

COGNIZANT TECHNOLOGY SOLUTIONS CORP

Form 10-Q

November 08, 2012

[Table of Contents](#)

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 September 30, 2012

☐ **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)

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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 November 2, 2012:

Class	Number of Shares
Class A Common Stock, par value \$.01 per share	300,191,775

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

TABLE OF CONTENTS

PART I.	<u>FINANCIAL INFORMATION</u>	Page
		1
Item 1.	<u>Condensed Consolidated Financial Statements (Unaudited)</u>	1
	<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2012 and 2011 and for the Nine Months Ended September 30, 2012 and 2011</u>	1
	<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended September 30, 2012 and 2011 and for the Nine Months Ended September 30, 2012 and 2011</u>	2
	<u>Condensed Consolidated Statements of Financial Position (Unaudited) as of September 30, 2012 and December 31, 2011</u>	3
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2012 and 2011</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4.	<u>Controls and Procedures</u>	33
PART II.	<u>OTHER INFORMATION</u>	33
Item 1A.	<u>Risk Factors</u>	33
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 6.	<u>Exhibits</u>	52
	<u>SIGNATURES</u>	53

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)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 1,891,688	\$ 1,600,954	\$ 5,398,257	\$ 4,457,449
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	1,111,898	924,886	3,127,307	2,567,933
Selling, general and administrative expenses	384,951	353,161	1,155,900	976,209
Depreciation and amortization expense	39,453	29,905	109,807	84,982
Income from operations	355,386	293,002	1,005,243	828,325
Other income (expense), net:				
Interest income	12,041	9,970	33,097	28,381
Other, net	(3,044)	(15,008)	(16,588)	(10,637)
Total other income (expense), net	8,997	(5,038)	16,509	17,744
Income before provision for income taxes	364,383	287,964	1,021,752	846,069
Provision for income taxes	87,482	60,845	249,268	202,578
Net income	\$ 276,901	\$ 227,119	\$ 772,484	\$ 643,491
Basic earnings per share	\$ 0.93	\$ 0.75	\$ 2.56	\$ 2.12
Diluted earnings per share	\$ 0.91	\$ 0.73	\$ 2.52	\$ 2.07
Weighted average number of common shares outstanding - Basic	299,058	302,723	301,571	303,584
Dilutive effect of shares issuable under stock-based compensation plans	4,074	6,574	4,984	7,275
Weighted average number of common shares outstanding - Diluted	303,132	309,297	306,555	310,859

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

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 276,901	\$ 227,119	\$ 772,484	\$ 643,491
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	6,669	(18,137)	8,923	(892)
Change in unrealized (loss) gain on cash flow hedges, net of taxes of \$38,761 and (\$28,599) for the three months ended and \$23,912 and (\$16,200) for the nine months ended, respectively	198,549	(108,781)	124,863	(86,197)
Change in unrealized gain on available-for-sale securities, net of taxes of \$254 and (\$288) for the three months ended and \$301 and \$596 for the nine months ended, respectively	1,480	(400)	1,565	810
Other comprehensive income	206,698	(127,318)	135,351	(86,279)
Comprehensive income	\$ 483,599	\$ 99,801	\$ 907,835	\$ 557,212

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

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(in thousands, except par values)

	September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,324,739	\$ 1,310,906
Short-term investments	1,307,009	1,121,358
Trade accounts receivable, net of allowances of \$27,370 and \$24,658, respectively	1,363,454	1,179,043
Unbilled accounts receivable	213,741	139,627
Deferred income tax assets, net	166,164	109,042
Other current assets	166,424	225,530
Total current assets	4,541,531	4,085,506
Property and equipment, net of accumulated depreciation of \$551,624 and \$455,506, respectively	878,561	758,034
Goodwill	301,403	288,772
Intangible assets, net	87,583	97,616
Deferred income tax assets, net	154,927	164,192
Other noncurrent assets	143,034	113,813
Total assets	\$ 6,107,039	\$ 5,507,933
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 111,420	\$ 72,205
Deferred revenue	116,427	105,713
Accrued expenses and other current liabilities	1,047,741	1,031,787
Total current liabilities	1,275,588	1,209,705
Deferred income tax liabilities, net	4,593	3,339
Other noncurrent liabilities	254,488	342,003
Total liabilities	1,534,669	1,555,047
Commitments and contingencies (See Note 8)		
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, 299,940 and 303,106 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	2,999	3,031
Additional paid-in capital	404,404	692,723
Retained earnings	4,355,010	3,582,526
Accumulated other comprehensive income (loss)	(190,043)	(325,394)
Total stockholders' equity	4,572,370	3,952,886
Total liabilities and stockholders' equity	\$ 6,107,039	\$ 5,507,933

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	For the Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 772,484	\$ 643,491
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115,424	89,876
Provision for doubtful accounts	4,348	3,533
Deferred income taxes	(61,890)	(26,204)
Stock-based compensation expense	79,911	64,244
Excess tax benefits on stock-based compensation plans	(24,960)	(30,966)
Other	(4,382)	24,019
Changes in assets and liabilities:		
Trade accounts receivable	(184,537)	(207,242)
Other current assets	(8,069)	(41,680)
Other assets	(18,691)	(20,884)
Accounts payable	39,386	(2,654)
Other current and noncurrent liabilities	101,699	94,553
Net cash provided by operating activities	810,723	590,086
Cash flows from investing activities:		
Purchases of property and equipment	(208,716)	(163,660)
Purchases of investments	(1,179,674)	(1,181,460)
Proceeds from maturity or sale of investments	1,002,952	743,111
Acquisitions, net of cash acquired	(43,896)	(75,040)
Net cash used in investing activities	(429,334)	(677,049)
Cash flows from financing activities:		
Issuance of common stock under stock-based compensation plans	91,883	57,277
Excess tax benefits on stock-based compensation plans	24,960	30,966
Repurchases of common stock	(483,895)	(364,974)
Net cash used in financing activities	(367,052)	(276,731)
Effect of currency translation on cash and cash equivalents	(504)	3,944
Increase (decrease) in cash and cash equivalents	13,833	(359,750)
Cash and cash equivalents, beginning of year	1,310,906	1,540,969
Cash and cash equivalents, end of period	\$ 1,324,739	\$ 1,181,219

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

Table of Contents**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 and Article 10 of Regulation S-X under the Securities and 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, 2011. 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.

In May 2012, our Board of Directors amended our existing share repurchase program increasing the amount of our Class A common stock that can be repurchased from an aggregate of \$600,000 to \$1,000,000 and extended the expiration date of the program from June 30, 2012 to December 31, 2013. As of September 30, 2012, \$159,584 is available for future repurchases under this program. During the nine months ended September 30, 2012, we repurchased 7,671,035 shares for \$460,041, inclusive of fees and expenses, under this program.

Note 2 Acquisitions

During the first nine months of 2012, we completed two business combinations. The total cash consideration was approximately \$15,158 (net of cash acquired). In the third quarter of 2012, we entered into a transaction pursuant to which we signed a multi-year service agreement, assumed an assembled workforce, and acquired land, building and other assets. Under the current authoritative business combination guidelines, this transaction qualified as a business combination. This transaction expands our business process services capabilities within the insurance industry. In the third quarter of 2012, we also completed an acquisition to strengthen our knowledge process outsourcing and research capabilities within the media industry. As part of this acquisition, we acquired customer relationship assets, an assembled workforce, and other assets. In addition, during the first nine months of 2012, we settled contingent payment provisions of approximately \$28,921 related to acquisitions completed in prior years.

These acquisitions were included in our unaudited condensed consolidated financial statements as of the date on which the businesses were acquired and were not material to our operations, financial position or cash flow. We have allocated the purchase price related to these transactions to tangible and intangible assets and liabilities based upon their fair values.

Note 3 Investments

Our investments were as follows:

	September 30, 2012	December 31, 2011
Available-for-sale investment securities:		
U.S. Treasury and agency debt securities	\$ 501,939	\$ 464,938
Corporate and other debt securities	307,678	202,705
Asset-backed securities	115,588	100,894
Municipal debt securities	48,179	43,889
Foreign government debt securities	19,894	10,500
Total available-for-sale investment securities	993,278	822,926
Time deposits	313,731	298,432

Total investments	\$	1,307,009	\$	1,121,358
-------------------	----	-----------	----	-----------

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

Table of Contents

and asset-backed securities, including those backed by auto loans, credit card receivables, mortgage loans 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 September 30, 2012 and December 31, 2011.

Available-for-Sale Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at September 30, 2012 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	\$ 500,819	\$ 1,162	\$ (42)	\$ 501,939
Corporate and other debt securities	305,515	2,174	(11)	307,678
Asset-backed securities	115,252	455	(119)	115,588
Municipal debt securities	48,090	135	(46)	48,179
Foreign government debt securities	19,750	144		19,894
Total available-for-sale investment securities	\$ 989,426	\$ 4,070	\$ (218)	\$ 993,278

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at December 31, 2011 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	\$ 463,318	\$ 1,742	\$ (122)	\$ 464,938
Corporate and other debt securities	202,284	902	(481)	202,705
Asset-backed securities	101,068	100	(274)	100,894
Municipal debt securities	43,873	101	(85)	43,889
Foreign government debt securities	10,397	105	(2)	10,500
Total available-for-sale investment securities	\$ 820,940	\$ 2,950	\$ (964)	\$ 822,926

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 September 30, 2012:

	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	\$ 86,484	\$ (42)	\$	\$	\$ 86,484	\$ (42)
Corporate and other debt securities	16,433	(11)			16,433	(11)
Asset-backed securities	16,234	(85)	2,885	(34)	19,119	(119)
Municipal debt securities	7,002	(17)	703	(29)	7,705	(46)
Foreign government debt securities	3,034				3,034	
Total	\$ 129,187	\$ (155)	\$ 3,588	\$ (63)	\$ 132,775	\$ (218)

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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, 2011:

	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	\$ 122,124	\$ (122)	\$	\$	\$ 122,124	\$ (122)
Corporate and other debt securities	75,076	(481)			75,076	(481)
Asset-backed securities	58,503	(241)	2,292	(33)	60,795	(274)
Municipal debt securities	5,149	(17)	1,732	(68)	6,881	(85)
Foreign government debt securities	1,507	(2)			1,507	(2)
Total	\$ 262,359	\$ (863)	\$ 4,024	\$ (101)	\$ 266,383	\$ (964)

Table of Contents

The unrealized losses for the above securities as of September 30, 2012 and December 31, 2011 are primarily attributable to changes in interest rates. As of September 30, 2012, we do not consider any of the investments to be other-than-temporarily impaired. The unrealized gains and losses in the above tables were recorded, net of tax, in accumulated other comprehensive income (loss).

The contractual maturities of available-for-sale investment securities as of September 30, 2012 are set forth in the following table:

	Amortized Cost	Fair Value
Due within one year	\$ 134,164	\$ 134,474
Due after one year up to two years	327,695	329,018
Due after two years up to three years	406,590	408,443
Due after three years up to four years	5,725	5,755
Asset-backed securities	115,252	115,588
Total available-for-sale investment securities	\$ 989,426	\$ 993,278

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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from sales of available-for-sale investment securities	\$ 207,229	\$ 224,439	\$ 559,095	\$ 484,167
Gross gains	\$ 870	\$ 1,044	\$ 1,857	\$ 2,354
Gross losses		(93)	(335)	(261)
Net gains on sales of available-for-sale investment securities	\$ 870	\$ 951	\$ 1,522	\$ 2,093

Note 4 Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	September 30, 2012	December 31, 2011
Compensation and benefits	\$ 610,253	\$ 632,649
Income taxes	46,912	27,676
Professional fees	33,590	32,861
Travel and entertainment	28,368	18,215
Customer volume incentives	131,965	104,989
Derivative financial instruments	106,395	126,731
Deferred income taxes	774	73
Other	89,484	88,593
Total accrued expenses and other current liabilities	\$ 1,047,741	\$ 1,031,787

Note 5 Income Taxes

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented companies 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 a rate of 32.4%. In addition, all Indian profits, including those generated within SEZs, are subject to the Minimum Alternative Tax, or MAT, at the current rate of 20.0%. Any MAT paid is creditable against future Indian corporate income tax within a 10-year expiration period, subject to other limitations.

Table of Contents

Our effective income tax rates were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Effective income tax rate	24.0%	21.1%	24.4%	23.9%

For the 2012 and 2011 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.

Note 6 Fair Value Measurements

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.

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 September 30, 2012:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 329,140	\$	\$	\$ 329,140
Time deposits		131,653		131,653
Commercial paper		4,199		4,199
Total cash equivalents	329,140	135,852		464,992
Investments:				
Time deposits		313,731		313,731
Available-for-sale investment securities:				
U.S. Treasury and agency debt securities	338,318	163,621		501,939
Corporate and other debt securities		307,678		307,678
Asset-backed securities		115,588		115,588

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

Municipal debt securities		48,179		48,179
Foreign government debt securities		19,894		19,894
Total available-for-sale investment securities	338,318	654,960		993,278
Total investments	338,318	968,691		1,307,009
Derivative financial instruments foreign exchange forward contracts:				
Other current assets		1,932		1,932
Accrued expenses and other current liabilities		(106,395)		(106,395)
Other noncurrent assets		12,838		12,838
Other noncurrent liabilities		(155,053)		(155,053)
Total	\$ 667,458	\$ 857,865	\$	\$ 1,525,323

Table of Contents

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 128,004	\$	\$	\$ 128,004
Time deposits		13,283		13,283
Commercial paper		11,626		11,626
Total cash equivalents	128,004	24,909		152,913
Investments:				
Time deposits		298,432		298,432
Available-for-sale investment securities:				
U.S. Treasury and agency debt securities	326,659	138,279		464,938
Corporate and other debt securities		202,705		202,705
Asset-backed securities		100,894		100,894
Municipal debt securities		43,889		43,889
Foreign government debt securities		10,500		10,500
Total available-for-sale investment securities	326,659	496,267		822,926
Total investments	326,659	794,699		1,121,358
Derivative financial instruments				
foreign exchange forward contracts:				
Other current assets		30,935		30,935
Accrued expenses and other current liabilities		(126,731)		(126,731)
Other noncurrent liabilities		(259,104)		(259,104)
Total	\$ 454,663	\$ 464,708	\$	\$ 919,371

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.

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 nine months ended September 30, 2012 and the year ended December 31, 2011, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

Note 7 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 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

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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 institutions with which we do business.

Table of Contents

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

Location on Statement of Financial Position		September 30, 2012		December 31, 2011	
		Assets	Liabilities	Assets	Liabilities
Designation of Derivatives	Position				
Cash Flow Hedges	Designated as hedging instruments				
Foreign exchange forward contracts	Other current assets	\$ 1,790	\$	\$	\$
	Other noncurrent assets	12,838			
	Accrued expenses and other current liabilities		96,440		126,536
	Other noncurrent liabilities		155,053		259,104
	Total	14,628	251,493		385,640
Other Derivatives	Not designated as hedging instruments				
Foreign exchange forward contracts	Other current assets	142		30,935	
	Accrued expenses and other current liabilities		9,955		195
	Total	142	9,955	30,935	195
Total		\$ 14,770	\$ 261,448	\$ 30,935	\$ 385,835

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 2012, 2013, 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 September 30, 2012, we estimate that \$79,190 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) gain included in accumulated other comprehensive income (loss) for such contracts were as follows as of:

	September 30, 2012	December 31, 2011
2012	\$ 324,750	\$ 1,193,500
2013	1,253,000	1,080,000
2014	1,200,000	810,000
2015	780,000	420,000
2016	120,000	
Total notional value of contracts outstanding	\$ 3,677,750	\$ 3,503,500
Net unrealized (loss) included in accumulated other comprehensive income (loss), net of taxes	\$ (198,176)	\$ (323,039)

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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.

Table of Contents

The following table provides information on the location and amounts of pre-tax gains (losses) on our cash flow hedges for the three months ended September 30:

		Location of Net Derivative Gains			
		(Losses) Reclassified			
		from Accumulated Other		Net Gain (Loss)	
		Comprehensive Income (Loss)		Reclassified	
		into Income		from Accumulated Other	
		into Income		Comprehensive Income (Loss)	
		(effective portion)		into Income	
		(effective portion)		(effective portion)	
		2012	2011	2012	2011
Cash Flow Hedges	Designated as				
hedging instruments					
Foreign exchange forward contracts		\$ 206,693	\$ (130,402)	Cost of revenues	\$ (25,124) \$ 5,756
				Selling, general and	
				administrative expenses	(5,493) 1,222
				Total	\$ (30,617) \$ 6,978

The following table provides information on the location and amounts of pre-tax gains (losses) on our cash flow hedges for the nine months ended September 30:

		Location of Net Derivative Gains			
		(Losses) Reclassified			
		from Accumulated Other		Net Gain (Loss)	
		Comprehensive Income (Loss)		Reclassified	
		into Income		from Accumulated Other	
		into Income		Comprehensive Income (Loss)	
		(effective portion)		into Income	
		(effective portion)		(effective portion)	
		2012	2011	2012	2011
Cash Flow Hedges	Designated as				
hedging instruments					
Foreign exchange forward contracts		\$ 80,020	\$ (69,300)	Cost of revenues	\$ (56,621) \$ 27,282
				Selling, general and	
				administrative expenses	(12,134) 5,815
				Total	\$ (68,755) \$ 33,097

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

The activity related to the change in net unrealized (losses) gains on cash flow hedges in accumulated other comprehensive income (loss) was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net unrealized (losses) gains on cash flow hedges, net of taxes, beginning of period	\$ (396,725)	\$ 53,307	\$ (323,039)	\$ 30,723
Change in fair value, net of tax	172,933	(103,255)	67,338	(59,990)
Reclassification into earnings, net of tax	25,616	(5,526)	57,525	(26,207)
Net unrealized (losses) gains on cash flow hedges, net of taxes, end of period	\$ (198,176)	\$ (55,474)	\$ (198,176)	\$ (55,474)

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 a series of foreign exchange forward contracts scheduled to mature in 2012 and 2013 which are primarily to purchase U.S. dollars and sell Indian rupees. Realized gains or losses and changes in the estimated fair value of these derivative financial instruments are recorded in Other, net in our consolidated statements of operations.

Additional information related to our outstanding contracts is as follows:

	September 30, 2012	December 31, 2011
Notional value of contracts outstanding	\$ 202,571	\$ 234,239

Table of Contents

The following table provides information on the location and amounts of realized and unrealized pre-tax gains (losses) on our other derivative financial instruments for the three and nine months ended September 30, 2012 and 2011:

	Location of Net Gains/ (Losses) on Derivative Instruments	Amount of Net Gains (Losses) on Derivative Instruments			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Other Derivatives Not designated as hedging instruments					
Foreign exchange forward contracts	Other, net	\$ (12,535)	\$ 16,437	\$ (12,271)	\$ 6,922

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

Note 8 Commitments and Contingencies

Our current India real estate development program includes planned construction of 10.5 million square feet of new space between 2011 and the end of 2015. This program includes the expenditure of over \$700,000 during this period on land acquisition, facilities construction and furnishings to build new company-owned state-of-the-art IT development and delivery centers in regions primarily designated as SEZs located in India. As of September 30, 2012, we had outstanding fixed capital commitments of approximately \$253,810 related to our India development center expansion program.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on 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 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 available 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 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 material impact on our business, results of operations, financial condition and cash flows.

Table of Contents**Note 9 Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) were as follows:

	September 30, 2012	December 31, 2011
Foreign currency translation adjustments	\$ 5,362	\$ (3,561)
Unrealized (loss) on cash flow hedges, net of taxes	(198,176)	(323,039)
Unrealized gain on available-for-sale securities, net of taxes	2,771	1,206
Total accumulated other comprehensive income (loss)	\$ (190,043)	\$ (325,394)

Note 10 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 manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and Other, which is an aggregation of industry segments which, individually, are 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 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.

Table of Contents

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Financial Services	\$ 788,439	\$ 655,761	\$ 2,220,048	\$ 1,838,426
Healthcare	483,109	429,798	1,434,808	1,165,201
Manufacturing/Retail/Logistics	396,557	310,056	1,089,962	878,767
Other	223,583	205,339	653,439	575,055
Total revenue	\$ 1,891,688	\$ 1,600,954	\$ 5,398,257	\$ 4,457,449
Segment Operating Profit:				
Financial Services	\$ 263,866	\$ 222,165	\$ 752,550	\$ 620,660
Healthcare	171,365	171,261	543,215	436,873
Manufacturing/Retail/Logistics	140,142	112,960	394,053	321,482
Other	77,156	66,753	219,036	182,122
Total segment operating profit	652,529	573,139	1,908,854	1,561,137
Less: unallocated costs ⁽¹⁾	297,143	280,137	903,611	732,812
Income from operations	\$ 355,386	\$ 293,002	\$ 1,005,243	\$ 828,325

(1) Includes \$22,261 and \$79,911 of stock-based compensation expense for the three and nine months ended September 30, 2012, respectively and \$24,500 and \$64,244 of stock-based compensation expense for the three and nine months ended September 30, 2011, respectively.

Geographic Area Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues: ⁽¹⁾				
North America ⁽²⁾	\$ 1,504,706	\$ 1,250,708	\$ 4,300,399	\$ 3,475,707
Europe ⁽³⁾	302,648	290,606	869,254	823,232
Other ⁽⁴⁾	84,334	59,640	228,604	158,510
Total	\$ 1,891,688	\$ 1,600,954	\$ 5,398,257	\$ 4,457,449

	As of	
	September 30, 2012	December 31, 2011
Long-lived Assets: ⁽⁵⁾		
North America ⁽²⁾	\$ 50,638	\$ 27,387
Europe	9,021	5,232

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

Other ⁽⁴⁾⁽⁶⁾	818,902	725,415
Total	\$ 878,561	\$ 758,034

- (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 \$195,538 and \$183,737 for the three months and \$558,854 and \$522,908 for the nine months ended September 30, 2012 and 2011, 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.

Table of Contents

Note 11 Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board, or FASB, issued new guidance, which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements, thus eliminating the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity. In addition, the new guidance requires that the reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. In December 2011, the FASB deferred the new requirements related to the presentation of reclassification adjustments. However, the requirement to present comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements has not been deferred and became effective January 1, 2012. We adopted this standard on January 1, 2012 and elected to present comprehensive income in two consecutive statements. The adoption of this standard affects financial statement presentation only and had no effect on our financial condition or consolidated results of operations.

In September 2011, the FASB issued new guidance related to goodwill impairment testing. This standard allows, but does not require, an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The new standard gives an entity the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. This standard is effective for periods beginning on January 1, 2012 and had no effect on our financial condition or consolidated results of operations.

In December 2011, the FASB issued guidance requiring enhanced disclosures related to the nature of an entity's rights to offset and any related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed and the related net exposure. The new guidance will be effective for periods beginning on or after January 1, 2013. The adoption of this standard affects financial statement disclosures only and will have no effect on our financial condition or consolidated results of operations.

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

During the three and nine months ended September 30, 2012, our revenue increased to \$1,891.7 million and \$5,398.3 million compared to \$1,601.0 million and \$4,457.4 million during the three and nine months ended September 30, 2011. Net income increased to \$276.9 million and \$772.5 million, or \$0.91 and \$2.52 per diluted share, including stock-based compensation expense, net of tax, equal to \$0.06 and \$0.20 per diluted share, during the three and nine months ended September 30, 2012, respectively. This is compared to net income of \$227.1 million and \$643.5 million, or \$0.73 and \$2.07 per diluted share, including stock-based compensation expense, net of tax, of \$0.07 and \$0.16 per diluted share, during the three and nine months ended September 30, 2011, respectively. The key drivers of our revenue growth during the three months ended September 30, 2012 were as follows:

Strong performance across all of our business segments, particularly our Manufacturing/Retail/Logistics and Financial Services business segments, which reported revenue growth of 27.9% and 20.2%, respectively, for the quarter as compared to the quarter ended September 30, 2011;

Increased customer spending on discretionary development projects;

Expansion of our service offerings, 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 customers; and

Continued expansion of the market for global delivery of IT services and business process outsourcing.

We saw a continued increase in demand from our customers for a broad range of IT solutions, including application maintenance, complex systems development engagements, testing, enterprise resource planning, or ERP, infrastructure

Table of Contents

management, business process outsourcing, or BPO, and business intelligence. We finished the quarter with approximately 821 active clients compared to 777 as of September 30, 2011 and increased the number of strategic clients by six during the quarter bringing the total number of our strategic clients to 208. 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 top five and top ten customers accounted for approximately 14.0% and 25.0%, respectively, of our total revenues during the quarter ended September 30, 2012 as compared to approximately 16.3% and 27.8%, respectively, for the quarter ended September 30, 2011. 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.

Our revenue growth is also attributed to increasing market acceptance of, and strong demand for, offshore IT software and services and business process outsourcing. NASSCOM (India's National Association of Software and Service Companies) reports indicate that export revenues from India's IT software and services and business process outsourcing sectors are expected to experience growth in the range of approximately 11 to 14% for NASSCOM's fiscal year 2013. According to NASSCOM's Perspective 2020: Transform Business, Transform India report, global changes and new megatrends within economic, demographic, business, social and environmental areas are set to expand the outsourcing industry by creating new dynamics and opportunities and are expected to result in export revenues of \$175 billion by 2020.

During the quarter ended September 30, 2012, our revenue from European customers increased by 4.1% to approximately \$302.6 million compared to approximately \$290.6 million in the quarter ended September 30, 2011. For the quarter ended September 30, 2012, revenue from Europe, excluding the UK, increased by approximately \$0.2 million from approximately \$106.9 million in the quarter ended September 30, 2011 to approximately \$107.1 million, while revenue from the UK increased by approximately \$11.8 million from approximately \$183.7 million in the quarter ended September 30, 2011 to approximately \$195.5 million. As a result of the ongoing uncertainty in the European economy, we continue to expect revenues generated from European customers to grow at a slower rate than the rest of the Company for the remainder of 2012. We believe that Europe will continue to be an area of significant investment for us as we see this region, as well as the Middle East and the Asia Pacific regions, particularly Japan, India, Australia and Singapore, as growth opportunities for the long term.

Our operating margin increased to approximately 18.8% for the quarter ended September 30, 2012 compared to 18.3% for the quarter ended September 30, 2011. Excluding stock-based compensation expense of approximately \$22.3 million, operating margin for the quarter ended September 30, 2012 was approximately 20.0%. This was within our historic targeted operating margin range, excluding stock-based compensation expense, of 19% to 20% of total revenues. The increase in operating margin was primarily due to the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses, and economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization, partially offset by continued investments to grow our business. Historically, we have invested our profitability above the 19% to 20% operating margin level, which excludes stock-based compensation, 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 analytic capabilities; strengthening and expanding our portfolio of services; continuing to expand our geographic presence for both sales and delivery; and 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 third quarter of 2012 with total headcount of approximately 150,400, which is an increase of approximately 20,000 as compared to the total headcount at September 30, 2011. 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 2012. Annualized turnover, including both voluntary and involuntary, was approximately 13.0% during the three months ended September 30, 2012. 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 benefits 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.

Table of Contents

Our current India real estate development program includes planned construction of 10.5 million square feet of new space between 2011 and the end of 2015. This program includes the expenditure of over \$700.0 million during this period on land acquisition, facilities construction and furnishings to build new company-owned state-of-the-art development and delivery centers in regions primarily designated as Special Economic Zones, or SEZs, located in India. During 2012, we expect to spend approximately \$370 million globally for capital expenditures, including the Indian real estate development program.

At September 30, 2012, we had cash, cash equivalents and short-term investments of \$2,631.7 million and working capital of \$3,265.9 million. Accordingly, we do not anticipate any near-term liquidity issues. During the three months ended September 30, 2012, we repurchased \$59.0 million of our Class A common stock under our stock repurchase program. Stock repurchases were funded from working capital.

We believe the global economic environment remains fragile. During the remainder of 2012, 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, infrastructure management and BPO;

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, particularly in Europe.
In response to this fragile macroeconomic environment, we plan to:

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

Partner with our existing customers to provide innovative solutions resulting in our garnering an increased portion of our customers overall IT spend;

Continue our focus on growing our business in Europe, the Middle East and the Asia Pacific region, 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;

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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.

Critical Accounting Estimates and Risks

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 ongoing 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 unaudited condensed consolidated financial statements. Our significant accounting policies are described in Note 1 to the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

We believe the following critical accounting policies require a higher level of management judgments and estimates than others in preparing the consolidated financial statements:

Revenue Recognition. Revenues related to our highly complex information technology application development contracts, which are predominantly fixed-price contracts, are recognized as the services are performed using the percentage

Table of Contents

of completion method of accounting. Under this method, total contract revenue during the term of an agreement is recognized on the basis of the percentage that each contract's total labor cost to date bears to the total expected labor cost (cost to cost method). This method is followed where reasonably dependable estimates of revenues and costs can be made. Management reviews total expected labor costs on an ongoing basis. Revisions to our estimates may result in increases or decreases to revenues and income and are reflected in the consolidated financial statements in the periods in which they are first identified. If our estimates indicate that a contract loss will be incurred, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated costs of the contract exceed the estimated total revenues that will be generated by the contract and are included in cost of revenues in our consolidated statement of operations. Contract losses for the periods presented were immaterial.

Stock-Based Compensation. Utilizing the fair value recognition provisions prescribed by the authoritative guidance, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term over which the stock awards will be outstanding before they are exercised, the expected volatility of our stock and the number of stock-based awards that are expected to be forfeited. In addition, for performance stock units, we are required to estimate the most probable outcome of the performance conditions in order to determine the amount of stock compensation costs to be recorded over the vesting period. If actual results differ significantly from our estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes. Determining the consolidated provision for income tax expense, deferred income tax assets (and related valuation allowance, if any) and liabilities requires significant judgment. We are required to calculate and provide for income taxes in each of the jurisdictions in which we operate. Changes in the geographic mix of income before taxes or estimated level of annual pre-tax income can affect our overall effective income tax rate. The consolidated provision for income taxes may also change period to period based on non-recurring events, such as the settlement of income tax audits and changes in tax laws, regulations, or accounting principles.

Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related net interest, which can involve complex issues and may require an extended period to resolve. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not differ from our recorded amounts. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit. To the extent that the final tax outcome of these matters differs from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made.

Significant judgment is also required in determining any valuation allowance recorded against deferred income tax assets. In assessing the need for a valuation allowance, we consider all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event we change our determination as to the amount of deferred income tax assets that can be realized, we will adjust the valuation allowance with a corresponding impact recorded to income tax expense in the period in which such determination is made.

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented companies 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. We have constructed and expect to continue to locate most of our newer development facilities in SEZs. All Indian profits, including those generated within SEZs, are subject to the Minimum Alternative Tax, or MAT, at the current rate of approximately 20.0%. Any MAT paid is creditable against future corporate income tax within a 10-year expiration period, subject to certain limitations. Currently, we anticipate utilizing our existing MAT balances against our future corporate income tax obligations in India. However, our ability to do so will depend on possible changes to the Indian tax laws as well as the future financial results of Cognizant India.

Derivative Financial Instruments. Derivative financial instruments are accounted for in accordance with the authoritative guidance which requires that each derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. Our derivative financial instruments consist of foreign exchange forward contracts. We estimate the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model utilizes various assumptions, including, but not limited to timing and amounts of cash flows, discount rates, and credit risk factors. The use of different assumptions could have a positive or negative effect on our results of operations and financial condition.

Investments. Our investment portfolio is primarily comprised of time deposits 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 include securities backed by auto loans, credit card receivables, mortgage loans and other receivables and are rated AAA/Aaa. The years of issuance of our asset-backed securities fall in the 2006 to 2012 range.

Table of Contents

We utilize various inputs to determine the fair value of our investment portfolio. To the extent they exist, unadjusted quoted market prices for identical assets in active markets (Level 1) or quoted prices on similar assets (Level 2) are utilized to determine the fair value of each investment in our portfolio. In the absence of quoted prices or liquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (Level 3). Valuation techniques are based on various assumptions, including, but not limited to timing and amounts of cash flows, discount rates, rate of return, and adjustments for nonperformance and liquidity. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on our results of operations and financial condition. See Note 6 to our unaudited condensed consolidated financial statements for additional information related to our security valuation methodologies.

We periodically evaluate if unrealized losses, as determined based on the security valuation methodologies discussed above, on individual securities classified as available-for-sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment's book value is greater than fair value, the severity of the investment's decline, any credit deterioration of the investment, whether management intends to sell the security and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is generally recorded to income and a new cost basis in the investment is established.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit-worthiness of each customer, historical collections experience and other information, including the aging of the receivables. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Goodwill. We evaluate goodwill for impairment at least annually, or as circumstances warrant. When determining the fair value of our reporting units, we utilize various assumptions, including projections of future cash flows. Any adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge. Based upon our most recent evaluation of goodwill, there are no significant risks of impairment. As of September 30, 2012, our goodwill balance was \$301.4 million.

Long-Lived Assets and Intangibles. We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, we will recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such asset. The measurement for such an impairment loss is then based on the fair value of the asset. If such assets were determined to be impaired, it could have a material adverse effect on our business, results of operations and financial condition.

Risks. The majority of our development and delivery centers, including a majority of our employees, are located in India. As a result, we may be subject to certain risks associated with international operations, including risks associated with foreign currency exchange rate fluctuations and risks associated with the application and imposition of protective legislation and regulations relating to import and export or otherwise resulting from foreign policy or the variability of foreign economic or political conditions. Additional risks associated with international operations include difficulties in enforcing intellectual property rights, limitations on immigration programs, the burdens of complying with a wide variety of foreign laws, potential geo-political and other risks associated with terrorist activities and local and cross border conflicts, and potentially adverse tax consequences, tariffs, quotas and other barriers. We are also subject to risks associated with our overall compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The inability of our management to ensure the adequacy and effectiveness of our internal control 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. See Part II, Item 1A. Risk Factors.

Table of Contents**Results of Operations*****Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011***

The following table sets forth, for the periods indicated, certain financial data expressed for the three months ended September 30:

(Dollars in thousands)

	2012	% of Revenues	2011	% of Revenues	Increase / (Decrease)	
					\$	%
Revenues	\$ 1,891,688	100.0	\$ 1,600,954	100.0	\$ 290,734	18.2
Cost of revenues ⁽¹⁾	1,111,898	58.8	924,886	57.8	187,012	20.2
Selling, general and administrative expenses ⁽²⁾	384,951	20.3	353,161	22.1	31,790	9.0
Depreciation and amortization expense	39,453	2.1	29,905	1.9	9,548	31.9
Income from operations	355,386	18.8	293,002	18.3	62,384	21.3
Other income (expense), net	8,997		(5,038)		14,035	
Provision for income taxes	87,482		60,845		26,637	43.8
Net income	\$ 276,901	14.6	\$ 227,119	14.2	\$ 49,782	21.9

(1) Includes stock-based compensation expense of \$3,889 in 2012 and \$3,990 in 2011 and is exclusive of depreciation and amortization expense.

(2) Includes stock-based compensation expense of \$18,372 in 2012 and \$20,510 in 2011 and is exclusive of depreciation and amortization expense.

The following table includes non-GAAP income from operations, excluding stock-based compensation, a measure defined by the Securities and Exchange Commission as a non-GAAP financial measure. This non-GAAP financial measure is 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, this non-GAAP measure, the financial statements prepared in accordance with GAAP and reconciliations of our GAAP financial statements to such non-GAAP measure should be carefully evaluated.

We seek to manage the company to a targeted operating margin, excluding stock-based compensation expense, of 19% to 20% of revenues. Accordingly, we believe that non-GAAP income from operations, excluding stock-based compensation expense, is a meaningful measure for investors to evaluate our financial performance. For our internal management reporting and budgeting purposes, we use financial statements that do not include stock-based compensation expense for financial and operational decision making, to evaluate period-to-period comparisons and for making comparisons of our operating results to that of our competitors. Moreover, because of varying available valuation methodologies and the variety of award types that companies can use to account for stock-based compensation expense, we believe that providing a non-GAAP financial measure that excludes stock-based compensation expense allows investors to make additional comparisons between our operating results and those of other companies. Accordingly, we believe that the presentation of non-GAAP income from operations when read in conjunction with our reported GAAP income from operations can provide useful supplemental information to our management and to investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP income from operations versus income from operations reported in accordance with GAAP is that non-GAAP income from operations excludes stock-based compensation expense, which is recurring. Stock-based compensation expense will continue to be for the foreseeable future a significant recurring expense in our business. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of this non-GAAP financial measure as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP income from operations and evaluating such non-GAAP financial measures with financial measures calculated in accordance with GAAP.

Table of Contents

A reconciliation of income from operations as reported and non-GAAP income from operations, excluding stock-based compensation expense, is as follows for the three months ended September 30:

(Dollars in thousands)

	2012	% of Revenues	2011	% of Revenues
Income from operations, as reported	\$ 355,386	18.8	\$ 293,002	18.3
Add: stock-based compensation expense	22,261	1.2	24,500	1.5
Non-GAAP income from operations, excluding stock-based compensation expense	\$ 377,647	20.0	\$ 317,502	19.8

Revenue. Revenue increased 18.2%, or approximately \$290.7 million, from approximately \$1,601.0 million during the three months ended September 30, 2011 to approximately \$1,891.7 million during the three months ended September 30, 2012. 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 development projects, and continued penetration in the Europe, Asia Pacific, the Middle East and Latin America markets. Revenue from customers existing as of September 30, 2011 increased by approximately \$220.1 million and revenue from new customers added since September 30, 2011 was approximately \$70.6 million or approximately 24.3% of the period over period revenue increase and 3.7% of total revenues for the three months ended September 30, 2012. In addition, revenue from our North American and European customers for the three months ended September 30, 2012 increased by \$254.0 million and \$12.0 million, respectively, over the comparable 2011 quarter. We had approximately 821 active clients as of September 30, 2012 as compared to 777 active clients as of September 30, 2011. In addition, we experienced strong demand across all of our business segments for an increasingly broad range of services. Our Financial Services and Manufacturing/Retail/Logistics business segments accounted for approximately \$132.7 million and \$86.5 million, respectively, of the approximately \$290.7 million increase in revenue. Additionally, our IT consulting and technology services and IT outsourcing revenues increased by approximately 18.4% and 17.9%, respectively, compared to the three months ended September 30, 2011 and represented approximately 51.2% and 48.8%, respectively, of total revenues for the three months ended September 30, 2012. No customer accounted for sales in excess of 10% of revenues during the three months ended September 30, 2012 and 2011.

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 20.2%, or approximately \$187.0 million, from approximately \$924.9 million during the three months ended September 30, 2011 to approximately \$1,111.9 million during the three months ended September 30, 2012. The increase was due primarily to an increase in compensation and benefits costs of approximately \$159.3 million, resulting from the increase in the number of our technical personnel, partially offset by the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses.

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, travel, promotion, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 10.8%, or approximately \$41.3 million, from approximately \$383.1 million during the three months ended September 30, 2011 to approximately \$424.4 million during the three months ended September 30, 2012, and decreased as a percentage of revenue from 23.9% to 22.4%. The decrease as a percentage of revenue was due primarily to the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses, and economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization, partially offset by investments to grow our business and expenses related to the expansion of our infrastructure to support our revenue growth.

Income from Operations. Income from operations increased 21.3%, or approximately \$62.4 million, from approximately \$293.0 million during the three months ended September 30, 2011 to approximately \$355.4 million during the three months ended September 30, 2012, representing operating margins of 18.8% of revenues in 2012 and 18.3% of revenues in 2011. The increase in operating margin was primarily due to the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses, and economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost

Table of Contents

structure over a larger organization, partially offset by continued investments to grow our business. 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 495 basis points or 4.95 percentage points. 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 24 basis points or 0.24 percentage points. Excluding stock-based compensation expense of \$22.3 million and \$24.5 million for the three months ended September 30, 2012 and September 30, 2011, respectively, operating margins for the three month periods ended September 30, 2012 and 2011 were 20.0% and 19.8%, respectively.

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 September 30, 2012, the settlement of certain cash flow hedges negatively impacted our operating margin by approximately 162 basis points or 1.62 percentage points.

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 September 30:

(Dollars in thousands)

	2012	2011	Increase/ (Decrease)
Foreign currency exchange gains (losses)	\$ 8,697	\$ (32,534)	\$ 41,231
(Losses) gains on foreign exchange forward contracts not designated as hedging instruments	(12,535)	16,437	(28,972)
Net foreign currency exchange (losses)	(3,838)	(16,097)	12,259
Interest income	12,041	9,970	2,071
Other, net	794	1,089	(295)
Total other income (expense), net	\$ 8,997	\$ (5,038)	\$ 14,035

The foreign currency exchange gains of approximately \$8.7 million were primarily attributed to the remeasurement of the Indian rupee net monetary assets on Cognizant India's books to the U.S. dollar functional currency. The \$12.5 million of losses on foreign exchange forward contracts not designated as hedging instruments relate to the realized and unrealized losses on foreign exchange forward contracts entered into primarily to offset foreign currency exposure to Indian rupee denominated net monetary assets. As of September 30, 2012, the notional value of these undesignated hedges was \$202.6 million. The increase in interest income of \$2.1 million was primarily attributed to higher invested balances.

Provision for Income Taxes. The provision for income taxes increased from approximately \$60.8 million during the three months ended September 30, 2011 to approximately \$87.5 million during the three months ended September 30, 2012. The effective income tax rate increased from 21.1% for the three months ended September 30, 2011 to 24.0% for the three months ended September 30, 2012. The increase in our effective income tax rate was primarily attributed to lower taxes in India in 2011 due to losses on our foreign currency exchange contracts as well as the scheduled reduction in 2012 of certain income tax holiday benefits in India.

Net Income. Net income increased from approximately \$227.1 million for the three months ended September 30, 2011 to approximately \$276.9 million for the three months ended September 30, 2012, representing 14.2% and 14.6% of revenues, respectively.

Table of Contents***Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011***

The following table sets forth, for the periods indicated, certain financial data expressed for the nine months ended September 30:

(Dollars in thousands)

	2012	% of Revenues	2011	% of Revenues	Increase / (Decrease) \$	%
Revenues	\$ 5,398,257	100.0	\$ 4,457,449	100.0	\$ 940,808	21.1
Cost of revenues ⁽¹⁾	3,127,307	57.9	2,567,933	57.6	559,374	21.8
Selling, general and administrative expenses ⁽²⁾	1,155,900	21.4	976,209	21.9	179,691	18.4
Depreciation and amortization expense	109,807	2.0	84,982	1.9	24,825	29.2
Income from operations	1,005,243	18.6	828,325	18.6	176,918	21.4
Other income (expense), net	16,509		17,744		(1,235)	(7.0)
Provision for income taxes	249,268		202,578		46,690	23.0
Net income	\$ 772,484	14.3	\$ 643,491	14.4	\$ 128,993	20.0

(1) Includes stock-based compensation expense of \$12,653 in 2012 and \$11,139 in 2011 and is exclusive of depreciation and amortization expense.

(2) Includes stock-based compensation expense of \$67,258 in 2012 and \$53,105 in 2011 and is exclusive of depreciation and amortization expense.

The following table includes non-GAAP income from operations, excluding stock-based compensation, a measure defined by the Securities and Exchange Commission as a non-GAAP financial measure. This non-GAAP financial measure is 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, this non-GAAP measure, the financial statements prepared in accordance with GAAP and reconciliations of our GAAP financial statements to such non-GAAP measure should be carefully evaluated.

We seek to manage the company to a targeted operating margin, excluding stock-based compensation expense, of 19% to 20% of revenues. Accordingly, we believe that non-GAAP income from operations, excluding stock-based compensation expense, is a meaningful measure for investors to evaluate our financial performance. For our internal management reporting and budgeting purposes, we use financial statements that do not include stock-based compensation expense for financial and operational decision making, to evaluate period-to-period comparisons and for making comparisons of our operating results to that of our competitors. Moreover, because of varying available valuation methodologies and the variety of award types that companies can use to account for stock-based compensation expense, we believe that providing a non-GAAP financial measure that excludes stock-based compensation expense allows investors to make additional comparisons between our operating results and those of other companies. Accordingly, we believe that the presentation of non-GAAP income from operations when read in conjunction with our reported GAAP income from operations can provide useful supplemental information to our management and to investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP income from operations versus income from operations reported in accordance with GAAP is that non-GAAP income from operations excludes stock-based compensation expense, which is recurring. Stock-based compensation expense will continue to be for the foreseeable future a significant recurring expense in our business. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of this non-GAAP financial measure as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP income from operations and evaluating such non-GAAP financial measures with financial measures calculated in accordance with GAAP.

Table of Contents

A reconciliation of income from operations as reported and non-GAAP income from operations, excluding stock-based compensation expense, is as follows for the nine months ended September 30:

(Dollars in thousands)

	2012	% of Revenues	2011	% of Revenues
Income from operations, as reported	\$ 1,005,243	18.6	\$ 828,325	18.6
Add: stock-based compensation expense	79,911	1.5	64,244	1.4
Non-GAAP income from operations, excluding stock-based compensation expense	\$ 1,085,154	20.1	\$ 892,569	20.0

Revenue. Revenue increased by 21.1%, or approximately \$940.8 million, from approximately \$4,457.4 million during the nine months ended September 30, 2011 to approximately \$5,398.3 million during the nine months ended September 30, 2012. 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 development projects and continued penetration in the Europe, Asia Pacific, the Middle East and Latin America markets. Revenue from customers existing as of September 30, 2011 increased by approximately \$821.3 million and revenue from new customers added since September 30, 2011 was approximately \$119.5 million or approximately 12.7% of the period over period revenue increase and approximately 2.2% of total revenues for the nine months ended September 30, 2012. In addition, revenue from North American and European customers for the nine months ended September 30, 2012 increased by \$824.7 million and \$46.0 million, respectively, over the comparable 2011 period. We had approximately 821 active clients as of September 30, 2012 as compared to 777 active clients as of September 30, 2011. In addition, we experienced strong demand across all of our business segments for an increasingly broad range of services. Our Financial Services and Healthcare business segments accounted for approximately \$381.6 million and \$269.6 million, respectively, of the approximately \$940.8 million increase in revenue. Additionally, our IT consulting and technology services and IT outsourcing revenues increased by approximately 22.4% and 19.8%, respectively, compared to the nine months ended September 30, 2011 and represented approximately 51.4% and 48.6%, respectively, of total revenues for the nine months ended September 30, 2012. No customer accounted for sales in excess of 10% of revenues during the nine months ended September 30, 2012 and 2011.

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 21.8%, or approximately \$559.4 million, from approximately \$2,567.9 million during the nine months ended September 30, 2011 to approximately \$3,127.3 million during the nine months ended September 30, 2012. The increase was due primarily to an increase in compensation and benefits costs of approximately \$510.8 million resulting primarily from the increase in the number of our technical personnel, partially offset by the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses.

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, travel, promotion, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 19.3%, or approximately \$204.5 million, from approximately \$1,061.2 million during the nine months ended September 30, 2011 to approximately \$1,265.7 million during the nine months ended September 30, 2012, and decreased as a percentage of revenue from 23.8% to 23.4%. The decrease as a percentage of revenue was due primarily to the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses, and economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization, partially offset by investments to grow our business and expenses related to the expansion of our infrastructure to support our revenue growth.

Income from Operations. Income from operations increased 21.4%, or approximately \$176.9 million, from approximately \$828.3 million during the nine months ended September 30, 2011 to approximately \$1,005.2 million during the nine months ended September 30, 2012, representing operating margins of 18.6% of revenues in the 2012 and 2011 periods. The operating margin was affected by the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of the impact of our cash flow hedge losses, and economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization, offset by continued investments to grow our business. Excluding the impact of applicable designated cash flow hedges, the

Table of Contents

depreciation of the Indian rupee against the U.S. dollar positively impacted our operating margin by approximately 429 basis points or 4.29 percentage points. 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 25 basis points or 0.25 percentage points. Excluding stock-based compensation expense of \$79.9 million and \$64.2 million for the nine months ended September 30, 2012 and September 30, 2011, respectively, operating margins for the nine month periods ended September 30, 2012 and September 30, 2011 were 20.1% and 20.0% of revenues, respectively.

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 nine months ended September 30, 2012, the settlement of certain cash flow hedges negatively impacted our operating margin by approximately 127 basis points or 1.27 percentage points.

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 nine months ended September 30:

(Dollars in thousands)

	2012	2011	Increase/ (Decrease)
Foreign currency exchange (losses)	\$ (6,004)	\$ (19,510)	\$ 13,506
(Losses) gains on foreign exchange forward contracts not designated as hedging instruments	(12,271)	6,922	(19,193)
Net foreign currency exchange (losses)	(18,275)	(12,588)	(5,687)
Interest income	33,097	28,381	4,716
Other, net	1,687	1,951	(264)
Total other income (expense), net	\$ 16,509	\$ 17,744	\$ (1,235)

The foreign currency exchange losses of approximately \$6.0 million were primarily attributed to the remeasurement of the Indian rupee net monetary assets on Cognizant India's books to the U.S. dollar functional currency. The \$12.3 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 September 30, 2012, the notional value of these undesignated hedges was \$202.6 million. The increase in interest income of \$4.7 was primarily attributed to higher invested balances.

Provision for Income Taxes. The provision for income taxes increased from approximately \$202.6 million during the nine months ended September 30, 2011 to approximately \$249.3 million during the nine months ended September 30, 2012. The effective income tax rate of 23.9% for the nine months ended September 30, 2011 increased to 24.4% for the nine months ended September 30, 2012. The increase in our effective income tax rate was primarily attributed to lower taxes in India in 2011 due to losses on our foreign currency exchange contracts as well as the scheduled reduction in 2012 of certain income tax holiday benefits in India.

Net Income. Net income increased from approximately \$643.5 million for the nine months ended September 30, 2011 to approximately \$772.5 million for the nine months ended September 30, 2012, representing 14.4% and 14.3% of revenues, respectively.

Results by Business Segment

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 manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and Other, which is an aggregation of industry operating segments which, individually, are less than 10.0% of consolidated revenues and segment operating profit. The Other segment includes 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.

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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 groups

Table of Contents

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.

As of September 30, 2012, we had 821 active customers. 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 such segment. However, no individual customer exceeded 10% of our consolidated revenues for the periods ended September 30, 2012 and 2011. In addition, the services we provide to our larger customers are often critical to the operations of such customers and a termination of our services would require an extended transition period with gradually declining revenues.

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Revenues from external customers and segment operating profit, before unallocated expenses, for the Financial Services, Healthcare, Manufacturing/Retail/Logistics and Other segments for the three months ended September 30, 2012 and 2011 are as follows:

(Dollars in thousands)

	2012	2011	Increase \$	%
Revenues:				
Financial Services	\$ 788,439	\$ 655,761	\$ 132,678	20.2
Healthcare	483,109	429,798	53,311	12.4
Manufacturing/Retail/Logistics	396,557	310,056	86,501	27.9
Other	223,583	205,339	18,244	8.9
Total revenue	\$ 1,891,688	\$ 1,600,954	\$ 290,734	18.2
Segment Operating Profit:				
Financial Services	\$ 263,866	\$ 222,165	\$ 41,701	18.8
Healthcare	171,365	171,261	104	0.1
Manufacturing/Retail/Logistics	140,142	112,960	27,182	24.1
Other	77,156	66,753	10,403	15.6
Total segment operating profit	\$ 652,529	\$ 573,139	\$ 79,390	13.9

Financial Services Segment

Revenue. Revenue increased by 20.2%, or approximately \$132.7 million, from approximately \$655.8 million during the three months ended September 30, 2011 to approximately \$788.4 million during the three months ended September 30, 2012. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$116.1 million and approximately \$16.6 million, respectively. Within the segment, for the three months ended September 30, 2012, revenue from our insurance and banking customers increased approximately \$72.3 million and \$60.4 million, respectively. Overall, the year-over-year increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. We expect that cost pressures within the banking industry may constrain spending growth on discretionary services for the remainder of the year for certain of our banking customers.

Segment Operating Profit. Segment operating profit increased 18.8%, or approximately \$41.7 million, from approximately \$222.2 million during the three months ended September 30, 2011 to approximately \$263.9 million during the three months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to

support our revenue growth and continued investment in sales and marketing.

Table of Contents

Healthcare Segment

Revenue. Revenue increased by 12.4%, or approximately \$53.3 million, from approximately \$429.8 million during the three months ended September 30, 2011 to approximately \$483.1 million during the three months ended September 30, 2012. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$43.9 million and approximately \$9.4 million, respectively. Within the segment, growth was stronger among our healthcare customers, where revenue during the three months ended September 30, 2012 increased by approximately \$36.6 million. Revenue during the three months ended September 30, 2012 increased by approximately \$16.7 million for our life sciences customers. The increases can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. We expect revenue from certain of our life sciences customers to be impacted by cyclical changes in this sector which are driving softness in discretionary spending.

Segment Operating Profit. Segment operating profit increased 0.1%, or approximately \$0.1 million, from approximately \$171.3 million during the three months ended September 30, 2011 to approximately \$171.4 million during the three months ended September 30, 2012. The segment operating profit was impacted by increased revenues and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth and continued investment in sales and marketing.

Manufacturing/Retail/Logistics Segment

Revenue. Revenue increased by 27.9%, or approximately \$86.5 million, from approximately \$310.1 million during the three months ended September 30, 2011 to approximately \$396.6 million during the three months ended September 30, 2012. The increase in revenue was driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$53.0 million and approximately \$33.5 million, respectively. Within the segment, growth was particularly strong among our retail and hospitality customers, where revenue during the three months ended September 30, 2012 increased by approximately \$62.2 million. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased 24.1%, or approximately \$27.2 million, from approximately \$113.0 million during the three months ended September 30, 2011 to approximately \$140.1 million during the three months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth and continued investment in sales and marketing.

Other Segment

Revenue. Revenue increased 8.9%, or approximately \$18.2 million, from approximately \$205.3 million during the three months ended September 30, 2011 to approximately \$223.6 million during the three months ended September 30, 2012. The increase in revenue was driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$7.2 million and approximately \$11.0 million, respectively. The increase in revenue can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. Within the Other segment, growth was below the company average across all operating segments within Other, which includes information, media and entertainment services, communications and high technology.

Segment Operating Profit. Segment operating profit increased 15.6%, or approximately \$10.4 million, from approximately \$66.8 million during the three months ended September 30, 2011 to approximately \$77.2 million during the three months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues, achieving operating efficiencies, including continued leverage of prior sales and marketing investments, and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth.

Table of Contents***Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011***

Revenues from external customers and segment operating profit, before unallocated expenses, for the Financial Services, Healthcare, Manufacturing/Retail/Logistics and Other segments for the nine months ended September 30, 2012 and 2011 are as follows:

(Dollars in thousands)

	2012	2011	Increase \$	%
Revenues:				
Financial Services	\$ 2,220,048	\$ 1,838,426	\$ 381,622	20.8
Healthcare	1,434,808	1,165,201	269,607	23.1
Manufacturing/Retail/Logistics	1,089,962	878,767	211,195	24.0
Other	653,439	575,055	78,384	13.6
 Total revenue	 \$ 5,398,257	 \$ 4,457,449	 \$ 940,808	 21.1
Segment Operating Profit:				
Financial Services	\$ 752,550	\$ 620,660	\$ 131,890	21.2
Healthcare	543,215	436,873	106,342	24.3
Manufacturing/Retail/Logistics	394,053	321,482	72,571	22.6
Other	219,036	182,122	36,914	20.3
 Total segment operating profit	 \$ 1,908,854	 \$ 1,561,137	 \$ 347,717	 22.3

Financial Services Segment

Revenue. Revenue increased by 20.8%, or approximately \$381.6 million, from approximately \$1,838.4 million during the nine months ended September 30, 2011 to approximately \$2,220.0 million during the nine months ended September 30, 2012. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$351.7 million and approximately \$29.9 million, respectively. Within the segment, for the nine months ended September 30, 2012, revenue from our banking and insurance customers increased approximately \$183.3 million and \$198.3 million, respectively. Overall, the year-over-year increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. We expect cost pressures within the banking industry may constrain spending growth on discretionary services for the remainder of the year for certain of our banking customers.

Segment Operating Profit. Segment operating profit increased 21.2%, or approximately \$131.9 million, from approximately \$620.7 million during the nine months ended September 30, 2011 to approximately \$752.6 million during the nine months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues during the 2012 period.

Healthcare Segment

Revenue. Revenue increased by 23.1%, or approximately \$269.6 million, from approximately \$1,165.2 million during the nine months ended September 30, 2011 to approximately \$1,434.8 million during the nine months ended September 30, 2012. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$250.6 million and approximately \$19.0 million, respectively. Within the segment, growth was stronger among our healthcare customers, where revenue during the nine months ended September 30, 2012 increased by approximately \$196.7 million. Revenue during the nine months ended September 30, 2012 increased by approximately \$72.9 million for our life sciences customers. The increases can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. We expect revenue from certain of our life sciences customers to be impacted by cyclical changes in this sector which are driving softness in discretionary spending.

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

Segment Operating Profit. Segment operating profit increased 24.3%, or approximately \$106.3 million, from approximately \$436.9 million during the nine months ended September 30, 2011 to approximately \$543.2 million during the nine months

Table of Contents

ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues, achieving operating efficiencies, including continued leverage of prior sales and marketing investments, and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth.

Manufacturing/Retail/Logistics Segment

Revenue. Revenue increased by 24.0%, or approximately \$211.2 million, from approximately \$878.8 million during the nine months ended September 30, 2011 to approximately \$1,090.0 million during the nine months ended September 30, 2012. The increase in revenue was driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$163.4 million and approximately \$47.8 million, respectively. Within the segment, growth was particularly strong among our retail and hospitality customers, where revenue during the nine months ended September 30, 2012 increased by approximately \$166.7 million. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased 22.6%, or approximately \$72.6 million, from approximately \$321.5 million during the nine months ended September 30, 2011 to approximately \$394.1 million during the nine months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth and continued investment in sales and marketing.

Other Segment

Revenue. Revenue increased 13.6%, or approximately \$78.4 million, from approximately \$575.0 million during the nine months ended September 30, 2011 to approximately \$653.4 million during the nine months ended September 30, 2012. The increase in revenue was driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of September 30, 2011 and customers added since September 30, 2011 was approximately \$55.6 million and approximately \$22.8 million, respectively. The increase in revenue can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects. Within the Other segment, growth was below the company average across all operating segments within Other, which includes information, media and entertainment services, communications and high technology.

Segment Operating Profit. Segment operating profit increased 20.3%, or approximately \$36.9 million, from approximately \$182.1 million during the nine months ended September 30, 2011 to approximately \$219.0 million during the nine months ended September 30, 2012. The increase in segment operating profit was attributable primarily to increased revenues, achieving operating efficiencies, including continued leverage of prior sales and marketing investments, and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefits costs resulting primarily from additional headcount to support our revenue growth.

Liquidity and Capital Resources

At September 30, 2012, we had cash, cash equivalents and short-term investments of \$2,631.7 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; possible acquisitions of related businesses; formation of joint ventures; stock repurchases; and general corporate purposes, including working capital. As of September 30, 2012, we had no third party debt and had working capital of approximately \$3,265.9 million, including short-term investments of \$1,307.0 million. Accordingly, we do not anticipate any near-term liquidity issues.

Net cash provided by operating activities was approximately \$810.7 million during the nine months ended September 30, 2012 as compared to approximately \$590.1 million during the nine months ended September 30, 2011. The increase was primarily attributed to an increase in net income and more efficient deployment of working capital during the 2012 period as compared to the nine months ended September 30, 2011. Trade accounts receivable increased from approximately \$1,179.0 million at December 31, 2011 to approximately \$1,363.5 million at September 30, 2012. Unbilled accounts receivable increased from approximately \$139.6 million at December 31, 2011 to approximately \$213.7 million at September 30, 2012. The increase in trade accounts receivable and unbilled receivables as of September 30, 2012 as compared to December 31, 2011 was primarily due to increased revenues and a higher number of days of sales outstanding. We monitor

Table of Contents

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 September 30, 2012, our days sales outstanding, including unbilled receivables, was approximately 77 days as compared to 73 days at December 31, 2011 and 73 days as of September 30, 2011.

Our investing activities used net cash of approximately \$429.3 million during the nine months ended September 30, 2012 as compared to approximately \$677.0 million during the nine months ended September 30, 2011. The decrease in net cash used in investing activities primarily related to a decrease in net investment purchases during the nine months ended September 30, 2012.

Our financing activities used net cash of approximately \$367.1 million during the nine months ended September 30, 2012 as compared to approximately \$276.7 million during the nine months ended September 30, 2011. The increase in net cash used by financing activities primarily related to increased repurchases of common stock under our share repurchase program during the nine months ended September 30, 2012 as compared to the 2011 period partially offset by an increase in issuances of common stock under our stock-based compensation plans.

As of September 30, 2012, \$1,633.3 million of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. We utilize a variety of tax planning and financing 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 United States federal income taxes, less applicable foreign tax credits. However, other than amounts representing pre-2002 undistributed Indian earnings for which we have already accrued U.S. taxes, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate these amounts to fund our U.S. operations.

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 accomplish acquisitions and joint ventures with capital stock, our continued intent not to repatriate foreign earnings, and the availability of public and private debt and equity financing. We cannot be certain that additional financing, if required, will be available on terms favorable to us, if at all. We expect our operating cash flow and cash and cash equivalents to be sufficient to meet our operating requirements for the next twelve months. There were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in 2012 and 2011 that would have affected our liquidity or the availability of, or requirements for, capital resources.

Commitments and Contingencies

As of September 30, 2012, we had outstanding fixed capital commitments of approximately \$253.8 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 SEZs located in India.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on our quarterly or annual operating results, cash flows, or consolidated financial position. 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 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 available 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 quarterly and annual operating results, financial position and cash flows.

Table of Contents

Foreign Currency Risk

Overall, we believe that we have limited revenue risk resulting from movement in foreign currency exchange rates as approximately 79.7% of our revenues for the nine months ended September 30, 2012 were generated from customers located in North America. However, a portion of our costs in India, representing approximately 30.8% of our global operating costs for the nine months ended September 30, 2012, 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 nine months ended September 30, 2012, we reported foreign currency exchange losses, exclusive of gains on foreign exchange forward contracts not designated as hedging instruments, of approximately \$6.0 million, which were primarily attributed to the remeasurement of the Indian rupee net monetary assets on Cognizant India's books 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 in our foreign subsidiaries, primarily the Indian rupee.

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. 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 and nine months ended September 30, 2012, we reported losses of \$30.6 million and \$68.8 million, respectively, on contracts that settled during these periods. As of September 30, 2012, we have outstanding contracts with a notional value of \$324.8 million and weighted average forward rate of 49.7 rupees to the U.S. dollar scheduled to mature in 2012, outstanding contracts with a notional value of \$1,253.0 million and a weighted average forward rate of 51.0 rupees to the U.S. dollar scheduled to mature in 2013, outstanding contracts with a notional value of \$1,200.0 million and a weighted average forward rate of 54.1 rupees to the U.S. dollar scheduled to mature in 2014, outstanding contracts with a notional value of \$780.0 million and a weighted average forward rate of 57.5 rupees to the U.S. dollar scheduled to mature in 2015 and outstanding contracts with a notional value of \$120.0 million and a weighted average forward rate of 65.2 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 2012 and 2013 which are primarily used to hedge our Indian rupee denominated net monetary assets. At September 30, 2012, the notional value of the outstanding contracts was \$202.6 million and the related fair value was a net liability of \$9.8 million. During the three and nine months ended September 30, 2012, inclusive of losses of \$12.5 million and \$12.3 million, respectively on these undesignated balance sheet hedges, we reported net foreign currency exchange losses of approximately \$3.8 million and \$18.3 million, respectively.

Recent Accounting Pronouncements

See Note 11 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. Competition in India, the United States and Europe for professionals with advanced technical skills necessary to perform our services offered 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 compensation and benefits 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 our discretionary costs, the mix of our professional staff as well as 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,

Table of Contents

continue, should or anticipates or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, 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 and other statements regarding matters that are not historical facts, involve predictions. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. 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. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include those set forth in Part II, Item 1A. Risk Factors .

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 September 30, 2012 the notional value of these contracts was \$3,677.8 million and such contracts are scheduled to mature each month during 2012, 2013, 2014, 2015 and 2016. At September 30, 2012, the net unrealized loss on our outstanding foreign exchange forward contracts designated as cash flow hedges was \$236.9 million. Based upon a sensitivity analysis of our foreign exchange forward contracts at September 30, 2012, 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 \$317.4 million.

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 2012 and 2013 which are primarily used to hedge our Indian rupee denominated net monetary assets. At September 30, 2012, the notional value of the outstanding contracts was \$202.6 million and the related fair value was a net liability of \$9.8 million. Based upon a sensitivity analysis of our foreign exchange forward contracts at September 30, 2012, 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 \$20.7 million.

There were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in 2012 and 2011 that would have affected our liquidity or the availability of or requirements for capital resources.

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 September 30, 2012, we had approximately \$2,631.7 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 September 30, 2012, our short-term investments totaled \$1,307.0 million. Our investment portfolio is primarily comprised of time deposits and U.S. dollar denominated corporate bonds, municipal bonds, debt issuances by the U.S. government and U.S. government agencies, debt issuances by foreign governments and supranational entities and asset-backed securities.

Table of Contents

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 September 30, 2012. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of September 30, 2012, 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 September 30, 2012 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.

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 nine months of 2012, approximately 79.7% of our revenues were attributable to the North American region, 16.1% were attributable to the European region, and 4.2% 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.

Table of Contents

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 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 20.3% of our revenues for the nine months ended September 30, 2012. 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 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, 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.

Table of Contents

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 Indian rupee 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.

In many parts of the world, including countries in which we operate, practices in the local business community might not conform to international business standards and could violate anti-corruption laws or regulations, including the U.S. Foreign Corrupt Practices Act or U.K. Bribery Act, among others. 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. 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 and knowledge process outsourcing 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

Table of Contents

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 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 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

Table of Contents

of advanced degrees from United States post-secondary educational institutions. CIS announced on June 12, 2012 that the agency had reached its general cap of 65,000 H-1B visas, and on October 19, 2011 that the agency had reached its advanced degree cap of 20,000 H-1B visas for the fiscal year (FY) 2013. We will begin filing H-1B petitions with CIS against the FY 2014 caps beginning April 1, 2013 for work in H-1B status beginning on October 1, 2013. 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 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.

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 expected in the future, 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

Table of Contents

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 79.7% of our revenues during the nine months ended September 30, 2012 were derived from customers located in North America. In the same period, approximately 16.1% of our revenues were derived from customers located in Europe. If the United States or European economy continues to weaken or slow and conditions in the financial markets continue to 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 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 nine months ended September 30, 2012, we earned approximately 41.1% 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 outsourcing 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, HCL Technologies, HP Enterprise (formerly Electronic Data Systems), IBM Global Services, Infosys Technologies, Perot Systems (acquired by Dell Inc.), Tata Consultancy Services and Wipro. Many of our competitors have significantly greater financial, technical and

Table of Contents

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 nine months ended September 30, 2012, we reported an operating margin of 18.6%. 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.

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 outsourcing 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.

Table of Contents

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 IT consulting, business and knowledge process outsourcing, 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.

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

Our top five and top ten customers generated approximately 14.2% and 25.2%, respectively, of our revenues for the nine months ended September 30, 2012. 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.

Table of Contents

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 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.

Table of Contents

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.

Effective January 1, 2002, and in accordance with authoritative literature, we no longer accrue incremental U.S. taxes on our Indian earnings recognized after 2001 as these earnings (as well as other foreign earnings for all periods) are considered 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 we change our intent and repatriate such earnings, we will have to accrue taxes associated with such earnings at a substantially higher rate than our effective income tax rate in 2012. 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 proposed tax legislation in India.

Cognizant India is primarily an export-oriented company and is 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 MAT, at the current rate of approximately 20.0%. 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 will depend on 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.

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 in the future 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

Table of Contents

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 on a fixed-price basis, subjecting us to the foregoing risks to an even greater extent. Fixed-price contracts accounted for approximately 32.8% of our revenues for the nine months ended September 30, 2012. 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;

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.

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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:

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.

Table of Contents

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, both 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.

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

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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.

Table of Contents

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 coverage will 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 available 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 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.

Table of Contents

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 patents or registered copyrights, however, we have filed patent applications and we intend to file additional patent applications. There is no guarantee that any patents will be granted 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.

Table of Contents

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 and 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 and 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.

Edgar Filing: COGNIZANT TECHNOLOGY SOLUTIONS CORP - Form 10-Q

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.

Table of Contents

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 information about our company, even if based on false rumor or misunderstanding, could adversely affect our

Table of Contents

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, by-laws and stockholders' rights plan and provisions under Delaware law may discourage unsolicited takeover proposals.

Provisions in our charter and by-laws, each as amended, our stockholders' rights plan 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, which will prevent a change of control of our board of directors 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 increases 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 fraud. Because of these inherent limitations, internal control over financial reporting might not prevent or detect all

Table of Contents

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.

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

From December 2010 through September 2012, our Board of Directors authorized \$1.0 billion in funds for repurchases of Cognizant's outstanding shares of Class A common stock, excluding fees and expenses. The program authorizes management to repurchase shares in the open market or in private transactions from time to time, depending on market conditions and expires on December 31, 2013.

During the three months ended September 30, 2012, we repurchased \$59.0 million of our Class A common stock under our stock repurchase program. The remaining authorized balance as of September 30, 2012 was \$159.6 million. Stock repurchases were funded from working capital.

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)
July 1, 2012	July 31, 2012	719,446	55.44	719,446	\$ 178,707
August 1, 2012	August 31, 2012	227,972	55.94	227,972	\$ 165,955
September 1, 2012	September 30, 2012	100,000	63.71	100,000	\$ 159,584
Total		1,047,418	56.33	1,047,418	

Table of Contents

Item 6. Exhibits.

(a) Exhibits.

Exhibit No.	Description
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial and accounting 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 and accounting 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

Table of Contents

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: November 8, 2012

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

Date: November 8, 2012

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

Table of Contents

Exhibit Index

Exhibit No.	Description
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial and accounting 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 and accounting 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