# FORM 10-Q

## COGNIZANT TECHNOLOGY SOLUTIONS CORP - CTSH

**Filed: August 01, 2019 (period: June 30, 2019)**

Quarterly report with a continuing view of a company's financial position

# 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 June 30, 2019**

☐ **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

# 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**

**N/A**
**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Class A Common Stock, $0.01 par value per share | CTSH | The Nasdaq Stock Market LLC |

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No: ☐

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 July 26, 2019:

| Class | Number of Shares |
| --- | --- |
| Class A Common Stock, par value $0.01 per share | 552,291,064 |

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**TABLE OF CONTENTS**

# PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements (Unaudited).

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Unaudited)**
**(in millions, except par values)**

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,660 | $ 1,161 |
| Short-term investments | 1,343 | 3,350 |
| Trade accounts receivable, net of allowances of $100 and $78, respectively | 3,386 | 3,257 |
| Other current assets | 817 | 909 |
| Total current assets | 7,206 | 8,677 |
| Property and equipment, net | 1,337 | 1,394 |
| Operating lease assets, net | 847 | — |
| Goodwill | 3,651 | 3,481 |
| Intangible assets, net | 1,161 | 1,150 |
| Deferred income tax assets, net | 468 | 442 |
| Long-term investments | 80 | 80 |
| Other noncurrent assets | 767 | 689 |
| Total assets | $ 15,517 | $ 15,913 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 254 | $ 215 |
| Deferred revenue | 285 | 286 |
| Short-term debt | 28 | 9 |
| Operating lease liabilities | 201 | — |
| Accrued expenses and other current liabilities | 2,056 | 2,267 |
| Total current liabilities | 2,824 | 2,777 |
| Deferred revenue, noncurrent | 63 | 62 |
| Operating lease liabilities, noncurrent | 679 | — |
| Deferred income tax liabilities, net | 44 | 183 |
| Long-term debt | 718 | 736 |
| Long-term income taxes payable | 471 | 478 |
| Other noncurrent liabilities | 161 | 253 |
| Total liabilities | 4,960 | 4,489 |
| Commitments and contingencies (See Note 13) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.10 par value, 15.0 shares authorized, none issued | — | — |
| Class A common stock, $0.01 par value, 1,000 shares authorized, 552 and 577 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively | 6 | 6 |
| Additional paid-in capital | 38 | 47 |
| Retained earnings | 10,583 | 11,485 |
| Accumulated other comprehensive income (loss) | (70) | (114) |
| Total stockholders' equity | 10,557 | 11,424 |
| Total liabilities and stockholders' equity | $ 15,517 | $ 15,913 |

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

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**
**(in millions, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Revenues | $ 4,141 | $ 4,006 | $ 8,251 | $ 7,918 |
| Operating expenses: | | | | |
| Cost of revenues (exclusive of depreciation and amortization expense shown separately below) | 2,629 | 2,417 | 5,204 | 4,818 |
| Selling, general and administrative expenses | 768 | 805 | 1,641 | 1,516 |
| Depreciation and amortization expense | 125 | 114 | 248 | 221 |
| Income from operations | 619 | 670 | 1,158 | 1,363 |
| Other income (expense), net: | | | | |
| Interest income | 45 | 40 | 93 | 81 |
| Interest expense | (6) | (7) | (13) | (13) |
| Foreign currency exchange gains (losses), net | 16 | (80) | 18 | (111) |
| Other, net | 2 | — | 3 | — |
| Total other income (expense), net | 57 | (47) | 101 | (43) |
| Income before provision for income taxes | 676 | 623 | 1,259 | 1,320 |
| Provision for income taxes | (167) | (168) | (309) | (345) |
| Income from equity method investments | — | 1 | — | 1 |
| Net income | $ 509 | $ 456 | $ 950 | $ 976 |
| Basic earnings per share | $ 0.90 | $ 0.78 | $ 1.67 | $ 1.67 |
| Diluted earnings per share | $ 0.90 | $ 0.78 | $ 1.67 | $ 1.66 |
| Weighted average number of common shares outstanding - Basic | 564 | 585 | 569 | 586 |
| Dilutive effect of shares issuable under stock-based compensation plans | — | 1 | 1 | 1 |
| Weighted average number of common shares outstanding - Diluted | 564 | 586 | 570 | 587 |

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

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Unaudited)**
**(in millions)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net income | $ 509 | $ 456 | $ 950 | $ 976 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (9) | (71) | (11) | (34) |
| Change in unrealized gains and losses on cash flow hedges | 11 | (87) | 47 | (123) |
| Change in unrealized gains and losses on available-for-sale securities | 2 | 1 | 8 | (6) |
| Other comprehensive income (loss) | 4 | (157) | 44 | (163) |
| Comprehensive income | $ 513 | $ 299 | $ 994 | $ 813 |

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

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited)**
**(in millions)**

| | Class A Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance, December 31, 2018 | 577 | $ 6 | $ 47 | $ 11,485 | $ (114) | $ 11,424 |
| Cumulative effect of changes in accounting principle[1] | — | — | — | 2 | — | 2 |
| Net income | — | — | — | 441 | — | 441 |
| Other comprehensive income (loss) | — | — | — | — | 40 | 40 |
| Common stock issued, stock-based compensation plans | 2 | — | 50 | — | — | 50 |
| Stock-based compensation expense | — | — | 66 | — | — | 66 |
| Repurchases of common stock | (10) | — | (99) | (672) | — | (771) |
| Dividends declared, $0.20 per share | — | — | — | (116) | — | (116) |
| Balance, March 31, 2019 | 569 | 6 | 64 | 11,140 | (74) | 11,136 |
| Net income | — | — | — | 509 | — | 509 |
| Other comprehensive income (loss) | — | — | — | — | 4 | 4 |
| Common stock issued, stock-based compensation plans | 2 | — | 40 | — | — | 40 |
| Stock-based compensation expense | — | — | 54 | — | — | 54 |
| Repurchases of common stock | (19) | — | (120) | (952) | — | (1,072) |
| Dividends declared, $0.20 per share | — | — | — | (114) | — | (114) |
| Balance, June 30, 2019 | 552 | $ 6 | $ 38 | $ 10,583 | $ (70) | $ 10,557 |

| | Class A Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance, December 31, 2017 | 588 | $ 6 | $ 49 | $ 10,544 | $ 70 | $ 10,669 |
| Cumulative effect of changes in accounting principle[2] | — | — | — | 122 | (1) | 121 |
| Net income | — | — | — | 520 | — | 520 |
| Other comprehensive income (loss) | — | — | — | — | (6) | (6) |
| Common stock issued, stock-based compensation plans | 2 | — | 60 | — | — | 60 |
| Stock-based compensation expense | — | — | 59 | — | — | 59 |
| Repurchases of common stock | (4) | — | (105) | (211) | — | (316) |
| Dividends declared, $0.20 per share | — | — | — | (119) | — | (119) |
| Balance, March 31, 2018 | 586 | 6 | 63 | 10,856 | 63 | 10,988 |
| Net income | — | — | — | 456 | — | 456 |
| Other comprehensive income (loss) | — | — | — | — | (157) | (157) |
| Common stock issued, stock-based compensation plans | 2 | — | 42 | — | — | 42 |
| Stock-based compensation expense | — | — | 71 | | | 71 |
| Repurchases of common stock | (8) | — | (121) | (512) | | (633) |
| Dividends declared, $0.20 per share | — | — | — | (119) | | (119) |
| Balance, June 30, 2018 | 580 | $ 6 | $ 55 | $ 10,681 | $ (94) | $ 10,648 |

(1) Reflects the adoption of the Accounting Standards Codification ("ASC") Topic 842 "Leases" (the "New Lease Standard") as described in Note 6.
(2) Reflects the adoption of the ASC Topic 606 "Revenue from Contacts with Customers" (the "New Revenue Standard") as well as Accounting Standards Update ("ASU") 2018-02 "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02") on January 1, 2018. Refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

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

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**
**(in millions)**

| | For the Six Months Ended June 30, 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 950 | $ 976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 266 | 240 |
| Provision for doubtful accounts | 22 | 4 |
| Deferred income taxes | (180) | 51 |
| Stock-based compensation expense | 120 | 130 |
| Other | (48) | 100 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (129) | (330) |
| Other current and noncurrent assets | 51 | 137 |
| Accounts payable | 2 | (3) |
| Deferred revenues, current and noncurrent | (2) | (47) |
| Other current and noncurrent liabilities | (208) | (230) |
| Net cash provided by operating activities | 844 | 1,028 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (202) | (187) |
| Purchases of available-for-sale investment securities | (333) | (806) |
| Proceeds from maturity or sale of available-for-sale investment securities | 2,107 | 906 |
| Purchases of held-to-maturity investment securities | (406) | (519) |
| Proceeds from maturity of held-to-maturity investment securities | 691 | 386 |
| Purchases of other investments | (310) | (318) |
| Proceeds from maturity or sale of other investments | 308 | 205 |
| Payments for business combinations, net of cash acquired | (232) | (478) |
| Net cash provided by (used in) investing activities | 1,623 | (811) |
| Cash flows from financing activities: | | |
| Issuance of common stock under stock-based compensation plans | 90 | 102 |
| Repurchases of common stock | (1,825) | (949) |
| Repayment of term loan borrowings and finance lease and earnout obligations | (9) | (64) |
| Net change in notes outstanding under the revolving credit facility | — | (75) |
| Dividends paid | (232) | (236) |
| Net cash (used in) financing activities | (1,976) | (1,222) |
| Effect of exchange rate changes on cash and cash equivalents | 8 | (19) |
| Increase (decrease) in cash and cash equivalents | 499 | (1,024) |
| Cash and cash equivalents, beginning of year | 1,161 | 1,925 |
| Cash and cash equivalents, end of period | $ 1,660 | $ 901 |

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

**COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

## Note 1 — Interim Consolidated Financial Statements

The terms "Cognizant," "we," "our," "us" and "the Company" refer to Cognizant Technology Solutions Corporation and its subsidiaries unless the context indicates otherwise. We have prepared the accompanying unaudited consolidated financial statements included herein in accordance with generally accepted accounting principles in the United States of America ("GAAP"), and Regulation S-X under the Securities Exchange Act of 1934, (as amended, the "Exchange Act"). The accompanying unaudited 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, 2018. In our opinion, all adjustments considered necessary for a fair statement of the accompanying unaudited 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.

### Recently Adopted Accounting Pronouncements

| Date Issued and Topic | Date Adopted and Method | Description | Impact |
|---|---|---|---|
| February 2016<br><br>Leases | January 1, 2019<br><br>Effective Date Method | The new standard replaces the existing guidance on leases and requires the lessee to recognize a right-of-use ("ROU") asset and a lease liability for all leases with lease terms equal to or greater than twelve months. For finance leases, the lessee recognizes interest expense and amortization of the ROU asset, and for operating leases, the lessee recognizes total lease expense on a straight-line basis. The standard offers several practical expedients for transition and certain expedients specific to lessees or lessors. The standard allows for two methods of adoption: retrospective to each prior reporting period presented with the cumulative effect of adoption recognized at the beginning of the earliest period presented or retrospective to the beginning of the period of adoption through a cumulative-effect adjustment (the "Effective Date Method"). | See Note 6 for the impact of adoption of this standard. |
| March 2017<br><br>Nonrefundable Fees and Other Costs | January 1, 2019<br><br>Modified Retrospective | This update shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount. Upon adoption, entities are required to use a modified retrospective transition with the cumulative effect adjustment recognized to retained earnings as of the beginning of the period of adoption. | The adoption of this update did not have an impact on our consolidated financial statements. |
| August 2018<br><br>Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement ("CCA") that is a Service Contract | Early adoption on January 1, 2019<br><br>Prospective | This update aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. In addition, this update clarifies the financial statement presentation requirement for capitalized implementation costs and related amortization of such costs. | The adoption of this update did not have an impact on our consolidated financial statements. |

## Note 2 — Revenues

### Disaggregation of Revenues

The tables below present disaggregated revenues from contracts with customers by customer location, service line and contract-type for each of our business segments. We believe this disaggregation best depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by industry, market and other economic factors. Revenues are attributed to regions based upon customer location. Substantially all of the revenue in our North America region relates to operations in the United States.

We have defined our Financial Services, Healthcare, Products and Resources and Communications, Media and Technology segments as ("FS"), ("HC"), ("P&R"), and ("CMT"), respectively, in our disaggregation of revenues tables.

| | Three Months Ended June 30, 2019 | | | | | Six Months Ended June 30, 2019 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FS | HC | P&R | CMT | Total | FS | HC | P&R | CMT | Total |
| | (in millions) | | | | | | | | | |
| Revenues | | | | | | | | | | |
| Geography: | | | | | | | | | | |
| North America | $ 1,035 | $ 1,006 | $ 658 | $ 440 | $ 3,139 | $ 2,053 | $ 2,048 | $ 1,299 | $ 862 | $ 6,262 |
| United Kingdom | 119 | 29 | 97 | 77 | 322 | 248 | 54 | 191 | 158 | 651 |
| Continental Europe | 194 | 80 | 110 | 43 | 427 | 356 | 162 | 225 | 89 | 832 |
| Europe - Total | 313 | 109 | 207 | 120 | 749 | 604 | 216 | 416 | 247 | 1,483 |
| Rest of World | 125 | 19 | 62 | 47 | 253 | 252 | 35 | 126 | 93 | 506 |
| Total | $ 1,473 | $ 1,134 | $ 927 | $ 607 | $ 4,141 | $ 2,909 | $ 2,299 | $ 1,841 | $ 1,202 | $ 8,251 |
| Service line: | | | | | | | | | | |
| Consulting and technology services | $ 947 | $ 613 | $ 561 | $ 320 | $ 2,441 | $ 1,860 | $ 1,251 | $ 1,113 | $ 626 | $ 4,850 |
| Outsourcing services | 526 | 521 | 366 | 287 | 1,700 | 1,049 | 1,048 | 728 | 576 | 3,401 |
| Total | $ 1,473 | $ 1,134 | $ 927 | $ 607 | $ 4,141 | $ 2,909 | $ 2,299 | $ 1,841 | $ 1,202 | $ 8,251 |
| Type of contract: | | | | | | | | | | |
| Time and materials | $ 920 | $ 442 | $ 401 | $ 379 | $ 2,142 | $ 1,839 | $ 900 | $ 801 | $ 754 | $ 4,294 |
| Fixed-price | 477 | 382 | 424 | 197 | 1,480 | 941 | 782 | 838 | 387 | 2,948 |
| Transaction or volume-based | 76 | 310 | 102 | 31 | 519 | 129 | 617 | 202 | 61 | 1,009 |
| Total | $ 1,473 | $ 1,134 | $ 927 | $ 607 | $ 4,141 | $ 2,909 | $ 2,299 | $ 1,841 | $ 1,202 | $ 8,251 |

| | Three Months Ended June 30, 2018 | | | | | Six Months Ended June 30, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | FS | HC | P&R | CMT | Total | FS | HC | P&R | CMT | Total |
| | | | | | (in millions) | | | | | |
| Revenues | | | | | | | | | | |
| Geography: | | | | | | | | | | |
| North America | $ 1,056 | $ 1,060 | $ 585 | $ 366 | $ 3,067 | $ 2,100 | $ 2,083 | $ 1,157 | $ 702 | $ 6,042 |
| United Kingdom | 114 | 22 | 89 | 84 | 309 | 230 | 45 | 176 | 168 | 619 |
| Continental Europe | 165 | 61 | 109 | 46 | 381 | 327 | 122 | 218 | 88 | 755 |
| Europe - Total | 279 | 83 | 198 | 130 | 690 | 557 | 167 | 394 | 256 | 1,374 |
| Rest of World | 134 | 13 | 57 | 45 | 249 | 273 | 27 | 110 | 92 | 502 |
| Total | $ 1,469 | $ 1,156 | $ 840 | $ 541 | $ 4,006 | $ 2,930 | $ 2,277 | $ 1,661 | $ 1,050 | $ 7,918 |
| Service line: | | | | | | | | | | |
| Consulting and technology services | $ 885 | $ 613 | $ 499 | $ 289 | $ 2,286 | $ 1,756 | $ 1,251 | $ 980 | $ 567 | $ 4,554 |
| Outsourcing services | 584 | 543 | 341 | 252 | 1,720 | 1,174 | 1,026 | 681 | 483 | 3,364 |
| Total | $ 1,469 | $ 1,156 | $ 840 | $ 541 | $ 4,006 | $ 2,930 | $ 2,277 | $ 1,661 | $ 1,050 | $ 7,918 |
| Type of contract: | | | | | | | | | | |
| Time and materials | $ 953 | $ 452 | $ 379 | $ 335 | $ 2,119 | $ 1,888 | $ 900 | $ 748 | $ 641 | $ 4,177 |
| Fixed-price | 460 | 443 | 367 | 179 | 1,449 | 931 | 954 | 728 | 358 | 2,971 |
| Transaction or volume-based | 56 | 261 | 94 | 27 | 438 | 111 | 423 | 185 | 51 | 770 |
| Total | $ 1,469 | $ 1,156 | $ 840 | $ 541 | $ 4,006 | $ 2,930 | $ 2,277 | $ 1,661 | $ 1,050 | $ 7,918 |

## Costs to Fulfill

The following table presents information related to the capitalized costs to fulfill, such as set-up or transition activities, for the six months ended June 30, 2019. Costs to fulfill are recorded in "Other noncurrent assets" in our unaudited consolidated statements of financial position and the amortization expense of costs to fulfill is included in "Cost of revenues" in our unaudited consolidated statement of operations. Costs to obtain contracts were immaterial for the period disclosed.

| | Costs to Fulfill |
|---|---|
| | (in millions) |
| Balance - December 31, 2018 | $ 400 |
| Amortization expense | (38) |
| Costs capitalized | 92 |
| Balance - June 30, 2019 | $ 454 |

## Contract Balances

A contract asset is a right to consideration that is conditional upon factors other than the passage of time. Contract assets are presented in "Other current assets" in our unaudited consolidated statements of financial position and primarily relate to unbilled amounts on fixed-price contracts utilizing the cost to cost method of revenue recognition. The table below shows significant movements in contract assets:

| | Contract Assets |
|---|---|
| | (in millions) |
| Balance - December 31, 2018 | $ 305 |
| Revenues recognized during the period but not billed | 295 |
| Amounts reclassified to accounts receivable | (250) |
| Balance - June 30, 2019 | $ 350 |

Our contract liabilities, or deferred revenue, consist of advance payments and billings in excess of revenues recognized. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize the revenues. The table below shows significant movements in the deferred revenue balances (current and noncurrent) for the period disclosed:

| | Deferred Revenue |
|---|---|
| | (in millions) |
| Balance - December 31, 2018 | $ 348 |
| Amounts billed but not recognized as revenues | 203 |
| Revenues recognized related to the opening balance of deferred revenue | (203) |
| Balance - June 30, 2019 | $ 348 |

Revenues recognized during the three and six months ended June 30, 2019 for performance obligations satisfied or partially satisfied in previous periods were immaterial.

## Remaining Performance Obligations

As of June 30, 2019, the aggregate amount of transaction price allocated to remaining performance obligations, was $1,994 million of which approximately 71% is expected to be recognized as revenue within 2 years. Disclosure is not required for performance obligations that meet any of the following criteria:

(1) contracts with a duration of one year or less as determined under the New Revenue Standard,

(2) contracts for which we recognize revenues based on the right to invoice for services performed,

(3) variable consideration allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with ASC 606-10-25-14(b), for which the criteria in ASC 606-10-32-40 have been met, or

(4) variable consideration in the form of a sales-based or usage based royalty promised in exchange for a license of intellectual property.

Many of our performance obligations meet one or more of these exemptions and therefore are not included in the remaining performance obligation amounts disclosed above.

## Note 3 — Business Combinations

Each of the acquisitions completed during the six months ended June 30, 2019 was not individually material to our operations or cash flow. Accordingly, pro forma results have not been presented. We have allocated the purchase price related to these transactions to tangible and intangible assets and liabilities, including non-deductible goodwill, based on their estimated fair values. The primary items that generated goodwill are the value of the acquired assembled workforces and synergies between the acquired companies and us, neither of which qualify as an amortizable intangible asset.

During the six months ended June 30, 2019, we completed three business combinations for total consideration of approximately $293 million, inclusive of contingent consideration. These acquisitions were Meritsoft, a financial software company based in Ireland, Mustache, a creative content agency specializing in creating original and branded content for digital, broadcast and social mediums based in the U.S. and Samlink, a developer of services and solutions for the financial sector based in Finland.

The allocations of preliminary purchase price to the fair value of the aggregate assets acquired and liabilities assumed were as follows:

| | Six Months Ended June 30, 2019 | |
|---|---|---|
| | Fair Value | Weighted Average Useful Life |
| | (in millions) | |
| Cash | $ 29 | |
| Current assets | 29 | |
| Property, plant and equipment and other noncurrent assets | 4 | |
| Non-deductible goodwill | 167 | |
| Customer relationship intangible assets | 65 | 9.7 years |
| Other intangible assets | 37 | 6.5 years |
| Current liabilities | (23) | |
| Noncurrent liabilities | (15) | |
| Purchase price | $ 293 | |

The allocation is preliminary and will be finalized as soon as practicable within the measurement period, but in no event later than one year following the date of acquisition.

## Note 4 — Realignment Charges

Our realignment program is focused on improving our customer focus, our cost structure and the efficiency and effectiveness of our delivery while continuing to drive revenue growth. As part of the realignment program, during the six months ended June 30, 2019, we incurred costs associated with our CEO transition and the departure of our President ("Executive Transition Costs"), employee separation costs and third party realignment costs. Our third party realignment costs include professional fees related to the development of our realignment program in 2019 and facility exit costs in 2018. The total costs related to the realignment are reported in "Selling, general and administrative expenses" in our unaudited consolidated statements of operations. We do not allocate realignment charges to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are separately disclosed in our segment reporting as “unallocated costs”. See Note 15.

Realignment charges were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (in millions) | | | |
| Executive Transition Costs | $ 20 | $ — | $ 22 | $ — |
| Employee separation costs | 27 | — | 27 | — |
| Third party realignment costs | 2 | — | 2 | 1 |
| Total realignment costs | $ 49 | $ — | $ 51 | $ 1 |

As of June 30, 2019, we have $27 million of accrued realignment costs included in "Accrued expenses and other current liabilities" in our unaudited consolidated statements of financial position. Accrued realignment costs as of December 31, 2018 were immaterial.

## Note 5 — Investments

Our investments were as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| Short-term investments: | | |
| Equity investment securities | $ 26 | $ 25 |
| Available-for-sale investment securities | — | 1,760 |
| Held-to-maturity investment securities | 810 | 1,065 |
| Time deposits [(1)] | 507 | 500 |
| Total short-term investments | $ 1,343 | $ 3,350 |
| | | |
| Long-term investments: | | |
| Equity and cost method investments | $ 74 | $ 74 |
| Held-to-maturity investment securities | 6 | 6 |
| Total long-term investments | $ 80 | $ 80 |

(1) Includes $429 million and $423 million in restricted time deposits as of June 30, 2019 and December 31, 2018, respectively. See Note 9.

### Equity Investment Securities

Our equity investment securities consist of a U.S. dollar denominated investment in a fixed income mutual fund. For the three and six months ended June 30, 2019 and 2018, realized and unrealized gains and losses were immaterial. The value of the fixed income mutual fund is based on the net asset value ("NAV") of the fund, with appropriate consideration of the liquidity and any restrictions on disposition of our investment in the fund.

### Available-for-Sale Investment Securities

### 2019

During the three months ended June 30, 2019, all of our available-for-sale investment securities either matured or were sold. Thus, as of June 30, 2019, there were no available-for-sale investment securities in our unaudited statement of financial position.

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, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| | (in millions) | |
| Proceeds from sales of available-for-sale investment securities | $ 1,398 | $ 1,712 |
| | | |
| Gross gains | $ 5 | $ 6 |
| Gross losses | (4) | (5) |
| Net realized gains on sales of available-for-sale investment securities | $ 1 | $ 1 |

### 2018

Our 2018 available-for-sale investment securities consisted 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, and asset-backed securities, including securities backed by auto loans, credit card receivables, and other receivables.

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at December 31, 2018 were as follows:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in millions) | | |
| U.S. Treasury and agency debt securities | $ 630 | $ 1 | $ (6) | $ 625 |
| Corporate and other debt securities | 420 | — | (4) | 416 |
| Certificates of deposit and commercial paper | 296 | — | — | 296 |
| Asset-backed securities | 336 | — | (2) | 334 |
| Municipal debt securities | 90 | — | (1) | 89 |
| Total available-for-sale investment securities | $ 1,772 | $ 1 | $ (13) | $ 1,760 |

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, 2018:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | | | (in millions) | | | |
| U.S. Treasury and agency debt securities | $ 84 | $ — | $ 446 | $ (6) | $ 530 | $ (6) |
| Corporate and other debt securities | 108 | (1) | 254 | (3) | 362 | (4) |
| Certificates of deposit and commercial paper | 295 | — | — | — | 295 | — |
| Asset-backed securities | 93 | — | 179 | (2) | 272 | (2) |
| Municipal debt securities | 17 | — | 64 | (1) | 81 | (1) |
| Total | $ 597 | $ (1) | $ 943 | $ (12) | $ 1,540 | $ (13) |

The unrealized losses for the above securities as of December 31, 2018 were primarily attributable to changes in interest rates. The gross unrealized gains and losses in the above tables were recorded, net of tax, in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statement of financial position.

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, 2018 | Six Months Ended June 30, 2018 |
|---|---|---|
| | (in millions) | |
| Proceeds from sales of available-for-sale investment securities | $ 434 | $ 559 |
| | | |
| Gross gains | $ — | $ — |
| Gross losses | (1) | (2) |
| Net realized (losses) on sales of available-for-sale investment securities | $ (1) | $ (2) |

## Held-to-Maturity Investment Securities

Our held-to-maturity investment securities consist of Indian rupee denominated investments primarily in commercial paper, international corporate bonds and government debt securities. Our investment guidelines are to purchase securities that are investment grade at the time of acquisition. We monitor the credit ratings of the securities in our portfolio on an ongoing basis.

The amortized cost, gross unrealized gains and losses and fair value of held-to-maturity investment securities at June 30, 2019 were as follows:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in millions) | | | |
| Short-term investments: | | | | |
| Corporate and other debt securities | $ 257 | $ 1 | $ — | $ 258 |
| Commercial paper | 553 | — | — | 553 |
| Total short-term held-to-maturity investments | 810 | 1 | — | 811 |
| Long-term investments: | | | | |
| Corporate and other debt securities | 6 | — | — | 6 |
| Total held-to-maturity investment securities | $ 816 | $ 1 | $ — | $ 817 |

The amortized cost, gross unrealized gains and losses and fair value of held-to-maturity investment securities at December 31, 2018 were as follows:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in millions) | | | |
| Short-term investments: | | | | |
| Corporate and other debt securities | $ 546 | $ — | $ — | $ 546 |
| Commercial paper | 519 | — | (1) | 518 |
| Total short-term held-to-maturity investments | 1,065 | — | (1) | 1,064 |
| Long-term investments: | | | | |
| Corporate and other debt securities | 6 | — | — | 6 |
| Total held-to-maturity investment securities | $ 1,071 | $ — | $ (1) | $ 1,070 |

The fair value and related unrealized losses of held-to-maturity 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, 2019:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in millions) | | | | | |
| Corporate and other debt securities | $ — | $ — | $ 6 | $ — | $ 6 | $ — |
| Commercial paper | 279 | — | — | — | 279 | — |
| Total | $ 279 | $ — | $ 6 | $ — | $ 285 | $ — |

The fair value and related unrealized losses of held-to-maturity 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, 2018:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in millions) | | | | | |
| Corporate and other debt securities | $ 263 | $ — | $ 57 | $ — | $ 320 | $ — |
| Commercial paper | 268 | (1) | — | — | 268 | (1) |
| Total | $ 531 | $ (1) | $ 57 | $ — | $ 588 | $ (1) |

At each reporting date, the Company performs an evaluation of held-to-maturity securities to determine if the unrealized losses are other-than-temporary. We do not consider any of the investments to be other-than-temporarily impaired as of June 30, 2019.

The contractual maturities of our fixed income held-to-maturity investment securities as of June 30, 2019 are set forth in the following table:

| | Amortized Cost | Fair Value |
|---|---|---|
| | (in millions) | |
| Due within one year | $ 810 | $ 811 |
| Due after one year and before two years | 6 | 6 |
| Total held-to-maturity investment securities | $ 816 | $ 817 |

During the six months ended June 30, 2019 and the year ended December 31, 2018, there were no transfers of investments between our available-for-sale and held-to-maturity investment portfolios.

## Note 6 — Leases

### Adoption of the New Lease Standard

On January 1, 2019, we adopted the New Lease Standard using the Effective Date Method applied to all lease contracts existing as of January 1, 2019. Under the Effective Date Method, results for reporting periods beginning on or after January 1, 2019 are presented under the New Lease Standard. We elected the package of practical expedients that permits us to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. Prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies.

The impact of adoption primarily relates to the recognition of ROU operating lease assets and operating lease liabilities on our unaudited consolidated statement of financial position for all operating leases with a term greater than twelve months. The accounting for our finance leases remained substantially unchanged. The following table provides the impact of adoption of the New Lease Standard on our unaudited consolidated statement of financial position as of January 1, 2019:

| Location on Statement of Financial Position | January 1, 2019 |
|---|---|
| | (in millions) |
| Property and equipment, net(1) | $ (81) |
| Operating lease assets, net(1) (2) (3) | 839 |
| Total Assets | $ 758 |
| | |
| Operating lease liabilities(2) (3) | $ 191 |
| Operating lease liabilities, noncurrent(2) (3) | 670 |
| Accrued expenses and other liabilities(3) | (10) |
| Other noncurrent liabilities(3) | (95) |
| Total Liabilities | $ 756 |
| | |
| Retained earnings(4) | $ 2 |

(1) Reflects the reclassification of leasehold land and a built-to-suit lease asset from "Property and equipment, net" to "Operating lease assets, net".

(2) Represents the recognition of operating lease assets and liabilities (current and noncurrent), as defined by the New Lease Standard, including the liability for a built-to-suit lease that was previously accounted for as a capital lease under the former lease guidance.

(3) Represents the reclassification of deferred rent from "Accrued expenses and other liabilities" and "Other noncurrent liabilities" to "Operating lease assets, net" and the reclassification of built-to-suit lease liabilities from "Accrued expenses and other liabilities" and "Other noncurrent liabilities" to "Operating lease liabilities" and "Operating lease liabilities, noncurrent".

(4) Represents the net impact of the derecognition of a built-to-suit lease under the former lease guidance and the re-establishment of that lease as an operating lease under the New Lease Standard.

The adoption of the New Lease Standard did not materially impact our unaudited consolidated statement of operations or our unaudited statement of cash flows.

## Leases

Our lease asset classes primarily consist of operating leases for office space, data centers and equipment. At inception of a contract, we determine whether a contract contains a lease, and if a lease is identified, whether it is an operating or finance lease. In determining whether a contract contains a lease we consider whether (1) we have the right to obtain substantially all of the economic benefits from the use of the asset throughout the term of the contract, (2) we have the right to direct how and for what purpose the asset is used throughout the term of the contract and (3) we have the right to operate the asset throughout the term of the contract without the lessor having the right to change the terms of the contract. Some of our lease agreements contain both lease and non-lease components that we account for as a single lease component for all our lease asset classes.

Our ROU lease assets represent our right to use an underlying asset for the lease term and may include any advance lease payments made and any initial direct costs, and exclude lease incentives. Our ROU lease liabilities represent our obligation to make lease payments arising from the contractual terms of the lease. ROU lease assets and lease liabilities are recognized at the commencement of the lease and are calculated using the present value of lease payments over the lease term. Typically, our lease agreements do not provide sufficient detail to arrive at an implicit interest rate. Therefore, we use our estimated country-specific incremental borrowing rate based on information available at the commencement date of the lease to calculate the present value of the lease payments. In estimating our country-specific incremental borrowing rates, we consider market rates of comparable collateralized borrowings for similar terms. Our lease terms may include the option to extend or terminate the lease before the end of the contractual lease term. Our ROU lease assets and lease liabilities include these options when it is reasonably certain that they will be exercised.

The following table provides information on the components of our operating and finance leases included in our unaudited consolidated statement of financial position:

| Leases | Location on Statement of Financial Position | June 30, 2019 |
|---|---|---|
| **Assets** | | **(in millions)** |
| ROU operating lease assets | Operating lease assets, net | $ 847 |
| ROU finance lease assets | Property and equipment, net | 18 |
| | Total | $ 865 |
| **Liabilities** | | |
| Current | | |
| Operating lease | Operating lease liabilities | $ 201 |
| Finance lease | Accrued expenses and other current liabilities | 12 |
| Noncurrent | | |
| Operating lease | Operating lease liabilities, noncurrent | 679 |
| Finance lease | Other noncurrent liabilities | 16 |
| | Total | $ 908 |

Our operating lease cost was $64 million and $127 million for the three and six months ended June 30, 2019, respectively, and included $5 million and $9 million, respectively, of variable lease cost. A portion of our real estate leases is subject to annual changes in the Consumer Price Index ("CPI"). The changes to the CPI are treated as variable lease payments and are recognized in the period in which the obligation for those payments was incurred. Other variable lease costs primarily relate to adjustments for common area maintenance, utilities and property tax. These variable costs are recognized in the period in which the obligation for those payments was incurred. Our short term lease rental expense was $4 million and $8 million for the three and six months ended June 30, 2019, respectively. Lease interest expense related to our finance leases for the three and six months ended June 30, 2019 was immaterial.

The following table provides information on the weighted average remaining lease term and weighted average discount rate for our operating leases:

| Operating Lease Term and Discount Rate | June 30, 2019 |
|---|---|
| Weighted average remaining lease term | 5.9 years |
| Weighted-average discount rate | 5.9% |

The following table provides supplemental cash flow information related to our operating leases:

| | Six Months Ended June 30, 2019 |
|---|---|
| | (in millions) |
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 108 |
| ROU assets obtained in exchange for operating lease liabilities | 103 |

Cash paid for amounts included in the measurement of finance lease liabilities was immaterial for the three and six months ended June 30, 2019. Additionally, ROU assets obtained in exchange for finance lease liabilities was immaterial for the three and six months ended June 30, 2019.

The following table provides the schedule of maturities of our operating lease liabilities, under the New Lease Standard, as of June 30, 2019:

| | June 30, 2019 |
|---|---|
| | (in millions) |
| 2019- remainder of year | $ 125 |
| 2020 | 230 |
| 2021 | 186 |
| 2022 | 142 |
| 2023 | 108 |
| 2024 | 70 |
| Thereafter | 187 |
| Total lease payments | 1,048 |
| Interest | (168) |
| Total lease liabilities | $ 880 |

The following table provides the schedule of our future minimum payments on our operating leases, as of December 31, 2018, which were accounted for in accordance with our historic accounting policies.

| | December 31, 2018 |
|---|---|
| | (in millions) |
| 2019 | $ 226 |
| 2020 | 197 |
| 2021 | 157 |
| 2022 | 121 |
| 2023 | 90 |
| Thereafter | 197 |
| Total lease payments | $ 988 |

As of June 30, 2019, we had $93 million of additional operating leases that had yet to commence and therefore are not included in our unaudited statement of financial position. These leases are primarily related to real estate and will commence in various months in 2019 and 2020 with lease terms of 1 year to 8 years.

## Note 7 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| Compensation and benefits | $ 1,063 | $ 1,216 |
| Customer volume and other incentives | 357 | 323 |
| Derivative financial instruments | 15 | 25 |
| FCPA Accrual(1) | — | 28 |
| Income taxes | 108 | 162 |
| Professional fees | 109 | 110 |
| Travel and entertainment | 41 | 34 |
| Other | 363 | 369 |
| Total accrued expenses and other current liabilities | $ 2,056 | $ 2,267 |

(1) Refer to Note 13.

## Note 8 — Debt

In 2018, we completed a debt refinancing in which we entered into a credit agreement with a commercial bank syndicate (the "Credit Agreement") providing for a $750 million unsecured term loan (the "Term Loan") and a $1,750 million unsecured revolving credit facility, which are due to mature in November 2023. We are required under the Credit Agreement to make scheduled quarterly principal payments on the Term Loan beginning in December 2019. The Credit Agreement contains customary affirmative and negative covenants as well as a financial covenant. We were in compliance with all debt covenants and representations as of June 30, 2019.

### Short-term Debt

As of June 30, 2019 and December 31, 2018, we had $28 million and $9 million, respectively, of short-term debt related to current maturities for our Term Loan. As of June 30, 2019, we had no notes outstanding under the revolving credit facility.

### Long-term Debt

The following summarizes our long-term debt balances as of:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| Term loan | $ 750 | $ 750 |
| Less: | | |
| Current maturities | (28) | (9) |
| Deferred financing costs | (4) | (5) |
| Long-term debt, net of current maturities | $ 718 | $ 736 |

## Note 9 — Income Taxes

We are involved in an ongoing dispute with the Indian Income Tax Department ("ITD") in connection with a previously disclosed 2016 share repurchase transaction undertaken by our principal operating subsidiary in India ("CTS India") to repurchase shares from its shareholders (non-Indian Cognizant entities) valued at $2.8 billion. As a result of that transaction, which was undertaken pursuant to a plan approved by the Madras High Court in Chennai, India, we previously paid $135 million in Indian income taxes - an amount we believe includes all the applicable taxes owed for this transaction under Indian law. In March 2018, we received a communication from the ITD asserting that the ITD is owed an additional 33 billion Indian rupees ($479 million at the June 30, 2019 exchange rate) on the 2016 transaction. Immediately thereafter, the ITD placed an attachment on certain of our India bank accounts. In addition to the dispute on the 2016 transaction, we are also involved in another ongoing dispute with the ITD relating to a 2013 transaction undertaken by CTS India to repurchase shares from its shareholders valued at $523 million (the two disputes are collectively referred to as the "ITD Dispute").

In April 2018, the Madras High Court admitted our writ petition for a stay of the actions of the ITD and lifted the ITD's attachment on our bank accounts. As part of the interim stay order, we deposited 5 billion Indian rupees ($72 million at the June 30, 2019 exchange rate and $71 million at the December 31, 2018 exchange rate) representing 15% of the disputed tax amount related to the 2016 transaction, with the ITD. These amounts are presented in "Other current assets" in our unaudited consolidated statements of financial position. In addition, the Court also placed a lien on certain time deposits of CTS India in the amount of 28 billion Indian rupees ($407 million at the June 30, 2019 exchange rate and $404 million at the December 31, 2018 exchange rate), which is the remainder of the disputed tax amount related to the 2016 transaction. The affected time deposits are considered restricted assets and we have reported them in “Short-term investments” in our unaudited consolidated statements of financial position. As of June 30, 2019 and December 31, 2018, the restricted time deposits balance was $429 million and $423 million, respectively, including accumulated interest.

In June 2019, the Court dismissed our previously admitted writ petitions on the ITD Dispute, holding that the company must exhaust other remedies, such as pursuing the matter before other appellate bodies, for resolution of the ITD Dispute prior to intervention by the Madras High Court. The Court did not issue a ruling on the substantive issue of whether we owe additional tax as a result of either the 2016 or the 2013 transaction. In July 2019, we appealed the Court's orders before the Division Bench of the Madras High Court (the “Division Bench”). The Division Bench has scheduled a hearing on the appeal in August, 2019 and has instructed the ITD to maintain status quo until the next hearing.

We believe we have paid all applicable taxes owed on both the 2016 and the 2013 transactions. Accordingly, we have not recorded any reserves for these matters as of June 30, 2019.

## Note 10 — 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 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 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 master netting arrangements, such as the International Swaps and Derivatives Association ("ISDA"), 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 unaudited 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 consolidated statements of financial position as of:

| Designation of Derivatives | Location on Statements of Financial Position | June 30, 2019 Assets | June 30, 2019 Liabilities | December 31, 2018 Assets | December 31, 2018 Liabilities |
|---|---|---|---|---|---|
| | | (in millions) | | | |
| Foreign exchange forward contracts – Designated as cash flow hedging instruments | Other current assets | $ 32 | $ — | $ 11 | $ — |
| | Other noncurrent assets | 28 | — | 15 | — |
| | Accrued expenses and other current liabilities | — | 6 | — | 21 |
| | Other noncurrent liabilities | — | — | — | 9 |
| | Total | 60 | 6 | 26 | 30 |
| Foreign exchange forward contracts – Not designated as hedging instruments | Other current assets | 3 | — | 1 | — |
| | Accrued expenses and other current liabilities | — | 9 | — | 4 |
| | Total | 3 | 9 | 1 | 4 |
| Total | | $ 63 | $ 15 | $ 27 | $ 34 |

## 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 the remainder of 2019, 2020 and the first half of 2021. Under these contracts, we purchase Indian rupees and sell U.S. dollars. The changes in fair value of these contracts are initially reported in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of financial position and are subsequently reclassified to earnings in the same period the forecasted Indian rupee denominated payments are recorded in earnings. As of June 30, 2019, we estimate that $21 million, net of tax, of net gains related to derivatives designated as cash flow hedges reported in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of financial position 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 gains and losses included in the caption "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of financial position, for such contracts were as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (in millions) | |
| 2019 | $ 800 | $ 1,388 |
| 2020 | 1,145 | 780 |
| 2021 | 358 | — |
| Total notional value of contracts outstanding | $ 2,303 | $ 2,168 |
| Net unrealized gains (losses) included in accumulated other comprehensive income (loss), net of taxes | $ 44 | $ (3) |

Upon settlement or maturity of the cash flow hedge contracts, we record the related gains or losses, based on our designation at the commencement of the contract, with the related hedged Indian rupee denominated expense reported within the captions "Cost of revenues" and "Selling, general and administrative expenses" in our unaudited consolidated statements of operations.

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

| | Change in Derivative Gains/Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion) | | Location of Net Derivative Gains and (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion) | Net Gains and (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion) | |
|---|---|---|---|---|---|
| | 2019 | 2018 | | 2019 | 2018 |
| | | | (in millions) | | |
| Foreign exchange forward contracts – Designated as cash flow hedging instruments | $ 19 | $ (91) | Cost of revenues | $ 3 | $ 18 |
| | | | Selling, general and administrative expenses | 1 | 3 |
| | | | Total | $ 4 | $ 21 |

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

| | Change in Derivative Gains/Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion) | | Location of Net Derivative Gains and (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion) | Net Gains and (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion) | |
|---|---|---|---|---|---|
| | 2019 | 2018 | | 2019 | 2018 |
| | | | (in millions) | | |
| Foreign exchange forward contracts – Designated as cash flow hedging instruments | $ 58 | $ (105) | Cost of revenues | $ — | $ 48 |
| | | | Selling, general and administrative expenses | — | 8 |
| | | | Total | $ — | $ 56 |

The activity related to the change in net unrealized gains and losses on our cash flow hedges included in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of stockholders equity is presented in Note 12.

## Other Derivatives

We use foreign exchange forward contracts to provide an economic hedge against balance sheet exposures to certain monetary assets and liabilities denominated in currencies, other than the functional currency of our foreign subsidiaries, primarily the Euro, British pound and Indian rupee. We entered into a series of foreign exchange forward contracts that are scheduled to mature in 2019. 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 unaudited consolidated statements of operations.

Additional information related to our outstanding foreign exchange forward contracts not designated as hedging instruments was as follows:

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Notional | Fair Value | Notional | Fair Value |
| | (in millions) | | | |
| Contracts outstanding | $ 577 | $ (6) | $ 507 | $ (3) |

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:

| | 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, | |
| | | 2019 | 2018 | 2019 | 2018 |
| | | (in millions) | | | |
| Foreign exchange forward contracts – Not designated as hedging instruments | Foreign currency exchange gains (losses), net | $ (4) | $ 18 | $ (5) | $ 20 |

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

## Note 11 — Fair Value Measurements

We measure our cash equivalents, investments, contingent consideration liabilities 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 June 30, 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| Cash equivalents: | | | | |
| Money market funds | $ 690 | $ — | $ — | $ 690 |
| Bank deposits | — | 167 | — | 167 |
| Total cash equivalents | 690 | 167 | — | 857 |
| Short-term investments: | | | | |
| Time deposits[1] | — | 507 | — | 507 |
| Held-to-maturity investment securities: | | | | |
| Corporate and other debt securities | — | 258 | — | 258 |
| Commercial paper | — | 553 | — | 553 |
| Total short-term held-to-maturity investment securities | — | 811 | — | 811 |
| Total short-term investments[2] | — | 1,318 | — | 1,318 |
| Long-term investments: | | | | |
| Held-to-maturity investment securities: | | | | |
| Corporate and other debt securities | — | 6 | — | 6 |
| Total long-term held-to-maturity investment securities | — | 6 | — | 6 |
| Total long-term investments[3] | — | 6 | — | 6 |
| Derivative financial instruments - foreign exchange forward contracts: | | | | |
| Other current assets | — | 35 | — | 35 |
| Accrued expenses and other current liabilities | — | (15) | — | (15) |
| Other noncurrent assets | — | 28 | — | 28 |
| Total derivative financial instruments - foreign exchange forward contracts | — | 48 | — | 48 |
| Contingent consideration liabilities | — | — | (38) | (38) |
| Total | $ 690 | $ 1,539 | $ (38) | $ 2,191 |

(1) Includes $429 million in restricted time deposits. See Note 9.
(2) Excludes an equity security invested in a mutual fund valued at $26 million based on the NAV of the fund.
(3) Excludes equity and cost method investments of $74 million.

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2018:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| Cash equivalents: | | | | |
| Money market funds | $ 103 | $ — | $ — | $ 103 |
| Bank deposits | — | 32 | — | 32 |
| Certificates of deposit and commercial paper | — | 68 | — | 68 |
| Total cash equivalents | 103 | 100 | — | 203 |
| Short-term investments: | | | | |
| Time deposits(1) | — | 500 | — | 500 |
| Available-for-sale investment securities: | | | | |
| U.S. Treasury and agency debt securities | 570 | 55 | — | 625 |
| Corporate and other debt securities | — | 416 | — | 416 |
| Certificates of deposit and commercial paper | — | 296 | — | 296 |
| Asset-backed securities | — | 334 | — | 334 |
| Municipal debt securities | — | 89 | — | 89 |
| Total available-for-sale investment securities | 570 | 1,190 | — | 1,760 |
| Held-to-maturity investment securities: | | | | |
| Corporate and other debt securities | — | 546 | — | 546 |
| Commercial paper | — | 518 | — | 518 |
| Total short-term held-to-maturity investment securities | — | 1,064 | — | 1,064 |
| Total short-term investments(2) | 570 | 2,754 | — | 3,324 |
| Long-term investments: | | | | |
| Held-to-maturity investment securities: | | | | |
| Corporate and other debt securities | — | 6 | — | 6 |
| Total long-term held-to-maturity investment securities | — | 6 | — | 6 |
| Total long-term investments(3) | — | 6 | — | 6 |
| Derivative financial instruments - foreign exchange forward contracts: | | | | |
| Other current assets | — | 12 | — | 12 |
| Accrued expenses and other current liabilities | — | (25) | — | (25) |
| Other noncurrent assets | — | 15 | — | 15 |
| Other noncurrent liabilities | — | (9) | — | (9) |
| Total | $ 673 | $ 2,853 | $ — | $ 3,526 |

(1) Includes $423 million in restricted time deposits. See Note 9.
(2) Excludes an equity security invested in a mutual fund valued at $25 million based on the NAV of the fund.
(3) Excludes equity and cost method investments of $74 million.

We measure the fair value of money market funds and U.S. Treasury securities based on quoted prices in active markets for identical assets and therefore classify these assets as Level 1. The fair value of commercial paper, certificates of deposit, U.S. government agency securities, municipal debt securities, debt securities issued by supranational institutions, 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 carrying value of our time deposits approximated fair value as of June 30, 2019 and December 31, 2018.

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.

We estimate the fair value of our contingent consideration liabilities associated with our acquisitions utilizing one or more significant inputs that are unobservable. We calculate the fair value of the contingent consideration liabilities based on the probability-weighted expected performance of the acquired entity against the target performance metric, discounted to present value when appropriate. Contingent consideration liabilities were immaterial as of December 31, 2018.

During the six months ended June 30, 2019 and the year ended December 31, 2018, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

## Note 12 — Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component were as follows for the three and six months ended June 30, 2019:

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| | Before Tax Amount | Tax Effect | Net of Tax Amount | Before Tax Amount | Tax Effect | Net of Tax Amount |
| | (in millions) | | | | | |
| Foreign currency translation adjustments: | | | | | | |
| Beginning balance | $ (111) | $ 6 | $ (105) | $ (108) | $ 5 | $ (103) |
| Change in foreign currency translation adjustments | (6) | (3) | (9) | (9) | (2) | (11) |
| Ending balance | $ (117) | $ 3 | $ (114) | $ (117) | $ 3 | $ (114) |
| Unrealized (losses) on available-for-sale investment securities: | | | | | | |
| Beginning balance | $ (3) | $ 1 | $ (2) | $ (12) | $ 4 | $ (8) |
| Net gains arising during the period | 4 | (1) | 3 | 13 | (4) | 9 |
| Reclassification of net losses to Other, net | (1) | — | (1) | (1) | — | (1) |
| Net change | 3 | (1) | 2 | 12 | (4) | 8 |
| Ending balance | $ — | $ — | $ — | $ — | $ — | $ — |
| Unrealized gains on cash flow hedges: | | | | | | |
| Beginning balance | $ 39 | $ (6) | $ 33 | $ (4) | $ 1 | $ (3) |
| Unrealized gains arising during the period | 19 | (4) | 15 | 58 | (11) | 47 |
| Reclassifications of net (gains) to: | | | | | | |
| Cost of revenues | (3) | — | (3) | — | — | — |
| Selling, general and administrative expenses | (1) | — | (1) | — | — | — |
| Net change | 15 | (4) | 11 | 58 | (11) | 47 |
| Ending balance | $ 54 | $ (10) | $ 44 | $ 54 | $ (10) | $ 44 |
| Accumulated other comprehensive income (loss): | | | | | | |
| Beginning balance | $ (75) | $ 1 | $ (74) | $ (124) | $ 10 | $ (114) |
| Other comprehensive income (loss) | 12 | (8) | 4 | 61 | (17) | 44 |
| Ending balance | $ (63) | $ (7) | $ (70) | $ (63) | $ (7) | $ (70) |

Changes in accumulated other comprehensive income (loss) by component were as follows for the three and six months ended June 30, 2018:

| | Three Months | | | Six Months | | |
|---|---|---|---|---|---|---|
| | Before Tax Amount | Tax Effect | Net of Tax Amount | Before Tax Amount | Tax Effect | Net of Tax Amount |
| | (in millions) | | | | | |
| Foreign currency translation adjustments: | | | | | | |
| Beginning balance | $ 3 | $ (4) | $ (1) | $ (38) | $ — | $ (38) |
| Change in foreign currency translation adjustments | (82) | 11 | (71) | (41) | 7 | (34) |
| Ending balance | $ (79) | $ 7 | $ (72) | $ (79) | $ 7 | $ (72) |
| Unrealized (losses) on available-for-sale investment securities: | | | | | | |
| Beginning balance | $ (19) | $ 4 | $ (15) | $ (11) | $ 4 | $ (7) |
| Cumulative effect of change in accounting principle(1) | — | — | — | — | (1) | (1) |
| Net unrealized (losses) arising during the period | (1) | 1 | — | (10) | 2 | (8) |
| Reclassification of net losses to Other, net | 1 | — | 1 | 2 | — | 2 |
| Net change | — | 1 | 1 | (8) | 1 | (7) |
| Ending balance | $ (19) | $ 5 | $ (14) | $ (19) | $ 5 | $ (14) |
| Unrealized gains (losses) on cash flow hedges: | | | | | | |
| Beginning balance | $ 105 | $ (26) | $ 79 | $ 154 | $ (39) | $ 115 |
| Unrealized (losses) arising during the period | (91) | 19 | (72) | (105) | 24 | (81) |
| Reclassifications of net (gains) to: | | | | | | |
| Cost of revenues | (18) | 5 | (13) | (48) | 12 | (36) |
| Selling, general and administrative expenses | (3) | 1 | (2) | (8) | 2 | (6) |
| Net change | (112) | 25 | (87) | (161) | 38 | (123) |
| Ending balance | $ (7) | $ (1) | $ (8) | $ (7) | $ (1) | $ (8) |
| Accumulated other comprehensive income (loss): | | | | | | |
| Beginning balance | $ 89 | $ (26) | $ 63 | $ 105 | $ (35) | $ 70 |
| Other comprehensive income (loss) | (194) | 37 | (157) | (210) | 46 | (164) |
| Ending balance | $ (105) | $ 11 | $ (94) | $ (105) | $ 11 | $ (94) |

(1) Reflects the adoption of ASU 2018-02.

## Note 13 — Commitments and Contingencies

We are involved in various claims and legal proceedings arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. When a material loss contingency is reasonably possible but not probable, we do not record a liability, but instead disclose the nature and the amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Legal fees are expensed as incurred. While we do not expect that the ultimate resolution of any existing claims and proceedings (other than the specific matters described below, if decided adversely), individually or in the aggregate, will have a material adverse effect on our financial position, an unfavorable outcome in some or all of these proceedings could have a material adverse impact on results of operations or cash flows for a particular period. This assessment is based on our current understanding of relevant facts and circumstances. As such, our view of these matters is subject to inherent uncertainties and may change in the future.

On February 28, 2019, a ruling of the Supreme Court of India interpreting certain statutory defined contribution obligations of employees and employers (the "India Defined Contribution Obligation") altered historical understandings of such obligations, extending them to cover additional portions of the employee's income. As a result, the ongoing contributions of our affected employees and the Company are required to be increased. In the first quarter of 2019, we accrued $117 million with respect to prior periods, assuming retroactive application of the Supreme Court's ruling. There is significant uncertainty as to how the liability should be calculated as it is impacted by multiple variables, including the period of assessment, the application with respect to certain current and former employees and whether interest and penalties may be assessed. Since the ruling, a variety of trade associations and industry groups have advocated to the Indian government, highlighting the harm to the information technology sector, other industries and job growth in India that would result from a retroactive application of the ruling. We anticipate the Indian government will review the matter and believe there is a substantial question as to whether the Indian government will apply the Supreme Court's ruling on a retroactive basis. As such, the ultimate amount of our obligation may be materially different from the amount accrued.

In February 2019, we completed our previously disclosed internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in violation of the U.S. Foreign Corrupt Practices Act ("FCPA") and other applicable laws. We also announced a resolution of the previously disclosed investigations by the United States Department of Justice ("DOJ") and United States Securities and Exchange Commission ("SEC") into the matters that were the subject of our internal investigation. In connection with this resolution, in February 2019 we paid approximately $28 million to the DOJ and SEC, an amount consistent with our December 31, 2018 accrual for this matter. The DOJ also issued a declination letter, declining to take any additional action against the Company.

In 2016, three putative securities class action complaints were filed in the United States District Court for the District of New Jersey, naming us and certain of our current and former officers as defendants. These complaints were consolidated into a single action and on April 7, 2017, the lead plaintiffs filed a consolidated amended complaint on behalf of a putative class of persons and entities who purchased our common stock during the period between February 27, 2015 and September 29, 2016, naming us and certain of our current and former officers as defendants and alleging violations of the Exchange Act, based on allegedly false or misleading statements related to potential violations of the FCPA, our business, prospects and operations, and the effectiveness of our internal controls over financial reporting and our disclosure controls and procedures. The lead plaintiffs seek an award of compensatory damages, among other relief, and their reasonable costs and expenses, including attorneys' fees. Defendants filed a motion to dismiss the consolidated amended complaint on June 6, 2017. On August 8, 2018, the Court issued an order which granted the motion to dismiss in part, including dismissal of all claims against current officers of the Company, and denied them in part. On September 7, 2018, we filed a motion in the United States District Court for the District of New Jersey to certify the August 8, 2018 order for immediate appeal to the United States Court of Appeals for the Third Circuit pursuant to 28 U.S.C. § 1292(b). On October 18, 2018, the District Court issued an order granting our motion, and staying the action pending the outcome of our appeal petition to the Third Circuit. On October 29, 2018, we filed a petition for permission to appeal with the United States Court of Appeals for the Third Circuit. On March 6, 2019, the Third Circuit denied our petition without prejudice. In an order dated March 19, 2019, the District Court directed the lead plaintiffs to provide the defendants with a proposed amended complaint. On April 26, 2019, lead plaintiffs filed their second amended complaint. We filed a motion to dismiss the second amended complaint on June 10, 2019.

In 2016, three putative shareholder derivative complaints were filed in New Jersey Superior Court, Bergen County, naming us, all of our then current directors and certain of our current and former officers as defendants. These actions were consolidated in an order dated January 24, 2017. The complaints assert claims for breach of fiduciary duty, corporate waste, unjust enrichment, abuse of control, mismanagement, and/or insider selling by defendants. On March 16, 2017, the parties filed a stipulation deferring all further proceedings pending a final, non-appealable ruling on the then anticipated motion to dismiss the consolidated putative securities class action. On April 26, 2017, in lieu of ordering the stipulation filed by the parties, the New Jersey Superior Court deferred further proceedings by dismissing the consolidated putative shareholder derivative litigation without prejudice but permitting the parties to file a motion to vacate the dismissal in the future.

In 2017, three additional putative shareholder derivative complaints alleging similar claims were filed in the United States District Court for the District of New Jersey, naming us and certain of our current and former directors and officers as defendants. These complaints asserted claims similar to those in the previously-filed putative shareholder derivative actions. In an order dated June 20, 2017, the United States District Court for the District of New Jersey consolidated these actions into a single action, appointed lead plaintiff and lead counsel, and stayed all further proceedings pending a final, non-appealable ruling on the motions to dismiss the consolidated putative securities class action. On October 30, 2018, lead plaintiff filed a consolidated verified derivative complaint.

On March 11, 2019, a seventh putative shareholder derivative complaint was filed in the United States District Court for the District of New Jersey, naming us, certain of our current and former directors, and certain of our current and former officers as defendants. The complaint in that action asserts claims similar to those in the previously-filed putative shareholder derivative actions. On May 14, 2019, the Court approved a stipulation that (i) consolidated this action with the putative shareholder derivative suits that were previously filed in the United States District Court for the District of New Jersey; and (ii) stayed all of these suits pending a final, non-appealable order on the motion to dismiss the second amended complaint in the securities class action.

We are presently unable to predict the duration, scope or result of the consolidated putative securities class action, the putative shareholder derivative actions or any other lawsuits. As such, we are presently unable to develop a reasonable estimate of a possible loss or range of losses, if any, and thus have not recorded any accruals related to these matters. While the Company intends to defend the lawsuits vigorously, these lawsuits and any other related lawsuits are subject to inherent uncertainties, the actual cost of such litigation will depend upon many unknown factors and the outcome of the litigation is necessarily uncertain.

We have indemnification and expense advancement obligations pursuant to our bylaws and indemnification agreements with respect to certain current and former members of senior management and the Company's directors. In connection with the matters that were the subject of our previously disclosed internal investigation, the DOJ and SEC investigations and the related litigation, we have received and expect to continue to receive requests under such indemnification agreements and our bylaws to provide funds for legal fees and other expenses. We have expensed such costs incurred through June 30, 2019.

We have maintained directors and officers insurance and have recorded an insurance receivable of $15 million as of June 30, 2019, reported in "Other current assets," related to the recovery of a portion of the indemnification expenses and costs related to the putative securities class action complaints. We are unable to make a reliable estimate of the eventual cash flows by period related to the indemnification and expense advancement obligations described here.

See Note 9 for information relating to the ITD Dispute.

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 customers, 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 position and cash flows for a particular period.

In the normal course of business and in conjunction with certain customer engagements, we have entered into contractual arrangements through which we may be obligated to indemnify customers 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, 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 customer 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 liability under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made material payments under these indemnification agreements and therefore they have not had a material 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 adverse effect on our business, results of operations, financial position and cash flows for a particular period.

## Note 14 — Related Party Transactions

During the six months ended June 30, 2018, we provided $100 million of initial funding to the Cognizant U.S. Foundation, which is focused on science, technology, engineering and math education in the United States. The expense was reported in the caption "Selling, general and administrative expenses" in our consolidated statement of operations. Additionally, two of our executive officers served as directors of the Cognizant U.S. Foundation in 2018 and during the six months ended June 30, 2019.

## Note 15 — Segment Information

Our reportable segments are:

- Financial Services, which consists of our banking and insurance operating segments;
- Healthcare, which consists of our healthcare and life sciences operating segments;
- Products and Resources, which consists of our retail and consumer goods; manufacturing, logistics, energy, and utilities; and travel and hospitality operating segments;
- Communications, Media and Technology, which includes our communications and media operating segment and our technology operating segment.

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 revenues and operating expenses to differing degrees.

In 2019, we made changes to the internal measurement of segment operating profits for the purpose of evaluating segment performance and resource allocation. The primary reason for the change was to charge to our business segments costs that are directly managed and controlled by them. Specifically, segment operating profit now includes certain benefit, immigration, recruitment and sales and field marketing costs, which were previously included in "unallocated costs." We have reported our 2019 segment operating profits using the new allocation methodology and have restated the 2018 results to conform to the new methodology. Additionally, we combined our energy and utilities operating segment with our manufacturing and logistics operating segment for our internal reporting. Our products and resources segment, which was previously comprised of four operating segments (retail and consumer goods; manufacturing and logistics; travel and hospitality; and energy and utilities) is now comprised of three operating segments (retail and consumer goods; manufacturing, logistics, energy and utilities; and travel and hospitality). This change reflects how this operating segment is currently managed and reported to chief operating decision makers but will not affect our reportable segment financial results.

Expenses included in segment operating profit consist principally of direct selling and delivery costs (including stock-based compensation expense) as well as a per employee charge for use of our global delivery centers and infrastructure. Certain selling, general and administrative expenses, the excess or shortfall of incentive compensation for commercial and delivery personnel as compared to target, costs related to our realignment program, 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 costs" and adjusted against our total income from operations. The incremental accrual related to the India Defined Contribution Obligation recorded in the first quarter of 2019 has been excluded from segment operating profits for the six months ended June 30, 2019. Additionally, the initial funding of the Cognizant U.S. Foundation has been excluded from segment operating profits for the three and six months ended June 30, 2018. These costs are included in "unallocated costs" in the table below. Additionally, management has determined that it is not practical to allocate identifiable assets by segment, since such assets are used interchangeably among the segments.

For revenues by reportable segment and geographic area, please see Note 2.

Segment operating profits by reportable segment were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (in millions) | | | |
| Financial Services | $ 407 | $ 448 | $ 807 | $ 888 |
| Healthcare | 314 | 352 | 651 | 689 |
| Products and Resources | 255 | 253 | 489 | 506 |
| Communications, Media and Technology | 184 | 176 | 358 | 334 |
| Total segment operating profit | 1,160 | 1,229 | 2,305 | 2,417 |
| Less: unallocated costs | 541 | 559 | 1,147 | 1,054 |
| Income from operations | $ 619 | $ 670 | $ 1,158 | $ 1,363 |

## Geographic Area Information

Long-lived assets by geographic area are as follows:

| | As of | |
|---|---|---|
| | June 30, 2019 | December 31, 2018 |
| | (in millions) | |
| Long-lived Assets: (1) | | |
| North America(2) | $ 454 | $ 436 |
| Europe | 103 | 105 |
| Rest of World (3) | 780 | 853 |
| Total | $ 1,337 | $ 1,394 |

(1) Long-lived assets include property and equipment, net of accumulated depreciation and amortization.
(2) Substantially all relates to operations in the United States.
(3) Substantially all of these long-lived assets relate to our operations in India.

## Note 16— Subsequent Events

### Acquisition

In the third quarter of 2019, we acquired Zenith Technologies Limited ("Zenith") for cash consideration of $160 million, exclusive of contingent consideration. Zenith is a privately-held life sciences company that specializes in implementing digital technologies to manage, control and optimize drug and medical device production.

### Dividend

On July 29, 2019, our Board of Directors approved the Company's declaration of a $0.20 per share dividend with a record date of August 22, 2019 and a payment date of August 30, 2019.

Table of Contents

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

### Executive Summary

Cognizant is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our industry-based, consultative approach helps customers envision, build and run more innovative and efficient businesses. Our services include digital services and solutions, consulting, application development, systems integration, application testing, application maintenance, infrastructure services and business process services. Digital services are becoming an increasingly important part of our portfolio of services and solutions and are often integrated or delivered along with our other services. We tailor our services and solutions to specific industries and use an integrated global delivery model that employs customer service teams based at customer locations and delivery teams located at customer locations and dedicated global and regional delivery centers.

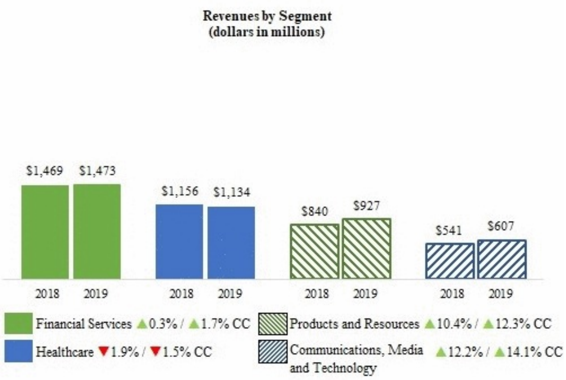
### Q2 2019 Financial Results

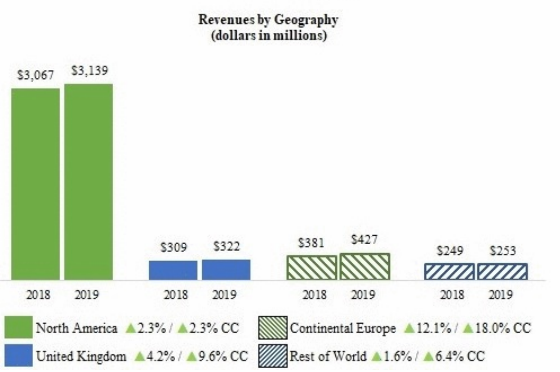
The following table sets forth a summary of our financial results for the three months ended June 30, 2019 and 2018:

| | | | Increase / (Decrease) | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| | (Dollars in millions, except per share data) | | | |
| Revenues | $ 4,141 | $ 4,006 | $ 135 | 3.4 |
| Income from operations | 619 | 670 | (51) | (7.6) |
| Net income | 509 | 456 | 53 | 11.6 |
| Diluted earnings per share | 0.90 | 0.78 | 0.12 | 15.4 |
| *Other Financial Information*[1] | | | | |
| Adjusted Income from Operations | $ 668 | $ 770 | $ (102) | (13.2) |
| Adjusted Diluted Earnings Per Share ("Adjusted Diluted EPS") | 0.94 | 1.05 | (0.11) | (10.5) |

1 Adjusted Income From Operations and Adjusted Diluted EPS are not measurements of financial performance prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). See "Non-GAAP Financial Measures" for more information and reconciliations to the most directly comparable GAAP financial measures.

During the quarter ended June 30, 2019, revenues increased by $135 million as compared to the quarter ended June 30, 2018, representing growth of 3.4%, or 4.7% on a constant currency basis ("CC")[2]. Revenues from customers added, including those related to acquisitions and a strategic partnership with three Finish financial institutions to transform and operate a shared core banking platform ("Samlink"), since June 30, 2018 were $129 million. The following charts set forth revenues and revenue growth by business segment and geography for the three months ended June 30, 2018 and 2019.




- Revenue growth in our Communications, Media and Technology segment was strongest in our North America region and was primarily driven by the demand from our technology customers for digital content services and solutions in addition to revenues from our acquisitions.
- Revenue growth in our Products and Resources segment was strongest in our North America region and was primarily driven by our customers' adoption and integration of digital technologies in addition to revenues from our acquisitions.
- Revenues in our Financial Services segment remained relatively flat, increasing in our Continental Europe region primarily due to revenues from our acquisitions and Samlink, while decreasing in our North America and Rest of World regions as certain banking customers continue to transition the support of some of their legacy systems and operations to offshore captives.
- Revenues in our Healthcare segment in our North America region were negatively impacted by the mergers within the healthcare industry, the establishment of an offshore captive by a large customer, and a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government.

During the three months ended June 30, 2019 we incurred $49 million in realignment charges that included $20 million in costs associated with our CEO transition and the departure of our President ("Executive Transition Costs"), $27 million in employee separation costs and $2 million in third party realignment costs. See Note 4 to our unaudited consolidated financial statements for additional information. We anticipate that the employee separations completed as part of our realignment program in the second quarter of 2019 will reduce our compensation expense by approximately $65 million on an annualized basis. We will continue to incur additional realignment charges in 2019 as management is currently evaluating various realignment strategies to further improve our customer focus, our cost structure and the efficiency and effectiveness of our delivery while continuing to drive revenue growth. In order to ensure that we continue to retain top talent to serve our customers and manage our business, in July 2019 we offered retention awards to certain key employees, which will result in additional realignment charges of approximately $48 million during the remainder of 2019 and $17 million during the first half of 2020. Additional realignment plans are still being developed, and therefore we cannot estimate the amount of any incremental realignment charges that we may incur or the impact these plans may have on our financial statements.

Our operating margin and Adjusted Operating Margin[2] decreased to 14.9% and 16.1%, respectively, for the quarter ended June 30, 2019 from 16.7% and 19.2%, respectively, for the quarter ended June 30, 2018. The decreases in our GAAP operating margin and Adjusted Operating Margin[2] were due to an increase in costs related to our delivery personnel (including employees and subcontractors) outpacing revenue growth and the negative impact of contract renegotiations with recently merged Healthcare customers, partially offset by the impact of lower incentive-based compensation accrual rates. Our 2019 GAAP operating margin was also negatively impacted by realignment charges while our 2018 GAAP operating margin was negatively impacted by the initial funding of the Cognizant U.S. Foundation.

2 Constant currency revenue growth, Adjusted Operating Margin and Adjusted Diluted EPS are not measurements of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" for more information and reconciliations to the most directly comparable GAAP financial measures.

In the second quarter of 2019, we returned $1,153 million to our stockholders through $1,037 million in share repurchases under our stock repurchase program and $116 million in dividend payments.

## Other Matters

As previously disclosed, we accrued $117 million in the first quarter of 2019 related to the India Defined Contribution Obligation as described in Note 13 to our unaudited consolidated financial statements. We continue to anticipate that the Indian government will review the matter. As such, the ultimate amount of our obligation may be materially different from the amount accrued.

As previously disclosed, we are involved in an ongoing dispute with the Indian Income Tax Department ("ITD") described in Note 9 to our unaudited consolidated financial statements. The dispute with the ITD is currently pending before the Division Bench of the Madras High Court and no final decision has been reached.

## 2019 Business Considerations

During the remainder of 2019, barring any unforeseen events, we expect the following factors to affect our business and our operating results:

- Demand from our customers for digital services and industry-specific changes driven by evolving digital technologies;
- Our customers' dual mandate of simultaneously achieving cost savings while investing in transformation and innovation;
- Discretionary spending by our customers may be negatively affected by international trade policies as well as other macroeconomic factors;
- Customer demand may be impacted by uncertainty related to the potential economic and regulatory impacts of the 2016 United Kingdom referendum to exit the European Union;
- Demand from certain banking customers may continue to be negatively affected by their ongoing efforts to optimize the cost of supporting their legacy systems and operations, including through insourcing;
- Demand from our healthcare customers may continue to be affected by uncertainty in the regulatory environment and industry-specific trends, including industry consolidation and convergence;
- Demand among our technology customers may be affected by uncertainty in the regulatory environment while significant merger and acquisition activity continues to impact our customers in the communications and media industry;
- Disruption of our operations related to our new CEO transition and our realignment initiatives, including any disruption from the diversion of efforts of the executive management team and departures of senior personnel;
- Uncertainty regarding regulatory changes, including potential regulatory changes with respect to immigration and taxes;
- Costs related to the potential resolution of legal and regulatory matters discussed in Note 13 to our unaudited consolidated financial statements;
- Clarification, if any, by the Indian government as to the application of the Supreme Court's ruling related to the India Defined Contribution Obligation. See Note 13 to our unaudited consolidated financial statements; and
- Volatility in foreign currency rates.

In response to this environment, we plan to:

- Continue to invest in our digital capabilities across industries and geographies;
- Continue to invest in our talent base, including through local hiring and re-skilling, and new service offerings, including digital technologies and new delivery models;
- Partner with our existing customers to garner an increased portion of our customers' overall spend by providing innovative solutions;
- Focus on growing our business in Europe, the Middle East, Asia Pacific and Latin America, where we believe there are opportunities to gain market share;
- Pursue strategic acquisitions that we believe add new technologies, including digital technologies, or platforms that complement our existing services, improve our overall service delivery capabilities, or expand our geographic presence; and
- Focus on operating discipline in order to appropriately manage our cost structure.

## Business Segments

Our reportable segments are:

- Financial Services, which consists of our banking and insurance operating segments;
- Healthcare, which consists of our healthcare and life sciences operating segments;
- Products and Resources, which consists of our retail and consumer goods; manufacturing, logistics, energy, and utilities; and travel and hospitality operating segments;
- Communications, Media and Technology, which includes our communications and media operating segment and our technology operating segment.

We provide a significant volume of services to many customers in each of our business segments. A loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, 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 in many instances require an extended transition period with gradually declining revenues.

In 2019, we made changes to the internal measurement of segment operating profits. See Note 15 to our unaudited consolidated financial statements for additional information relating to this change and on our business segments.

## Results of Operations

### Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

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

| | 2019 | % of Revenues | 2018 | % of Revenues | Increase / Decrease $ | Increase / Decrease % |
|---|---|---|---|---|---|---|
| | (Dollars in millions, except per share data) | | | | | |
| Revenues | $ 4,141 | 100.0 | $ 4,006 | 100.0 | $ 135 | 3.4 |
| Cost of revenues(1) | 2,629 | 63.5 | 2,417 | 60.3 | 212 | 8.8 |
| Selling, general and administrative expenses(1) | 768 | 18.5 | 805 | 20.1 | (37) | (4.6) |
| Depreciation and amortization expense | 125 | 3.0 | 114 | 2.8 | 11 | 9.6 |
| Income from operations | 619 | 14.9 | 670 | 16.7 | (51) | (7.6) |
| Other income (expense), net | 57 | | (47) | | 104 | (221.3) |
| Income before provision for income taxes | 676 | 16.3 | 623 | 15.6 | 53 | 8.5 |
| Provision for income taxes | (167) | | (168) | | 1 | (0.6) |
| Income from equity method investments | — | | 1 | | (1) | |
| Net income | $ 509 | 12.3 | $ 456 | 11.4 | $ 53 | 11.6 |
| Diluted earnings per share | $ 0.90 | | $ 0.78 | | $ 0.12 | |
| *Other Financial Information*[3] | | | | | | |
| Adjusted Income from Operations and Adjusted Operating Margin | $ 668 | 16.1 | $ 770 | 19.2 | $ (102) | (13.2) |
| Adjusted Diluted EPS | $ 0.94 | | $ 1.05 | | $ (0.11) | (10.5) |

(1) Exclusive of depreciation and amortization expense.

*Revenues - Overall*

During the quarter ended June 30, 2019, revenues increased by $135 million as compared to the quarter ended June 30, 2018, representing growth of 3.4%, or 4.7% on a constant currency basis[3]. Revenues from customers added, including those related to acquisitions and Samlink, since June 30, 2018 were $129 million.

Revenues from our top customers as a percentage of total revenues were as follows:

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 |
|---|---|---|
| Top five customers | 8.0% | 8.6% |
| Top ten customers | 14.5% | 15.4% |

3 Adjusted Income From Operations, Adjusted Operating Margin, Adjusted Diluted EPS and constant currency revenue growth are not measurements of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" for more information and reconciliations to the most directly comparable GAAP financial measures.

***Revenues - Reportable Business Segments***

Revenues by reportable business segment were as follows for the three months ended June 30:

| | 2019 | 2018 | Increase/ (Decrease) $ | Increase/ (Decrease) % | Increase/ (Decrease) CC %[4] |
|---|---|---|---|---|---|
| | (Dollars in millions) | | | | |
| Financial Services | $ 1,473 | $ 1,469 | $ 4 | 0.3 | 1.7 % |
| Healthcare | 1,134 | 1,156 | (22) | (1.9) | (1.5)% |
| Products and Resources | 927 | 840 | 87 | 10.4 | 12.3 % |
| Communications, Media and Technology | 607 | 541 | 66 | 12.2 | 14.1 % |
| Total revenues | $ 4,141 | $ 4,006 | $ 135 | 3.4 | 4.7 % |

*Financial Services*

Revenues from our Financial Services segment increased 0.3%, or 1.7% on a constant currency basis[4], for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. Revenues in this segment increased by $6 million among our banking customers, as compared to a decline of $2 million from our insurance customers. Revenues from customers added, including those related to acquisitions and Samlink, since June 30, 2018 were $36 million. Demand in this segment was driven by our customers' focus on cost optimization in the face of profitability pressures, their need to be compliant with significant regulatory requirements and adaptable to regulatory change, and their adoption and integration of digital technologies that are reshaping their business and operating models, including customer experience enhancement, robotic process automation and analytics and artificial intelligence. Demand from certain banking customers has been and may continue to be negatively affected as they transition the support of some of their legacy systems and operations to offshore captives.

*Healthcare*

Revenues from our Healthcare segment decreased 1.9%, or 1.5% on a constant currency basis[4], for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. Revenues in this segment decreased by $71 million among our healthcare customers as compared to an increase of $49 million from our life science customers. Revenues from our healthcare customers were negatively impacted by the mergers within the segment, the establishment of an offshore captive by a large customer, and a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government. Revenues from customers added since June 30, 2018 were $16 million. Demand in this segment was driven by emerging industry trends, including enhanced compliance, integrated health management, claims investigative services, as well as services that drive operational improvements in areas such as claims processing, enrollment, membership and billing, in addition to the adoption and integration of digital technologies, such as artificial intelligence, personalized care plans and predictive data analytics to improve patient outcomes. Demand from our healthcare customers may continue to be affected by uncertainty in the regulatory environment and industry-specific trends, including industry consolidation and convergence. We believe that, in the long term, the healthcare industry continues to present a significant growth opportunity due to factors that are transforming the industry, including the changing regulatory environment, increasing focus on medical costs and the consumerization of healthcare.

4 Constant currency revenue growth is not a measurement of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for more information.

*Products and Resources*

Revenues from our Products and Resources segment grew 10.4%, or 12.3% on a constant currency basis[5], for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. Revenue growth was strongest among our retail and consumer goods customers, where revenue increased by $54 million. Revenues from our manufacturing, logistics, energy and utilities customers increased by $20 million while revenue from our travel and hospitality customers increased by $13 million. Revenues from customers added, including those related to acquisitions, since June 30, 2018 were $47 million. Demand in this segment was driven by our customers' focus on improving the efficiency of their operations, the enablement and integration of mobile platforms to support sales and other omni-channel commerce initiatives, and their adoption and integration of digital technologies, such as the application of intelligent systems to manage supply chain and enhance overall customer experiences.

*Communications, Media and Technology*

Revenues from our Communications, Media and Technology segment grew 12.2%, or 14.1% on a constant currency basis[5], for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018. Growth was strongest among our technology customers where revenues increased $65 million while revenues from our communications and media customers remained relatively flat. A significant portion of the revenue growth within this segment was generated by a small number of customers and there can be no guarantee that the revenue generated by these customers will continue to grow at a similar pace. Revenues from customers added, including those related to acquisitions, since June 30, 2018 were $30 million. Demand in this segment was driven by our customers' need to manage their digital content, create differentiated user experiences, expand their range of services, including business process services, transition to agile development methodologies, enhance their network and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products. Additionally, demand among our technology customers may be affected by uncertainty in the regulatory environment while significant merger and acquisition activity may impact our customers in the communications and media industry.

***Revenues - Geographic Markets***

Revenues by geographic market were as follows for the three months ended June 30:

| | | | Increase / (Decrease) | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **$** | **%** | **CC %[5]** |
| | (Dollars in millions) | | | | |
| North America | $ 3,139 | $ 3,067 | $ 72 | 2.3 | 2.3 |
| United Kingdom | 322 | 309 | 13 | 4.2 | 9.6 |
| Continental Europe | 427 | 381 | 46 | 12.1 | 18.0 |
| Europe - Total | 749 | 690 | 59 | 8.6 | 14.2 |
| Rest of World | 253 | 249 | 4 | 1.6 | 6.4 |
| Total revenues | $ 4,141 | $ 4,006 | $ 135 | 3.4 | 4.7 |

North America continues to be our largest market, representing 75.8% of total revenues for the second quarter of 2019 and 53.3% of total revenue growth from the second quarter of 2018. Revenue growth in our North America region was driven by the demand for digital content services and solutions by customers in our Communications, Media and Technology segment and the adoption and integration of digital technologies by customers in our Products and Resources segment, in addition to revenues from our acquisitions completed since the second quarter of 2018. Revenue growth in our North America and Rest of World regions was negatively affected as certain banking customers in these regions transition the support of some of their legacy systems and operations to offshore captives. Revenues in our North America region in our Healthcare segment were negatively impacted by the mergers within the segment, the establishment of an offshore captive by a large customer, and a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government. We believe that Europe, Middle East, Asia Pacific and Latin America regions represent long term growth opportunities.

5 Constant currency revenue growth is not a measurement of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" for more information.

### *Cost of Revenues (Exclusive of Depreciation and Amortization Expense)*

Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, project-related immigration and travel for technical personnel, subcontracting and equipment costs relating to revenues. Our cost of revenues increased by 8.8% during the second quarter of 2019 as compared to the second quarter of 2018, increasing as a percentage of revenues to 63.5% in the second quarter of 2019 compared to 60.3% in the second quarter of 2018. The increase in cost of revenues, as a percentage of revenues, was due primarily to an increase in costs related to our delivery personnel (including employees and subcontractors) outpacing revenue growth, partially offset by lower incentive-based compensation accrual rates in 2019.

### *Selling, General and Administrative Expenses and Depreciation and Amortization Expense*

Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses decreased by 4.6% during the second quarter of 2019 as compared to the second quarter of 2018, decreasing as a percentage of revenues to 18.5% in the second quarter of 2019 as compared to 20.1% in the second quarter of 2018. The decrease is primarily due to the one-time initial funding of the Cognizant U.S. Foundation which occurred in the second quarter of 2018 and lower incentive-based compensation accrual rates in 2019, partially offset by realignment charges incurred in the second quarter of 2019. Depreciation and amortization expense increased to 3.0% as a percentage of revenues in the second quarter of 2019, from 2.8% in the second quarter of 2018, primarily driven by the amortization of intangible assets acquired in recent business combinations.

### *Income from Operations and Operating Margin - Overall*

Our operating margin and Adjusted Operating Margin[6] decreased to 14.9% and 16.1%, respectively, for the second quarter of 2019 from 16.7% and 19.2%, respectively, in the second quarter of 2018. The decreases in our GAAP operating margin and Adjusted Operating Margin[6] were due to an increase in costs related to our delivery personnel (including employees and subcontractors) outpacing revenue growth and the negative impact of contract renegotiations with recently merged Healthcare customers, partially offset by the impact of lower incentive-based compensation accrual rates. Our 2019 GAAP operating margin was also negatively impacted by realignment charges while our 2018 GAAP operating margin was negatively impacted by the initial funding of the Cognizant U.S. Foundation.

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 70 basis points, or 0.70 percentage points, in the three months ended June 30, 2019. 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 18 basis points or 0.18 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, 2019, the settlement of our cash flow hedges positively impacted our operating margin by approximately 10 basis points or 0.10 percentage points as compared to a positive impact of approximately 52 basis points or 0.52 percentage points during the three months ended June 30, 2018.

We finished the second quarter of 2019 with approximately 288,200 employees, which is an increase of approximately 19,300 as compared to June 30, 2018. Annualized turnover, including both voluntary and involuntary, was approximately 23.0% for the three months ended June 30, 2019. Average annualized attrition rates on-site at customer locations are below our global attrition rate. In addition, attrition is weighted towards the more junior members of our staff.

---

6 Adjusted 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:

| | 2019 | Operating Margin % | 2018 | Operating Margin % | Increase / (Decrease) |
|---|---|---|---|---|---|
| | | (Dollars in millions) | | | |
| Financial Services | $ 407 | 27.6 | $ 448 | 30.5 | $ (41) |
| Healthcare | 314 | 27.7 | 352 | 30.4 | (38) |
| Products and Resources | 255 | 27.5 | 253 | 30.1 | 2 |
| Communications, Media and Technology | 184 | 30.3 | 176 | 32.5 | 8 |
| Total segment operating profit | 1,160 | 28.0 | 1,229 | 30.7 | (69) |
| Less: unallocated costs | 541 | | 559 | | (18) |
| Income from operations | $ 619 | 14.9 | $ 670 | 16.7 | $ (51) |

Across all our operating segments, operating margins decreased as compensation, benefit and subcontractor costs outpaced revenue growth. Additionally, operating margins in Healthcare were negatively affected by mergers among several of our healthcare customers. The lower segment operating margin in our Communications, Media and Technology segment reflects the growth of digital content services and solutions in this segment, which generate lower margins than other services in our portfolio.

Certain selling, general and administrative expenses, the excess or shortfall of incentive compensation for commercial and delivery personnel as compared to target, costs related to our realignment program, 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 above as “unallocated costs” and adjusted against our total income from operations. The decrease in unallocated costs in the second quarter of 2019 from the second quarter of 2018 is due to a greater shortfall of incentive-based compensation as compared to target in 2019 and the initial funding of the Cognizant U.S. Foundation recorded in the second quarter of 2018, partially offset by the realignment charges incurred in the second quarter of 2019.

### *Other Income (Expense), Net*

Total other income (expense), net consists primarily of foreign currency exchange gains and losses, interest income and interest expense. The following table sets forth total other income (expense), net for the three months ended June 30:

| | 2019 | 2018 | Increase/ Decrease |
|---|---|---|---|
| | | (in millions) | |
| Foreign currency exchange gains (losses) | $ 20 | $ (98) | $ 118 |
| (Losses) gains on foreign exchange forward contracts not designated as hedging instruments | (4) | 18 | (22) |
| Foreign currency exchange gains (losses), net | 16 | (80) | 96 |
| Interest income | 45 | 40 | 5 |
| Interest expense | (6) | (7) | 1 |
| Other, net | 2 | — | 2 |
| Total other income (expense), net | $ 57 | $ (47) | $ 104 |

The foreign currency exchange gains and losses were primarily attributed to the remeasurement of the Indian rupee denominated net monetary assets and liabilities in our U.S. dollar functional currency India subsidiaries and, to a lesser extent, the remeasurement of other net monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries. The gains and losses on our foreign exchange forward contracts not designated as hedging instruments related to the realized and unrealized gains and losses on foreign exchange forward contracts entered into primarily to offset foreign currency exposure to the Euro, Indian rupee, British pound and other non-U.S. dollar denominated net monetary assets and liabilities. As of June 30, 2019, the notional value of our undesignated hedges was $577 million. The increase in interest income of $5 million was primarily attributable to an increase in average invested balances and higher yields in 2019.

### *Provision for Income Taxes*

The provision for income taxes decreased to $167 million during the three months ended June 30, 2019 from $168 million during the three months ended June 30, 2018. The effective income tax rate decreased to 24.7% for the three months ended June 30, 2019 compared to 27.0% for the three months ended June 30, 2018 primarily due to a lower effective income tax rate for our India subsidiaries in 2019 due to foreign currency exchange gains on their statutory books in 2018, increasing our 2018 India tax rate, as the Indian rupee depreciated against the U.S. dollar during that period.

### *Net Income*

Net income increased to $509 million for the three months ended June 30, 2019 from $456 million for the three months ended June 30, 2018, representing 12.3% and 11.4% of revenues, respectively. The increase in net income is primarily due to foreign currency gains in 2019 compared to losses in 2018 offset by a decrease in income from operations.

## Non-GAAP Financial Measures

Portions of our disclosure include non-GAAP financial measures. 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 financial measures used by other companies. In addition, these non-GAAP financial measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of our non-GAAP financial measures to the corresponding GAAP measures, set forth below, should be carefully evaluated.

Our Adjusted Operating Margin and Adjusted Income From Operations exclude unusual items and our Adjusted Diluted EPS additionally excludes net non-operating foreign currency exchange gains or losses and the tax impact of all applicable adjustments. The income tax impact of each item is calculated by applying the statutory rate and local tax regulations in the jurisdiction in which the item was incurred. Constant currency revenue growth is defined as revenues for a given period restated at the comparative period's foreign currency exchange rates measured against the comparative period's reported revenues.

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into our operating results. For our internal management reporting and budgeting purposes, we use various GAAP and non-GAAP financial measures for financial and operational decision-making, to evaluate period-to-period comparisons, to determine portions of the compensation for our executive officers 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 certain costs provides a meaningful supplemental measure for investors to evaluate our financial performance. We believe that the presentation of our non-GAAP financial measures (Adjusted Income from Operations, Adjusted Operating Margin, Adjusted Diluted EPS and constant currency revenue growth) along with reconciliations to the most comparable GAAP measure, as applicable, 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 financial measures do not reflect all of the amounts associated with our operating results as determined in accordance with GAAP and may exclude costs that are recurring such as our 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 these limitations by providing specific information regarding the GAAP amounts excluded from our non-GAAP financial measures to allow investors to evaluate such non-GAAP financial measures.

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:

| | 2019 | % of Revenues | 2018 | % of Revenues |
|---|---|---|---|---|
| | (Dollars in millions, except per share amounts) | | | |
| GAAP income from operations and operating margin | $ 619 | 14.9 | $ 670 | 16.7 |
| Realignment charges [1] | 49 | 1.2 | — | — |
| Initial funding of Cognizant U.S. Foundation [2] | — | — | 100 | 2.5 |
| Adjusted Income from Operations and Adjusted Operating Margin | $ 668 | 16.1 | $ 770 | 19.2 |
| | | | | |
| GAAP diluted EPS | $ 0.90 | | $ 0.78 | |
| Effect of above adjustments, pre-tax | 0.09 | | 0.17 | |
| Non-operating foreign currency exchange (gains) losses, pre-tax [3] | (0.03) | | 0.14 | |
| Tax effect of above adjustments [4] | (0.02) | | (0.04) | |
| Adjusted Diluted EPS | $ 0.94 | | $ 1.05 | |

(1) As part of the realignment program, during the three months ended June 30, 2019, we incurred Executive Transition Costs, employee separation costs and third party realignment costs. See Note 4 to our unaudited consolidated financial statements for additional information.

(2) In the second quarter of 2018, we provided $100 million of initial funding to the Cognizant U.S. Foundation. This cost is reported in "Selling, general and administrative expenses" in our unaudited consolidated statement of operations.

(3) Non-operating foreign currency exchange gains and losses, inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, are reported in "Foreign currency exchange gains (losses), net" in our unaudited consolidated statements of operations.

(4) Presented below are the tax impacts of each of our non-GAAP adjustments to pre-tax income:

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 |
|---|---|---|
| | (in millions) | |
| Non-GAAP income tax benefit (expense) related to: | | |
| Realignment charges | $ 13 | $ — |
| Initial funding of Cognizant U.S. Foundation | — | 28 |
| Foreign currency exchange gains and losses | — | (8) |

The effective tax rate related to each of our non-GAAP adjustments varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions.

## Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

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

| | 2019 | % of Revenues | 2018 | % of Revenues | Increase / Decrease $ | Increase / Decrease % |
|---|---|---|---|---|---|---|
| | (Dollars in millions, except per share data) | | | | | |
| Revenues | $ 8,251 | 100.0 | $ 7,918 | 100.0 | $ 333 | 4.2 |
| Cost of revenues(1) | 5,204 | 63.1 | 4,818 | 60.8 | 386 | 8.0 |
| Selling, general and administrative expenses(1) | 1,641 | 19.9 | 1,516 | 19.1 | 125 | 8.2 |
| Depreciation and amortization expense | 248 | 3.0 | 221 | 2.8 | 27 | 12.2 |
| Income from operations | 1,158 | 14.0 | 1,363 | 17.2 | (205) | (15.0) |
| Other income (expense), net | 101 | | (43) | | 144 | (334.9) |
| Income before provision for income taxes | 1,259 | 15.3 | 1,320 | 16.7 | (61) | (4.6) |
| Provision for income taxes | (309) | | (345) | | 36 | (10.4) |
| Income from equity method investments | — | | 1 | | (1) | |
| Net income | $ 950 | 11.5 | $ 976 | 12.3 | $ (26) | (2.7) |
| Diluted earnings per share | $ 1.67 | | $ 1.66 | | $ 0.01 | |
| *Other Financial Information (7)* | | | | | | |
| Adjusted Income From Operations and Adjusted Operating Margin | $ 1,326 | 16.1 | $ 1,464 | 18.5 | $ (138) | (9.4) |
| Adjusted Diluted EPS | $ 1.85 | | $ 1.99 | | $ (0.14) | |

(1) Exclusive of depreciation and amortization expense.

### *Revenues - Overall*

During the six months ended June 30, 2019, revenues increased by $333 million as compared to the six months ended June 30, 2018, representing growth of 4.2%, or 5.7% on a constant currency basis[7]. Revenues from customers added, including those related to acquisitions and Samlink, since June 30, 2018 were $214 million.

Revenues from our top customers were as follows:

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| Revenues from top five customers as a percentage of total revenues | 8.4% | 8.6% |
| Revenues from top ten customers as a percentage of total revenues | 15.1% | 15.6% |

7 Adjusted Income From Operations, Adjusted Operating Margin, Adjusted Diluted EPS and constant currency revenue growth are not measurements of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for more information and reconciliations to the most directly comparable GAAP financial measures.

***Revenues - Reportable Business Segments***

Revenues by reportable business segment were as follows for the six months ended June 30:

| | 2019 | 2018 | Increase / (Decrease) $ | % | CC %[8] |
|---|---|---|---|---|---|
| | (Dollars in millions) | | | | |
| Financial Services | $ 2,909 | $ 2,930 | $ (21) | (0.7) | 0.9 |
| Healthcare | 2,299 | 2,277 | 22 | 1.0 | 1.5 |
| Products and Resources | 1,841 | 1,661 | 180 | 10.8 | 13.1 |
| Communications, Media and Technology | 1,202 | 1,050 | 152 | 14.5 | 16.8 |
| Total revenues | $ 8,251 | $ 7,918 | $ 333 | 4.2 | 5.7 |

*Financial Services*

Revenues from our Financial Services segment declined 0.7%, but grew 0.9% on a constant currency basis[8], for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. Revenues in this segment decreased by $28 million among our banking customers, primarily in our North America and Rest of World regions, compared to an increase of $7 million from our insurance customers. Revenues from customers added, including those related to acquisitions and Samlink, since June 30, 2018 were $49 million. Demand in this segment was driven by our customers' focus on cost optimization in the face of profitability pressures, the need to be compliant with significant regulatory requirements and adaptable to regulatory change, and their adoption and integration of digital technologies that are reshaping our customers' business and operating models, including customer experience enhancement, robotic process automation and analytics and artificial intelligence. Demand from certain banking customers has been and may continue to be negatively affected as they transition the support of some of their legacy systems and operations to offshore captives.

*Healthcare*

Revenues from our Healthcare segment grew 1.0%, or 1.5% on a constant currency basis[8], for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. Revenues in this segment increased by $103 million among our life science customers compared to a decline of $81 million from our healthcare customers. Revenues from our healthcare customers were negatively impacted by the mergers within the segment, the establishment of an offshore captive by a large customer, and a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government, partially offset by revenues from Bolder Healthcare Solutions ("Bolder"), which we acquired in the second quarter of 2018. Revenues from customers added since June 30, 2018 were $25 million. Demand in this segment was driven by emerging industry trends, including enhanced compliance, integrated health management, claims investigative services, as well as services that drive operational improvements in areas such as claims processing, enrollment, membership and billing, in addition to the adoption and integration of digital technologies, such as artificial intelligence, personalized care plans and predictive data analytics to improve patient outcomes. Demand from our healthcare customers may continue to be affected by uncertainty in the regulatory environment and industry-specific trends, including industry consolidation and convergence. We believe that, in the long term, the healthcare industry continues to present a significant growth opportunity due to factors that are transforming the industry, including the changing regulatory environment, increasing focus on medical costs and the consumerization of healthcare.

8 Constant currency revenue growth is not a measurement of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for more information.

Table of Contents

*Products and Resources*

Revenues from our Products and Resources segment grew 10.8%, or 13.1% on a constant currency basis[9], for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. Revenue growth was strongest among our retail and consumer goods customers, where revenue increased by $109 million. Revenues from our manufacturing, logistics, energy and utilities customers increased by $45 million while revenue from our travel and hospitality customers increased by $26 million. Revenues from customers added, including those related to acquisitions, since June 30, 2018 were $83 million. Demand in this segment was driven by our customers' focus on improving the efficiency of their operations, the enablement and integration of mobile platforms to support sales and other omni-channel commerce initiatives, and their adoption and integration of digital technologies, such as the application of intelligent systems to manage supply chain and enhance overall customer experiences.

*Communications, Media and Technology*

Revenues from our Communications, Media and Technology segment grew 14.5%, or 16.8% on a constant currency basis[9], for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. Growth was stronger among our technology customers where revenues increased $139 million as compared to an increase of $13 million for our communications and media customers. A significant portion of the revenue growth within this segment was generated by a small number of customers and there can be no guarantee that the revenue generated by these customers will continue to grow at a similar pace. Revenues from customers added, including those related to acquisitions, since June 30, 2018 were $57 million. Demand in this segment was driven by our customers' need to manage their digital content, create differentiated user experiences, expand their range of services, including business process services, transition to agile development methodologies, enhance their network and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products. Additionally, demand among our technology customers may be affected by uncertainty in the regulatory environment while significant merger and acquisition activity may impact our customers in the communications and media industry.

### *Revenues - Geographic Markets*

Revenues by geographic market were as follows for the six months ended June 30:

| | 2019 | 2018 | Increase / (Decrease) $ | % | CC %[9] |
|---|---|---|---|---|---|
| | (Dollars in millions) | | | | |
| North America | $ 6,262 | $ 6,042 | $ 220 | 3.6 | 3.6 |
| United Kingdom | 651 | 619 | 32 | 5.2 | 10.8 |
| Continental Europe | 832 | 755 | 77 | 10.2 | 17.1 |
| Europe - Total | 1,483 | 1,374 | 109 | 7.9 | 14.3 |
| Rest of World | 506 | 502 | 4 | 0.8 | 6.8 |
| Total revenues | $ 8,251 | $ 7,918 | $ 333 | 4.2 | 5.7 |

North America continues to be our largest market, representing 75.9% of total revenues for the six months ended June 30, 2019 and 66.1% of total revenue growth from the six months ended June 30, 2018. Revenue growth in our North America region was driven by the demand for digital content services and solutions by customers in our Communications, Media and Technology segment and the adoption and integration of digital technologies by customers in our Products and Resources segment, in addition to revenues from our acquisitions completed since the second quarter of 2018. Revenue growth in our North America and Rest of World regions was negatively affected as certain banking customers in these regions transition the support of some of their legacy systems and operations to offshore captives. Revenues in our North America region in our Healthcare segment were negatively impacted by the mergers within the segment, the establishment of an offshore captive by a large customer, and a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government. We believe that Europe, Middle East, Asia Pacific and Latin America regions represent long term growth opportunities.

9 Constant currency revenue growth is not a measurement of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" for more information.

### *Cost of Revenues (Exclusive of Depreciation and Amortization Expense)*

Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, project-related immigration and travel for technical personnel, subcontracting and equipment costs relating to revenues. Our cost of revenues increased by 8.0% during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, increasing as a percentage of revenues to 63.1% in the first half of 2019 compared to 60.8% in the first half of 2018. The increase in cost of revenues, as a percentage of revenues, was due primarily to an increase in costs related to our delivery personnel (including employees and subcontractors) outpacing revenue growth, partially offset by lower incentive-based compensation accrual rates in 2019 and the depreciation of the Indian rupee (net of the impact of the settlement of our cash flow hedges).

### *Selling, General and Administrative Expenses and Depreciation and Amortization*

Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses increased by 8.2% during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, increasing as a percentage of revenues to 19.9% in the first half of 2019 as compared to 19.1% in the first half of 2018. The increase, as a percentage of revenues, was due primarily to an increase in compensation costs, the impact of bankruptcy filings by some of our Products and Resources customers and realignment charges incurred in the second quarter of 2019, partially offset by lower incentive-based compensation accrual rates in 2019 and the depreciation of the Indian rupee (net of the impact of the settlement of our cash flow hedges). Additionally, in the first quarter of 2019 we recorded the incremental accrual related to the India Defined Contribution Obligation. In the second quarter of 2018, we recorded the initial funding of the Cognizant U.S. Foundation. Depreciation and amortization expense increased to 3.0%, as a percentage of revenues, in the first half of 2019 from 2.8% in the first half of 2018 primarily driven by the amortization of intangible assets acquired in recent business combinations.

### *Income from Operations and Operating Margin - Overall*

Our operating margin and Adjusted Operating Margin[10] decreased to 14.0% and 16.1%, respectively, for the six months ended June 30, 2019 from 17.2% and 18.5% for the six months ended June 30, 2018. The decreases in our GAAP operating margin and Adjusted Operating Margin[10] were due to an increase in costs related to our delivery personnel (including employees and subcontractors) outpacing revenue growth, the negative impact of contract renegotiations with recently merged Healthcare customers and bankruptcy filings by some of our Products and Resources customers, partially offset by the impact of lower incentive-based compensation accrual rates and the depreciation of the Indian rupee (net of the impact of the settlement of our cash flow hedges). Our 2019 GAAP operating margin was additionally negatively impacted by the incremental accrual related to the India Defined Contribution Obligation and realignment charges recorded in the first half of 2019 while our 2018 GAAP operating margin was negatively impacted by the initial funding of the Cognizant U.S. Foundation.

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 117 basis points, or 1.17 percentage points, during the six months ended June 30, 2019. 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 18 basis points or 0.18 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 six months ended June 30, 2019, the settlement of cash flow hedges had an immaterial impact on our operating margin as compared to a positive impact of approximately 71 basis points or 0.71 percentage points during the six months ended June 30, 2018.

---

10 Adjusted 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 six months ended June 30:

| | 2019 | Operating Margin % | 2018 | Operating Margin % | Increase / (Decrease) |
|---|---|---|---|---|---|
| | (Dollars in millions) | | | | |
| Financial Services | $ 807 | 27.7 | $ 888 | 30.3 | $ (81) |
| Healthcare | 651 | 28.3 | 689 | 30.3 | (38) |
| Products and Resources | 489 | 26.6 | 506 | 30.5 | (17) |
| Communications, Media and Technology | 358 | 29.8 | 334 | 31.8 | 24 |
| Total segment operating profit | 2,305 | 27.9 | 2,417 | 30.5 | (112) |
| Less: unallocated costs | 1,147 | | 1,054 | | 93 |
| Income from operations | $ 1,158 | 14.0 | $ 1,363 | 17.2 | $ (205) |

Across all our operating segments, operating margins decreased as compensation, benefit and subcontractor costs outpaced revenue growth. Additionally, operating margins in Healthcare were negatively affected by mergers among several of our healthcare customers while bankruptcy filings by some of our Products and Resources customers negatively affected the profitability of that segment. The lower segment operating margin in our Communications, Media and Technology segment reflects the growth of digital content services and solutions in this segment, which generate lower margins than other services in our portfolio.

Certain selling, general and administrative expenses, the excess or shortfall of incentive compensation for commercial and delivery personnel as compared to target, costs related to our realignment program, 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 above as “unallocated costs” and adjusted against our total income from operations. The increase in unallocated costs for the six months ended June 30, 2019 from the six months ended June 30, 2018 is due to realignment charges incurred in the second quarter of 2019 and the India Defined Contribution Obligation recorded in the first quarter of 2019, partially offset by a greater shortfall of incentive-based compensation as compared to target in 2019 and the initial funding of the Cognizant U.S. Foundation recorded in the second quarter of 2018.

### *Other Income (Expense), Net*

Total other income (expense), net consists primarily of foreign currency exchange gains and losses, interest income and interest expense. The following table sets forth total other income (expense), net for the six months ended June 30:

| | 2019 | 2018 | Increase/ Decrease |
|---|---|---|---|
| | (in millions) | | |
| Foreign currency exchange gains (losses) | $ 23 | $ (131) | $ 154 |
| (Losses) gains on foreign exchange forward contracts not designated as hedging instruments | (5) | 20 | (25) |
| Foreign currency exchange gains (losses), net | 18 | (111) | 129 |
| Interest income | 93 | 81 | 12 |
| Interest expense | (13) | (13) | — |
| Other, net | 3 | — | 3 |
| Total other income (expense), net | $ 101 | $ (43) | $ 144 |

The foreign currency exchange gains and losses were primarily attributed to the remeasurement of the Indian rupee denominated net monetary assets and liabilities in our U.S. dollar functional currency India subsidiaries and, to a lesser extent, the remeasurement of other net monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries. The gains and losses on our foreign exchange forward contracts not designated as hedging instruments related to the realized and unrealized gains and losses on foreign exchange forward contracts entered into primarily to offset foreign currency exposure to the Euro, Indian rupee, British pound and other non-U.S. dollar denominated net monetary assets and liabilities. As of June 30, 2019, the notional value of our undesignated hedges was $577 million. The increase in interest income of $12 million was primarily attributable to an increase in average invested balances and higher yields in 2019.

### *Provision for Income Taxes*

The provision for income taxes decreased to $309 million during the six months ended June 30, 2019 from $345 million during the six months ended June 30, 2018. The effective income tax rate decreased to 24.5% for the six months ended June 30, 2019 from 26.1% for the six months ended June 30, 2018 primarily due to a lower effective income tax rate for our India subsidiaries in 2019 due to foreign currency exchange gains on their statutory books in 2018, increasing our 2018 India tax rate, as the Indian rupee depreciated against the U.S. dollar during that period.

### *Net Income*

Net income decreased to $950 million for the six months ended June 30, 2019 from $976 million for the six months ended June 30, 2018, representing 11.5% and 12.3% of revenues, respectively. The decrease in net income is primarily due to a decrease in income from operations partially offset by foreign currency exchange gains in 2019 compared to losses in 2018.

## Non-GAAP Financial Measures

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

| | 2019 | % of Revenues | 2018 | % of Revenues |
|---|---|---|---|---|
| | (Dollars in millions, except per share amounts) | | | |
| GAAP income from operations and operating margin | $ 1,158 | 14.0 | $ 1,363 | 17.2 |
| Realignment charges (1) | 51 | 0.7 | 1 | — |
| Incremental accrual related to the India Defined Contribution Obligation (2) | 117 | 1.4 | — | — |
| Initial funding of Cognizant U.S. Foundation (3) | — | — | 100 | 1.3 |
| Adjusted Income from Operations and Adjusted Operating Margin | $ 1,326 | 16.1 | $ 1,464 | 18.5 |
| | | | | |
| GAAP diluted EPS | $ 1.67 | | $ 1.66 | |
| Effect of above adjustments, pre-tax | 0.29 | | 0.17 | |
| Non-operating foreign currency exchange (gains) losses, pre-tax (4) | (0.03) | | 0.19 | |
| Tax effect of above adjustments (5) | (0.08) | | (0.03) | |
| Adjusted Diluted EPS | $ 1.85 | | $ 1.99 | |

(1) As part of the realignment program, during the six months ended June 30, 2019, we incurred Executive Transition Costs, employee separation costs and third party realignment costs. See Note 4 to our unaudited consolidated financial statements for additional information.

(2) In the first quarter of 2019, we recorded an accrual of $117 million related to the India Defined Contribution Obligation as further described in Note 13 to our unaudited consolidated financial statements.

(3) In the second quarter of 2018, we provided $100 million of initial funding to Cognizant U.S. Foundation. This cost is reported in "Selling, general and administrative expenses" in our unaudited consolidated statement of operations.

(4) Non-operating foreign currency exchange gains and losses, inclusive of gains and losses on related foreign exchange forward contracts not designated as hedging instruments for accounting purposes, are reported in "Foreign currency exchange gains (losses), net" in our unaudited consolidated statements of operations.

(5) Presented below are the tax impacts of each of our non-GAAP adjustments to pre-tax income

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| | (in millions) | |
| Non-GAAP income tax benefit (expense) related to: | | |
| Realignment charges | $ 13 | $ — |
| Incremental accrual related to the India Defined Contribution Obligation | 31 | — |
| Initial funding of Cognizant U.S. Foundation | — | 28 |
| Foreign currency exchange gains and losses | 1 | (9) |

The effective tax rate related to each of our non-GAAP adjustments varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions.

## Liquidity and Capital Resources

Our cash generated from operations has historically been our primary source of liquidity to fund operations and investments to grow our business. In addition, as of June 30, 2019, we had cash, cash equivalents and short-term investments of $3,003 million, of which $429 million was restricted and not available for use as a result of our ongoing dispute with the ITD as described in Note 9 to our unaudited consolidated financial statements. Additionally, as of June 30, 2019, we had available capacity under our revolving credit facility of approximately $1,750 million.

The following table provides a summary of our cash flows for the six months ended June 30:

| | 2019 | 2018 | Increase / Decrease |
|---|---|---|---|
| | | (in millions) | |
| Net cash provided by (used in): | | | |
| Operating activities | $ 844 | $ 1,028 | $ (184) |
| Investing activities | 1,623 | (811) | 2,434 |
| Financing activities | (1,976) | (1,222) | (754) |

### Operating activities

The decrease in cash provided by operating activities for the six months ended June 30, 2019 compared to the same period in 2018 was primarily due to the decrease in income from operations as discussed in the section Results of Operations - Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018.

We monitor turnover, aging and the collection of accounts receivable by customer. Our days sales outstanding ("DSO") calculation includes receivables, net of allowance for doubtful accounts, and contract assets, reduced by the uncollected portion of our deferred revenue. Our DSO was 79 days as of June 30, 2019, 75 days as of December 31, 2018 and 76 days as of June 30, 2018.

### Investing activities

Net cash provided by investing activities for the six months ended June 30, 2019 was driven by net sales of investments partially offset by payments for acquisitions and outflows for capital expenditures. Net cash used in investing activities for the six months ended June 30, 2018 is related to payments for acquisitions, outflows for capital expenditures and net purchases of investments.

### Financing activities

The increase in cash used in financing activities for the six months ended June 30, 2019 was primarily attributable to higher repurchases of common stock in 2019, including our $600 million accelerated stock repurchase agreement, compared to the same period in 2018. Additionally, during the six months ended June 30, 2018 we had net repayments under the term loan and revolving credit facility.

In 2018, we completed a debt refinancing in which we entered into a credit agreement with a commercial bank syndicate (the "Credit Agreement") providing for a $750 million unsecured term loan (the "Term Loan") and a $1,750 million unsecured revolving credit facility, which are due to mature in November 2023. We are required under the Credit Agreement to make scheduled quarterly principal payments on the Term Loan beginning in December 2019.

The Credit Agreement requires interest to be paid, at our option, at either the ABR or the Eurocurrency Rate (each as defined in the Credit Agreement), plus, in each case, an Applicable Margin (as defined in the Credit Agreement). Initially, the Applicable Margin is 0.875% with respect to Eurocurrency Rate loans and 0.00% with respect to ABR loans. Subsequently, the Applicable Margin with respect to Eurocurrency Rate loans may range from 0.75% to 1.125%, depending on our public debt ratings (or, if we have not received public debt ratings, from 0.875% to 1.125%, depending on our Leverage Ratio, which is the ratio of indebtedness for borrowed money to Consolidated EBITDA, as defined in the Credit Agreement).

The Credit Agreement contains customary affirmative and negative covenants as well as a financial covenant. The financial covenant is tested at the end of each fiscal quarter and requires us to maintain a Leverage Ratio not in excess of 3.50 to 1.00, or for a period of up to four quarters following certain material acquisitions, 3.75 to 1.00. We were in compliance with all debt covenants and representations of the Credit Agreement as of June 30, 2019. We believe that we currently meet all conditions set forth in the Credit Agreement to borrow thereunder, and we are not aware of any conditions that would prevent us from borrowing part or all of the remaining available capacity under the revolving credit facility as of June 30, 2019 and through the date of this filing.

During the six months ended June 30, 2019, we returned $2,019 million to our stockholders through $1,787 million in share repurchases under our stock repurchase program and $232 million in dividend payments. We review our capital return plan on an on-going basis, considering our financial performance and liquidity position, investments required to execute our strategic plans and initiatives, acquisition opportunities, the economic outlook, regulatory changes and other relevant factors. As these factors may change over time, the actual amounts expended on stock repurchase activity, dividends, and acquisitions, if any, during any particular period cannot be predicted and may fluctuate from time to time.

### Other Liquidity and Capital Resources Information

We seek to ensure that our worldwide cash is available in the locations in which it is needed. As part of our ongoing liquidity assessments, we regularly monitor the mix of our domestic and international cash flows and cash balances. As of June 30, 2019, the amount of our cash, cash equivalents and short-term investments held outside the United States was $2,725 million, of which $2,186 million was in India. As further described in Note 9 to our unaudited consolidated financial statements, certain short-term investment balances in India totaling $429 million as of June 30, 2019, were restricted in connection with our dispute with the ITD. The affected balances may continue to remain restricted and unavailable for our use while the dispute is ongoing.

We evaluate on an ongoing basis what portion of the non-U.S. cash, cash equivalents and short-term investments held outside India is needed locally to execute our strategic plans and what amount is available for repatriation back to the United States. We consider our earnings in India to be indefinitely reinvested, which is consistent with our ongoing strategy to expand our Indian operations, including through infrastructure investments. However, future events may occur, such as material changes in cash estimates, discretionary transactions, including corporate restructurings, and changes in applicable laws, that may lead us to repatriate the undistributed Indian earnings. As of June 30, 2019, the amount of unrepatriated Indian earnings was approximately $4,926 million. If all of our accumulated unrepatriated Indian earnings were to be repatriated, based on our current interpretation of India tax law, we estimate that we would incur an additional income tax expense of approximately $1,035 million. This estimate is subject to change based on tax legislation developments in India and other jurisdictions as well as judicial and interpretive developments of applicable tax laws.

We expect our operating cash flow, cash and investment balances (excluding the $429 million of India restricted assets described in Note 9 to our unaudited consolidated financial statements), together with our available capacity under our revolving credit facility to be sufficient to meet our operating requirements, in the U.S., India and globally, for the next twelve months. Our ability to expand and grow our business in accordance with current plans, make acquisitions and form joint ventures, meet our long-term capital requirements beyond a twelve-month period and execute our capital deployment plan will depend on many factors, including the rate, if any, at which our cash flow increases, our ability and willingness to pay for acquisitions and joint ventures with capital stock 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 and conditions acceptable to us, if at all.

## Commitments and Contingencies

See Note 13 to our unaudited consolidated financial statements.

## Off-Balance Sheet Arrangements

Other than our foreign exchange forward contracts, there were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in the six months ended June 30, 2019 that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited consolidated financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an on-going basis, we evaluate our estimates. The most significant estimates relate to the recognition of revenue and profits, including the application of the cost to cost method of measuring progress to completion for certain fixed-price contracts, income taxes, business combinations, valuation of goodwill and other long-lived assets and contingencies. We base our estimates on historical experience, current trends 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 consolidated financial statements. For a discussion of our critical accounting estimates, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2018. 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, 2018. There have been no material changes to the aforementioned critical accounting estimates and policies during the quarter.

## Recently Adopted and New Accounting Pronouncements

See Note 1 to our unaudited consolidated financial statements.

## 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 (the "Exchange Act")) that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believe,” “expect,” “may,” “could,” “would,” “plan,” “intend,” “estimate,” “predict,” “potential,” “continue,” “should” or “anticipate” 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 SEC, in press releases or in oral statements made by or with the approval of one of our authorized executive officers. These forward-looking statements, such as statements regarding our anticipated future revenues or operating margins, earnings, capital expenditures, anticipated effective tax rates and tax expense, liquidity, access to capital, capital deployment plan, investment strategies, cost management, realignment program, plans and objectives, including those related to our digital practice areas, investment in our business, potential acquisitions, industry trends, customer behaviors and trends, the outcome of regulatory and litigation matters, the incremental accrual related to the India Defined Contribution Obligation and other statements regarding matters that are not historical facts, are based on our current expectations, estimates and projections, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Actual results, performance, achievements and outcomes could differ materially from the results expressed in, or anticipated or implied by, these forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including:

- economic and political conditions globally and in particular in the markets in which our customers and operations are concentrated;
- our ability to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally;
- challenges related to growing our business organically as well as inorganically through acquisitions, and our ability to achieve our targeted growth rates;
- our ability to achieve our profitability and capital return goals;
- our ability to meet specified service levels required by certain of our contracts;
- intense and evolving competition in the rapidly changing markets we compete in;
- legal, reputational and financial risks if we fail to protect customer and/or Cognizant data from security breaches or cyberattacks;
- the effectiveness of our business continuity and disaster recovery plans and the potential that our global delivery capacity could be impacted;
- restrictions on visas, in particular in the United States, United Kingdom and European Union, or immigration more generally, which may affect our ability to compete for and provide services to our customers;
- risks related to anti-outsourcing legislation, if adopted, and negative perceptions associated with offshore outsourcing, both of which could impair our ability to serve our customers;

- risks related to complying with the numerous and evolving legal and regulatory requirements to which we are subject in the many jurisdictions in which we operate;
- potential changes in tax laws, or in their interpretation or enforcement, failure by us to adapt our corporate structure and intercompany arrangements to achieve global tax efficiencies or adverse outcomes of tax audits, investigations or proceedings;
- potential exposure to litigation and legal claims in the conduct of our business;
- potential significant expense that would occur if we change our intent not to repatriate Indian accumulated undistributed earnings; and
- The factors set forth in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

You are advised to consult any further disclosures we make on related subjects in the reports we file with the SEC, including this report in the section titled "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part I, Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2018. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 19, 2019.

## 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 Exchange Act) as of June 30, 2019. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of June 30, 2019, our disclosure controls and procedures were effective.

### 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 June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 13 to our unaudited consolidated financial statements.

## Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 19, 2019.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

Our stock repurchase program, as approved by our Board of Directors, allows for the repurchase of up to $5.5 billion, excluding fees and expenses, of our Class A common stock through open market purchases, including under a trading plan adopted pursuant to Rule 10b5-1 of the Exchange Act or in private transactions, including through accelerated stock repurchase ("ASR") agreements entered into with financial institutions, in accordance with applicable federal securities laws through December 31, 2020. The timing of repurchases and the exact number of shares to be purchased are determined by management, in its discretion, or pursuant to a Rule 10b5-1 trading plan, and will depend upon market conditions and other factors.

During the three months ended June 30, 2019, we repurchased $1,037 million of our Class A common stock under our stock repurchase program. The stock repurchase activity under our stock repurchase program during the three months ended June 30, 2019 was as follows:

| 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 millions) |
|---|---|---|---|---|
| April 1, 2019 - April 30, 2019 | | | | |
| Open market purchases | — | $ — | — | $ 1,775 |
| May 1, 2019 - May 31, 2019 | | | | |
| March 2019 ASR | 1,807,592 | (a) | 1,807,592 | |
| Open market purchases | 8,573,918 | 61.25 | 8,573,918 | 1,250 |
| June 1, 2019 - June 30, 2019 | | | | |
| Open market purchases | 8,288,096 | 61.79 | 8,288,096 | 738 |
| Total | 18,669,606 | $ — | 18,669,606 | |

(a) In March 2019, we entered into ASR agreements with financial institutions to purchase $600 million of our Class A common stock (the "March 2019 ASR"). The March 2019 ASR settled in May 2019 and an additional 1.8 million shares were delivered. In total, 8.9 million shares were delivered under the March 2019 ASR at an average repurchase price of $67.08.

During the three months ended June 30, 2019, we also purchased shares in connection with our stock-based compensation plans, whereby shares of our common stock were tendered by employees for payment of applicable statutory tax withholdings. For the three months ended June 30, 2019, such repurchases totaled 0.5 million shares at an aggregate cost of $35 million.

## Item 6. Exhibit Index

**EXHIBIT INDEX**

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| **Number** | **Exhibit Description** | **Form** | **File No.** | **Exhibit** | **Date** | **Filed or Furnished Herewith** |
| 3.1 | Restated Certificate of Incorporation, dated June 5, 2018 | 8-K | 000-24429 | 3.1 | 6/7/2018 | |
| 3.2 | Amended and Restated Bylaws, as adopted on September 14, 2018 | 8-K | 000-24429 | 3.1 | 9/20/2018 | |
| 31.1 | Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 31.2 | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 32.1 | Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350 | | | | | Furnished |
| 32.2 | Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350 | | | | | Furnished |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | | Filed |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | | Filed |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | | Filed |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | | Filed |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | | Filed |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | | Filed |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | | | | | Filed |

**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: | August 1, 2019 | By: | /s/ BRIAN HUMPHRIES |
| | | | Brian Humphries,<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | August 1, 2019 | By: | /s/ KAREN MCLOUGHLIN |
| | | | Karen McLoughlin,<br>Chief Financial Officer<br>(Principal Financial Officer) |

**EXHIBIT 31.1**

CERTIFICATION

I, Brian Humphries, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cognizant Technology Solutions Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

| | | |
|---|---|---|
| Dated: | August 1, 2019 | /s/ Brian Humphries |
| | | Brian Humphries,<br>Chief Executive Officer<br>(Principal Executive Officer) |

**EXHIBIT 31.2**

CERTIFICATION

I, Karen McLoughlin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cognizant Technology Solutions Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Dated: | August 1, 2019 | /s/ Karen McLoughlin |
| | | Karen McLoughlin,<br>Chief Financial Officer<br>(Principal Financial Officer) |

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report on Form 10-Q of Cognizant Technology Solutions Corporation (the "Company") for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brian Humphries, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Dated: | August 1, 2019 | /s/ Brian Humphries |
| | | Brian Humphries, |
| | | Chief Executive Officer<br>(Principal Executive Officer) |

____________________

* A signed original of this written statement required by Section 906 has been provided to Cognizant Technology Solutions Corporation and will be retained by Cognizant Technology Solutions Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002***

In connection with the Quarterly Report on Form 10-Q of Cognizant Technology Solutions Corporation (the "Company") for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Karen McLoughlin, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Dated: | August 1, 2019 | /s/ Karen McLoughlin |
| | | Karen McLoughlin,<br>Chief Financial Officer<br>(Principal Financial Officer) |

____________________

* A signed original of this written statement required by Section 906 has been provided to Cognizant Technology Solutions Corporation and will be retained by Cognizant Technology Solutions Corporation and furnished to the Securities and Exchange Commission or its staff upon request.