total</b>		<b>\$ 4,586</b>	<b>\$ 230,576</b>	<b>\$ 11,105</b>	<b>\$ 356,074</b>

*Cash Flow Hedges*

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of Indian rupee denominated payments in India. These contracts are intended to partially offset the impact of movement of exchange rates on future operating costs and are scheduled to mature each month during 2014, 2015, and 2016. Under these contracts, we purchase Indian rupees and sell U.S. dollars. The changes in fair value of these contracts are initially reported in the caption Accumulated other comprehensive income (loss) in our consolidated statements of financial position and are subsequently reclassified to earnings in the same period the hedge contract matures. As of March 31, 2014, we estimate that \$115,319, net of tax, of the net losses related to derivatives designated as cash flow hedges recorded in accumulated other comprehensive income (loss) is expected to be reclassified into earnings within the next 12 months.

The notional value of our outstanding contracts by year of maturity and the net unrealized (loss) included in accumulated other comprehensive income (loss) for such contracts were as follows as of:

	March 31, 2014	December 31, 2013
2014	\$ 900,000	\$ 1,200,000
2015	900,000	900,000
2016	240,000	240,000

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Total notional value of contracts outstanding	\$ 2,040,000	\$ 2,340,000
Net unrealized (loss) included in accumulated other comprehensive income (loss), net of taxes	\$ (192,943)	\$ (299,993)

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Upon settlement or maturity of the cash flow hedge contracts, we record the related gain or loss, based on our designation at the commencement of the contract, with the hedged Indian rupee denominated expense reported within cost of revenues and selling, general and administrative expenses. Hedge ineffectiveness was immaterial for all periods presented.

The following table provides information on the location and amounts of pre-tax (losses) on our cash flow hedges for the three months ended March 31:

	(Increase) Decrease in Derivative Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion)		Location of Net Derivative (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2014	2013		2014	2013
	Cash Flow Hedges Designated as hedging instruments				
Foreign exchange forward contracts	\$ 86,286	\$ 38,598	Cost of revenues	\$ (33,535)	\$ (17,552)
			Selling, general and administrative expenses	(6,813)	(3,792)
			Total	\$ (40,348)	\$ (21,344)

The activity related to the change in net unrealized (losses) on our cash flow hedges included in accumulated other comprehensive income (loss) is presented in Note 8.

*Other Derivatives*

We use foreign exchange forward contracts, which have not been designated as hedges, to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of our foreign subsidiaries. We entered into foreign exchange forward contracts to purchase U.S. dollars and sell Indian rupees, Euros and British pounds. Contracts outstanding as of March 31, 2014 are scheduled to mature in 2014. Realized gains or losses and changes in the estimated fair value of these derivative financial instruments are recorded in the caption Foreign currency exchange gains (losses), net in our condensed consolidated statements of operations.

Additional information related to our outstanding contracts is as follows:

	March 31, 2014		December 31, 2013	
	Notional	Market Value	Notional	Market Value
Contracts to purchase U.S. dollars and sell:				
Indian rupees	\$ 171,802	\$ 2,522	\$ 171,802	\$ 11,105
Euros	38,500	22	55,500	(412)
British pounds	31,000	(292)	52,000	(786)
Total	\$ 241,302	\$ 2,252	\$ 279,302	\$ 9,907

The following table provides information on the location and amounts of realized and unrealized pre-tax gains and losses on our other derivative financial instruments for the three months ended March 31, 2014 and 2013:

**Location of Net Gains (Losses)**

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Other Derivatives	Not designated as hedging instruments	on Derivative Instruments	Amount of Net Gains (Losses) on Derivative Instruments	
			2014	2013
		Foreign currency exchange gains (losses), net		
	Foreign exchange forward contracts:		\$ (8,350)	\$ (2,326)

The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

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**Note 7 Commitments and Contingencies**

As of March 31, 2014, we had outstanding fixed capital commitments of approximately \$47,678 related to our India development center expansion program to build new state-of-the-art IT development and delivery centers.

We are involved in various claims and legal actions arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. In the opinion of management, the outcome of any existing claims and legal or regulatory proceedings, if decided adversely, is not expected to have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, many of our engagements involve projects that are critical to the operations of our customers' business and provide benefits that are difficult to quantify. Any failure in a customer's systems or our failure to meet our contractual obligations to our clients, including any breach involving a customer's confidential information or sensitive data, or our obligations under applicable laws or regulations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering our services, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances or will otherwise protect us from liability for damages. Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that such coverage will cover all types of claims, continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed or are not covered by our insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to hold the indemnified party and certain of their affiliated entities harmless with respect to third-party claims related to such matters as our breach of certain representations or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct or certain other claims made against certain parties. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made payments under these indemnification agreements and therefore they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have material impact on our business, results of operations, financial condition and cash flows.



**Table of Contents****Note 8 Accumulated Other Comprehensive Income (Loss)**

Changes in accumulated other comprehensive income (loss) by component were as follows for the three months ended March 31, 2014:

	Before Tax Amount	Tax Effect	Net of Tax Amount
<b>Foreign currency translation adjustments:</b>			
Beginning balance	\$ 24,033	\$	\$ 24,033
Change in foreign currency translation adjustments	1,472		1,472
Ending balance	\$ 25,505	\$	\$ 25,505
<b>Unrealized gains (losses) on available-for-sale investment securities:</b>			
Beginning balance	\$ (453)	\$ 154	\$ (299)
Net unrealized gains arising during the period	1,073	(397)	676
Reclassification of net (gains) to Other, net	(355)	131	(224)
Net change	718	(266)	452
Ending balance	\$ 265	\$ (112)	\$ 153
<b>Unrealized gains (losses) on cash flow hedges:</b>			
Beginning balance	\$ (354,876)	\$ 54,883	\$ (299,993)
Unrealized gains arising during the period	86,286	(13,345)	72,941
Reclassifications of losses to:			
Cost of revenues	33,535	(5,186)	28,349
Selling, general and administrative expenses	6,813	(1,053)	5,760
Net change	126,634	(19,584)	107,050
Ending balance	\$ (228,242)	\$ 35,299	\$ (192,943)
<b>Accumulated other comprehensive income (loss):</b>			
Beginning balance	\$ (331,296)	\$ 55,037	\$ (276,259)
Other comprehensive income (loss)	128,824	(19,850)	108,974
Ending balance	\$ (202,472)	\$ 35,187	\$ (167,285)

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Changes in accumulated other comprehensive income (loss) by component were as follows for the three months ended March 31, 2013:

	Before Tax Amount	Tax Effect	Net of Tax Amount
<b>Foreign currency translation adjustments:</b>			
Beginning balance	\$ 11,572	\$	\$ 11,572
Change in foreign currency translation adjustments	(19,588)		(19,588)
Ending balance	\$ (8,016)	\$	\$ (8,016)
<b>Unrealized gains on available-for-sale investment securities:</b>			
Beginning balance	\$ 2,440	\$ (885)	\$ 1,555
Net unrealized (losses) arising during the period	(200)	78	(122)
Reclassification of net (gains) to Other, net	(305)	117	(188)
Net change	(505)	195	(310)
Ending balance	\$ 1,935	\$ (690)	\$ 1,245
<b>Unrealized (losses) on cash flow hedges:</b>			
Beginning balance	\$ (296,595)	\$ 43,785	\$ (252,810)
Unrealized gains arising during the period	38,665	(5,766)	32,899
Reclassifications of losses to:			
Cost of revenues	17,552	(2,546)	15,006
Selling, general and administrative expenses	3,792	(547)	3,245
Net change	60,009	(8,859)	51,150
Ending balance	\$ (236,586)	\$ 34,926	\$ (201,660)
<b>Accumulated other comprehensive income (loss):</b>			
Beginning balance	\$ (282,583)	\$ 42,900	\$ (239,683)
Other comprehensive income (loss)	39,916	(8,664)	31,252
Ending balance	\$ (242,667)	\$ 34,236	\$ (208,431)

**Note 9 Segment Information**

Our reportable segments are: Financial Services, which includes customers providing banking/transaction processing, capital markets and insurance services; Healthcare, which includes healthcare providers and payers as well as life sciences customers; Manufacturing/Retail/Logistics, which includes consumer goods, manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and Other, which is an aggregation of industry segments each of which, individually, represents less than 10% of consolidated revenues and segment operating profit. The Other reportable segment includes our information, media and entertainment services, communications and high technology operating segments. Our sales managers, account executives, account managers and project teams are aligned in accordance with the specific industries they serve.

Our chief operating decision maker evaluates the company's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating segments may affect revenue and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the development and

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delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, stock-based compensation expense, a portion of depreciation and amortization and the impact of the settlements of our cash flow hedges are not allocated to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are excluded from segment operating profit and are separately disclosed as unallocated and adjusted only against our total income from operations. Additionally, management has determined that it is not practical to allocate identifiable assets by segment, since such assets are used interchangeably among the segments.

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Revenues from external customers and segment operating profit, before unallocated expenses, for the Financial Services, Healthcare, Manufacturing/Retail/Logistics, and Other reportable segments were as follows:

	Three Months Ended March 31,	
	2014	2013
<b>Revenues:</b>		
Financial Services	\$ 1,023,704	\$ 855,341
Healthcare	615,916	510,019
Manufacturing/Retail/Logistics	511,931	425,846
Other	270,797	229,532
<b>Total revenue</b>	<b>\$ 2,422,348</b>	<b>\$ 2,020,738</b>
<b>Segment Operating Profit:</b>		
Financial Services	\$ 347,929	\$ 265,234
Healthcare	214,269	177,074
Manufacturing/Retail/Logistics	181,681	131,026
Other	89,667	71,060
<b>Total segment operating profit</b>	<b>833,546</b>	<b>644,394</b>
<b>Less: unallocated costs<sup>(1)</sup></b>	<b>373,510</b>	<b>278,487</b>
<b>Income from operations</b>	<b>\$ 460,036</b>	<b>\$ 365,907</b>

(1) Includes \$35,817 and \$29,093 of stock-based compensation expense for the three months ended March 31, 2014 and 2013, respectively.  
*Geographic Area Information*

Revenue and long-lived assets, by geographic area, are as follows:

	Three Months Ended March 31,	
	2014	2013
<b>Revenues: <sup>(1)</sup></b>		
North America <sup>(2)</sup>	\$ 1,836,231	\$ 1,582,191
Europe <sup>(3)</sup>	470,145	348,256
Rest of World <sup>(4)</sup>	115,972	90,291
<b>Total</b>	<b>\$ 2,422,348</b>	<b>\$ 2,020,738</b>

	As of	
	March 31, 2014	December 31, 2013
<b>Long-lived Assets: <sup>(5)</sup></b>		
North America <sup>(2)</sup>	\$ 47,603	\$ 48,352
Europe	23,504	22,707
Rest of World <sup>(4)(6)</sup>	1,019,778	1,010,105

Total	\$ 1,090,885	\$ 1,081,164
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- (1) Revenues are attributed to regions based upon customer location.
- (2) Substantially all relates to operations in the United States.
- (3) Includes revenue from operations in the United Kingdom of \$277,526 and \$216,408 for the three months ended March 31, 2014 and 2013, respectively.
- (4) Includes our operations in Asia Pacific, the Middle East and Latin America.
- (5) Long-lived assets include property and equipment, net of accumulated depreciation and amortization.
- (6) Substantially all of these long-lived assets relate to our operations in India.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Executive Summary**

We are a leading provider of information technology (IT), consulting and business process services, dedicated to helping the world's leading companies build stronger businesses. Our clients engage us to help them build more efficient operations, provide solutions to critical business and technology problems, and to help them drive technology-based innovation and growth. Our core competencies include: Business, Process, Operations and IT Consulting, Application Development and Systems Integration, Enterprise Information Management, or EIM, Application Testing, Application Maintenance, IT Infrastructure services, or IT IS, and Business Process Services, or BPS. We tailor our services to specific industries and utilize an integrated global delivery model. This seamless global sourcing model combines client service teams based on-site at the client locations with delivery teams located at dedicated near-shore and offshore global delivery centers.

For the three months ended March 31, 2014, our revenue increased to \$2,422.3 million compared to \$2,020.7 million for the three months ended March 31, 2013. Net income increased to \$348.9 million or \$0.57 per diluted share, compared to net income of \$284.2 million or \$0.47 per diluted share. On a non-GAAP basis our diluted earnings per share increased to \$0.62<sup>1</sup> compared to \$0.51<sup>1</sup> for the three months ended March 31, 2013.

The key drivers of our revenue growth during the three months ended March 31, 2014 were as follows:

Strong performance across all of our business segments with revenue growth ranging from 18.0% to 20.8%;

Continued penetration of the European and Rest of World (primarily the Asia Pacific) markets where we experienced revenue growth of 35.0% and 28.4%, respectively, as compared to the quarter ended March 31, 2013. Our European revenue growth benefited from our acquisitions of six C1 group companies and Equinox in 2013;

Sustained strength in the North American market where revenues grew 16.1%, as compared to the quarter ended March 31, 2013;

Increased customer spending on discretionary projects;

Expansion of our service offerings, including Consulting, IT IS, and BPS services, which enabled us to cross-sell new services to our customers and meet the rapidly growing demand for complex large-scale outsourcing solutions;

Increased penetration at existing customers, including strategic clients; and

Continued expansion of the market for global delivery of IT services and BPS.

We saw a continued demand from our customers for a broad range of services, including IT strategy and business consulting, application development and systems integration, EIM, application testing, application maintenance, IT IS, and BPS. In addition, we are seeing an increased customer interest in our social, mobile, analytics and cloud-based services. We finished the first quarter with approximately 1,223 active clients, compared to approximately 1,000 active clients as of March 31, 2013, and increased the number of strategic clients by 7 during the quarter, bringing the total number of our strategic clients to 250. We define a strategic client as one offering the potential to generate at least \$5 million to \$50 million or more in annual revenues at maturity.

Our revenue growth is also attributed to increasing market acceptance of, and strong demand for, offshore IT software and services and BPS. NASSCOM (India's National Association of Software and Service Companies) reports indicate that export revenues from India's IT software and services and BPS sectors are expected to grow approximately 13% to 15% for NASSCOM's fiscal year ending March 31, 2015. For the fiscal year ended 2014, the industry recorded export revenue growth of 13%, the mid-point of NASSCOM's growth projection.

- 1 Non-GAAP diluted earnings per share is not a measurement of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures for more information and a reconciliation to the most directly comparable GAAP financial measure.

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Our operating margin increased to approximately 19.0% for the quarter ended March 31, 2014 compared to 18.1% for the quarter ended March 31, 2013. Our non-GAAP operating margin for the quarter ended March 31, 2014 was approximately 20.8%<sup>2</sup> compared to 19.9%<sup>2</sup> for the quarter ended March 31, 2013. The increase in our GAAP and non-GAAP operating margins was due to revenue growth outpacing headcount growth and the impact of the depreciation of the Indian rupee against the U.S. dollar, net of losses on our cash flow hedges, partially offset by increases in compensation and benefit costs, including incentive-based compensation. Historically, we have invested our profitability above the 19% to 20% non-GAAP operating margin level back into our business, which we believe is a significant contributing factor to our strong revenue growth. This investment is primarily focused in the areas of hiring client partners and relationship personnel with specific industry experience or domain expertise, training our technical staff in a broader range of service offerings, strengthening our business analytics capabilities, strengthening and expanding our portfolio of services, continuing to expand our geographic presence for both sales and delivery as well as recognizing and rewarding exceptional performance by our employees. In addition, this investment includes maintaining a level of resources, trained in a broad range of service offerings, to be well positioned to respond to our customer requests to take on additional projects. We expect to continue to invest amounts in excess of our targeted operating margin levels back into the business.

We finished the first quarter of 2014 with approximately 178,600 employees, which is an increase of approximately 15,900 as compared to March 31, 2013. The increase in the number of our technical personnel and the related infrastructure costs to meet the demand for our services is the primary driver of the increase in our operating expenses in 2014. Annualized turnover, including both voluntary and involuntary, was approximately 14.1% for the three months ended March 31, 2014. The majority of our turnover occurs in India. As a result, annualized attrition rates on-site at clients are below our global attrition rate. In addition, attrition is weighted towards the more junior members of our staff. We have experienced increases in compensation and benefit costs, including incentive-based compensation costs, in India which may continue in the future; however, historically, this has not had a material impact on our results of operations as we have been able to absorb such cost increases through price increases or cost management strategies such as managing discretionary costs, the mix of our professional staff as well as utilization levels, and achieving other operating efficiencies.

At March 31, 2014, we had cash, cash equivalents and short-term investments of \$3,865.0 million and working capital of \$4,787.9 million. Accordingly, we do not anticipate any near-term liquidity issues.

During the remainder of 2014, barring any unforeseen events, we expect the following factors to affect our business and our operating results:

Continued focus by customers on directing IT spending towards cost containment projects, such as application maintenance, IT IS and BPS;

Demand from our customers to help them achieve their dual mandate of simultaneously achieving cost savings while investing in innovation;

Secular changes driven by evolving technologies and regulatory changes;

Volatility in foreign currency rates; and

Continued uncertainty in the world economy.

In response to this macroeconomic environment, we plan to:

Continue to invest in our talent base and new service offerings;

Partner with our existing customers to garner an increased portion of our customers' overall IT spend by providing innovative solutions;



Continue our focus on growing our business in Europe, the Middle East, the Asia Pacific and Latin America regions, where we believe there are opportunities to gain market share;

Continue to increase our strategic customer base across all of our business segments;

Opportunistically look for acquisitions that may improve our overall service delivery capabilities, expand our geographic presence and/or enable us to enter new areas of technology;

Continue to focus on operating discipline in order to appropriately manage our cost structure; and

Continue to locate most of our new development center facilities in tax incentivized areas.

- 2 Non-GAAP operating margin is not a measurement of financial performance prepared in accordance with GAAP. See [Non-GAAP Financial Measures](#) for more information and a reconciliation to the most directly comparable GAAP financial measure.

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### **Stock Split**

On February 4, 2014, the company's Board of Directors declared a two-for-one stock split of our Class A common stock in the form of a 100% stock dividend, which was paid on March 7, 2014 to stockholders of record as of February 21, 2014. The stock split has been reflected in the accompanying condensed consolidated financial statements, and all applicable references as to the number of outstanding common shares and per share information herein, except par values, have been retroactively adjusted to reflect the stock split as if it occurred at the beginning of the earliest period presented.

### **Business Segments**

Our four reportable business segments are:

Financial Services, which includes customers providing banking/transaction processing, capital markets and insurance services;

Healthcare, which includes healthcare providers and payers as well as life sciences customers;

Manufacturing/Retail/Logistics, which includes consumer goods manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and

Other, which is an aggregation of industry operating segments each of which, individually, represents less than 10.0% of consolidated revenues and segment operating profit. The Other reportable segment includes our information, media and entertainment services, communications, and high technology operating segments.

Our chief operating decision maker evaluates Cognizant's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating segments may affect revenue and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the development and delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, stock-based compensation expense, a portion of depreciation and amortization and the impact of the settlements of our cash flow hedges are not allocated to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are excluded from segment operating profit.

We had approximately 1,223 active clients as of March 31, 2014. Accordingly, we provide a significant volume of services to many customers in each of our business segments. Therefore, a loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, no individual customer accounted for sales in excess of 10% of our consolidated revenues for the periods ended March 31, 2014 and 2013. In addition, the services we provide to our larger customers are often critical to the operations of such customers and we believe that a termination of our services would require an extended transition period with gradually declining revenues.

**Table of Contents****Results of Operations****Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013**

The following table sets forth, for the periods indicated, certain financial data for the three months ended March 31:

(Dollars in thousands, except per share amounts)

	2014	% of Revenues	2013	% of Revenues	Increase (Decrease) \$	%
Revenues	\$ 2,422,348	100.0	\$ 2,020,738	100.0	\$ 401,610	19.9%
Cost of revenues <sup>(1)</sup>	1,432,444	59.1	1,199,965	59.4	232,479	19.4%
Selling, general and administrative expenses <sup>(1)</sup>	485,395	20.0	413,204	20.4	72,191	17.5%
Depreciation and amortization expense	44,473	1.8	41,662	2.1	2,811	6.7%
Income from operations	460,036	19.0	365,907	18.1	94,129	25.7%
Other income (expense), net	13,152		11,276		1,876	16.6%
Income before provision for income taxes	473,188	19.5	377,183	18.7	96,005	25.5%
Provision for income taxes	124,310		92,974		31,336	33.7%
Net income	\$ 348,878	14.4	\$ 284,209	14.1	\$ 64,669	22.8%
Diluted earnings per share	\$ 0.57		\$ 0.47		\$ 0.10	
<b>Other Financial Information <sup>(2)</sup></b>						
Non-GAAP income from operations and non-GAAP operating margin	\$ 503,793	20.8	\$ 401,654	19.9	\$ 102,139	25.4%
Non-GAAP diluted earnings per share	\$ 0.62		\$ 0.51		\$ 0.11	

(1) Exclusive of depreciation and amortization expense.

(2) Non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted earnings per share are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures for more information and a reconciliation to the most directly comparable GAAP financial measure.

**Revenue - Overall.** Revenue increased 19.9%, or approximately \$401.6 million, from approximately \$2,020.7 million during the three months ended March 31, 2013 to approximately \$2,422.3 million during the three months ended March 31, 2014. This increase was primarily attributed to greater acceptance of our global delivery model among an increasing number of industries, continued interest in using our global delivery model as a means to reduce overall IT and operations costs, increased customer spending on discretionary projects, and continued penetration in all our geographic markets. Revenues from new customers contributed \$91.4 million representing 22.8% of the period over period revenue growth. Our consulting and technology services revenues increased by approximately 23.7% compared to the three months ended March 31, 2013 and represented approximately 51.3% of total revenues for the three months ended March 31, 2014, while our outsourcing services revenue increased by approximately 16.1% and constituted approximately 48.7% of total revenues, for the three months ended March 31, 2014.

We had approximately 1,223 active clients as of March 31, 2014 as compared to approximately 1,000 active clients as of March 31, 2013. Revenues from our top five customers as a percentage of total revenues were 13.1% and 14.1% for the quarter ended March 31, 2014 and 2013, respectively. Revenues from our top ten customers as a percentage of total revenues were 22.4%, and 24.4% for the quarter ended March 31, 2014 and 2013, respectively. As we continue to add new customers and increase our penetration at existing customers, we expect the percentage of revenues from our top five and top ten customers to decline over time.



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*Revenue - Reportable Segments.* Revenues by reportable business segment were as follows for the three months ended March 31:

(Dollars in thousands)

	2014	2013	Increase	
			\$	%
Financial services	\$ 1,023,704	\$ 855,341	\$ 168,363	19.7
Healthcare	615,916	510,019	105,897	20.8
Manufacturing/Retail/Logistics	511,931	425,846	86,085	20.2
Other	270,797	229,532	41,265	18.0
<b>Total revenue</b>	<b>\$ 2,422,348</b>	<b>\$ 2,020,738</b>	<b>\$ 401,610</b>	<b>19.9</b>

Revenue from our Financial Services segment grew 19.7% or \$168.4 million for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013. This strength was driven by revenue growth of \$115.8 million from our banking customers who continued to benefit from the improving economy. In this segment, revenue from customers added since March 31, 2013 was approximately \$27.0 million and represented 16.0% of the period-over-period revenue increase in this segment. Key areas of focus for our Financial Services customers included cost optimization, regulatory and compliance driven initiatives, risk management, and the adoption and integration of SMAC solutions to align with shifts in consumer preferences.

Revenue from our Healthcare segment grew 20.8% or \$105.9 million for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013. Our healthcare and life sciences customers contributed approximately \$94.4 million and \$11.5 million, respectively, to the period-over-period revenue increase. Revenue from customers added since March 31, 2013 was approximately \$26.2 million and represented 24.7% of the period-over-period revenue increase in this segment. Growth within the segment was driven by work related to Affordable Care Act initiatives in the United States, including extended support for member enrollment and the implementation of direct to consumer programs through mobile platforms. IT spending by some of our life sciences customers has been and may continue to be adversely impacted by the patent cliff affecting some of our pharmaceutical customers.

Revenue from our Manufacturing/Retail/Logistics segment grew 20.2% or \$86.1 million for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013. During the first quarter of 2014, growth was stronger among our manufacturing and logistics customers, where revenue increased by approximately \$50.6 million as compared to approximately \$35.5 million for our retail and hospitality customers. Revenue from customers added since March 31, 2013 was approximately \$25.8 million and represented approximately 30.0% of the period-over-period revenue increase in this segment. Demand within this segment continues to be driven by multichannel commerce implementation and integration efforts, supply chain consulting and implementation initiatives, and increased adoption of SMAC solutions to align with shifts in consumer preferences.

Revenue from our Other segment grew 18.0% or \$41.3 million for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013. In the first quarter of 2014, growth within Other was particularly strong among our high technology customers, where revenue increased by approximately \$24.8 million due to an increase in discretionary spending, and telecommunication customers, where revenues increased by approximately \$15.6 million. Revenue from customers added since March 31, 2013 was approximately \$12.5 million and represented 30.3% of the period-over-period revenue increase in this segment.

*Revenue - Geographic Locations.* Revenues by geographic location were as follows for the three months ended March 31:

(Dollars in thousands)

	2014	2013	Increase	
			\$	%
North America	\$ 1,836,231	\$ 1,582,191	\$ 254,040	16.1
United Kingdom	277,526	216,408	61,118	28.2

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Rest of Europe	192,619	131,848	60,771	46.1
Europe - Total	470,145	348,256	121,889	35.0
Rest of World	115,972	90,291	25,681	28.4
Total Revenue	\$ 2,422,348	\$ 2,020,738	\$ 401,610	19.9

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North America continues to be our largest market representing approximately 75.8% of total revenue for the first quarter of 2014 and accounted for \$254.0 million of the \$401.6 million revenue increase from first quarter of 2013. Revenue from Europe grew 35.0% compared to 2013. The strong revenue growth in Europe was driven by the increasing acceptance of our global delivery model and Europe's continued economic recovery. We believe the European market is under-penetrated and represents a significant future growth opportunity for us. Revenue growth in Rest of Europe includes the benefit of recent acquisitions of six C1 group companies and Equinox. Revenue growth from Rest of World customers in 2014 was primarily driven by the India, Middle East, and Singapore markets. We believe that Europe, the Middle East, the Asia Pacific and Latin America regions will continue to be areas of significant investment for us as we see these regions as growth opportunities for the long term.

*Cost of Revenues (Exclusive of Depreciation and Amortization Expense).* Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, immigration and project-related travel for technical personnel, subcontracting and sales commissions related to revenues. Our cost of revenues increased by 19.4% or \$232.5 million during the first quarter of 2014 as compared to the first quarter of 2013. The increase was due primarily to an increase in compensation and benefits costs, including incentive-based compensation, partially offset by the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar. For the three months ended March 31, 2014, compensation and benefit costs, including incentive-based compensation, increased by approximately \$200.2 million as a result of the increase in the number of our technical personnel and higher accrual of individual bonus payouts.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 16.5%, or \$75.0 million during the first quarter of 2014 as compared to the first quarter of 2013. Selling, general and administrative expenses, including depreciation and amortization, decreased as a percentage of revenue to 21.9% in the first quarter of 2014 as compared to 22.5% in the first quarter of 2013. The decrease as a percentage of revenue was due primarily to economies of scale that allowed us to leverage our cost structure over a larger organization and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of losses on our cash flow hedges.

*Income from Operations and Operating Margin - Overall.* Income from operations increased 25.7%, or approximately \$94.1 million in the first quarter of 2014 as compared to the first quarter of 2013. Our operating margin increased to 19.0% of revenues in the first quarter 2014 from 18.1% of revenues in the first quarter of 2013, due to revenue growth outpacing headcount growth and the impact of the depreciation of the Indian rupee against the U.S. dollar, net of losses on our cash flow hedges, partially offset by increases in compensation and benefit costs, including incentive-based compensation costs. Excluding the impact of applicable designated cash flow hedges, the depreciation of the Indian rupee against the U.S. dollar positively impacted our operating margin by approximately 264 basis points or 2.64 percentage points in the three months ended March 31, 2014. Each additional 1.0% change in exchange rate between the Indian rupee and the U.S. dollar will have the effect of moving our operating margin by approximately 19 basis points or 0.19 percentage points.

For the three months ended March 31, 2014 and 2013, our non-GAAP operating margins were 20.8%<sup>3</sup>, and 19.9%<sup>3</sup>, respectively. As set forth in the Non-GAAP Financial Measures section below, our non-GAAP operating margin excludes stock based compensation expense and acquisition-related charges.

We entered into foreign exchange forward contracts to hedge certain Indian rupee denominated payments in India. These hedges are intended to mitigate the volatility of the changes in the exchange rate between the U.S. dollar and the Indian rupee. During the three months ended March 31, 2014 and 2013, the settlement of certain cash flow hedges negatively impacted our operating margin by approximately 167 basis points or 1.67 percentage points and 106 basis points or 1.06 percentage points, respectively.

3 Non-GAAP operating margin is not a measurement of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures for more information and a reconciliation to the most directly comparable GAAP financial measure.

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*Segment Operating Profit.* Segment operating profits were as follows:

(Dollars in thousands)

	2014	2013	Increase	
			\$	%
Financial Services	\$ 347,929	\$ 265,234	\$ 82,695	31.2
Healthcare	214,269	177,074	37,195	21.0
Manufacturing/Retail/Logistics	181,681	131,026	50,655	38.7
Other	89,667	71,060	18,607	26.2
<b>Total segment operating profit</b>	<b>833,546</b>	<b>644,394</b>	<b>189,152</b>	<b>29.4</b>
Less: unallocated costs <sup>(1)</sup>	373,510	278,487	95,023	34.1
<b>Income from operations</b>	<b>\$ 460,036</b>	<b>\$ 365,907</b>	<b>\$ 94,129</b>	<b>25.7</b>

(1) Includes \$35,817 and \$29,093 of stock-based compensation expense for the three months ended March 31, 2014 and 2013, respectively. The increase in segment operating profit in all reportable segments during the first quarter of 2014 was attributable primarily to increased revenues, the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar and achieving operating efficiencies, partially offset by an increase in compensation and benefit costs resulting primarily from additional headcount to support our revenue growth and continued investment in sales and marketing.

*Other Income (Expense), Net.* Total other income (expense), net consists primarily of foreign currency exchange gains and (losses) and interest income. The following table sets forth total other income (expense), net for the three months ended March 31:

(Dollars in thousands)

	2014	2013	Increase (Decrease)
Foreign currency exchange gains (losses)	\$ 7,133	\$ (1,425)	\$ 8,558
(Losses) on foreign exchange forward contracts not designated as hedging instruments	(8,350)	(2,326)	(6,024)
<b>Net foreign currency exchange (losses)</b>	<b>(1,217)</b>	<b>(3,751)</b>	<b>2,534</b>
Interest income	13,505	13,247	258
Other, net	864	1,780	(916)
<b>Total other income (expense), net</b>	<b>\$ 13,152</b>	<b>\$ 11,276</b>	<b>\$ 1,876</b>

The foreign currency exchange gains of approximately \$7.1 million were primarily attributed to the remeasurement of the Indian rupee denominated net monetary assets on the books of our India subsidiaries to the U.S. dollar functional currency. The \$8.4 million of losses on foreign exchange forward contracts not designated as hedging instruments relate to the realized and unrealized gains on foreign exchange forward contracts entered into primarily to offset foreign currency exposure to Indian rupee denominated net monetary assets. As of March 31, 2014, the notional value of our undesignated hedges was \$241.3 million. The increase in interest income of \$0.3 million was primarily attributed to the increases in the yield on our investments, and an increase in average invested balances, partially offset by the depreciation of the Indian rupee against the U.S. dollar.

*Provision for Income Taxes.* The provision for income taxes increased to approximately \$124.3 million during the three months ended March 31, 2014 from to approximately \$93.0 million during the three months ended March 31, 2013. The effective income tax rate increased to 26.3% for the three months ended March 31, 2014 from 24.6% for the three months ended March 31, 2013. The increase in our effective income tax rate



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was primarily attributed to changes in the geographic mix of our current year earnings towards countries with higher statutory rates and a scheduled reduction of certain income tax holiday benefits in India in 2014.

*Net Income.* Net income increased to approximately \$348.9 million for the three months ended March 31, 2014 from approximately \$284.2 million for the three months ended March 31, 2013, representing 14.4% and 14.1% of revenues, respectively.

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### ***Non-GAAP Financial Measures***

Portions of our disclosure, including the following table, include non-GAAP income from operations, non-GAAP operating margin, and non-GAAP diluted earnings per share. These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of Cognizant's non-GAAP financial measures to the corresponding GAAP measures should be carefully evaluated.

Our non-GAAP income from operations and non-GAAP operating margin exclude stock-based compensation expense and acquisition-related charges. In 2014, we modified our definition of non-GAAP diluted EPS to exclude net non-operating foreign currency exchange gains or losses, in addition to excluding stock-based compensation expense and acquisition-related charges. Our definition of non-GAAP income from operations and non-GAAP operating margin remains unchanged.

We seek to manage the company to a targeted non-GAAP operating margin of 19% to 20% of revenues. We believe providing investors with an operating view consistent with how we manage the company provides enhanced transparency into the operating results of the company. For our internal management reporting and budgeting purposes, we use non-GAAP financial information that does not include stock-based compensation expense, acquisition-related charges and net non-operating foreign currency exchange gains or losses for financial and operational decision making, to evaluate period-to-period comparisons and for making comparisons of our operating results to those of our competitors. Therefore, it is our belief that the use of non-GAAP financial measures excluding these costs provides a meaningful measure for investors to evaluate our financial performance. Accordingly, we believe that the presentation of non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted earnings per share, when read in conjunction with our reported GAAP results, can provide useful supplemental information to our management and investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP financial measures versus financial measures calculated in accordance with GAAP is that non-GAAP measures do not reflect all of the amounts associated with our operating results as determined in accordance with GAAP and exclude costs that are recurring, namely stock-based compensation expense, certain acquisition-related charges, and net non-operating foreign currency exchange gains or losses. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of these non-GAAP financial measures as a comparative tool. We compensate for this limitation by providing specific information regarding the GAAP amounts excluded from non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted earnings per share to allow investors to evaluate such non-GAAP financial measures with financial measures calculated in accordance with GAAP.

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The following table presents a reconciliation of each non-GAAP financial measure to the most comparable GAAP measure for the three months ended March 31:

(Dollars in thousands, except per share amounts)

	2014	% of Revenues	2013	% of Revenues
GAAP income from operations and operating margin	\$ 460,036	19.0	\$ 365,907	18.1
Add: Stock-based compensation expense	35,817	1.5	29,093	1.4
Add: Acquisition-related charges <sup>(1)</sup>	7,940	0.3	6,654	0.3
Non-GAAP income from operations and non-GAAP operating margin	\$ 503,793	20.8	\$ 401,654	19.9
GAAP diluted earnings per share	\$ 0.57		\$ 0.47	
Effect of above operating adjustments, net of tax	0.05		0.04	
Effect on non-operating foreign currency exchange gains and losses, net of tax <sup>(2)</sup>				
Non-GAAP diluted earnings per share	\$ 0.62		\$ 0.51	

- (1) Acquisition-related charges include, when applicable, amortization of purchased intangible assets included in the depreciation and amortization expense line on our condensed consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs.
- (2) Non-operating foreign currency exchange gains and losses are inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes. Per share impact for the periods presented rounds to zero.

**Liquidity and Capital Resources**

At March 31, 2014, we had cash, cash equivalents and short-term investments of \$3,865.0 million. We have used, and plan to use, such cash for expansion of existing operations, including our offshore development and delivery centers, continued development of new service lines, acquisitions of related businesses, formation of joint ventures, stock repurchases and general corporate purposes, including working capital. As of March 31, 2014, we had no third party debt and had working capital of approximately \$4,787.9 million. Accordingly, we do not anticipate any near-term liquidity issues.

The following table provides a summary of the major cash flows and liquidity trends for the three months ended March 31:

(Dollars in thousands)

	2014	2013	Increase / Decrease
Net cash from operating activities	\$ 157,320	\$ 73,468	\$ 83,852
Net cash (used in) investing activities	(433,654)	(185,874)	(247,780)
Net cash (used in) provided by financing activities	(6,573)	16,932	(23,505)

*Operating activities.* The increase was primarily attributed to an increase in net income during the 2014 period. Trade accounts receivable increased to approximately \$1,703.6 million at March 31, 2014 from approximately \$1,648.8 million at December 31, 2013. Unbilled accounts receivable increased to approximately \$267.3 million at March 31, 2014 from approximately \$226.5 million at December 31, 2013. The increase in trade accounts receivable and unbilled receivables as of March 31, 2014 as compared to December 31, 2013 was primarily due to increased revenues. We monitor turnover, aging and the collection of accounts receivable through the use of management reports that are prepared on a customer basis and evaluated by our finance staff. At March 31, 2014, our days sales outstanding, including unbilled receivables, was

approximately 73 days as compared to 73 days at December 31, 2013 and 76 days as of March 31, 2013.

*Investing activities.* The increase in net cash used in investing activities is primarily related to additional investments in available-for-sale securities, partially offset by lower expenditures on business combinations and property and equipment during the 2014 period.

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*Financing activities.* Cash from financing activities decreased in the 2014 period primarily due to greater repurchases of common stock under our stock repurchase program.

We expect our operating cash flow and cash and cash equivalents to be sufficient to meet our operating requirements for the next twelve months. Our ability to expand and grow our business in accordance with current plans, to make acquisitions and form joint ventures and to meet our long-term capital requirements beyond a twelve month period will depend on many factors, including the rate, if any, at which our cash flow increases, our ability and willingness to enter into acquisitions and joint ventures with capital stock, our continued intent not to repatriate foreign earnings, and the availability, pricing and terms of public and private debt and equity financings.

As of March 31, 2014, \$2,194.5 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. We utilize certain strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to income taxes in the United States, less applicable foreign tax credits. Other than amounts for which we have already accrued U.S. taxes, we intend to indefinitely reinvest these funds outside the United States and our current plans do not indicate a need to repatriate these amounts to fund our cash needs in the United States. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, we will accrue the applicable amount of taxes associated with such earnings at that time. Due to the various methods by which such earnings could be repatriated in the future, it is not practicable to determine the amount of tax that would result from such repatriation.

## **Commitments and Contingencies**

As of March 31, 2014, we had outstanding fixed capital commitments of approximately \$47.7 million related to our India development center expansion program, which includes expenditures for land acquisition, facilities construction and furnishings to build new state-of-the-art development and delivery centers in regions primarily designated as Special Economic Zones, or SEZs located in India.

We are involved in various claims and legal actions arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. In the opinion of management, the outcome of any existing claims and legal or regulatory proceedings, if decided adversely, is not expected to have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, many of our engagements involve projects that are critical to the operations of our customers' business and provide benefits that are difficult to quantify. Any failure in a customer's systems or our failure to meet our contractual obligations to our clients, including any breach involving a customer's confidential information or sensitive data, or our obligations under applicable laws or regulations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering our services, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances or will otherwise protect us from liability for damages. Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that such coverage will cover all types of claims, continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed or are not covered by our insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

## **Foreign Currency Risk**

Overall, we believe that we have limited revenue risk resulting from movement in foreign currency exchange rates as approximately 75.8% of our revenues for the three months ended March 31, 2014 were generated from customers located in North America. However, a portion of our costs in India, representing approximately 23.8% of our global operating costs for the three months ended March 31, 2014, are denominated in the Indian rupee and are subject to foreign exchange rate fluctuations. These foreign currency exchange rate fluctuations have an impact on our results of operations. In addition, a portion of our balance sheet is exposed to foreign currency exchange rate fluctuations, which may result in non-operating foreign currency exchange gains or losses upon remeasurement. For the three months ended March 31, 2014, we reported foreign currency exchange gains, exclusive of hedging gains or losses, of approximately \$7.1 million, which were primarily attributed to the remeasurement of the Indian rupee denominated net monetary assets on the books of our India subsidiaries to the U.S. dollar functional currency. On an ongoing basis, we manage a portion of this risk by limiting our net monetary asset exposure to certain currencies primarily the Indian rupee in our foreign subsidiaries.

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We entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of certain Indian rupee denominated payments in India. Our Indian subsidiaries, collectively referred to as Cognizant India converts U.S. dollar receipts from intercompany billings to Indian rupees to fund local expenses. These hedges to buy Indian rupees and sell U.S. dollars are intended to partially offset the impact of movement of exchange rates on future operating costs. For the three months ended March 31, 2014, we reported losses of \$40.3 million, on contracts that settled during this quarter. As of March 31, 2014, we have outstanding contracts with a notional value of \$2,040.0 million and weighted average forward rate of 57.8 rupees to the U.S. dollar. These contracts are scheduled to mature as follows: outstanding contracts with a notional value of \$900.0 million and a weighted average forward rate of 54.4 rupees to the U.S. dollar scheduled to mature in 2014; outstanding contracts with a notional value of \$900.0 million and a weighted average forward rate of 58.6 rupees to the U.S. dollar scheduled to mature in 2015; outstanding contracts with a notional value of \$240.0 million and a weighted average forward rate of 67.2 rupees to the U.S. dollar scheduled to mature in 2016.

Our foreign subsidiaries are exposed to foreign exchange rate risk for transactions denominated in currencies other than the functional currency of the respective subsidiary. We also use foreign exchange forward contracts to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary. These contracts are not designated as hedges and are intended to offset the foreign currency exchange gains or losses upon remeasurement of these net monetary assets. We entered into a series of foreign exchange forward contracts scheduled to mature in 2014 which are used to hedge our foreign currency denominated net monetary assets. At March 31, 2014, the notional value of the outstanding contracts was \$241.3 million and the related fair value was an asset of \$2.3 million. During the three months ended March 31, 2014, inclusive of losses of approximately \$8.4 million on these undesignated balance sheet hedges, we reported net foreign currency exchange losses of approximately \$1.2 million.

## **Off-Balance Sheet Arrangements**

Other than our foreign exchange forward contracts, there were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in the 2014 and 2013 periods that have, or are reasonably likely to have, a current or future effect on the company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## **Critical Accounting Estimates**

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited condensed consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an on-going basis, we evaluate our estimates. The most significant estimates relate to the recognition of revenue and profits based on the percentage of completion method of accounting for certain fixed-bid contracts, the allowance for doubtful accounts, income taxes, valuation of goodwill and other long-lived assets, valuation of investments and derivative financial instruments, assumptions used in valuing stock-based compensation arrangements, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual amounts may differ from the estimates used in the preparation of the accompanying condensed consolidated financial statements. For a discussion of our critical accounting estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2013 Annual Report on Form 10-K. Our significant accounting policies are described in Note 1 to the audited consolidated financial statements included in our 2013 Annual Report on Form 10-K. There have been no material changes to the aforementioned critical accounting estimates and policies during the quarter.

## **Recent Accounting Pronouncements**

See Note 1 to our unaudited condensed consolidated financial statements for additional information.

## **Effects of Inflation**

Our most significant costs are the salaries and related benefits for our programming staff and other professionals. In certain regions, competition for professionals with advanced technical skills necessary to perform our services has caused wages to increase at a rate greater than the general rate of inflation. As with other service providers in our industry, we must adequately anticipate wage increases, particularly on our fixed-price contracts. Historically, we have experienced increases in



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compensation and benefit costs, including incentive-based compensation, in India; however, this has not had a material impact on our results of operations as we have been able to absorb such cost increases through price increases or cost management strategies such as managing discretionary costs, mix of professional staff and utilization levels and achieving other operating efficiencies. There can be no assurance that we will be able to offset such cost increases in the future.

**Forward Looking Statements**

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended) that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes, expects, may, could, would, plan, intend, estimate, predict, potential, continue, should or anticipates or the negative thereof or other variations thereon or comparable terminology, discussions of strategy that involve risks and uncertainties. From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing.

Such forward-looking statements may be included in various filings made by us with the Securities and Exchange Commission, or press releases or oral statements made by or with the approval of one of our authorized executive officers. These forward-looking statements, such as statements regarding anticipated future revenues or operating margins, contract percentage completions, earnings, capital expenditures, liquidity, plans, objectives, and other statements regarding matters that are not historical facts, are based on our current expectations, estimates and projections, management's beliefs, and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including, but not limited to, a downturn in economic conditions in the United States and Europe; the loss of customers; the rate of growth in the use of technology in business and the type and level of technology spending by our clients; the risk of reputational harm to us; increased competition from other service providers; the risk that we may not be able to keep pace with the rapidly evolving technological environment; competition for hiring highly-skilled professionals or the loss of key personnel; the risk that we may not be able to control our costs or maintain favorable pricing and utilization rates; the risk that we might not be able to maintain effective internal controls; the risk that we may not be able to enforce non-competition agreements with our executives; the risk of liability resulting from security breaches; our inability to successfully acquire or integrate target companies; changes in domestic and international regulations and legislation, including immigration and anti-outsourcing legislation; the effect of fluctuations in the Indian rupee and other currency exchange rates; the effect of our use of derivative instruments; the risk of war, terrorist activities, pandemics and natural disasters; the possibility that we may choose to repatriate foreign earnings or that those earnings may become subject to tax on a U.S. basis; the possibility that we may lose certain tax benefits provided to companies in our industry by India; the risk that we may not be able to enforce or protect our intellectual property rights, or that we may infringe upon the intellectual property rights of others; the possibility that we could lose our ability to utilize the intellectual property rights of others; and the factors set forth in Part II, in the section entitled "Item 1A. Risk Factors" in this report. You are advised to consult any further disclosures we make on related subjects in the reports we file with the Securities and Exchange Commission, including this report in the section titled "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part I, Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2013. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are exposed to foreign currency exchange rate risk in the ordinary course of doing business as we transact or hold a portion of our funds in foreign currencies, particularly the Indian rupee. Accordingly, we periodically evaluate the need for hedging strategies, including the use of derivative financial instruments, to mitigate the effect of foreign currency exchange rate fluctuations and expect to continue to use such instruments in the future to reduce foreign currency exposure to appreciation or depreciation in the value of certain foreign currencies. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures.

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of certain Indian rupee denominated payments in India. Cognizant India converts U.S. dollar receipts from intercompany billings to Indian rupees to fund local expenses. These U.S. dollar / Indian rupee hedges are intended to partially offset the impact of movement of exchange rates on future operating costs. As of March 31, 2014, the notional value of these contracts was \$2,040.0 million. The outstanding contracts as of March 31, 2014 are scheduled to mature each month during 2014, 2015, and 2016. As of March 31, 2014, the net unrealized loss on our outstanding foreign exchange forward contracts was \$228.2 million. Based upon a sensitivity analysis of our foreign exchange forward contracts at March 31, 2014, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10.0% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in a change in the fair value of approximately \$168.7 million.





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Our foreign subsidiaries are exposed to foreign currency exchange rate risk for transactions denominated in currencies other than the functional currency of the respective subsidiary. We also use foreign exchange forward contracts to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary. These contracts are not designated as hedges and are intended to offset the foreign currency exchange gains or losses upon remeasurement of these net monetary assets. We entered into a series of foreign exchange forward contracts scheduled to mature in 2014 which are used to hedge our foreign currency denominated net monetary assets. At March 31, 2014, the notional value of the outstanding contracts was \$241.3 million and the related fair value was an asset of \$2.3 million. Based upon a sensitivity analysis of our foreign exchange forward contracts at March 31, 2014, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10.0% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in a change in the fair value of approximately \$23.9 million.

We do not believe we are exposed to material direct risks associated with changes in interest rates other than with our cash, cash equivalents and short-term investments. As of March 31, 2014, we had approximately \$3,865.0 million of cash, cash equivalents and short-term investments most of which are impacted almost immediately by changes in short-term interest rates.

We typically invest in highly-rated securities and our policy generally limits the amount of credit exposure to any one issuer. Our investment policy requires investments to be investment grade with the objective of minimizing the potential risk of principal loss. We may sell our investments prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. As of March 31, 2014, our short-term investments totaled \$1,929.0 million. Our investment portfolio is primarily comprised of time deposits, mutual funds invested in fixed income securities and U.S. dollar denominated corporate bonds, municipal bonds, certificates of deposit, commercial paper, debt issuances by the U.S. government U.S. government agencies, foreign governments and supranational entities and asset-backed securities. The asset-backed securities included Government National Mortgage Association (GNMA) mortgage backed securities and securities backed by auto loans, credit card receivables, and other receivables.

**Item 4. Controls and Procedures.**  
**Evaluation of Disclosure Controls and Procedures**

Our management under the supervision and with the participation of our chief executive officer and our chief financial officer, evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of March 31, 2014. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of March 31, 2014, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our chief executive officer and our chief financial officer as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**  
**Factors That May Affect Future Results**

*In addition to the risks and uncertainties described elsewhere in this Quarterly Report on Form 10-Q, if any of the following risks occur, our business, financial condition, results of operations or prospects could be materially adversely affected. In such case, the trading price of our common stock could decline.*



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### **Our global operations are subject to complex risks, some of which might be beyond our control.**

We have offices and operations in various countries around the world and provide services to clients globally. During the first three months of 2014, approximately 75.8% of our revenues were attributable to the North American region, 19.4% were attributable to the European region, and 4.8% were attributable to the rest of the world, primarily the Asia Pacific region. If we are unable to manage the risks of our global operations, including regulatory, economic, political and other uncertainties in India, fluctuations in foreign exchange and inflation rates, international hostilities, terrorism, natural disasters, and multiple legal and regulatory systems, our results of operations could be adversely affected.

### **A substantial portion of our assets and operations are located in India and we are subject to regulatory, economic, political and other uncertainties in India.**

We intend to continue to develop and expand our offshore facilities in India where a majority of our technical professionals are located. While wage costs are lower in India than in the United States and other developed countries for comparably skilled professionals, wages in India have historically increased at a faster rate than in the United States and other countries in which we operate. If this trend continues in the future, it would result in increased costs for our skilled professionals and thereby potentially reduce our operating margins. Also, there is no assurance that, in future periods, competition for skilled professionals will not drive salaries higher in India, thereby resulting in increased costs for our technical professionals and reduced operating margins.

India has also recently experienced civil unrest and terrorism and has been involved in conflicts with neighboring countries. In recent years, there have been military confrontations between India and Pakistan that have occurred in the region of Kashmir and along the India-Pakistan border. The potential for hostilities between the two countries has been high in light of tensions related to recent terrorist incidents in India and the unsettled nature of the regional geopolitical environment, including events in and related to Afghanistan and Iraq. If India becomes engaged in armed hostilities, particularly if these hostilities are protracted or involve the threat of or use of weapons of mass destruction, it is likely that our operations would be materially adversely affected. In addition, companies may decline to contract with us for services in light of international terrorist incidents or armed hostilities, even where India is not involved, because of more generalized concerns about relying on a service provider utilizing international resources that may be viewed as less stable than those provided domestically.

In the past, the Indian economy has experienced many of the problems that commonly confront the economies of developing countries, including high inflation, erratic gross domestic product growth and shortages of foreign exchange. The Indian government has exercised, and continues to exercise, significant influence over many aspects of the Indian economy and Indian government actions concerning the economy could have a material adverse effect on private sector entities like us. In the past, the Indian government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the software development services industry. Programs that have benefited us include, among others, tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. Notwithstanding these benefits, as noted above, India's central and state governments remain significantly involved in the Indian economy as regulators. In recent years, the Indian government has introduced non-income related taxes, including new service taxes, and income-related taxes, including the Minimum Alternative Tax, or MAT. In addition, a change in government leadership in India or a change in policies of the existing government in India that results in the elimination of any of the benefits realized by us from our Indian operations or the imposition of new taxes applicable to such operations could have a material adverse effect on our business, results of operations and financial condition.

In addition, the emergence of a widespread health emergency or pandemic, which may be more difficult to prevent or contain in a country like India as compared to more developed countries, could create economic or financial disruption that could negatively affect our revenue and operations or impair our ability to manage our business in certain parts of the world.

### **Our international sales and operations are subject to many uncertainties.**

Revenues from customers outside North America represented approximately 24.2% of our revenues for the three months ended March 31, 2014. We anticipate that revenues from customers outside North America will continue to account for a material portion of our revenues in the foreseeable future and may increase as we expand our international presence, particularly in Europe, the Asia Pacific region and the Latin America region. In addition, the majority of our employees, along with our development and delivery centers, are located in India. As a result, we may be subject to risks inherently associated with international operations, including risks associated with foreign currency exchange rate fluctuations, which may cause volatility in our reported income, and risks associated with the application and imposition of protective legislation and regulations relating to import or export or otherwise resulting from foreign policy or the variability of foreign economic conditions. From time to time, we may engage in hedging transactions to mitigate our risks relating to exchange rate



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fluctuations. The use of hedging contracts is intended to mitigate or reduce transactional level volatility in the results of our foreign operations, but does not completely eliminate volatility and risk. In addition, the use of hedging contracts includes the risk of non-performance by the counterparty. Additional risks associated with international operations include difficulties in enforcing intellectual property and/or contractual rights, the burdens of complying with a wide variety of foreign laws, potentially adverse tax consequences, tariffs, quotas and other barriers and potential difficulties in collecting accounts receivable. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations. Additionally, such companies may have long-standing or well-established relationships with local officials and/or desired clients, which may put us at a competitive disadvantage. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. Our international expansion plans may not be successful and we may not be able to compete effectively in other countries. There can be no assurance that these and other factors will not impede the success of our international expansion plans, limit our ability to compete effectively in other countries or otherwise have a material adverse effect on our business, results of operations and financial condition.

**Our operating results may be adversely affected by fluctuations in the Indian rupee and other foreign currency exchange rates and restrictions on the deployment of cash across our global operations.**

Although we report our operating results in U.S. dollars, a portion of our revenues and expenses are denominated in currencies other than the U.S. dollar. Fluctuations in foreign currency exchange rates can have a number of adverse effects on us. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, expenses and income, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, changes in the value of the U.S. dollar against other currencies will affect our revenues, income from operations, other income (expense), net and the value of balance sheet items originally denominated in other currencies. There is no guarantee that our financial results will not be adversely affected by currency exchange rate fluctuations or that any efforts by us to engage in currency hedging activities will be effective. In addition, in some countries we could be subject to strict restrictions on the movement of cash and the exchange of foreign currencies, which could limit our ability to use these funds across our global operations. Finally, as we continue to leverage our global delivery model, more of our expenses are incurred in currencies other than those in which we bill for the related services. An increase in the value of certain currencies, such as the Indian rupee, against the U.S. dollar could increase costs for delivery of services at offshore sites by increasing labor and other costs that are denominated in local currency.

**Our operating results may be adversely affected by our use of derivative financial instruments.**

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of certain rupee denominated payments in India. These contracts are intended to partially offset the impact of the movement of the exchange rates on future operating costs. In addition, we also entered into foreign exchange forward contracts in order to mitigate foreign currency risk on foreign currency denominated net monetary assets. The hedging strategies that we have implemented, or may in the future implement, to mitigate foreign currency exchange rate risks may not reduce or completely offset our exposure to foreign exchange rate fluctuations and may expose our business to unexpected market, operational and counterparty credit risks. Accordingly, we may incur losses from our use of derivative financial instruments that could have a material adverse effect on our business, results of operations and financial condition.

**Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violations of these regulations could harm our business.**

Because we provide services to clients throughout the world, we are subject to numerous, and sometimes conflicting, legal rules on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, internal and disclosure control obligations, data privacy and labor relations. Violations of these laws or regulations in the conduct of our business could result in fines, criminal sanctions against us or our officers, prohibitions on doing business, damage to our reputation and other unintended consequences such as liability for monetary damages, fines and/ or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our rights. Our failure to comply with applicable legal and regulatory requirements could have a material adverse effect on our business, results of operations and financial condition.

Among other anti-corruption laws and regulations, including the U.K. Bribery Act, we are subject to the United States Foreign Corrupt Practices Act, or FCPA, which prohibits improper payments or offers of improper payments to foreign officials to obtain business or any other benefit. The FCPA also requires covered companies to make and keep books and records that accurately and fairly reflect the transactions of the company and to devise and maintain an adequate system of internal accounting controls. In many parts of the world, including countries in which we operate, practices in the local business



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community might not conform to international business standards and could violate these anti-corruption laws or regulations. Although we have policies and procedures in place that are designed to promote legal and regulatory compliance, our employees, subcontractors and agents could take actions that violate these policies or procedures or applicable anti-corruption laws or regulations. Furthermore, the U.S. government may seek to hold us liable for successor liability FCPA violations committed by companies in which we invest or that we acquire. Violations of these laws or regulations could subject us to criminal or civil enforcement actions, including fines and suspension or disqualification from government contracting or contracting with private entities in certain highly regulated industries, any of which could have a material adverse effect on our business.

**International hostilities, terrorist activities, other violence or war, natural disasters, pandemics and infrastructure disruptions, could delay or reduce the number of new service orders we receive and impair our ability to service our customers, thereby adversely affecting our business, financial condition and results of operations.**

Hostilities involving the United States and acts of terrorism, violence or war, such as the attacks of September 11, 2001 in the United States, the attacks of July 7, 2005 in the United Kingdom, the attacks of November 26, 2008 and July 13, 2011 in Mumbai, India, and the continuing conflict in the Middle East and Afghanistan, natural disasters, global health risks or pandemics or the threat or perceived potential for these events could materially adversely affect our operations and our ability to provide services to our customers. Such events may cause customers to delay their decisions on spending for information technology, consulting, and business process services and give rise to sudden significant changes in regional and global economic conditions and cycles. These events also pose significant risks to our people and to physical facilities and operations around the world, whether the facilities are ours or those of our clients, which could affect our financial results. By disrupting communications and travel, giving rise to travel restrictions, and increasing the difficulty of obtaining and retaining highly-skilled and qualified personnel, these events could make it difficult or impossible for us to deliver services to some or all of our clients. As noted above, the majority of our technical professionals are located in India, and the vast majority of our technical professionals in the United States and Europe are Indian nationals who are able to work in the United States and Europe only because they hold current visas and work permits. Travel restrictions could cause us to incur additional unexpected labor costs and expenses or could restrain our ability to retain the skilled professionals we need for our operations. In addition, any extended disruptions of electricity, other public utilities or network services at our facilities, as well as system failures at, or security breaches in, our facilities or systems, could also adversely affect our ability to serve our clients.

Although we continue to believe that we have a strong competitive position in the United States, we continue to increase our efforts to geographically diversify our clients and revenue. Despite our efforts to diversify, hostilities involving the United States, the United Kingdom, India and other countries in which we provide services to our clients, and other acts of terrorism, violence or war, natural disasters, global health risks or pandemics may reduce the demand for our services and negatively affect our revenues and profitability. While we plan and prepare to defend against each of these occurrences, we might be unable to protect our people, facilities and systems against all such occurrences. If these disruptions prevent us from effectively serving our clients, our operating results could be adversely affected.

**Anti-outsourcing legislation, if adopted, and negative perceptions associated with offshore outsourcing could adversely affect our business, financial condition and results of operations and impair our ability to service our customers.**

The issue of companies outsourcing services to organizations operating in other countries is a topic of political discussion in many countries, including the United States, which is our largest market. For example, measures aimed at limiting or restricting outsourcing by United States companies are periodically considered in the U.S. Congress and in numerous state legislatures to address concerns over the perceived association between offshore outsourcing and the loss of jobs domestically. On August 13, 2010, President Barack Obama signed legislation which imposed additional fees of \$2,000 for certain H-1B petitions and \$2,250 for certain L-1A and L-1B petitions beginning in August 2010 through September 20, 2014. These fees were later extended through September 20, 2015. Given the ongoing debate over outsourcing, the introduction and consideration of other restrictive legislation or regulations is possible. If enacted, such measures may: broaden existing restrictions on outsourcing by federal and state government agencies and on government contracts with firms that outsource services directly or indirectly, or impact private industry with measures that include, but are not limited to, tax disincentives, fees or penalties, intellectual property transfer restrictions, mandatory government audit requirements, and new standards that have the effect of restricting the use of certain business and/or work visas. In the event that any of these measures become law, our business, results of operations and financial condition could be adversely affected and our ability to provide services to our customers could be impaired.

In addition, from time to time, there has been publicity about negative experiences associated with offshore outsourcing, such as domestic job loss, and theft and misappropriation of sensitive client data, particularly involving service providers in India. Current or prospective clients may elect to perform certain services themselves or may be discouraged from utilizing



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global service delivery providers due to negative perceptions that may be associated with using global service delivery models or firms. Any slowdown or reversal of existing industry trends toward global service delivery would seriously harm our ability to compete effectively with competitors that provide the majority of their services from within the country in which our clients operate.

Existing and future legislative and administrative/ regulatory policies restricting the performance of business process services from an offshore location in jurisdictions in Europe, the Asia Pacific, or any other region in which we have clients could also have a material adverse effect on our business, results of operations and financial condition. For example, legislation enacted in the United Kingdom, based on the 1977 EC Acquired Rights Directive, has been adopted in some form by many European Union, or EU, countries, and provides that if a company outsources all or part of its business to a service provider or changes its current service provider, the affected employees of the company or of the previous service provider are entitled to become employees of the new service provider, generally on the same terms and conditions as their original employment. In addition, dismissals of employees who were employed by the company or the previous service provider immediately prior to that transfer are automatically considered unfair dismissals that entitle such employees to compensation. As a result, to avoid unfair dismissal claims, we may have to offer, and become liable for, voluntary redundancy payments to the employees of our clients who outsource business to us in the United Kingdom and other EU countries that have adopted similar laws. These types of policies may materially affect our ability to obtain new business from companies in the United Kingdom and EU and to provide outsourced services to companies in the United Kingdom and EU in a cost-effective manner.

**Our growth may be hindered by immigration restrictions.**

Our future success continues to depend on our ability to attract and retain employees with technical and project management skills, including those from developing countries, especially India. The ability of foreign nationals to work in the United States and Europe depends on their ability and our ability to obtain the necessary visas and work permits.

The H-1B visa classification enables United States employers to hire certain qualified foreign workers in positions that require an education at least equal to a four-year bachelor degree in the United States in specialty occupations such as IT systems engineering and computer systems analysis. The H-1B visa usually permits an individual to work and live in the United States for a period of up to six years. Under certain limited circumstances, H-1B visa extensions after the six-year period may be available. There is a limit on the number of new H-1B petitions that the United States Citizenship and Immigration Services, or CIS, may approve in any federal fiscal year, and in years in which this limit is reached, we may be unable to obtain H-1B visas necessary to bring foreign employees to the United States. Currently, the limit is 65,000 for holders of United States or United States-equivalent bachelor degrees (the general cap), and an additional 20,000 for holders of advanced degrees from United States post-secondary educational institutions. CIS announced on April 7, 2014 that the agency had reached its general cap of 65,000 H-1B visas and its advanced degree cap of 20,000 H-1B visas for the fiscal year 2015. We will begin filing H-1B petitions with CIS against the fiscal year 2016 caps beginning April 1, 2015 for work in H-1B status beginning on October 1, 2015. As part of our advanced planning process, we believe that we have a sufficient number of employees who are work permit-ready to meet our anticipated business growth in the current year. In addition, there are strict labor regulations associated with the H-1B visa classification. Larger users of the H-1B visa program, like us, face additional/ higher legal and regulatory standards, and are often subject to investigations by the Wage and Hour Division of the United States Department of Labor (DOL) and unannounced random site inspections by CIS's parent agency, the United States Department of Homeland Security (DHS). A finding by DOL, DHS, and/ or another governmental agency of willful or substantial failure to comply with existing regulations on the H-1B classification may result in back-pay liability, substantial fines, and/ or a ban on future use of the H-1B program and/ or other immigration benefits.

We also regularly transfer foreign professionals to the United States to work, including work on projects at client sites, using the L-1 visa classification. Companies abroad are allowed to transfer certain managers and executives through the L-1A visa, and employees with specialized company knowledge through the L-1B visa to related United States companies, such as a parent, subsidiary, affiliate, joint venture, or branch office. We have an approved Blanket L-1 petition, under which the corporate relationships of our transferring and receiving entities have been pre-approved by CIS, thus enabling individual L-1 visa applications to be presented directly to a visa-issuing United States consular post abroad rather than undergoing a pre-approval process through CIS in the United States. In recent years, both the United States consular posts in India that review initial L-1 applications and CIS, which adjudicates individual petitions for initial grants and extensions of L-1 visa status, have become increasingly restrictive with respect to this category, particularly the L-1B specialized knowledge standard. As a result, the rate of refusals of initial individual L-1 petitions and extensions for Indian nationals has increased. In addition, even where L-1 visas are ultimately granted and issued, security measures undertaken by United States consular posts around the world have delayed or prevented visa issuances. Our inability to bring qualified technical personnel into the United States to staff on-site customer locations would have a material adverse effect on our business, results of operations and financial condition.

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Pursuant to the L-1 Visa Reform Act, we must meet a number of restrictions and requirements to obtain L-1 visas for our personnel. For example, all L-1 applicants, including those brought to the United States under a Blanket L Program, must have worked abroad with the related company for one full year in the prior three years. In addition, L-1B specialized knowledge visa holders may not be primarily stationed at the work site of another employer if the L-1B visa holder will be principally controlled and supervised by an employer other than the petitioning employer. Finally, L-1B status may not be granted where placement of the L-1B visa holder at a third party site is part of an arrangement to provide labor for the third party, rather than placement at the site in connection with the provision of a product or service involving specialized knowledge specific to the petitioning employer.

We do not place L-1B workers at third party sites where they are under the primary supervision of a different employer, nor do we place L-1B workers at third party sites in an arrangement to provide labor for the third party without providing a service involving our workers' specialized knowledge. Since implementation of the L-1 Visa Reform Act, we consistently have established this fact to CIS's satisfaction. However, if CIS and/or the United States Department of State, through its visa-issuing consular posts abroad, decide to interpret these provisions in a very restrictive fashion, this could impair our ability to effectively staff our projects in the United States with personnel from abroad. New guidance governing these and related statutory provisions from CIS is anticipated, and if such guidance is restrictive in nature, our ability to staff our projects in the United States with personnel from abroad will be impaired.

We also process immigrant visas for lawful permanent residence (Green Cards) in the United States for employees to fill positions for which there are an insufficient number of able, willing, and qualified United States workers available to fill the positions. Compliance with existing United States immigration and labor laws, changes in those laws, and/or increase in governmental scrutiny, making it more difficult to hire foreign nationals or limiting our ability to successfully obtain permanent residence for our foreign employees in the United States, could require us to incur additional unexpected labor and/or other costs and expenses, and/or could restrain our ability to retain the skilled professionals we need for our operations in the United States. Any of these restrictions or limitations on our hiring practices could have a material adverse effect on our business, results of operations and financial condition.

In addition to immigration restrictions in the United States, there are certain restrictions on transferring employees to work in the United Kingdom, where we have experienced significant growth. The United Kingdom currently requires that all employees who are not nationals of European Union countries (plus nationals of Bulgaria and Romania), or EEA nationals, obtain work permission before obtaining a visa/entry clearance to travel to the United Kingdom. European nations such as Hungary, Poland, Lithuania, Slovakia, and the Czech Republic do not have a work permit requirement but employees need to register to work within 30 days of arrival. The United Kingdom has a points-based system under which certain certificates of sponsorship are issued by licensed employer sponsors, provided the employees they seek to employ in the United Kingdom can accumulate a certain number of points based on certain attributes. Where the employee has not worked for a Cognizant group company outside the United Kingdom for at least 6 months, we must carry out a resident labor market test to confirm that the intended role cannot be filled by an EEA national. We are currently an A-rated sponsor and were allocated certificates of sponsorship which we believe are sufficient to meet our current and expected demand for transfers to the United Kingdom. On November 23, 2010, the United Kingdom announced new restrictions to control annual net migration, but allowed for temporary intra-company transfers of employees from outside the European Economic Area for up to five years as long as the employees meet certain compensation requirements.

Immigration and work permit laws and regulations in the United States, the United Kingdom, the EU, Switzerland and other countries are subject to legislative and administrative changes as well as changes in the application of standards and enforcement. Immigration and work permit laws and regulations can be significantly affected by political forces and levels of economic activity. Our international expansion strategy and our business, results of operations, and financial condition may be materially adversely affected if changes in immigration and work permit laws and regulations or the administration or enforcement of such laws or regulations impair our ability to staff projects with professionals who are not citizens of the country where the work is to be performed.

**Our revenues are highly dependent on clients primarily located in the United States and Europe, as well as on clients concentrated in certain industries, including the financial services industry. Continuing or worsening economic conditions or factors that negatively affect the economic health of the United States, Europe or these industries may adversely affect our business.**

Approximately 75.8% of our revenues during the three months ended March 31, 2014 were derived from customers located in North America. In the same period, approximately 19.4% of our revenues were derived from customers located in Europe. If the United States or European economy weakens or slows and conditions in the financial markets deteriorate, pricing for our services may be depressed and our customers may reduce or postpone their technology spending significantly, which may in turn lower the demand for our services and negatively affect our revenues and profitability. Additionally, any prolonged

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recession in the United States and Europe could have an adverse impact on our revenues because our revenues are primarily derived from the United States and Europe. In addition, during the three months ended March 31, 2014, we earned approximately 42.3% of our revenues from the financial services industry, which includes insurance. Deterioration in the financial services industry or significant consolidation in that industry, or a decrease in growth or consolidation in other industry segments on which we focus, may reduce the demand for our services and negatively affect our revenues and profitability. In addition, if we are unable to successfully anticipate changing economic and political conditions affecting the industries and markets in which we operate, we may be unable to effectively plan for or respond to those changes, and our business could be negatively affected.

### **We face intense competition from other service providers.**

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, and changes in customer requirements. The intensely competitive information technology, consulting and business process professional services markets include a large number of participants and are subject to rapid change. These markets include participants from a variety of market segments, including:

systems integration firms;

contract programming companies;

application software companies;

internet solutions providers;

large or traditional consulting companies;

professional services groups of computer equipment companies; and

infrastructure management and outsourcing companies.

These markets also include numerous smaller local competitors in the various geographic markets in which we operate which may be able to provide services and solutions at lower costs or on terms more attractive to clients than we can. Our direct competitors include, among others, Accenture, Capgemini, Computer Sciences Corporation, Genpact, HCL Technologies, HP Enterprise (formerly Electronic Data Systems), IBM Global Services, Infosys Technologies, Tata Consultancy Services and Wipro. Many of our competitors have significantly greater financial, technical and marketing resources and greater name recognition and, therefore, may be better able to compete for new work and skilled professionals. There is a risk that increased competition could put downward pressure on the prices we can charge for our services and on our operating margins. Similarly, if our competitors develop and implement methodologies that yield greater efficiency and productivity, they may be able to offer services similar to ours at lower prices without adversely affecting their profit margins. Even if our offerings address industry and client needs, our competitors may be more successful at selling their services. If we are unable to provide our clients with superior services and solutions at competitive prices or successfully market those services to current and prospective clients, our results of operations may suffer. Further, a client may choose to use its own internal resources rather than engage an outside firm to perform the types of services we provide. We cannot be certain that we will be able to sustain our current levels of profitability or growth in the face of competitive pressures, including competition for skilled technology professionals and pricing pressure from competitors employing an on-site/offshore business model.

In addition, we may face competition from companies that increase in size or scope as the result of strategic mergers or acquisitions. These transactions may include consolidation activity among hardware manufacturers, software companies and vendors, and service providers. The result of any such vertical integration may be greater integration of products and services that were once offered separately by independent vendors. Our access to such products and services may be reduced as a result of such an industry trend, which could adversely affect our

competitive position. These types of events could have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and requiring us to recognize impairments on our assets.

**We may not be able to sustain our current level of profitability.**

For the three months ended March 31, 2014, we reported an operating margin of 19.0%. Our operating margin may decline if we experience declines in demand and pricing for our services, an increase in our operating costs, including imposition of new non-income related taxes, or due to adverse fluctuations in foreign currency exchange rates. In addition, historically, wages in India have increased at a faster rate than in the United States. Additionally, the number and type of equity-based compensation awards and the assumptions used in valuing equity-based compensation awards may change resulting in increased stock-based compensation expense and lower margins. Although we have historically been able to partially offset wage increases and foreign currency fluctuations through further leveraging the scale of our operating structure, obtaining price increases, and issuing a lower number of stock-based compensation awards in proportion to our overall headcount, we cannot be sure that we will be able to continue to do so in the future.

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### **Our profitability could suffer if we are not able to control our costs or improve our efficiency.**

Our ability to control our costs and improve our efficiency affects our profitability. If we are unable to control our costs or improve our efficiency, our profitability could be negatively affected.

### **Our business will suffer if we fail to develop new services and enhance our existing services in order to keep pace with the rapidly evolving technological environment.**

The information technology, consulting and business process professional services markets are characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future success will depend on our ability to develop solutions that keep pace with changes in the markets in which we provide services. We cannot be sure that we will be successful in developing new services addressing evolving technologies in a timely or cost-effective manner or, if these services are developed, that we will be successful in the marketplace. In addition, we cannot be sure that products, services or technologies developed by others will not render our services non-competitive or obsolete. Our failure to address the demands of the rapidly evolving technological environment could have a material adverse effect on our business, results of operations and financial condition.

Our ability to remain competitive will also depend on our ability to design and implement, in a timely and cost-effective manner, solutions for customers that both leverage their legacy systems and appropriately utilize newer technologies such as cloud-based services, Web 2.0 models, and software-as-a-service. Our failure to design and implement solutions in a timely and cost-effective manner could have a material adverse effect on our business, results of operations and financial condition.

### **We may face difficulties in providing end-to-end business solutions or delivering complex and large projects for our clients that could cause clients to discontinue their work with us, which in turn could harm our business.**

We have been expanding the nature and scope of our engagements and have added new service offerings, such as consulting, business process services, systems integration and outsourcing of entire portions of IT infrastructure. The success of these service offerings is dependent, in part, upon continued demand for such services by our existing, new and prospective clients and our ability to meet this demand in a cost-competitive and effective manner. In addition, our ability to effectively offer a wider breadth of end-to-end business solutions depends on our ability to attract existing or new clients to these service offerings. To obtain engagements for such end-to-end solutions, we also are more likely to compete with large, well-established international consulting firms, resulting in increased competition and marketing costs. Accordingly, we cannot be certain that our new service offerings will effectively meet client needs or that we will be able to attract existing and new clients to these service offerings.

The increased breadth of our service offerings may result in larger and more complex projects with our clients. This will require us to establish closer relationships with our clients and a thorough understanding of their operations. Our ability to establish such relationships will depend on a number of factors, including the proficiency of our professionals and our management personnel. Our failure to understand our client requirements or our failure to deliver services that meet the requirements specified by our clients could result in termination of client contracts, and we could be liable to our clients for significant penalties or damages.

Larger projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. These terminations, cancellations or delays may result from factors that have little or nothing to do with the quality of our services, such as the business or financial condition of our clients or the economy generally. Such cancellations or delays make it difficult to plan for project resource requirements and inaccuracies in such resource planning and allocation may have a negative impact on our profitability.

### **If our clients are not satisfied with our services, our business could be adversely affected.**

Our business model depends in large part on our ability to attract additional work from our base of existing clients. Our business model also depends on our account teams' ability to develop relationships with our clients that enable us to understand our clients' needs and deliver solutions and services that are tailored to those needs. If a client is not satisfied with the quality of work performed by us, or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. In particular, clients that are not satisfied might seek to terminate existing contracts prior to their scheduled expiration date and could direct future business to our competitors. In addition, negative publicity related to our client services or relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.



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### **We rely on a few customers for a large portion of our revenues.**

Our top five and top ten customers generated approximately 13.1% and 22.4%, respectively, of our revenues for the three months ended March 31, 2014. The volume of work performed for specific customers is likely to vary from year to year, and a major customer in one year may not use our services in a subsequent year. The loss of one of our large customers could have a material adverse effect on our business, results of operations and financial condition.

### **We generally do not have long-term contracts with our customers and our results of operations could be adversely affected if our clients terminate their contracts with us on short notice.**

Consistent with industry practice, we generally do not enter into long-term contracts with our customers. A majority of our contracts can be terminated by our clients with short notice and without significant early termination cost. Terminations may result from factors that are beyond our control and unrelated to our work product or the progress of the project, including the business or financial conditions of the client, changes in ownership or management at our clients, changes in client strategies or the economy or markets generally. When contracts are terminated, we lose the anticipated revenues and might not be able to eliminate our associated costs in a timely manner. Consequently, our profit margins in subsequent periods could be lower than expected. If we are unable to replace the lost revenue with other work on terms we find acceptable or effectively eliminate costs, we may not be able to maintain our level of profitability.

### **Our results of operations may be affected by the rate of growth in the use of technology in business and the type and level of technology spending by our clients.**

Our business depends, in part, upon continued growth in the use of technology in business by our clients and prospective clients as well as their customers and suppliers. In challenging economic environments, our clients may reduce or defer their spending on new technologies in order to focus on other priorities. At the same time, many companies have already invested substantial resources in their current means of conducting commerce and exchanging information, and they may be reluctant or slow to adopt new approaches that could disrupt existing personnel, processes and infrastructures. If the growth of technology usage in business, or our clients' spending on technology in business, declines, or if we cannot convince our clients or potential clients to embrace new technological solutions, our results of operations could be adversely affected.

### **If we are unable to collect our receivables from, or bill our unbilled services to, our clients, our results of operations and cash flows could be adversely affected.**

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and, as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions, such as the continued credit crisis and related turmoil in the global financial system, could also result in financial difficulties, including limited access to the credit markets, insolvency or bankruptcy, for our clients, and, as a result, could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

### **We are investing substantial cash in new facilities and physical infrastructure, and our profitability could be reduced if our business does not grow proportionately.**

We have made and continue to make significant contractual commitments related to capital expenditures on construction or expansion of our development and delivery centers. We may encounter cost overruns or project delays in connection with new facilities. These expansions will likely increase our fixed costs and if we are unable to grow our business and revenues proportionately, our profitability may be reduced.

### **Competition for highly-skilled technical personnel is intense and the success of our business depends on our ability to attract and retain highly-skilled professionals.**

Our future success will depend to a significant extent on our ability to attract, train and retain highly-skilled professionals so as to keep our supply of skills and resources in balance with client demand. In particular, we must attract, train and retain appropriate numbers of talented people, including project managers, IT engineers and other senior technical personnel, with diverse skills in order to serve client needs and grow

our business. We are particularly dependent on retaining our senior



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executives and other experienced managers with the skill sets required by our business, and if we are unable to do so, our ability to develop new business and effectively lead our current projects could be jeopardized. Similarly, the profitability of our business model depends on our ability to effectively utilize personnel with the right mix of skills and experience to support our projects. The processes and costs associated with recruiting, training and retaining employees place significant demands on our resources.

We believe there is a shortage of, and significant competition for, professionals with the advanced technological skills necessary to perform the services we offer. We have subcontracted to a limited extent in the past, and may do so in the future, with other service providers in order to meet our obligations to our customers. Our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain technical personnel with the skills that keep pace with continuing changes in information technology, evolving industry standards and changing customer preferences. Further, we must train and manage our growing work force, requiring an increase in the level of responsibility for both existing and new management personnel. We cannot guarantee that the management skills and systems currently in place will be adequate or that we will be able to train and assimilate new employees successfully. Our profits and ability to compete for and manage client engagements could be adversely affected if we cannot manage employee hiring and attrition to achieve a stable and efficient workforce structure.

### **Our ability to operate and compete effectively could be impaired if we lose key personnel or if we cannot attract additional qualified personnel.**

Our future performance depends to a significant degree upon the continued service of the key members of our management team, as well as marketing, sales and technical personnel, and our ability to attract and retain new management and other personnel. We do not maintain key man life insurance on any of our executive officers or significant employees. Competition for personnel is intense, and there can be no assurance that we will be able to retain our key employees or that we will be successful in attracting and retaining new personnel in the future. The loss of any one or more of our key personnel or the failure to attract and retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

### **Restrictions in non-competition agreements with our executive officers may not be enforceable.**

Currently we have entered into non-competition agreements with the majority of our executive officers. We cannot be certain, however, that the restrictions in these agreements prohibiting such executive officers from engaging in competitive activities are enforceable. Further, substantially all of our professional non-executive staff are not covered by agreements that would prohibit them from working for our competitors. If any of our key professional personnel leaves our employment and joins one of our competitors, our business could be adversely affected.

### **Our earnings may be adversely affected if we change our intent not to repatriate foreign earnings or if such earnings become subject to U.S. tax on a current basis.**

We earn a significant amount of our earnings outside of the United States. Other than amounts for which we have already accrued U.S. taxes, we consider foreign earnings to be indefinitely reinvested outside of the United States. While we have no plans to do so, events may occur that could effectively force us to change our intent not to repatriate such earnings. If such earnings are repatriated in the future or are no longer deemed to be indefinitely reinvested, we may have to accrue taxes associated with such earnings at a substantially higher rate than our projected effective income tax rate in 2014. These increased taxes could have a material adverse effect on our business, results of operations and financial condition.

### **Our earnings may be negatively impacted by the loss of certain tax benefits provided by India to companies in our industry as well as by possible changes in Indian tax laws.**

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented and are eligible for certain income tax holiday benefits granted by the Indian government for export activities conducted within Special Economic Zones, or SEZs, for periods of up to 15 years. Changes in Indian tax laws that would reduce or deny SEZ tax benefits could have a material adverse effect on our business, results of operations and financial condition. In addition, all Indian profits, including those generated within SEZs, are subject to the Minimum Alternative Tax, or MAT, at the current rate of approximately 20.9%, including surcharges. Any MAT paid is creditable against future corporate income tax, subject to limitations. Currently, we anticipate utilizing our existing MAT balances against future corporate income tax. Our ability to fully do so may be influenced by possible changes to the Indian tax laws as well as the future financial results of Cognizant India. Our inability to fully utilize our deferred income tax assets related to the MAT could have a material adverse effect on our business, results of operations and financial condition.



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### **Our earnings and financial condition may be negatively impacted by certain tax related matters.**

We are subject to income taxes in both the United States and numerous foreign jurisdictions. The provision for income taxes and cash tax liability could be adversely affected by numerous factors including, but not limited to, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws, regulations, accounting principles or interpretations thereof, which could adversely impact our results of operations and financial condition in future periods. In addition, our income tax returns are subject to examination in the jurisdictions in which we operate. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. An unfavorable outcome of one or more of these examinations may have an adverse effect on our business, results of operations and financial condition.

### **If our pricing structures are based on inaccurate expectations and assumptions regarding the cost and complexity of performing our work, then our contracts could be unprofitable.**

We negotiate pricing terms with our clients utilizing a range of pricing structures and conditions. We predominantly contract to provide services either on a time-and-materials basis or on a fixed-price basis. Our pricing is highly dependent on our internal forecasts and predictions about our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and timing for completing projects, our contracts could prove unprofitable for us or yield lower profit margins than anticipated. We face a number of risks when pricing our contracts, as many of our projects entail the coordination of operations and workforces in multiple locations and utilizing workforces with different skill sets and competencies across geographically diverse service locations. Our pricing, cost and profit margin estimates for the work that we perform frequently include anticipated long-term cost savings from transformational and other initiatives that we expect to achieve and sustain over the life of the contract. There is a risk that we will underprice our projects, fail to accurately estimate the costs of performing the work or fail to accurately assess the risks associated with potential contracts. In particular, any increased or unexpected costs, delays or failures to achieve anticipated cost savings, or unexpected risks we encounter in connection with the performance of this work, including those caused by factors outside our control, could make these contracts less profitable or unprofitable, which could have an adverse effect on our profit margin.

In addition, a significant portion of our projects are contracted on a fixed-price basis, subjecting us to the foregoing risks to an even greater extent. Fixed-price contracts accounted for approximately 35.9% of our revenues for the three months ended March 31, 2014. We expect that an increasing number of our future projects will be contracted on a fixed-price basis. In addition to the other risks described in the paragraph above, we bear the risk of cost over-runs and operating cost inflation in connection with projects covered by fixed-price contracts. Our failure to estimate accurately the resources and time required for a fixed-price project, or our failure to complete our contractual obligations within the time frame committed, could have a material adverse effect on our business, results of operations and financial condition.

### **Our profitability could suffer if we are not able to maintain favorable pricing rates.**

Our profit margin, and therefore our profitability, is dependent on the rates we are able to recover for our services. If we are not able to maintain favorable pricing for our services, our profit margin and our profitability could suffer. The rates we are able to recover for our services are affected by a number of factors, including:

our clients' perceptions of our ability to add value through our services;

competition;

introduction of new services or products by us or our competitors;

our competitors' pricing policies;

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our ability to accurately estimate, attain and sustain contract revenues, margins and cash flows over increasingly longer contract periods;

bid practices of clients and their use of third-party advisors;

the use by our competitors and our clients of offshore resources to provide lower-cost service delivery capabilities;

our ability to charge premium prices when justified by market demand or the type of service; and

general economic and political conditions.

### **Our profitability could suffer if we are not able to maintain favorable utilization rates.**

The cost of providing our services, including the utilization rate of our professionals, affects our profitability. If we are not able to maintain an appropriate utilization rate for our professionals, our profit margin and our profitability may suffer. Our utilization rates are affected by a number of factors, including:

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our ability to efficiently transition employees from completed projects to new assignments;

our ability to hire and assimilate new employees;

our ability to accurately forecast demand for our services and thereby maintain an appropriate headcount in each of our geographies and workforces;

our ability to effectively manage attrition; and

our need to devote time and resources to training, professional development and other non-chargeable activities.

**If we do not continue to improve our operational, financial and other internal controls and systems to manage our rapid growth and size or if we are unable to enter, operate and compete effectively in new geographic markets, our business may suffer and the value of our stockholders' investment in our company may be harmed.**

Our anticipated growth will continue to place significant demands on our management and other resources. Our growth will require us to continue to develop and improve our operational, financial and other internal controls in the United States, Europe, India and elsewhere. In particular, our continued growth will increase the challenges involved in:

recruiting, training and retaining technical, finance, marketing and management personnel with the knowledge, skills and experience that our business model requires;

maintaining high levels of client satisfaction;

developing and improving our internal administrative infrastructure, particularly our financial, operational, communications and other internal systems;

preserving our culture, values and entrepreneurial environment; and

effectively managing our personnel and operations and effectively communicating to our personnel worldwide our core values, strategies and goals.

In addition, the increasing size and scope of our operations increase the possibility that a member of our personnel will engage in unlawful or fraudulent activity, breach our contractual obligations, or otherwise expose us to unacceptable business risks, despite our efforts to train our people and maintain internal controls to prevent such instances. If we do not continue to develop and implement the right processes and tools to manage our enterprise, our ability to compete successfully and achieve our business objectives could be impaired.

As part of our growth strategy, we plan to continue expanding our operations in Europe, Asia, the Middle East, and Latin America. We may not be able to compete effectively in these markets and the cost of entering these markets may be substantially greater than we expect. If we fail to compete effectively in the new markets we enter, or if the cost of entering those markets is substantially greater than we expect, our business, results of operations and financial condition could be adversely affected. In addition, if we cannot compete effectively, we may be required to reconsider our strategy to invest in our international expansion plans and change our intent on the repatriation of our earnings.

**Our operating results may experience significant quarterly fluctuations.**

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Historically, we have experienced significant quarterly fluctuations in our revenues and results of operations and expect these fluctuations to continue. Among the factors causing these variations have been:

the nature, number, timing, scope and contractual terms of the projects in which we are engaged;

delays incurred in the performance of those projects;

the accuracy of estimates of resources and time required to complete ongoing projects; and

general economic conditions.

In addition, our future revenues, operating margins and profitability may fluctuate as a result of:

changes in pricing in response to customer demand and competitive pressures;

changes to the financial condition of our clients;

the mix of on-site and offshore staffing;

the ratio of fixed-price contracts versus time-and-materials contracts;

employee wage levels and utilization rates;

changes in foreign exchange rates, including the Indian rupee versus the U.S. dollar;

the timing of collection of accounts receivable;

enactment of new taxes;

changes in domestic and international income tax rates and regulations; and

changes to levels and types of stock-based compensation awards and assumptions used to determine the fair value of such awards.

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A high percentage of our operating expenses, particularly personnel and rent, are relatively fixed in advance of any particular period. As a result, unanticipated variations in the number and timing of our projects or in employee wage levels and utilization rates may cause significant variations in our operating results in any particular period, and could result in losses. Any significant shortfall of revenues in relation to our expectations, any material reduction in utilization rates for our professional staff or variance in the on-site/offshore staffing mix, an unanticipated termination of a major project, a customer's decision not to pursue a new project or proceed to succeeding stages of a current project or the completion of several major customer projects during a quarter could require us to pay underutilized employees and could therefore have a material adverse effect on our business, results of operations and financial condition.

As a result of these factors, it is possible that in some future periods, our revenues and operating results may be significantly below the expectations of public market analysts and investors. In such an event, the price of our common stock would likely be materially and adversely affected.

### **We could be held liable for damages or our reputation could be damaged by disclosure of confidential information or personal data, security breaches or system failures.**

We are dependent on information technology networks and systems to process, transmit and securely store electronic information and to communicate among our locations around the world and with our clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information or data, including personal data. In addition, many of our engagements involve projects that are critical to the operations of our customers' businesses and provide benefits that are difficult to quantify. The theft and/or unauthorized use or publication of our, or our clients', confidential information or other proprietary business information as a result of such an incident could adversely affect our competitive position and reduce marketplace acceptance of our services. Any failure in the networks or computer systems used by us or our customers could result in a claim for substantial damages against us and significant reputational harm, regardless of our responsibility for the failure. Although we attempt to limit by contract our liability for damages arising from negligent acts, errors, mistakes or omissions in rendering our services, we cannot assure you that any such damages are subject to a contractual limitation or that any such contractual limitations on liability will be enforceable or will otherwise protect us from liability for damages.

In addition, we often have access to or are required to manage, utilize, collect and store sensitive or confidential client or employee data, including nonpublic personal data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches controls or procedures with which we are responsible for complying with respect to such data or otherwise mismanages or misappropriates that data, or if unauthorized access to or disclosure of data in our possession or control occurs, we could be subject to significant liability to our clients or our clients' customers for breaching contractual confidentiality and security provisions or privacy laws, as well as liability and penalties in connection with any violation of applicable privacy laws and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through breach of computer systems, systems failure, employee negligence, fraud or misappropriation, or otherwise, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems and networks or those we develop or manage for our clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation.

Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that our coverage will cover all claims, continue to be available on reasonable terms or will be sufficient in amount to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed or are not covered by our insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations and financial condition.

### **Our business could be negatively affected if we incur legal liability, including with respect to our contractual obligations, in connection with providing our solutions and services.**

If we fail to meet our contractual obligations or otherwise breach obligations to our clients, we could be subject to legal liability. We may enter into non-standard agreements because we perceive an important economic opportunity by doing so or because our personnel did not adequately adhere to our guidelines. In addition, the contracting practices of our competitors may cause contract terms and conditions that are unfavorable to us to become standard in the marketplace. If we cannot or do not perform our obligations, we could face legal liability and our contracts might not always protect us adequately through





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limitations on the scope and/or amount of our potential liability. If we cannot, or do not, meet our contractual obligations to provide solutions and services, and if our exposure is not adequately limited through the enforceable terms of our agreements, we might face significant legal liability and our business could be adversely affected.

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to hold the indemnified party and certain of their affiliated entities harmless with respect to third-party claims related to such matters as our breach of certain representations or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct or certain other claims made against certain parties. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made payments under these indemnification agreements so they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have a material impact on our operating results, financial position, and cash flows.

### **We could incur liability or our reputation could be damaged if our provision of services and solutions to our clients contributes to our clients' internal control deficiencies.**

Our clients may perform audits or require us to perform audits and provide audit reports with respect to the controls and procedures that we use in the performance of services for such clients, especially when we process data belonging to them. Our ability to acquire new clients and retain existing clients may be adversely affected and our reputation could be harmed if we receive a qualified opinion, or if we cannot obtain an unqualified opinion, with respect to our controls and procedures in connection with any such audit in a timely manner. Additionally, we could incur liability if our controls and procedures, or the controls and procedures we manage for a client, were to result in internal controls failures or impair our client's ability to comply with its own internal control requirements.

### **We may not be able to enforce or protect our intellectual property rights, which may harm our ability to compete and harm our business.**

Our future success will depend, in part, on our ability to protect our proprietary methodologies and other valuable intellectual property. We presently hold no issued patents. However, we have filed patent applications and we intend to file additional patent applications. There is no guarantee that any patents will issue in the United States or in any other country we may seek protection or that they will serve as a barrier from competition from other organizations. Additionally, the protection afforded by international patent laws as well as the enforcement actions differ from country to country. There is no guarantee that we will be able to maintain adequate protection or enforcement of our intellectual property rights.

We also rely upon a combination of copyright and trade secret laws, non-disclosure and related contractual arrangements, and other security measures to protect our intellectual property rights. Existing laws of some countries in which we provide services or solutions, such as China, might offer only limited protection of our intellectual property rights. India is a member of the Berne Convention, and has agreed to recognize protections on copyrights conferred under the laws of foreign countries, including the laws of the United States. We believe that laws, rules, regulations and treaties in effect in the United States, India and other countries in which we operate are adequate to protect us from misappropriation or unauthorized use of our intellectual property. However, there can be no assurance that these laws will not change in ways that may prevent or restrict the transfer of software components, libraries and toolsets and other technology or data we use in the performance of our services among the countries in which we operate and provide services. There can be no assurance that the steps we have taken to protect our intellectual property rights will be adequate to deter misappropriation of any of our intellectual property, or that we will be able to detect unauthorized use and take appropriate steps to enforce our rights. Enforcing our rights might also require considerable time, money and oversight.

Unauthorized use of our intellectual property may result in development of technology, products or services that compete with our products and services and unauthorized parties may infringe upon or misappropriate our products, services or proprietary information. If we are unable to protect our intellectual property, our business may be adversely affected and our ability to compete may be impaired.

Depending on the circumstances, we might need to grant a specific client greater rights in intellectual property developed or used in connection with a contract than we normally do. In certain situations, we might forego all rights to the use of intellectual property we create and intend to reuse across multiple client engagements, which would limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future projects.



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Our ability to enforce our software license agreements, service agreements, and other intellectual property rights is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries. To the extent that we seek to enforce our rights, we could be subject to claims that an intellectual property right is invalid, otherwise not enforceable, or is licensed to the party against whom we are pursuing a claim. In addition, our assertion of intellectual property rights may result in the other party seeking to assert alleged intellectual property rights or assert other claims against us, which could harm our business. If we are not successful in defending such claims in litigation, we may not be able to sell or license a particular service or solution due to an injunction, or we may have to pay damages that could, in turn, harm our results of operations. In addition, governments may adopt regulations, or courts may render decisions, requiring compulsory licensing of intellectual property to others, or governments may require that products meet specified standards that serve to favor local companies. Our inability to enforce our intellectual property rights under these circumstances may harm our competitive position and our business.

### **Our services or solutions could infringe upon the intellectual property rights of others and we may be subject to claims of infringement of third-party intellectual property rights.**

We cannot be sure that our services and solutions, or the solutions of others that we offer to our clients, do not infringe on the intellectual property rights of others. Third parties may assert against us or our customers claims alleging infringement of patent, copyright, trademark, or other intellectual property rights to technologies or services that are important to our business. Infringement claims could harm our reputation, cost us money and prevent us from offering some services or solutions. In our contracts, we generally agree to indemnify our clients for certain expenses or liabilities resulting from potential infringement of the intellectual property rights of third parties. In some instances, the amount of our liability under these indemnities could be substantial. Any claims that our products, services or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, may result in significant costs in defending and resolving such claims, and may divert the efforts and attention of our management and technical personnel from our business. In addition, as a result of such intellectual property infringement claims, we could be required or otherwise decide that it is appropriate to:

pay third-party infringement claims;

discontinue using, licensing, or selling particular products subject to infringement claims;

discontinue using the technology or processes subject to infringement claims;

develop other technology not subject to infringement claims, which could be costly or may not be possible; and/or

license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms.

The occurrence of any of the foregoing could result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of our assets and increase expenses. In addition, if we alter or discontinue our offering of affected items or services, our revenue could be affected. If a claim of infringement were successful against us or our clients, an injunction might be ordered against our client or our own services or operations, causing further damages.

We expect that the risk of infringement claims against us will increase if our competitors are able to obtain patents or other intellectual property rights for software products and methods, technological solutions, and processes. We may be subject to intellectual property infringement claims from certain individuals or companies who have acquired patent portfolios for the primary purpose of asserting such claims against other companies. The risk of infringement claims against us may also increase as we continue to develop and license our intellectual property to our clients and other third parties. Any infringement claim or litigation against us could have a material adverse effect on our business, results of operations and financial condition.

**We might lose our ability to utilize the intellectual property of others, which could harm our business.**

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We could lose our ability, or be unable to secure the right, to utilize the intellectual property of others. Third-party suppliers of software, hardware or other intellectual property assets could be unwilling to permit us to use their intellectual property and this could impede or disrupt use of their products or services by us and our clients. If our ability to provide services and solutions to our clients is impaired as a result of any such denial, our operating results could be adversely affected.

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### **We may not be able to successfully acquire target companies or integrate acquired companies or technologies into our company, and we may become subject to certain liabilities assumed or incurred in connection with our acquisitions that could harm our operating results.**

If we are unable to complete the number and kind of acquisitions for which we plan, or if we are inefficient or unsuccessful at integrating any acquired businesses into our operations, we may not be able to achieve our planned rates of growth or improve our market share, profitability or competitive position in specific markets or services. We expect to continue pursuing strategic acquisition and joint venture opportunities designed to enhance our capabilities, expand our capacity and geographic presence and/or enter new technology areas. We cannot predict or guarantee that we will successfully identify suitable acquisition candidates or consummate any acquisition or joint venture. We may need to divert and/or dedicate management and other resources to complete the transactions. Once we have consummated an acquisition transaction or entered into a joint venture transaction, we may not be able to integrate the acquired business or joint venture (and personnel) into our operations, recognize anticipated efficiencies and/or benefits, realize our strategic objectives or achieve the desired financial and operating results, in each case, both generally and as a result of our unique organizational structure. Acquisitions and joint ventures involve a number of special risks, including diversion of management's attention, failure to retain key personnel and the potential assumption or incurrence of liabilities and/or obligations.

Although we conduct due diligence in connection with each of our acquisitions, there may be liabilities that we fail to discover, that we inadequately assess in our due diligence efforts or that are not properly disclosed to us. In particular, to the extent that any acquired business (or any properties thereof) (i) failed to comply with or otherwise violated applicable laws or regulations, (ii) failed to fulfill contractual obligations to customers or (iii) incurred material liabilities or obligations to customers that are not identified during the diligence process, we, as the successor owner, may be financially responsible for these violations, failures and liabilities and may suffer financial and/or reputational harm or otherwise be adversely affected. In addition, as part of an acquisition, we may assume responsibilities and obligations of the acquired business pursuant to the terms and conditions of services agreements entered by the acquired entity that are not consistent with the terms and conditions that we typically accept and require. Although we attempt to structure acquisitions in such a manner as to minimize our exposure to, among other things, the factors and conditions contemplated by the foregoing two sentences (including through indemnification protection), we cannot predict or guarantee that our efforts will be effective or will protect us from liability. The discovery of any material liabilities associated with our acquisitions for which we are unable to recover indemnification amounts could harm our operating results.

### **System failure or disruptions in communications could disrupt our business and result in lost customers and curtailed operations which would reduce our revenue and profitability.**

To deliver our services to our customers, we must maintain a high speed network of satellite, fiber optic and land lines and active voice and data communications twenty-four hours a day between our main operating offices in Chennai, our other development and delivery centers and the offices of our customers worldwide. Although we maintain redundancy facilities and satellite communications links, any systems failure or a significant lapse in our ability to transmit voice and data through satellite and telephone communications could result in lost customers and curtailed operations which would reduce our revenue and profitability.

### **Consolidation in the industries that we serve could adversely affect our business.**

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our current clients merge or consolidate and combine their operations, it may decrease the amount of work that we perform for these clients. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could adversely affect our business.

### **Our ability to attract and retain business may depend on our reputation in the marketplace.**

Our services are marketed to clients and prospective clients based on a number of factors. Since many of our specific client engagements involve unique services and solutions, our corporate reputation is a significant factor in our clients' evaluation of whether to engage our services. We believe the Cognizant brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented employees. However, our corporate reputation is potentially susceptible to damage by actions or statements made by current or former clients, competitors, vendors, adversaries in legal proceedings, government regulators, former and current employees and personnel as well as members of the investment community and the media. There is a risk that negative



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information about our company, even if based on false rumor or misunderstanding, could adversely affect our business. In particular, damage to our reputation could be difficult and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of the Cognizant brand name and could reduce investor confidence in us, adversely affecting our share price.

### **Provisions in our charter and by-laws and provisions under Delaware law may discourage unsolicited takeover proposals.**

Provisions in our charter and by-laws, each as amended, and Delaware General Corporate Law, or DGCL, may have the effect of deterring unsolicited takeover proposals or delaying or preventing changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then-current market prices. In addition, these documents and provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. Our board of directors has the authority, without further action by the stockholders, to fix the rights and preferences, and issue shares of preferred stock. Our charter provides for a classified board of directors until the 2016 annual meeting of stockholders, at which point the board of directors will be declassified and each director will be elected on an annual basis. While our board of directors remains classified, a change of control of our board of directors cannot occur at a single meeting of stockholders. The prohibition of our stockholders' ability to act by written consent and the restrictions imposed on our stockholders' ability to call a special meeting may have the effect of delaying stockholder actions until annual meetings or until a special meeting is called by our chairman or chief executive officer or our board of directors. The supermajority-voting requirement for specified amendments to our charter and by-laws allows a minority of our stockholders to block those amendments. The DGCL also contains provisions preventing stockholders from engaging in business combinations with us, subject to certain exceptions. These provisions could also discourage bids for our common stock at a premium as well as create a depressive effect on the market price of the shares of our common stock.

### **New and changing corporate governance and public disclosure requirements add uncertainty to our compliance policies and increase our costs of compliance.**

Changing laws, regulations and standards relating to accounting, corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, other SEC regulations, and the NASDAQ Global Select Market rules, are creating uncertainty for companies like ours. These laws, regulations and standards may lack specificity and are subject to varying interpretations. Their application in practice may evolve over time, as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs of compliance as a result of ongoing revisions to such corporate governance standards.

In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment requires the commitment of significant financial and managerial resources. We consistently assess the adequacy of our internal controls over financial reporting, remediate any control deficiencies that may be identified, and validate through testing that our controls are functioning as documented. While we do not anticipate any material weaknesses, the inability of management and our independent auditor to provide us with an unqualified report as to the adequacy and effectiveness, respectively, of our internal controls over financial reporting for future year ends could result in adverse consequences to us, including, but not limited to, a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline.

We are committed to maintaining high standards of corporate governance and public disclosure, and our efforts to comply with evolving laws, regulations and standards in this regard have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In addition, the laws, regulations and standards regarding corporate governance may make it more difficult for us to obtain director and officer liability insurance. Further, our board members, chief executive officer and chief financial officer could face an increased risk of personal liability in connection with their performance of duties. As a result, we may face difficulties attracting and retaining qualified board members and executive officers, which could harm our business. If we fail to comply with new or changed laws, regulations or standards of corporate governance, our business and reputation may be harmed.

### **Our share price could be adversely affected if we are unable to maintain effective internal controls.**

The accuracy of our financial reporting is dependent on the effectiveness of our internal controls. We are required to provide a report from management to our stockholders on our internal control over financial reporting that includes an assessment of the effectiveness of these controls. Internal control over financial reporting has inherent limitations, including human error, the possibility that controls could be circumvented or become inadequate because of changed conditions, and





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fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all misstatements or fraud. If we cannot maintain and execute adequate internal control over financial reporting or implement required new or improved controls to ensure the reliability of the financial reporting and preparation of our financial statements for external use, we could suffer harm to our reputation, fail to meet our public reporting requirements on a timely basis, or be unable to properly report on our business and the results of our operations, and the market price of our securities could be materially adversely affected.

**We are exposed to credit risk and fluctuations in the market values of our investment portfolio.**

Recent turmoil in the financial markets has adversely affected economic activity in the United States, Europe and other regions of the world in which we do business. We believe that based on our current cash, cash equivalents and investment balances and expected operating cash flows, the current lack of liquidity in the credit markets will not have a material impact on our liquidity, cash flow or financial flexibility. Continued deterioration of the credit and capital markets could result in volatility of our investment earnings and impairments to our investment portfolio, which could negatively impact our financial condition and reported income. The continued decline in economic activity could adversely affect the ability of counterparties to certain financial instruments such as marketable securities and derivatives to meet their obligations to us.

**Our stock price continues to be volatile.**

Our stock has at times experienced substantial price volatility as a result of variations between our actual and anticipated financial results, announcements by us and our competitors, projections or speculation about our business or that of our competitors by the media or investment analysts or uncertainty about current global economic conditions. The stock market, as a whole, also has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that may have been unrelated to these companies operating performance. Furthermore, we believe our stock price should reflect future growth and profitability expectations and, if we fail to meet these expectations, our stock price may significantly decline.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities*

Through May 2013, our Board of Directors has authorized the repurchase of \$1.5 billion of our outstanding shares of Class A common stock, excluding fees and expenses. This authorization expires on December 31, 2014. Under the stock repurchase program, the company is authorized to repurchase its Class A common stock through open market purchases, including under a trading plan adopted pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, or private transactions, in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares to be purchased are determined by the company's management, in its discretion, or pursuant to a Rule 10b5-1 trading plan, and will depend upon market conditions and other factors.

During the three months ended March 31, 2014, we repurchased \$29.3 million of our Class A common stock under our stock repurchase program. These stock repurchases were funded from working capital. As of March 31, 2014, the remaining available balance under the Board authorization was \$472.8 million.

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (in thousands)
January 1, 2014 - January 31, 2014		\$		\$ 502,109
February 1, 2014 - February 28, 2014	600,000	48.88	600,000	472,778
March 1, 2014 - March 31, 2014				\$ 472,778
Total	600,000	\$ 48.88	600,000	



**Table of Contents****Item 6. Exhibits.****EXHIBIT INDEX**

Number	Exhibit Description	Incorporated by Reference				Filed /
		Form	File No.	Exhibit	Date	Furnished
3.1	Restated Certificate of Incorporation	8-K	000-24429	3.2	9/17/2013	
3.2	Amended and Restated Bylaws, as adopted on June 4, 2013	8-K	000-24429	3.2	6/5/2013	
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350					**
32.2	Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350					**
101.INS	XBRL Instance Document					*
101.SCH	XBRL Taxonomy Extension Schema Document					*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					*

\* Filed herewith

\*\* Furnished herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cognizant Technology Solutions Corporation

Date: May 8, 2014

By: /s/ Francisco D. Souza  
Francisco D. Souza,  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 8, 2014

By: /s/ Karen McLoughlin  
Karen McLoughlin,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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\* Filed herewith

\*\* Furnished herewith