COGNIZANT TECHNOLOGY SOLUTIONS CORP
Form 10-Q
August 07, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014
¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 0-24429

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-3728359
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Glenpointe Centre West 500 Frank W. Burr Blvd. Teaneck, New Jersey	07666
(Address of Principal Executive Offices)	(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 ý 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 ý 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	ý	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 ý

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

Class	Number of Shares
Class A Common Stock, par value $.01 per share	607,924,314

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
TABLE OF CONTENTS

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$2,517,094	$2,161,240	$4,939,442	$4,181,978
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	1,499,462	1,272,013	2,931,906	2,471,978
Selling, general and administrative expenses	482,985	420,526	968,380	833,730
Depreciation and amortization expense	46,726	41,898	91,199	83,560
Income from operations	487,921	426,803	947,957	792,710
Other income (expense), net:				
Interest income	14,132	13,080	27,637	26,327
Foreign currency exchange gains (losses), net	(752)	(19,074)	(1,969)	(22,825)
Other, net	537	(412)	1,401	1,368
Total other income (expense), net	13,917	(6,406)	27,069	4,870
Income before provision for income taxes	501,838	420,397	975,026	797,580
Provision for income taxes	129,930	119,987	254,240	212,961
Net income	$371,908	$300,410	$720,786	$584,619
Basic earnings per share	$0.61	$0.50	$1.19	$0.97
Diluted earnings per share	$0.61	$0.49	$1.18	$0.96
Weighted average number of common shares outstanding - Basic	607,880	603,340	607,805	603,524
Dilutive effect of shares issuable under stock-based compensation plans	4,282	5,552	4,725	6,098
Weighted average number of common shares outstanding - Diluted	612,162	608,892	612,530	609,622

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$371,908	$300,410	$720,786	$584,619
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(336)	(575)	1,136	(20,163)
Change in unrealized losses on cash flow hedges, net of taxes	55,520	(113,239)	162,570	(62,089)
Change in unrealized gains and losses on available-for-sale securities, net of taxes	641	(2,357)	1,093	(2,667)
Other comprehensive income (loss)	55,825	(116,171)	164,799	(84,919)
Comprehensive income	$427,733	$184,239	$885,585	$499,700

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)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$1,992,442	$2,213,006
Short-term investments	2,136,779	1,534,467
Trade accounts receivable, net of allowances of $32,804 and $26,824, respectively	1,822,636	1,648,785
Unbilled accounts receivable	297,944	226,487
Deferred income tax assets, net	233,841	256,230
Other current assets	257,048	268,907
Total current assets	6,740,690	6,147,882
Property and equipment, net of accumulated depreciation of $768,618 and $719,336, respectively	1,086,116	1,081,164
Goodwill	449,541	444,236
Intangible assets, net	120,952	131,274
Deferred income tax assets, net	123,295	147,149
Other noncurrent assets	166,700	183,013
Total assets	$8,687,294	$8,134,718
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$119,145	$113,394
Deferred revenue	179,660	182,893
Accrued expenses and other current liabilities	1,268,857	1,478,221
Total current liabilities	1,567,662	1,774,508
Deferred income tax liabilities, net	19,862	21,170
Other noncurrent liabilities	108,941	203,249
Total liabilities	1,696,465	1,998,927
Commitments and contingencies (See Note 7)		
Stockholders' Equity:		
Preferred stock, $.10 par value, 15,000 shares authorized, none issued	—	—
Class A common stock, $.01 par value, 1,000,000 shares authorized, 607,850 and 607,729 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	6,079	6,077
Additional paid-in capital	513,057	543,606
Retained earnings	6,583,153	5,862,367
Accumulated other comprehensive income (loss)	(111,460)	(276,259)
Total stockholders' equity	6,990,829	6,135,791
Total liabilities and stockholders' equity	$8,687,294	$8,134,718

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 Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$720,786	$584,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95,474	87,435
Provision for doubtful accounts	6,197	3,510
Deferred income taxes	2,440	(997)
Stock-based compensation expense	69,351	59,330
Excess tax benefits on stock-based compensation plans	(12,034)	(9,482)
Other	(3,312)	31,308
Changes in assets and liabilities:		
Trade accounts receivable	(161,191)	(217,294)
Other current assets	(52,615)	(36,180)
Other noncurrent assets	19,447	(7,393)
Accounts payable	8,124	(12,267)
Other current and noncurrent liabilities	(127,034)	(43,564)
Net cash provided by operating activities	565,633	439,025
Cash flows from investing activities:		
Purchases of property and equipment	(81,957)	(122,510)
Purchases of investments	(1,407,637)	(923,311)
Proceeds from maturity or sale of investments	809,893	971,184
Business combinations, net of cash acquired	(11,487)	(151,137)
Net cash (used in) investing activities	(691,188)	(225,774)
Cash flows from financing activities:		
Issuance of common stock under stock-based compensation plans	49,839	48,546
Excess tax benefits on stock-based compensation plans	12,034	9,482
Repurchases of common stock	(161,861)	(147,409)
Net cash (used in) financing activities	(99,988)	(89,381)
Effect of exchange rate changes on cash and cash equivalents	4,979	(15,742)
(Decrease) increase in cash and cash equivalents	(220,564)	108,128
Cash and cash equivalents, beginning of year	2,213,006	1,570,077
Cash and cash equivalents, end of period	$1,992,442	$1,678,205

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, or U.S. GAAP, and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) included in our Annual Report on Form 10-K for the year ended December 31, 2013. In our opinion, all adjustments considered necessary for a fair presentation of the accompanying unaudited condensed consolidated financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the interim periods are not necessarily indicative of results that may be expected to occur for the entire year.

In August 2014, the company announced that its Board of Directors approved an expansion of its stock repurchase program. The Board of Directors increased the company’s stock repurchase authorization under the program from $1,500,000 to $2,000,000 and extended the term of the stock repurchase program from December 31, 2014 to December 31, 2015.

During the six months ended June 30, 2014, we repurchased 2,700,000 shares of our Class A common stock for $130,246, inclusive of fees and expenses, under our existing stock repurchase program approved by our Board of Directors. As of June 30, 2014, prior to the expansion of the program, the remaining available balance under the Board authorization was $371,899. Additional stock repurchases were made in connection with our stock-based compensation plans, whereby company shares were tendered by employees for payment of applicable statutory tax withholdings. During the six months ended June 30, 2014, such repurchases totaled 645,159 shares at an aggregate cost of $31,615.

Stock Split

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

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued a standard on revenue from contracts with customers. The new standard sets forth a single comprehensive model for recognizing and reporting revenue. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. The new standard will be effective for periods beginning on or after January 1, 2017. Early adoption is not permitted. The standard allows for two methods of adoption: the full retrospective adoption, which requires the standard to be applied to each prior period presented, or the modified retrospective adoption, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption. We are currently evaluating the effect the new standard will have on our consolidated financial statements and related disclosures.

In July 2013, the FASB issued new guidance which requires the netting of any unrecognized tax benefits against all available same-jurisdiction deferred income tax carryforward assets that would apply if the uncertain tax positions were settled. We adopted this standard on January 1, 2014. As of June 30, 2014, we netted an unrecognized tax benefit of $85,112 against same-jurisdiction non-current deferred income tax assets. In our December 31, 2013 consolidated statement of financial position, we reclassified $74,196 from "other non-current liabilities" to non-current "deferred income tax assets, net" to conform to current period's presentation. The adoption of this standard had no effect on our condensed consolidated results of operations or stockholder's equity.

Table of Contents

Note 2 — Short-term Investments

Our short-term investments were as follows:

	June 30, 2014	December 31, 2013
Available-for-sale investment securities:		
U.S. Treasury and agency debt securities	$512,684	$506,285
Corporate and other debt securities	385,556	301,841
Certificates of deposit and commercial paper	521,309	99,959
Asset-backed securities	156,447	160,267
Municipal debt securities	116,939	115,196
Mutual funds	21,608	21,136
Total available-for-sale investment securities	1,714,543	1,204,684
Time deposits	422,236	329,783
Total short-term investments	$2,136,779	$1,534,467

Our available-for-sale investment securities consist of U.S. dollar denominated investments primarily in U.S. Treasury notes, U.S. government agency debt securities, municipal debt securities, non-U.S. government debt securities, U.S. and international corporate bonds, certificates of deposit, commercial paper, debt securities issued by supranational institutions, mutual funds invested in fixed income securities, and asset-backed securities, including Government National Mortgage Association (GNMA) mortgage backed securities and securities backed by auto loans, credit card receivables, and other receivables. Our investment guidelines are to purchase securities which are investment grade at the time of acquisition. We monitor the credit ratings of the securities in our portfolio on an ongoing basis. The carrying value of the time deposits approximated fair value as of June 30, 2014 and December 31, 2013.

Available-for-Sale Investment Securities

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at June 30, 2014 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses		Fair Value
U.S. Treasury and agency debt securities	$511,848	$903	$(67	)	$512,684
Corporate and other debt securities	384,442	1,232	(118	)	385,556
Certificates of deposit and commercial paper	520,907	403	(1	)	521,309
Asset-backed securities	156,366	295	(214	)	156,447
Municipal debt securities	116,397	548	(6	)	116,939
Mutual funds	23,314	242	(1,948	)	21,608
Total available-for-sale investment securities	$1,713,274	$3,623	$(2,354	)	$1,714,543

Table of Contents

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	$506,094	$544	$(353)	$506,285
Corporate and other debt securities	300,994	1,090	(243)	301,841
Certificates of deposit and commercial paper	99,897	62	—	99,959
Asset-backed securities	160,559	99	(391)	160,267
Municipal debt securities	114,888	348	(40)	115,196
Mutual funds	22,705	280	(1,849)	21,136
Total available-for-sale investment securities	$1,205,137	$2,423	$(2,876)	$1,204,684

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 June 30, 2014:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency debt securities	$146,704	$(63)	$3,242	$(4)	$149,946	$(67)
Corporate and other debt securities	125,191	(118)	—	—	125,191	(118)
Certificates of deposit and commercial paper	1,999	(1)	—	—	1,999	(1)
Asset-backed securities	36,113	(121)	12,539	(93)	48,652	(214)
Municipal debt securities	7,753	(6)	—	—	7,753	(6)
Mutual funds	—	—	20,531	(1,948)	20,531	(1,948)
Total	$317,760	$(309)	$36,312	$(2,045)	$354,072	$(2,354)

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

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

The unrealized losses for the above securities as of June 30, 2014 and December 31, 2013 are primarily attributable to changes in interest rates. As of June 30, 2014, we do not consider any of the investments to be other-than-temporarily impaired. The gross unrealized gains and losses in the above tables were recorded, net of tax, in accumulated other comprehensive income (loss).

Table of Contents

The contractual maturities of our fixed income available-for-sale investment securities as of June 30, 2014 are set forth in the following table:

	Amortized Cost	Fair Value
Due within one year	$681,875	$682,479
Due after one year up to two years	342,769	343,546
Due after two years up to three years	478,461	479,846
Due after three years up to four years	30,489	30,617
Asset-backed securities	156,366	156,447
Fixed income available-for-sale investment securities	$1,689,960	$1,692,935

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Proceeds from sales of available-for-sale investment securities	$178,787	$498,296	$357,822	$660,000
Gross gains	$370	$896	$753	$1,215
Gross losses	(36)	(382)	(66)	(387)
Net realized gains on sales of available-for-sale investment securities	$334	$514	$687	$828

Note 3 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	June 30, 2014	December 31, 2013
Compensation and benefits	$741,703	$894,986
Income taxes	18,823	24,312
Professional fees	54,434	45,453
Travel and entertainment	33,708	29,645
Customer volume incentives	156,958	170,669
Derivative financial instruments	116,005	191,584
Other	147,226	121,572
Total accrued expenses and other current liabilities	$1,268,857	$1,478,221

Table of Contents

Note 4 — Income Taxes

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

Our effective income tax rates were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
Effective income tax rate	25.9	%	28.5	%	26.1	%	26.7	%

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

Note 5 — 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.

Table of Contents

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$848,586	$—	$—	$848,586
Time deposits	—	50,039	—	50,039
Total cash equivalents	848,586	50,039	—	898,625
Short-term investments:				
Time deposits	—	422,236	—	422,236
Available-for-sale investment securities:				
U.S. Treasury and agency debt securities	425,480	87,204	—	512,684
Corporate and other debt securities	—	385,556	—	385,556
Certificates of deposit and commercial paper	—	521,309	—	521,309
Asset-backed securities	—	156,447	—	156,447
Municipal debt securities	—	116,939	—	116,939
Mutual funds	—	21,608	—	21,608
Total available-for-sale investment securities	425,480	1,289,063	—	1,714,543
Total short-term investments	425,480	1,711,299	—	2,136,779
Derivative financial instruments - foreign exchange forward contracts:				
Other current assets	—	1,727	—	1,727
Accrued expenses and other current liabilities	—	(116,005)	—	(116,005)
Other noncurrent assets	—	1,668	—	1,668
Other noncurrent liabilities	—	(54,419)	—	(54,419)
Total	$1,274,066	$1,594,309	$—	$2,868,375

Table of Contents

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

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

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

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

During the six months ended June 30, 2014 and the year ended December 31, 2013, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

Table of Contents

Note 6 — Derivative Financial Instruments

In the normal course of business, we use foreign exchange forward contracts to manage foreign currency exchange rate risk. The estimated fair value of the foreign exchange forward contracts considers the following items: discount rate, timing and amount of cash flow and counterparty credit risk. Derivatives may give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. We have limited our credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which we do business. In addition, all the assets and liabilities related to our foreign exchange forward contracts set forth in the below table are subject to International Swaps and Derivatives Association, or ISDA, master netting arrangements or other similar agreements with each individual counterparty. These master netting arrangements generally provide for net settlement of all outstanding contracts with the counterparty in the case of an event of default or a termination event. We have presented all the assets and liabilities related to our foreign exchange forward contracts on a gross basis, with no offsets, in our accompanying unaudited condensed consolidated statements of financial position. There is no financial collateral (including cash collateral) posted or received by us related to our foreign exchange forward contracts.

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

		June 30, 2014		December 31, 2013	
Designation of Derivatives	Location on Statement of Financial Position	Assets	Liabilities	Assets	Liabilities
Cash Flow Hedges – Designated as hedging instruments					
Foreign exchange forward contracts	Other current assets	$1,727	$—	$—	$—
	Other noncurrent assets	1,668	—	—	—
	Accrued expenses and other current liabilities	—	111,540	—	190,386
	Other noncurrent liabilities	—	54,419	—	164,490
	Total	3,395	165,959	—	354,876
Other Derivatives – Not designated as hedging instruments					
Foreign exchange forward contracts	Other current assets	—	—	11,105	—
	Accrued expenses and other current liabilities	—	4,465	—	1,198
	Total	—	4,465	11,105	1,198
Total		$3,395	$170,424	$11,105	$356,074

12

Table of Contents

Cash Flow Hedges

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of Indian rupee denominated payments in India. These contracts are intended to partially offset the impact of movement of exchange rates on future operating costs and are scheduled to mature each month during 2014, 2015, and 2016. Under these contracts, we purchase Indian rupees and sell U.S. dollars. The changes in fair value of these contracts are initially reported in the caption “Accumulated other comprehensive income (loss)” in our consolidated statements of financial position and are subsequently reclassified to earnings in the same period the hedge contract matures. As of June 30, 2014, we estimate that $92,830, net of tax, of the net losses related to derivatives designated as cash flow hedges recorded in accumulated other comprehensive income (loss) is expected to be reclassified into earnings within the next 12 months.

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

	June 30, 2014	December 31, 2013
2014	$600,000	$1,200,000
2015	1,200,000	900,000
2016	240,000	240,000
Total notional value of contracts outstanding	$2,040,000	$2,340,000
Net unrealized (loss) included in accumulated other comprehensive income (loss), net of taxes	$(137,423)	$(299,993)

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

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

	(Increase) Decrease in Derivative Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion)		Location of Net Derivative (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2014	2013		2014	2013
Cash Flow Hedges – Designated as hedging instruments					
Foreign exchange forward contracts	$ 34,694	$ (167,034)	Cost of revenues	$ (25,581)	$ (25,541)
			Selling, general and administrative expenses	(5,403)	(5,570)
			Total	$ (30,984)	$ (31,111)

13

Table of Contents

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

	(Increase) Decrease in Derivative Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion)		Location of Net Derivative (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2014	2013		2014	2013
Cash Flow Hedges – Designated as hedging instruments					
Foreign exchange forward contracts	$ 120,980	$ (128,369)	Cost of revenues	$ (59,116)	$ (43,093)
			Selling, general and administrative expenses	(12,216)	(9,362)
			Total	$ (71,332)	$ (52,455)

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

Other Derivatives

We use foreign exchange forward contracts, which have not been designated as hedges, to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of our foreign subsidiaries. We entered into foreign exchange forward contracts to purchase U.S. dollars and sell Indian rupees, Euros and British pounds. Contracts outstanding as of June 30, 2014 are scheduled to mature in 2014 and 2015. Realized gains or losses and changes in the estimated fair value of these derivative financial instruments are recorded in the caption "Foreign currency exchange gains (losses), net" in our condensed consolidated statements of operations.

Additional information related to our outstanding contracts is as follows:

	June 30, 2014		December 31, 2013	
	Notional	Market Value	Notional	Market Value
Contracts to purchase U.S. dollars and sell:				
Indian rupees	$159,818	$(4,080)	$171,802	$11,105
Euros	7,900	(62)	55,500	(412)
British pounds	57,500	(323)	52,000	(786)
Total	$225,218	$(4,465)	$279,302	$9,907

The following table provides information on the location and amounts of realized and unrealized pre-tax gains and losses on our other derivative financial instruments for the three and six months ended June 30, 2014 and 2013:

	Location of Net Gains (Losses) on Derivative Instruments	Amount of Net Gains (Losses) on Derivative Instruments			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Other Derivatives – Not designated as hedging instruments	Foreign currency exchange gains (losses), net				
Foreign exchange forward contracts:		$(4,266)	$17,296	$(12,616)	$14,970

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

Note 7 — Commitments and Contingencies

Table of Contents

As of June 30, 2014, we had outstanding fixed capital commitments of approximately $45,393 related to our India development center expansion program to build new state-of-the-art IT development and delivery centers.

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

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

Note 8 — Accumulated Other Comprehensive Income (Loss)

Table of Contents

Changes in accumulated other comprehensive income (loss) by component were as follows for the three and six months ended June 30, 2014:

	Three Months			Six Months		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:						
Beginning balance	$25,505	$—	$25,505	$24,033	$—	$24,033
Change in foreign currency translation adjustments	(336)	—	(336)	1,136	—	1,136
Ending balance	$25,169	$—	$25,169	$25,169	$—	$25,169
Unrealized gains (losses) on available-for-sale investment securities:						
Beginning balance	$265	$(112)	$153	$(453)	$154	$(299)
Net unrealized gains arising during the period	1,308	(476)	832	2,381	(873)	1,508
Reclassification of net (gains) to Other, net	(304)	113	(191)	(659)	244	(415)
Net change	1,004	(363)	641	1,722	(629)	1,093
Ending balance	$1,269	$(475)	$794	$1,269	$(475)	$794
Unrealized gains (losses) on cash flow hedges:						
Beginning balance	$(228,242)	$35,299	$(192,943)	$(354,876)	$54,883	$(299,993)
Unrealized gains arising during the period	34,694	(5,366)	29,328	120,980	(18,711)	102,269
Reclassifications of losses to:						
Cost of revenues	25,581	(3,956)	21,625	59,116	(9,142)	49,974
Selling, general and administrative expenses	5,403	(836)	4,567	12,216	(1,889)	10,327
Net change	65,678	(10,158)	55,520	192,312	(29,742)	162,570
Ending balance	$(162,564)	$25,141	$(137,423)	$(162,564)	$25,141	$(137,423)
Accumulated other comprehensive income (loss):						
Beginning balance	$(202,472)	$35,187	$(167,285)	$(331,296)	$55,037	$(276,259)
Other comprehensive income (loss)	66,346	(10,521)	55,825	195,170	(30,371)	164,799
Ending balance	$(136,126)	$24,666	$(111,460)	$(136,126)	$24,666	$(111,460)

Table of Contents

Changes in accumulated other comprehensive income (loss) by component were as follows for the three and six months ended June 30, 2013:

	Three Months			Six Months		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:						
Beginning balance	$(8,016)	$—	$(8,016)	$11,572	$—	$11,572
Change in foreign currency translation adjustments	(575)	—	(575)	(20,163)	—	(20,163)
Ending balance	$(8,591)	$—	$(8,591)	$(8,591)	$—	$(8,591)
Unrealized gains on available-for-sale investment securities:						
Beginning balance	$1,935	$(690)	$1,245	$2,440	$(885)	$1,555
Net unrealized (losses) arising during the period	(3,276)	1,167	(2,109)	(3,476)	1,245	(2,231)
Reclassification of net (gains) to Other, net	(376)	128	(248)	(681)	245	(436)
Net change	(3,652)	1,295	(2,357)	(4,157)	1,490	(2,667)
Ending balance	$(1,717)	$605	$(1,112)	$(1,717)	$605	$(1,112)
Unrealized (losses) on cash flow hedges:						
Beginning balance	$(236,586)	$34,926	$(201,660)	$(296,595)	$43,785	$(252,810)
Unrealized gains arising during the period	(167,034)	27,496	(139,538)	(128,369)	21,730	(106,639)
Reclassifications of losses to:						
Cost of revenues	25,541	(3,949)	21,592	43,093	(6,495)	36,598
Selling, general and administrative expenses	5,570	(863)	4,707	9,362	(1,410)	7,952
Net change	(135,923)	22,684	(113,239)	(75,914)	13,825	(62,089)
Ending balance	$(372,509)	$57,610	$(314,899)	$(372,509)	$57,610	$(314,899)
Accumulated other comprehensive income (loss):						
Beginning balance	$(242,667)	$34,236	$(208,431)	$(282,583)	$42,900	$(239,683)
Other comprehensive income (loss)	(140,150)	23,979	(116,171)	(100,234)	15,315	(84,919)
Ending balance	$(382,817)	$58,215	$(324,602)	$(382,817)	$58,215	$(324,602)

Note 9 — Segment Information

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

Our chief operating decision maker evaluates the company's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating segments may affect revenue and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the development and 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Financial Services	$1,058,518	$910,707	$2,082,222	$1,766,048
Healthcare	645,439	541,574	1,261,355	1,051,593
Manufacturing/Retail/Logistics	514,309	461,594	1,026,240	887,440
Other	298,828	247,365	569,625	476,897
Total revenue	$2,517,094	$2,161,240	$4,939,442	$4,181,978
Segment Operating Profit:				
Financial Services	$354,035	$305,395	$701,964	$570,629
Healthcare	227,326	204,991	441,595	382,065
Manufacturing/Retail/Logistics	177,419	158,384	359,100	289,410
Other	104,022	80,592	193,689	151,652
Total segment operating profit	862,802	749,362	1,696,348	1,393,756
Less: unallocated costs[1]	374,881	322,559	748,391	601,046
Income from operations	$487,921	$426,803	$947,957	$792,710

(1) Includes $33,534 and $30,237 of stock-based compensation expense for the three months ended June 30, 2014 and 2013, respectively, and $69,351 and $59,330 of stock-based compensation expense for the six months ended June 30, 2014 and 2013, respectively.

Geographic Area Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues: [1]				
North America[2]	$1,928,552	$1,677,394	$3,764,783	$3,259,585
Europe[3]	466,249	387,228	936,394	735,484
Rest of World [4]	122,293	96,618	238,265	186,909
Total	$2,517,094	$2,161,240	$4,939,442	$4,181,978

	As of June 30, 2014	December 31, 2013
Long-lived Assets: [5]		
North America[2]	$47,315	$48,352
Europe	21,569	22,707
Rest of World [4][6]	1,017,232	1,010,105
Total	$1,086,116	$1,081,164

(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 $266,009 and $233,845 for the three months ended June 30, 2014 and 2013, respectively, and $543,535 and $450,253 for the six months ended June 30, 2014 and 2013, respectively.

(4) Includes our operations in Asia Pacific, the Middle East and Latin America.

Table of Contents

(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.

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

Executive Summary

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

For the three and six months ended June 30, 2014, our revenue increased to $2,517.1 million and $4,939.4 million, respectively compared to $2,161.2 million and $4,182.0 million for the three and six months ended June 30, 2013, respectively. During the three and six months ended June 30, 2014, net income increased to $371.9 million and $720.8 million or $0.61 and $1.18 per diluted share, respectively, compared to net income of $300.4 million and $584.6 million or $0.49 and $0.96 per diluted share during the three and six months ended June 30, 2013, respectively. On a non-GAAP basis during the three and six months ended June 30, 2014, our diluted earnings per share increased to $0.66[1] and $1.28[1], respectively compared to $0.58[1] and $1.09[1] for the three and six months ended June 30, 2013, respectively.

The key drivers of our revenue growth during the three months ended June 30, 2014 were as follows:

- Solid performance across all of our business segments with revenue growth ranging from 11.4% to 20.8%;
- Sustained strength in the North American market where revenues grew 15.0%, as compared to the quarter ended June 30, 2013;
- Continued penetration of the European and Rest of World (primarily the Asia Pacific) markets where we experienced revenue growth of 20.4% and 26.6%, respectively, as compared to the quarter ended June 30, 2013;
- Increased customer spending on discretionary projects;
- Expansion of our service offerings, including Consulting, IT IS, and BPS services, which enabled us to cross-sell new services to our customers and meet the rapidly growing demand for complex large-scale outsourcing solutions;
- Increased penetration at existing customers, including strategic clients; and
- Continued expansion of the market for global delivery of IT services and BPS.

We saw a continued demand from our customers for a broad range of services, including IT strategy and business consulting, application development and systems integration, EIM, application testing, application maintenance, IT IS, and BPS. In addition, we are seeing an increased customer interest in our social, mobile, analytics and cloud-based services, or SMAC. We are also seeing an increase in demand for larger, more complex projects that are transformational for our customers. Such contracts may have longer sales cycles and ramp-up periods and could lead to greater variability in our period-to-period operating results. We finished the second quarter with approximately 1,242 active clients, compared to approximately 1,100 active clients as of June 30, 2013, and increased the number of strategic clients by 7 during the quarter, bringing the total number of our strategic clients to 257. We define a strategic client as one offering the potential to generate at least $5 million to $50 million or more in annual revenues at maturity.

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

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

Table of Contents

Our operating margin decreased to approximately 19.4% for the quarter ended June 30, 2014 compared to 19.7% for the quarter ended June 30, 2013. Our non-GAAP operating margin for the quarter ended June 30, 2014 was approximately 21.0%[2] compared to 21.4%[2] for the quarter ended June 30, 2013. The decrease in our GAAP and non-GAAP operating margins was due to increases in compensation and benefit costs, including incentive-based compensation, partially offset by the impact of the depreciation of the Indian rupee against the U.S. dollar, net of losses on our cash flow hedges. Historically, we have invested our profitability above the 19% to 20% non-GAAP operating margin level back into our business, which we believe is a significant contributing factor to our strong revenue growth. This investment is primarily focused in the areas of hiring client partners and relationship personnel with specific industry experience or domain expertise, training our technical staff in a broader range of service offerings, strengthening our business analytics capabilities, strengthening and expanding our portfolio of services, continuing to expand our geographic presence for both sales and delivery as well as recognizing and rewarding exceptional performance by our employees. In addition, this investment includes maintaining a level of resources, trained in a broad range of service offerings, to be well positioned to respond to our customer requests to take on additional projects. We expect to continue to invest amounts in excess of our targeted operating margin levels back into the business.

We finished the second quarter of 2014 with approximately 187,400 employees, which is an increase of approximately 23,100 as compared to June 30, 2013. The increase in the number of our technical personnel and the related infrastructure costs to meet the demand for our services is the primary driver of the increase in our operating expenses in 2014. Annualized turnover, including both voluntary and involuntary, was approximately 16.9% for the three months ended June 30, 2014. The majority of our turnover occurs in India. As a result, annualized attrition rates on-site at clients are below our global attrition rate. In addition, attrition is weighted towards the more junior members of our staff. We have experienced increases in compensation and benefit costs, including incentive-based compensation costs, in India which may continue in the future; however, historically, this has not had a material impact on our results of operations as we have been able to absorb such cost increases through price increases or cost management strategies such as managing discretionary costs, the mix of our professional staff as well as utilization levels, and achieving other operating efficiencies.

At June 30, 2014, we had cash, cash equivalents and short-term investments of $4,129.2 million and working capital of $5,173.0 million. Accordingly, we do not anticipate any near-term liquidity issues.

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

- Continued focus by customers on directing IT spending towards cost containment projects, such as application maintenance, IT IS and BPS;
- Demand from our customers to help them achieve their dual mandate of simultaneously achieving cost savings while investing in innovation;
- Secular changes driven by evolving technologies and regulatory changes;
- Volatility in foreign currency rates; and
- Continued uncertainty in the world economy.

In response to this macroeconomic environment, we plan to:

- Continue to invest in our talent base and new service offerings;
- Partner with our existing customers to garner an increased portion of our customers’ overall IT spend by providing innovative solutions;
- Continue our focus on growing our business in Europe, the Middle East, the Asia Pacific and Latin America regions, where we believe there are opportunities to gain market share;
- Continue to increase our strategic customer base across all of our business segments;
- Opportunistically look for acquisitions that may improve our overall service delivery capabilities, expand our geographic presence and/or enable us to enter new areas of technology;
- Continue to focus on operating discipline in order to appropriately manage our cost structure; and
- Continue to locate most of our new development center facilities in tax incentivized areas.

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

Table of Contents

Stock Split

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

Business Segments

Our four reportable business segments are:

- Financial Services, which includes customers providing banking/transaction processing, capital markets and insurance services;
- Healthcare, which includes healthcare providers and payers as well as life sciences customers;
- Manufacturing/Retail/Logistics, which includes consumer goods manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and
- Other, which is an aggregation of industry operating segments each of which, individually, represents less than 10.0% of consolidated revenues and segment operating profit. The Other reportable segment includes our information, media and entertainment services, communications, and high technology operating segments.

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

We had approximately 1,242 active clients as of June 30, 2014. Accordingly, we provide a significant volume of services to many customers in each of our business segments. Therefore, a loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, no individual customer accounted for sales in excess of 10% of our consolidated revenues for the periods ended June 30, 2014 and 2013. In addition, the services we provide to our larger customers are often critical to the operations of such customers and we believe that a termination of our services would require an extended transition period with gradually declining revenues.

Table of Contents

Results of Operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

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

(Dollars in thousands, except per share amounts)

	2014	% of Revenues	2013	% of Revenues	Increase (Decrease) $	%
Revenues	$2,517,094	100.0	$2,161,240	100.0	$355,854	16.5
Cost of revenues(1)	1,499,462	59.6	1,272,013	58.9	227,449	17.9
Selling, general and administrative expenses(1)	482,985	19.2	420,526	19.5	62,459	14.9
Depreciation and amortization expense	46,726	1.9	41,898	1.9	4,828	11.5
Income from operations	487,921	19.4	426,803	19.7	61,118	14.3
Other income (expense), net	13,917		(6,406)		20,323	-
Income before provision for income taxes	501,838	19.9	420,397	19.5	81,441	19.4
Provision for income taxes	129,930		119,987		9,943	8.3
Net income	$371,908	14.8	$300,410	13.9	$71,498	23.8
Diluted earnings per share	$0.61		$0.49		$0.12	
Other Financial Information (2)						
Non-GAAP income from operations and non-GAAP operating margin	$529,057	21.0	$462,952	21.4	$66,105	14.3
Non-GAAP diluted earnings per share	$0.66		$0.58		$0.08	

(1) Exclusive of depreciation and amortization expense.

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

Revenue - Overall. Revenue increased 16.5%, or approximately $355.9 million, from approximately $2,161.2 million during the three months ended June 30, 2013 to approximately $2,517.1 million during the three months ended June 30, 2014. This increase was primarily attributed to greater acceptance of our global delivery model among an increasing number of industries, continued interest in using our global delivery model as a means to reduce overall IT and operations costs, increased customer spending on discretionary projects, and continued penetration in all our geographic markets. Revenues from new customers contributed $101.0 million representing 28.4% of the period over period revenue growth. Our consulting and technology services revenues increased by approximately 20.9% compared to the three months ended June 30, 2013 and represented approximately 52.4% of total revenues for the three months ended June 30, 2014, while our outsourcing services revenue increased by approximately 11.9% and constituted approximately 47.6% of total revenues for the three months ended June 30, 2014.

We had approximately 1,242 active clients as of June 30, 2014 as compared to approximately 1,100 active clients as of June 30, 2013. Revenues from our top five customers as a percentage of total revenues were 12.7% and 13.4% for the quarters ended June 30, 2014 and 2013, respectively. Revenues from our top ten customers as a percentage of total revenues were 21.9%, and 23.1% for the quarters ended June 30, 2014 and 2013, respectively. As we continue to add new customers and increase our penetration at existing customers, we expect the percentage of revenues from our top five and top ten customers to decline over time.

Table of Contents

Revenue - Reportable Segments. Revenues by reportable business segment were as follows for the three months ended June 30:

(Dollars in thousands)	2014	2013	Increase $	%
Financial services	$1,058,518	$910,707	$147,811	16.2
Healthcare	645,439	541,574	103,865	19.2
Manufacturing/Retail/Logistics	514,309	461,594	52,715	11.4
Other	298,828	247,365	51,463	20.8
Total revenue	$2,517,094	$2,161,240	$355,854	16.5

Revenue from our Financial Services segment grew 16.2% or $147.8 million for the three months ended June 30, 2014, as compared to the three months ended June 30, 2013. Our banking and insurance customers contributed approximately $89.9 million and $57.9 million, respectively, to the period-over-period revenue increase. In this segment, revenue from customers added since June 30, 2013 was approximately $33.5 million and represented 22.7% of the period-over-period revenue increase in this segment. Key areas of focus for our Financial Services customers included cost optimization, regulatory and compliance driven initiatives, risk management, and the adoption and integration of SMAC technologies to align with shifts in consumer preferences.

Revenue from our Healthcare segment grew 19.2% or $103.9 million for the three months ended June 30, 2014, as compared to the three months ended June 30, 2013. During the second quarter of 2014, growth was stronger among our healthcare customers, where revenue increased by approximately $87.0 million as compared to an increase of approximately $16.9 million for our life science customers. Revenue from customers added since June 30, 2013 was approximately $31.2 million and represented 30.0% of the period-over-period revenue increase in this segment. Revenue growth from our healthcare customers was driven by the implementation of direct to consumer programs and work related to Affordable Care Act initiatives in the United States, including extended support for member enrollment. IT spending by some of our life sciences customers has been and may continue to be adversely impacted by the patent cliff affecting the pharmaceutical industry.

Revenue from our Manufacturing/Retail/Logistics segment grew 11.4% or $52.7 million for the three months ended June 30, 2014, as compared to the three months ended June 30, 2013. During the second quarter of 2014, growth was stronger among our manufacturing and logistics customers, where revenue increased by approximately $30.2 million as compared to an increase of approximately $22.5 million for our retail and hospitality customers. Revenue from customers added since June 30, 2013 was approximately $21.8 million and represented approximately 41.4% of the period-over-period revenue increase in this segment. Demand within this segment continues to be driven by multichannel commerce implementation and integration efforts, analytics, supply chain consulting and implementation initiatives, and increased adoption of SMAC technologies to align with shifts in consumer preferences. Discretionary spending by our retail customers has been and may continue to be affected by recent weakness in the retail sector.

Revenue from our Other segment grew 20.8% or $51.5 million for the three months ended June 30, 2014, as compared to the three months ended June 30, 2013. In the second quarter of 2014, growth within Other was particularly strong among our high technology customers, where revenue increased by approximately $24.5 million due to an increase in discretionary spending, and among our telecommunication customers, where revenues increased by approximately $26.4 million. Revenue from customers added since June 30, 2013 was approximately $14.5 million and represented 28.2% of the period-over-period revenue increase in this segment.

Revenue - Geographic Markets. Revenues by geographic market were as follows for the three months ended June 30:

Table of Contents

(Dollars in thousands)	2014	2013	Increase $	%
North America	$1,928,552	$1,677,394	$251,158	15.0
United Kingdom	266,009	233,845	32,164	13.8
Rest of Europe	200,240	153,383	46,857	30.5
Europe - Total	466,249	387,228	79,021	20.4
Rest of World	122,293	96,618	25,675	26.6
Total Revenue	$2,517,094	$2,161,240	$355,854	16.5

North America continues to be our largest market representing approximately 76.6% of total revenue for the second quarter of 2014 and accounted for $251.2 million of the $355.9 million total revenue increase from second quarter of 2013. In 2014, revenue from Europe grew 20.4% compared to 2013. The revenue growth in Europe was driven by the increasing acceptance of our global delivery model and Europe's continued economic recovery. We believe the European market is under-penetrated and represents a significant future growth opportunity for us. The revenue growth from our Rest of World customers in 2014 was primarily driven by the India, Australia, Middle East, and Singapore markets. We believe that Europe, the Middle East, the Asia Pacific and Latin America regions will continue to be areas of significant investment for us as we see these regions as growth opportunities for the long term.

Cost of Revenues (Exclusive of Depreciation and Amortization Expense). Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, immigration and project-related travel for technical personnel, subcontracting and sales commissions related to revenues. Our cost of revenues increased by 17.9% or $227.4 million during the second quarter of 2014 as compared to the second quarter of 2013. The increase was due primarily to an increase in compensation and benefits costs, including incentive-based compensation, partially offset by the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar. For the three months ended June 30, 2014, compensation and benefit costs, including incentive-based compensation, increased by approximately $181.6 million, primarily as a result of the increase in the number of our technical personnel.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 14.6%, or $67.3 million during the second quarter of 2014 as compared to the second quarter of 2013. Selling, general and administrative expenses, including depreciation and amortization, decreased as a percentage of revenue to 21.0% in the second quarter of 2014 as compared to 21.4% in the second quarter of 2013. The decrease as a percentage of revenue was due primarily to economies of scale that allowed us to leverage our cost structure over a larger organization and the favorable impact of the depreciation of the Indian rupee versus the U.S. dollar, net of losses on our cash flow hedges.

Income from Operations and Operating Margin - Overall. Income from operations increased 14.3%, or approximately $61.1 million in the second quarter of 2014 as compared to the second quarter of 2013. Our operating margin decreased to 19.4% during the second quarter 2014 from 19.7% in the second quarter of 2013, due to increases in compensation and benefit costs, including incentive-based compensation costs, partially offset by the impact of the depreciation of the Indian rupee against the U.S. dollar, net of losses on our cash flow hedges. 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 144 basis points or 1.44 percentage points in the three months ended June 30, 2014. Each additional 1.0% change in the exchange rate between the Indian rupee and the U.S. dollar will have the effect of moving our operating margin by approximately 20 basis points or 0.20 percentage points.

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 June 30, 2014 and 2013, the settlement of certain cash flow hedges negatively impacted our operating margin by approximately 123 basis points or 1.23 percentage points and 144 basis points or 1.44 percentage points, respectively.

For the three months ended June 30, 2014 and 2013, our non-GAAP operating margins were 21.0%[3], and 21.4%[3], respectively. As set forth in the "Non-GAAP Financial Measures" section below, our non-GAAP operating margin excludes stock based compensation expense and acquisition-related charges.

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

Segment Operating Profit. Segment operating profits were as follows for the three months ended June 30:

(Dollars in thousands)			Increase	
	2014	2013	$	%
Financial Services	$354,035	$305,395	$48,640	15.9
Healthcare	227,326	204,991	22,335	10.9
Manufacturing/Retail/Logistics	177,419	158,384	19,035	12.0
Other	104,022	80,592	23,430	29.1
Total segment operating profit	862,802	749,362	113,440	15.1
Less: unallocated costs(1)	374,881	322,559	52,322	16.2
Income from operations	$487,921	$426,803	$61,118	14.3

(1) Includes $33,534 and $30,237 of stock-based compensation expense for the three months ended June 30, 2014 and 2013, respectively.

The increase in segment operating profit across all our segments 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 benefit costs resulting primarily from additional headcount to support our revenue growth. In addition, segment operating profit in our Healthcare segment was negatively impacted by continued investments to build out our delivery capabilities for newer services.

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 June 30:

(Dollars in thousands)

	2014	2013	Increase (Decrease)
Foreign currency exchange gains (losses)	$3,514	$(36,370)	$39,884
(Losses) gains on foreign exchange forward contracts not designated as hedging instruments	(4,266)	17,296	(21,562)
Net foreign currency exchange (losses)	(752)	(19,074)	18,322
Interest income	14,132	13,080	1,052
Other, net	537	(412)	949
Total other income (expense), net	$13,917	$(6,406)	$20,323

The foreign currency exchange gains of approximately $3.5 million were primarily attributed to the remeasurement of the Indian rupee denominated net monetary assets on the books of our Indian subsidiaries to the U.S. dollar functional currency. The $4.3 million of losses on our 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 June 30, 2014, the notional value of our undesignated hedges was $225.2 million. The increase in interest income of $1.1 million was primarily attributable to an increase in average invested balances, partially offset by the depreciation of the Indian rupee against the U.S. dollar.

Provision for Income Taxes. The provision for income taxes increased to approximately $129.9 million during the three months ended June 30, 2014 from approximately $120.0 million during the three months ended June 30, 2013.

The

Table of Contents

effective income tax rate decreased to 25.9% for the three months ended June 30, 2014 from 28.5% for the three months ended June 30, 2013. The decrease in our effective income tax rate was primarily attributed to changes in the geographic mix of our current year earnings, partially offset by a scheduled reduction of certain income tax holiday benefits in India in 2014.

Net Income. Net income increased to approximately $371.9 million for the three months ended June 30, 2014 from approximately $300.4 million for the three months ended June 30, 2013, representing 14.8% and 13.9% of revenues, respectively.

Non-GAAP Financial Measures

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

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

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

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

The following table presents a reconciliation of each non-GAAP financial measure to the most comparable GAAP measure for the three months ended June 30:

(Dollars in thousands, except per share amounts)

Table of Contents

	2014	% of Revenues	2013	% of Revenues
GAAP income from operations and operating margin	$487,921	19.4	$426,803	19.7
Add: Stock-based compensation expense	33,534	1.3	30,237	1.4
Add: Acquisition-related charges (1)	7,602	0.3	5,912	0.3
Non-GAAP income from operations and non-GAAP operating margin	$529,057	21.0	$462,952	21.4
GAAP diluted earnings per share	$0.61		$0.49	
Effect of above operating adjustments, net of tax	0.05		0.04	
Effect on non-operating foreign currency exchange gains and losses, net of tax (2)	—		0.04	
Non-GAAP diluted earnings per share (3)	$0.66		$0.58	

(1) Acquisition-related charges include, when applicable, amortization of purchased intangible assets included in the depreciation and amortization expense line on our condensed consolidated statements of operations, external deal costs, acquisition-related retention bonuses, integration costs, changes in the fair value of contingent consideration liabilities, charges for impairment of acquired intangible assets and other acquisition-related costs.

(2) Non-operating foreign currency exchange gains and losses are inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes.

(3) The sum of the components of non-GAAP diluted earnings per share may not equal the actual non-GAAP diluted earnings per share due to rounding.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

The following table sets forth, for the periods indicated, certain financial data for the six months ended June 30:

(Dollars in thousands, except per share amounts)

	2014	% of Revenues	2013	% of Revenues	Increase $	%
Revenues	$4,939,442	100.0	$4,181,978	100.0	$757,464	18.1
Cost of revenues(1)	2,931,906	59.4	2,471,978	59.1	459,928	18.6
Selling, general and administrative expenses(1)	968,380	19.6	833,730	19.9	134,650	16.2
Depreciation and amortization expense	91,199	1.8	83,560	2.0	7,639	9.1
Income from operations	947,957	19.2	792,710	19.0	155,247	19.6
Other income (expense), net	27,069		4,870		22,199	455.8
Income before provision for income taxes	975,026	19.7	797,580	19.1	177,446	22.2
Provision for income taxes	254,240		212,961		41,279	19.4
Net income	$720,786	14.6	$584,619	14.0	$136,167	23.3
Diluted earnings per share	$1.18		$0.96		$0.22	
Other Financial Information (2)						
Non-GAAP income from operations and non-GAAP operating margin	$1,032,850	20.9	$864,606	20.7	$168,244	19.5
Non-GAAP diluted earnings per share	$1.28		$1.09		$0.19	

(1) Exclusive of depreciation and amortization expense.

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

Revenue - Overall. Revenue increased 18.1%, or approximately $757.5 million, from approximately $4,182.0 million during the six months ended June 30, 2013 to approximately $4,939.4 million during the six months ended June 30, 2014. This increase was primarily attributed to greater acceptance of our global delivery model among an increasing number of industries, continued interest in using our global delivery model as a means to reduce overall IT and operations costs, increased customer spending on discretionary projects, and continued penetration in all our geographic markets. Revenues from new customers contributed $165.5 million representing 21.8% of the period over period revenue growth. Our consulting and technology services revenues increased by approximately 22.3% compared to the six months ended June 30, 2013 and represented approximately 51.8% of total revenues for the six months ended June 30, 2014, while our outsourcing services revenue increased by approximately 13.9% and constituted approximately 48.2% of total revenues for the six months ended June 30, 2014.