COGNIZANT TECHNOLOGY SOLUTIONS CORP
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017
Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from

to

Commission File Number 0-24429

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	13-3728359 (I.R.S. Employer Identification No.)
Glenpointe Centre West 500 Frank W. Burr Blvd.	07666

Teaneck, New Jersey
(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (201) 801-0233

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No:
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No:
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, 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 (Do not check if a smaller reporting company)	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 28, 2017:

Class	Number of Shares
Class A Common Stock, par value $.01 per share	590,622,691

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$1,157	$2,034
Short-term investments	3,221	3,135
Trade accounts receivable, net of allowances of $64 and $48, respectively	2,680	2,556
Unbilled accounts receivable	409	349
Other current assets	632	526
Total current assets	8,099	8,600
Property and equipment, net	1,284	1,311
Goodwill	2,576	2,554
Intangible assets, net	894	951
Deferred income tax assets, net	457	425
Long-term investments	198	62
Other noncurrent assets	430	359
Total assets	$13,938	$14,262
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$179	$175
Deferred revenue	337	306
Short-term debt	244	81
Accrued expenses and other current liabilities	1,655	1,856
Total current liabilities	2,415	2,418
Deferred revenue, noncurrent	133	151
Deferred income tax liabilities, net	5	6
Long-term debt	747	797
Other noncurrent liabilities	155	162
Total liabilities	3,455	3,534
Commitments and contingencies (See Note 11)		
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, 590 and 608 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	128	358
Retained earnings	10,316	10,478
Accumulated other comprehensive income (loss)	33	(114)
Total stockholders’ equity	10,483	10,728
Total liabilities and stockholders’ equity	$13,938	$14,262

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

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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,	
	2017	2016	2017	2016
Revenues	$3,670	$3,370	$7,216	$6,572
Operating expenses:				
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	2,261	2,038	4,455	3,953
Selling, general and administrative expenses	709	654	1,395	1,300
Depreciation and amortization expense	94	87	190	174
Income from operations	606	591	1,176	1,145
Other income (expense), net:				
Interest income	31	28	63	59
Interest expense	(6)	(5)	(12)	(10)
Foreign currency exchange gains (losses), net	5	(20)	57	(11)
Other, net	(1)	1	—	1
Total other income (expense), net	29	4	108	39
Income before provision for income taxes	635	595	1,284	1,184
Provision for income taxes	(165)	(343)	(257)	(491)
Income from equity method investment	—	—	—	—
Net income	$470	$252	$1,027	$693
Basic earnings per share	$0.80	$0.42	$1.72	$1.14
Diluted earnings per share	$0.80	$0.41	$1.71	$1.14
Weighted average number of common shares outstanding - Basic	589	606	597	607
Dilutive effect of shares issuable under stock-based compensation plans	2	3	2	3
Weighted average number of common shares outstanding - Diluted	591	609	599	610
Dividends declared per common share	$0.15	$—	$0.15	$—

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$470	$252	$1,027	$693
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	50	(29)	67	(9)
Change in unrealized gains and losses on cash flow hedges, net of taxes	(1)	(8)	78	12
Change in unrealized gains and losses on available-for-sale securities, net of taxes	1	3	2	8
Other comprehensive income (loss)	50	(34)	147	11
Comprehensive income	$520	$218	$1,174	$704

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

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

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$1,027	$693
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	207	181
Provision for doubtful accounts	17	4
Deferred income taxes	8	26
Stock-based compensation expense	109	116
Other	(63)	10
Changes in assets and liabilities:		
Trade accounts receivable	(103)	(187)
Other current assets	(81)	(120)
Other noncurrent assets	(46)	(6)
Accounts payable	2	6
Deferred revenues, current and noncurrent	10	2
Other current and noncurrent liabilities	(289)	(287)
Net cash provided by operating activities	798	438
Cash flows from investing activities:		
Purchases of property and equipment	(126)	(139)
Purchases of available-for-sale investment securities	(1,622)	(2,578)
Proceeds from maturity or sale of available-for-sale investment securities	1,936	2,572
Purchases of held-to-maturity investment securities	(662)	—
Proceeds from maturity of held-to-maturity investment securities	50	—
Purchases of other investments	(213)	(355)
Proceeds from maturity or sale of other investments	345	391
Payments for business combinations, net of cash acquired and equity method investment	(6)	(151)
Net cash (used in) investing activities	(298)	(260)
Cash flows from financing activities:		
Issuance of common stock under stock-based compensation plans	104	91
Repurchases of common stock	(1,544)	(335)
Repayment of term loan borrowings and capital lease obligations	(42)	(27)
Net change in notes outstanding under the revolving credit facility	150	(350)
Dividends paid	(89)	—
Net cash (used in) financing activities	(1,421)	(621)
Effect of exchange rate changes on cash and cash equivalents	44	2
(Decrease) in cash and cash equivalents	(877)	(441)
Cash and cash equivalents, beginning of year	2,034	2,125
Cash and cash equivalents, end of period	$1,157	$1,684

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

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

Note 1 — Interim Condensed Consolidated Financial Statements

The terms “Cognizant,” “we,” “our,” “us” and “the Company” refer to Cognizant Technology Solutions Corporation unless the context indicates otherwise. We have prepared the accompanying unaudited condensed consolidated financial statements included herein in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) included in our Annual Report on Form 10-K for the year ended December 31, 2016. In our opinion, all adjustments considered necessary for a fair statement of the accompanying unaudited condensed consolidated financial statements have been included, and all adjustments are of a normal and recurring nature. Operating results for the interim periods are not necessarily indicative of results that may be expected to occur for the entire year.

Recently Adopted Accounting Pronouncements.

In March 2016, the Financial Accounting Standards Board, or FASB, issued an update to the standard on derivatives and hedging, which clarifies the effect of derivative contract novations on existing hedge accounting relationships. As it relates to derivative instruments, novation refers to replacing one of the parties to a derivative instrument with a new party, which may occur for a variety of reasons such as: financial institution mergers, intercompany transactions, an entity exiting a particular derivatives business or relationship, or because of laws or regulatory requirements. The update clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedge accounting relationship provided that all other hedge accounting criteria continue to be met. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2017. We adopted this update beginning January 1, 2017. The adoption of this update did not have any effect on our financial condition or results of operations.

In March 2016, the FASB issued an update to the standard on stock compensation, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for excess tax benefits and deficiencies, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2017. We adopted this update prospectively beginning January 1, 2017. For the three and six months ended June 30, 2017, we recognized net excess tax benefits on stock-based compensation awards in our income tax provision in the amount of $5 million and $11 million or approximately $0.01 and $0.02 per share, respectively. Additionally, the excess tax benefits and deficiencies have been presented in operating activities in the statement of cash flows in our consolidated financial statements and the prior period presentation has been adjusted to conform to the current period.

In January 2017, the FASB issued an update to the standard on business combinations, which clarifies the definition of a business. The update requires a business to include at least an input and a substantive process that together significantly contribute to the ability to create outputs. The update also states that the definition of a business is not met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2018 with early adoption permitted. We early adopted this update prospectively beginning January 1, 2017. The adoption of this update did not have a material effect on our financial condition or results of operations.

In January 2017, the FASB issued an update to the standard on goodwill, which eliminates the need to calculate the implied fair value of goodwill when an impairment is indicated. The update states that goodwill impairment is measured as the excess of a reporting unit's carrying value over its fair value, not to exceed the carrying amount of goodwill. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2020 with early adoption permitted. We early adopted this update prospectively beginning January 1, 2017. The adoption of this update did not have any effect on our financial condition or results of operations.

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New Accounting Pronouncements.

In May 2014, the FASB issued a standard on revenue from contracts with customers. In 2016, the FASB issued five amendments to the new standard. The new standard, as amended, sets forth a single comprehensive model for recognizing and reporting revenues. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenues and cash flows relating to customer contracts. The standard is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2018. The standard allows for two methods of adoption: the full retrospective adoption, which requires the standard to be applied to each prior period presented, or the modified retrospective adoption, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption. We intend to adopt the standard using the modified retrospective method effective January 1, 2018. While we are currently evaluating the effect the new standard will have on our consolidated financial statements and related disclosures, we believe the most significant impacts primarily relate to changes in the method used to measure progress on our application maintenance and business process services fixed-price contracts, capitalization and amortization of costs to acquire and fulfill a contract, as well as the timing of revenue recognition on our software license contracts. Due to the complexity of certain of our contracts, the actual revenue recognition treatment required under the standard will be dependent on each contract's specific terms. The final impact of adoption of the new standard will be based on active contracts as of December 31, 2017. Many of our contracts are short-term in nature and may be renewed, terminated or otherwise modified after June 30, 2017. Additionally, new contracts will be signed during the second half of 2017. Thus, we are unable to provide a quantification of the impact of adoption of the new standard at this time.

In January 2016, the FASB issued an update to the standard on financial instruments. The update significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2018. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. However, the specific guidance on equity securities without readily determinable fair value will apply prospectively to all equity investments that exist as of the date of adoption. Early adoption of certain sections of this update is permitted. We are currently evaluating the effect the update will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued a standard on lease accounting. The new standard replaces the existing guidance on leases and requires the lessee to recognize a right-of-use asset and a lease liability for all leases with lease terms equal to or greater than twelve months. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize total lease expense on a straight-line basis. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2019. Upon adoption, entities will be required to use a modified retrospective transition which provides for certain practical expedients. Entities are required to apply the new standard at the beginning of the earliest comparative period presented. Early adoption of this new standard is permitted. We are currently evaluating the effect the new standard will have on our consolidated financial statements and related disclosures. We expect the requirement to recognize a right-of-use asset and a lease liability for operating leases to have a material impact on the presentation of our consolidated statements of financial position.

In August 2016, the FASB issued an update to the standard on the statement of cash flows, which clarifies the presentation and classification of certain cash receipts and cash payments. The update addresses specific cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity

method investees. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after January 1, 2018. Early adoption is permitted, including adoption in an interim period, provided that all of the updates are adopted in the same period. Upon adoption, entities will be required to use a retrospective transition approach. We are currently evaluating the impact of the new guidance on our consolidated financial statements. The adoption of this guidance will affect financial statement presentation only and will have no effect on our financial position or results of operations.

In March 2017, the FASB issued an update to shorten 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. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on after January 1, 2019 with early adoption permitted. Upon adoption, entities will be 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. We are currently evaluating the effect the amendments will have on our consolidated financial statements and related disclosures.

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In May 2017, the FASB issued an update to amend the scope of modification accounting for share-based payment arrangements. The amendment requires that an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification are the same immediately before and after the modification. The update is effective for fiscal years, and interim periods within those fiscal years, beginning on after January 1, 2018 with early adoption permitted. Upon adoption, entities will be required to apply this guidance prospectively to an award modified on or after the adoption date. We are currently evaluating the effect the amendments will have on our consolidated financial statements and related disclosures.

Note 2 — Internal Investigation and Related Matters

We are conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the U.S. Foreign Corrupt Practices Act, or FCPA, and other applicable laws. In September 2016, we voluntarily notified the U.S. Department of Justice, or DOJ, and Securities and Exchange Commission, or SEC, and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel. To date, the investigation has identified a total of approximately $6 million in payments made between 2010 and 2015 that may have been improper. During the year ended December 31, 2016, we recorded out-of-period corrections related to $4 million of such payments that had been previously capitalized that should have been expensed. These out-of-period corrections and the other $2 million in potentially improper payments were not material to any previously issued financial statements. The investigation is also examining various other payments made in small amounts in India and elsewhere that may not have complied with Company policy or applicable law. There were no adjustments recorded during the six months ended June 30, 2017.

Note 3 — Realignment Charges

In 2017, we began a realignment of our business to accelerate the shift to digital services and solutions while improving the overall efficiency of our operations. As part of this realignment, for the three and six months ended June 30, 2017, we incurred $39 million and $50 million, respectively, in pre-tax realignment charges, reported in "Selling, general and administrative expenses" in our consolidated statements of operations. The realignment charges are comprised of severance costs primarily related to a voluntary separation program, or VSP, announced in May 2017, advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, and lease termination costs.

Realignment charges for the three and six months ended June 30, 2017 were as follows:

	Three Months	Six Months
	(in millions)	
Employee separations	$ 37	$ 39
Advisory fees	1	10
Lease termination costs	1	1
Total realignment costs	$ 39	$ 50

There were no realignment charges incurred in 2016.

Note 4 — Investments

Our investments were as follows:

	June 30, 2017	December 31, 2016
	(in millions)	
Short-term investments:		

Trading investment securities	$25	$ 25
Available-for-sale investment securities	1,953	2,264
Held-to-maturity investment securities	543	40
Time deposits	700	806
Total short-term investments	$3,221	$ 3,135

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Long-term investments:		
Equity and cost method investments	$69	$62
Held-to-maturity investment securities	129	—
Total long-term investments	$198	$62

Trading Investment Securities

Our trading investment securities consist of a U.S. dollar denominated investment in a fixed income mutual fund. Unrealized losses for the three and six months ended June 30, 2017 were immaterial. There were no realized gains or losses on trading securities during the three and six months ended June 30, 2017. During the six months ended June 30, 2016, there were no investment securities in our portfolio classified as trading.

Available-for-Sale Investment Securities

Our available-for-sale investment securities consist of U.S. dollar denominated investments primarily in U.S. Treasury notes, U.S. government agency debt securities, municipal debt securities, non-U.S. government debt securities, U.S. and international corporate bonds, certificates of deposit, commercial paper, debt securities issued by supranational institutions, and asset-backed securities, including securities backed by auto loans, credit card receivables, and other receivables. Our investment guidelines are to purchase securities which are investment grade at the time of acquisition. We monitor the credit ratings of the securities in our portfolio on an ongoing basis.

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at June 30, 2017 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
U.S. Treasury and agency debt securities	$644	$ —	$ (2)	$642
Corporate and other debt securities	442	—	(1)	441
Certificates of deposit and commercial paper	452	—	—	452
Asset-backed securities	294	1	(1)	294
Municipal debt securities	124	—	—	124
Total available-for-sale investment securities	$1,956	$ 1	$ (4)	$1,953

The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at December 31, 2016 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
U.S. Treasury and agency debt securities	$605	$ —	$ (3)	$602
Corporate and other debt securities	407	—	(2)	405
Certificates of deposit and commercial paper	910	1	—	911
Asset-backed securities	232	—	(1)	231
Municipal debt securities	116	—	(1)	115
Total available-for-sale investment securities	$2,270	$ 1	$ (7)	$2,264

The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of June 30, 2017:

	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	$551	$ (2)	$ —	$ —	$551	$ (2)
Corporate and other debt securities	298	(1)	—	—	298	(1)
Certificates of deposit and commercial paper	105	—	—	—	105	—
Asset-backed securities	222	(1)	3	—	225	(1)
Municipal debt securities	59	—	1	—	60	—
Total	$1,235	$ (4)	$ 4	$ —	$1,239	$ (4)

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, 2016:

	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	$526	$ (3)	$ —	$ —	$526	$ (3)
Corporate and other debt securities	342	(2)	1	—	343	(2)
Certificates of deposit and commercial paper	185	—	—	—	185	—
Asset-backed securities	206	(1)	1	—	207	(1)
Municipal debt securities	88	(1)	1	—	89	(1)
Total	$1,347	$ (7)	$ 3	$ —	$1,350	$ (7)

The unrealized losses for the above securities as of June 30, 2017 and December 31, 2016 were primarily attributable to changes in interest rates. At each reporting date, the Company performs an evaluation of impaired available-for-sale 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, 2017. The gross unrealized gains and losses in the above tables were recorded, net of tax, in "Accumulated other comprehensive income (loss)" in our consolidated statements of financial position.

The contractual maturities of our fixed income available-for-sale investment securities as of June 30, 2017 are set forth in the following table:

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$646	$646
Due after one year up to two years	462	461
Due after two years up to three years	478	476
Due after three years	76	76
Asset-backed securities	294	294
Total available-for-sale investment securities	$1,956	$1,953

Asset-backed securities were excluded from the maturity categories because the actual maturities may differ from the contractual maturities since the underlying receivables may be prepaid without penalties. Further, actual maturities of

debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Proceeds from sales of available-for-sale investment securities	$397	$1,816	$1,645	$2,378
Gross gains	$—	$4	$1	$4
Gross losses	—	—	(1)	—
Net realized gains (losses) on sales of available-for-sale investment securities	$—	$4	$—	$4

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. We classify these securities with maturities beyond 90 days but less than one year at the reporting date as short-term investments and beyond one year as long-term investments.

The amortized cost, gross unrealized gains and losses and fair value of held-to-maturity investment securities at June 30, 2017 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Short-term investments:				
Corporate and other debt securities	$186	$ —	$ —	$186
Commercial paper	357	—	—	357
Total short-term held-to-maturity investments	543	—	—	543
Long-term investments:				
Corporate and other debt securities	129	—	—	129
Total held-to-maturity investment securities	$672	$ —	$ —	$672

The amortized cost, gross unrealized gains and losses and fair value of held-to-maturity investment securities at December 31, 2016 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Short-term investments:				
Certificates of deposit and commercial paper	$40	$ —	$ —	$ 40

There were no long-term held-to-maturity investment securities at December 31, 2016.

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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, 2017:

	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	$ 154	$ —	$ —	$ —	$ 154	$ —
Commercial paper	63	—	—	—	63	—
Total	$ 217	$ —	$ —	$ —	$ 217	$ —

As of December 31, 2016, held-to-maturity investment securities in an unrealized loss position were immaterial. 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, 2017.

The contractual maturities of our fixed income held-to-maturity investment securities as of June 30, 2017 are set forth in the following table:

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	$ 543	$ 543
Due after one year up to two years	123	123
Due after two years	6	6
Total held-to-maturity investment securities	$ 672	$ 672

As of June 30, 2016, there were no investment securities in our portfolio classified as held-to-maturity.

During the six months ended June 30, 2017 and the year ended December 31, 2016, there were no transfers of investments between our trading, available-for-sale and held-to-maturity investment portfolios.

Note 5 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

	June 30, 2017	December 31, 2016
	(in millions)	
Compensation and benefits	$ 1,026	$ 1,134
Income taxes	15	10
Professional fees	85	99
Travel and entertainment	38	36
Customer volume and other incentives	223	258
Derivative financial instruments	6	4
Other	262	315
Total accrued expenses and other current liabilities	$ 1,655	$ 1,856

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Note 6 — Debt

In 2014, we entered into a credit agreement with a commercial bank syndicate, or, as amended, the Credit Agreement, providing for a $1,000 million unsecured term loan and a $750 million unsecured revolving credit facility. The term loan and the revolving credit facility both mature in November 2019. All notes drawn to date under the revolving credit facility have been less than 90 days in duration. We are required under the Credit Agreement to make scheduled quarterly principal payments on the term loan. We were in compliance with all debt covenants and representations as of June 30, 2017.

Short-term Debt

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

	June 30, 2017	December 31, 2016
	(in millions)	
Notes outstanding under revolving credit facility	$150	$ —
Term loan - current maturities	94	81
Total short-term debt	$244	$ 81

Long-term Debt

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

	June 30, 2017	December 31, 2016
	(in millions)	
Term loan, due 2019	$844	$ 881
Less:		
Current maturities	(94)	(81)
Deferred financing costs	(3)	(3)
Long-term debt, net of current maturities	$747	$ 797

Note 7 — Income Taxes

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented and are eligible for certain income tax holiday benefits granted by the government of India for export activities conducted within Special Economic Zones, or SEZs, for periods of up to 15 years. Our Indian profits ineligible for SEZ benefits are subject to corporate income tax at the rate of 34.6%. In addition, all Indian profits, including those generated within SEZs, are subject to the Minimum Alternative Tax, or MAT, at the rate of 21.3%. Any MAT paid is creditable against future Indian corporate income tax, subject to limitations.

Our effective income tax rates were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Effective income tax rate	26.0%	57.6%	20.0%	41.4%

In the first quarter of 2017, we recognized income tax benefits previously unrecognized in our consolidated financial statements related to several uncertain tax positions totaling $72 million. The recognition of these benefits in the first quarter of 2017 was based on management’s reassessment regarding whether certain unrecognized tax benefits met the more-likely-than-not threshold in light of the lapse in the statute of limitations as to a portion of such benefits.

In May 2016, our principal operating subsidiary in India repurchased shares from its shareholders, which are non-Indian Cognizant entities, valued at $2.8 billion ("India Cash Remittance"). This transaction was undertaken pursuant to a plan approved by the High Court of Madras and simplified the shareholding structure of our principal operating subsidiary in India. Pursuant to the transaction, our principal Indian operating subsidiary repurchased approximately $1.2 billion of the total $2.8 billion of shares from its U.S. shareholders, resulting in tax expense in the United States and India, while the remaining $1.6 billion was repurchased from its shareholder outside the United States. Net of taxes, the transaction resulted in a remittance of

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cash to the United States in the amount of $1.0 billion. As a result of this transaction, we incurred an incremental 2016 income tax expense of $238 million, including a discrete item recognized in the second quarter of 2016 of $143 million relating to the distribution of historic undistributed accumulated foreign earnings. Total incremental tax expense of $190 million was recognized in the quarter ended June 30, 2016. This transaction is primarily responsible for the decrease in our effective income tax rate in 2017 compared to 2016.
The decrease in our effective income tax rate for the six months ended 2017 as compared to the same period in 2016 is primarily due to the India Tax Remittance and the recognition of previously unrecognized income tax benefits, as described above. For the 2017 periods, the principal reason for the difference between our effective income tax rates and the U.S. federal statutory rate is the effect of the Indian tax holiday, earnings taxed in countries that have lower rates than the United States, and, for the six months ended June 30, 2017, the recognition in the first quarter of 2017 of previously unrecognized income tax benefits. For the 2016 periods, the principal reason for the difference between our effective income tax rates and the U.S. federal statutory rate is the effect of the India Cash Remittance transaction, partially offset by the effect of the Indian tax holiday and earnings taxed in countries that have lower rates than the United States.

Note 8 — Derivative Financial Instruments

In the normal course of business, we use foreign exchange forward contracts to manage foreign currency exchange rate risk. The estimated fair value of the foreign exchange forward contracts considers the following items: discount rate, timing and amount of cash flow and counterparty credit risk. Derivatives may give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. We have limited our credit risk by entering into derivative transactions only with highly-rated financial institutions, limiting the amount of credit exposure with any one financial institution and conducting an ongoing evaluation of the creditworthiness of the financial institutions with which we do business. In addition, all the assets and liabilities related to our foreign exchange forward contracts set forth in the below table are subject to International Swaps and Derivatives Association, or ISDA, master netting arrangements or other similar agreements with each individual counterparty. These master netting arrangements generally provide for net settlement of all outstanding contracts with the counterparty in the case of an event of default or a termination event. We have presented all the assets and liabilities related to our foreign exchange forward contracts on a gross basis, with no offsets, in our accompanying unaudited 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 Statement of Financial Position	June 30, 2017		December 31, 2016	
		Assets	Liabilities	Assets	Liabilities
		(in millions)			
Foreign exchange forward contracts – Designated as cash flow hedging instruments	Other current assets	$112	$ —	$ 34	$ —
	Other noncurrent assets	43	—	17	—
	Total	155	—	51	—
Foreign exchange forward contracts – Not designated as hedging instruments	Accrued expenses and other current liabilities	—	6	—	4
	Total	—	6	—	4
Total		$155	$ 6	$ 51	$ 4

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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 2017, 2018 and 2019. Under these contracts, we purchase Indian rupees and sell U.S. dollars. The changes in fair value of these contracts are initially reported in the caption "Accumulated other comprehensive income (loss)" in our consolidated statements of financial position and are subsequently reclassified to earnings in the same period the forecasted Indian rupee denominated payments are recorded in earnings. As of June 30, 2017, we estimate that $85 million, net of tax, of net gains related to derivatives designated as cash flow hedges recorded in accumulated other comprehensive income (loss) is expected to be reclassified into earnings within the next 12 months.

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

	June 30, 2017	December 31, 2016
	(in millions)	
2017	$630	$ 1,320
2018	1,050	1,020
2019	330	—
Total notional value of contracts outstanding	$2,010	$ 2,340
Net unrealized gains included in accumulated other comprehensive income (loss), net of taxes	$117	$ 39

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

The following table provides information on the location and amounts of pre-tax gains (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 Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net Gains Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2017	2016		2017	2016
	(in millions)				
Foreign exchange forward contracts – Designated as cash flow hedging instruments	$35	$(7)	Cost of revenues	$ 29	$ 3
			Selling, general and administrative expenses	6	—

Total	$ 35	$ 3

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The following table provides information on the location and amounts of pre-tax gains (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 Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net Gains Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2017	2016		2017	2016
	(in millions)				
Foreign exchange forward contracts – Designated as cash flow hedging instruments	$159	$ 15	Cost of revenues	$ 46	$ 1
			Selling, general and administrative expenses	9	—
			Total	$ 55	$ 1

The activity related to the change in net unrealized gains (losses) on our cash flow hedges included in accumulated other comprehensive income (loss) is presented in Note 10.

Other Derivatives

We use foreign exchange forward contracts, which have not been designated as hedges, to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies, primarily the Indian rupee and the Euro, other than the functional currency of our foreign subsidiaries. These foreign exchange forward contracts are scheduled to mature in 2017 and 2018. 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 consolidated statements of operations.

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

	June 30, 2017		December 31, 2016	
	Notional	Fair Value	Notional	Fair Value
	(in millions)			
Contracts outstanding	$269	$ (6)	$213	$ (4)

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	Six Months Ended June 30,

		June 30,			
		2017	2016	2017	2016
		(in millions)			
Foreign exchange forward contracts – Not designated as hedging instruments	Foreign currency exchange gains (losses), net	$ (3)	$ 3	$ (13)	$ —

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

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Note 9 — Fair Value Measurements

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

The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
	(in millions)			
Cash equivalents:				
Money market funds	$217	$—	$ —	$217
Total cash equivalents	217	—	—	217
Short-term investments:				
Time deposits	—	700	—	700
Available-for-sale investment securities:				
U.S. Treasury and agency debt securities	550	92	—	642
Corporate and other debt securities	—	441	—	441
Certificates of deposit and commercial paper	—	452	—	452
Asset-backed securities	—	294	—	294
Municipal debt securities	—	124	—	124
Total available-for-sale investment securities	550	1,403	—	1,953
Held-to-maturity investment securities:				
Commercial paper	—	357	—	357
Corporate and other debt securities	—	186	—	186
Total short-term held-to-maturity investment securities	—	543	—	543
Total short-term investments[(1)]	550	2,646	—	3,196
Long-term investments:				
Held-to-maturity investment securities:				
Corporate and other debt securities	—	129	—	129
Total long-term held-to-maturity investment securities	—	129	—	129
Total long-term investments[(2)]	—	129	—	129
Derivative financial instruments - foreign exchange forward contracts:				
Other current assets	—	112	—	112
Accrued expenses and other current liabilities	—	(6)	—	(6)
Other noncurrent assets	—	43	—	43
Total	$767	$2,924	$ —	$3,691

(1) Excludes trading securities in mutual funds valued at $25 million based on the net asset value of the fund at June 30, 2017.

(2) Excludes equity and cost method investments of $69 million at June 30, 2017, which are accounted for using the equity method of accounting and at cost, respectively.

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The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
	(in millions)			
Cash equivalents:				
Money market funds	$624	$—	$ —	$624
Commercial paper	—	131	—	131
Total cash equivalents	624	131	—	755
Short-term investments:				
Time deposits	—	806	—	806
Available-for-sale investment securities:				
U.S. Treasury and agency debt securities	558	44	—	602
Corporate and other debt securities	—	405	—	405
Certificates of deposit and commercial paper	—	911	—	911
Asset-backed securities	—	231	—	231
Municipal debt securities	—	115	—	115
Total available-for-sale investment securities	558	1,706	—	2,264
Held-to-maturity investment securities:				
Certificates of deposit and commercial paper	—	40	—	40
Total held-to-maturity investment securities	—	40	—	40
Total short-term investments[(1)]	558	2,552	—	3,110
Derivative financial instruments - foreign exchange forward contracts:				
Other current assets	—	34	—	34
Accrued expenses and other current liabilities	—	(4)	—	(4)
Other noncurrent assets	—	17	—	17
Total	$1,182	$2,730	$ —	$3,912

(1) Excludes trading securities in mutual funds valued at $25 million based on the net asset value, of the fund at December 31, 2016.

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 the time deposits approximated fair value as of June 30, 2017 and December 31, 2016.

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

During the six months ended June 30, 2017 and the year ended December 31, 2016, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

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Note 10 — Stockholder's Equity

Stock Repurchase Program

Under the Board of Directors' authorized stock repurchase program, the Company is authorized to repurchase its Class A common stock through open market purchases, including under a trading plan adopted pursuant to Rule 10b5-1 of the Exchange Act, or in private transactions, in accordance with applicable federal securities laws. The timing of repurchases and the exact number of shares to be purchased are determined by the Company’s management, in its discretion, or pursuant to a Rule 10b5-1 trading plan, and will depend upon market conditions and other factors. In March 2017, we entered into accelerated share repurchase agreements, referred to collectively as the ASR, with certain financial institutions under our stock repurchase program. Under the terms of the ASR and in exchange for up-front payments of $1,500 million, the financial institutions have delivered 21.5 million shares, a portion of the Company's total expected shares to be repurchased under the ASR. The total number of shares ultimately delivered is determined at the end of the applicable purchase periods under the ASR based on the volume-weighted average price of the Company’s common stock during such periods. The ASR purchase periods are scheduled to end during the third quarter of 2017.

Under the ASR, the shares received are constructively retired and returned to the status of authorized and unissued shares in the periods they are delivered, and the up-front payments are accounted for as a reduction to stockholders’ equity in our consolidated statement of financial position in the period the payments are made. The $1,500 million up-front payments were accounted for as a $400 million reduction in common stock and additional paid-in capital and a $1,100 million reduction in retained earnings in our consolidated statements of financial position in March 2017. We reflected the ASR as a repurchase of common stock in the period delivered for purposes of calculating earnings per share and as forward contracts indexed to our common stock. The forward contracts met all of the applicable criteria for equity classification, and therefore were not accounted for as derivative instruments.

As of June 30, 2017, the remaining available balance under our stock repurchase program was $2,000 million.

Stock repurchases were made in connection with our stock-based compensation plans, whereby Company shares were tendered by employees for payment of applicable statutory tax withholdings. We also repurchased a limited number of shares from employees at the repurchase date market price. Combined, for the six months ended June 30, 2017, such repurchases totaled 0.7 million shares at an aggregate cost of $44 million.

Dividends

During the second quarter of 2017, we declared and paid cash dividends of $0.15 per share, totaling $89 million.

On August 3, 2017, our Board of Directors approved the Company's declaration of a $0.15 per share dividend with a record date of August 22, 2017 and a payment date of August 31, 2017.

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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, 2017:

	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	$(132)	$—	$(132)	$(149)	$—	$(149)
Change in foreign currency translation adjustments	50	—	50	67	—	67
Ending balance	$(82)	$—	$(82)	$(82)	$—	$(82)
Unrealized gains (losses) on available-for-sale investment securities:						
Beginning balance	$(4)	$1	$(3)	$(6)	$2	$(4)
Net unrealized gains arising during the period	1	—	1	3	(1)	2
Reclassification of net (gains) to Other, net	—	—	—	—	—	—
Net change	1	—	1	3	(1)	2
Ending balance	$(3)	$1	$(2)	$(3)	$1	$(2)
Unrealized gains on cash flow hedges:						
Beginning balance	$155	$(37)	$118	$51	$(12)	$39
Unrealized gains arising during the period	35	(9)	26	159	(39)	120
Reclassifications of net (gains) to:						
Cost of revenues	(29)	7	(22)	(46)	11	(35)
Selling, general and administrative expenses	(6)	1	(5)	(9)	2	(7)
Net change	—	(1)	(1)	104	(26)	78
Ending balance	$155	$(38)	$117	$155	$(38)	$117
Accumulated other comprehensive income (loss):						
Beginning balance	$19	$(36)	$(17)	$(104)	$(10)	$(114)
Other comprehensive income (loss)	51	(1)	50	174	(27)	147
Ending balance	$70	$(37)	$33	$70	$(37)	$33

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Changes in accumulated other comprehensive income (loss) by component were as follows for the three and six months ended June 30, 2016:

	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	$(70)	$—	$(70)	$(90)	$—	$(90)
Change in foreign currency translation adjustments	(29)	—	(29)	(9)	—	(9)
Ending balance	$(99)	$—	$(99)	$(99)	$—	$(99)
Unrealized gains (losses) on available-for-sale investment securities:						
Beginning balance	$1	$(1)	$—	$(7)	$2	$(5)
Net unrealized gains arising during the period	5	(1)	4	13	(4)	9
Reclassification of net (gains) to Other, net	(4)	1	(3)	(4)	1	(3)
Other-than-temporary impairment losses on investment securities recognized in earnings	3	(1)	2	3	(1)	2
Net change	4	(1)	3	12	(4)	8
Ending balance	$5	$(2)	$3	$5	$(2)	$3
Unrealized gains (losses) on cash flow hedges:						
Beginning balance	$10	$(2)	$8	$(14)	$2	$(12)
Unrealized (losses) gains arising during the period	(7)	2	(5)	15	(2)	13
Reclassifications of gains to:						
Cost of revenues	(3)	—	(3)	(1)	—	(1)
Selling, general and administrative expenses	—	—	—	—	—	—
Net change	(10)	2	(8)	14	(2)	12
Ending balance	$—	$—	$—	$—	$—	$—
Accumulated other comprehensive income (loss):						
Beginning balance	$(59)	$(3)	$(62)	$(111)	$4	$(107)
Other comprehensive income (loss)	(35)	1	(34)	17	(6)	11
Ending balance	$(94)	$(2)	$(96)	$(94)	$(2)	$(96)

Note 11 — Commitments and Contingencies

We are involved in various claims and legal actions arising in the ordinary course of business. We accrue a liability when a loss is considered probable and the amount can be reasonably estimated. 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. In the opinion of management, the outcome of any existing claims and legal or regulatory proceedings, other than the specific matters described below, if decided adversely, is not expected to have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the FCPA and other applicable laws. In September 2016, we voluntarily notified the DOJ and SEC and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel.

To date, the investigation has identified a total of approximately $6 million in payments made between 2010 and 2015 that may have been improper. During the year ended December 31, 2016, we recorded out-of-period corrections related to $4 million of such payments that were previously capitalized that should have been expensed. These out-of-period corrections and the other $2 million in potentially improper payments were not material to any previously issued financial statements. The investigation is also examining various other

payments made in small amounts in India and elsewhere that may not have complied with Company policy or applicable law. There were no adjustments recorded during the six months ended June 30, 2017.

On October 5, 2016, October 27, 2016, and November 18, 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. In an order dated February 3, 2017, the United States District Court for the District of New Jersey consolidated the three putative securities class actions into a single action and appointed lead plaintiffs and lead counsel. On April 7, 2017, the lead plaintiffs filed a consolidated amended complaint on behalf of a putative class of stockholders 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. Under a stipulation filed by the parties on February 23, 2017, defendants filed motions to dismiss the consolidated amended complaint on June 6, 2017, plaintiffs filed an opposition brief on July 21, 2017 responding to defendants' motions to dismiss, and defendants have until September 5, 2017 to file reply briefs in further support of their motions to dismiss.

On October 31, 2016, November 15, 2016, and November 18, 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. On January 24, 2017, the New Jersey Superior Court, Bergen County, consolidated the three putative shareholder derivative actions filed in that court into a single action and appointed lead plaintiff and lead counsel. 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. On February 22, 2017, a fourth putative shareholder derivative complaint asserting similar claims was filed in the United States District Court for the District of New Jersey, naming us and certain of our directors as defendants. On April 5, 2017, the United States District Court for the District of New Jersey entered an order staying all proceedings pending a final, non-appealable ruling on the then anticipated motion to dismiss the consolidated putative securities class action. On April 7, 2017, a fifth putative shareholder derivative complaint was filed in the United States District Court for the District of New Jersey, naming us, certain of our 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, but also adds a claim for violations of Section 10(b) of the Exchange Act against the individual defendants. On May 10, 2017, a sixth putative shareholder derivative complaint was filed in the United States District Court for the District of New Jersey, naming us, certain of our 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, but also adds a claim for violations of Section 14(a) of the Exchange Act against the individual defendants. In an order dated June 20, 2017, the United States District Court for the District of New Jersey consolidated the three putative shareholder derivative actions filed in that court into a single action, appointed lead plaintiff and lead counsel, and stayed all further proceedings pending a final, non-appealable ruling on the motion to dismiss the consolidated putative securities class action. All of the putative shareholder derivative complaints allege among other things that certain of our public disclosures were false and misleading by failing to disclose that payments allegedly in violation of the FCPA had been made and by asserting that management had determined that our internal controls were effective. The plaintiffs seek awards of compensatory damages and restitution to us as a result of the alleged violations and their costs and attorneys' fees, experts' fees, and other litigation expenses, among other relief.

We are presently unable to predict the duration, scope or result of the internal investigation, the related consolidated putative securities class action, the putative shareholder derivative actions or any other related lawsuit, and any investigations by the DOJ or the SEC, including whether either agency will commence any legal action. 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 an accrual related to these matters. The DOJ and the SEC have a broad range of civil and criminal sanctions under the FCPA and other laws and regulations including injunctive relief, disgorgement, fines, penalties, modifications to business practices including the termination or modification of existing business relationships and the imposition of compliance programs and the retention of a monitor to oversee compliance with the FCPA. In addition, the DOJ and the SEC could bring enforcement actions against the Company or individuals, including former members of senior management. Such actions, if brought, could result in dispositions, judgments, settlements, fines, injunctions, cease and desist orders, debarment or other civil or criminal penalties against the Company or such individuals.

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We expect to incur additional expenses related to remedial measures, and may incur additional expenses related to fines. The imposition of any sanctions or the implementation of remedial measures could have a material adverse effect on our business, annual and interim results of operations, cash flows and financial condition. Furthermore, 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.
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 condition and cash flows.

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 payments under these indemnification agreements and therefore they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have material impact on our business, results of operations, financial condition and cash flows.

The Company has indemnification and expense advancement obligations pursuant to its Bylaws and indemnification agreements with respect to certain current and former members of senior management and the Company's directors. In connection with the ongoing internal investigation, the Company has received requests under such indemnification agreements and its Bylaws to provide advances of funds for legal fees and other expenses, and expects additional requests in connection with the investigation and related litigation. The Company has not recorded any liability for these matters as of June 30, 2017 as it cannot estimate the ultimate outcome at this time but has expensed advances made through June 30, 2017. The Company has maintained directors and officers insurance, from which a portion of these expenses may be recoverable, though we have not recorded an insurance receivable as of June 30, 2017.

Note 12— Related Party Transactions
Brackett B. Denniston, III, was Interim General Counsel and an executive officer of the Company from December 2016 until May 15, 2017. Mr. Denniston is, and was during such period, also a Senior Counsel at the law firm of Goodwin Procter LLP, or Goodwin. During the three and six months ended June 30, 2017, Goodwin performed legal services for the Company for which it earned approximately $1 million and $3 million, respectively. Goodwin has

continued to perform such legal services since June 30, 2017 through the date of this filing. Goodwin did not perform any services for the Company during the three and six months ended June 30, 2016. The provision of legal services by Goodwin was reviewed and approved by our Audit Committee.

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Note 13 — 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 (previously referred to as Manufacturing/Retail/Logistics), which consists of our retail and consumer goods, manufacturing and logistics, travel and hospitality, and energy and utilities operating segments; and
- Communications, Media and Technology (previously referred to as Other), 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 groups may affect revenues and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the global delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, stock-based compensation expense, a portion of depreciation and amortization, costs related to our realignment program 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 only against our total income from operations. Additionally, management has determined that it is not practical to allocate identifiable assets by segment, since such assets are used interchangeably among the segments.

Revenues from external customers and segment operating profit, before unallocated expenses, by reportable segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Revenues:				
Financial Services	$1,406	$1,351	$2,782	$2,637
Healthcare	1,050	959	2,053	1,873
Products and Resources	747	660	1,484	1,293
Communications, Media and Technology	467	400	897	769
Total revenues	$3,670	$3,370	$7,216	$6,572
Segment Operating Profit:				
Financial Services	$411	$459	$802	$882
Healthcare	343	270	616	565
Products and Resources	214	226	417	445
Communications, Media and Technology	146	134	267	256
Total segment operating profit	1,114	1,089	2,102	2,148
Less: unallocated costs	508	498	926	1,003
Income from operations	$606	$591	$1,176	$1,145

Geographic Area Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Revenues: [1]				
North America[2]	$2,851	$2,624	$5,612	$5,121
United Kingdom	288	311	562	610
Rest of Europe	291	237	576	463
Europe - Total	579	548	1,138	1,073
Rest of World [3]	240	198	466	378
Total	$3,670	$3,370	$7,216	$6,572

	As of June 30, 2017	December 31, 2016
	(in millions)	
Long-lived Assets: [4]		
North America[2]	$293	$ 279
Europe	49	52
Rest of World [3][5]	942	980
Total	$1,284	$ 1,311

(1) Revenues are attributed to regions based upon customer location.
(2) Substantially all relates to operations in the United States.
(3) Includes our operations in Asia Pacific, the Middle East and Latin America.
(4) Long-lived assets include property and equipment, net of accumulated depreciation and amortization.
(5) Substantially all of these long-lived assets relate to our operations in India.

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

Executive Summary

We are one of the world’s leading professional services companies, transforming customers’ business, operating and technology models for the digital era. Our unique industry-based, consultative approach helps customers envision, build and run more innovative and efficient businesses. Our core competencies include: business, process, operations and technology consulting, application development and systems integration, enterprise information management, application testing, application maintenance, information technology, or IT, infrastructure services, and business process services. We tailor our services to specific industries and utilize an integrated global delivery model with customer service teams typically based on-site at customer locations and delivery teams located at dedicated global delivery centers.

Our objective is to create value for both our customers and stockholders by enhancing our position as a leading professional services company in the digital era. Digital services is work we do to help our customers win in the digital economy by applying technology and analytics to change consumer experiences to drive sustainable growth, deploying systems of intelligence to automate and improve core business processes, and improving technology systems by deploying cloud and cyber security solutions and as-a-service models to make them simpler, more modern and secure. To accelerate our shift to digital services and solutions, we are deploying the following strategies:

- Aligning our digital services into three digital practice areas - Digital Business, Digital Operations and Digital Systems and Technology - to address the needs of our customers as they transform their business and technology models.
- Investing to scale these digital practice areas across our business segments and geographies, including through extensive training and re-skilling of our existing technical teams and expansion of our local workforces in the United States and other local markets around the world where we operate and pursuing select strategic acquisitions, joint ventures, investments and alliances that can expand our intellectual property, industry expertise, geographic reach, and platform and technology capabilities.
- Continuing development of our core business, which includes application services, IT infrastructure and business process services. Our customers often look for efficiencies in the running of their core operations to help them fund investments in new digital capabilities. We work with them to analyze and identify opportunities for advanced automation and delivery efficiencies. Additionally, we seek to expand the geographic reach of our core portfolio of services.
- Selectively targeting higher margin work within our core business and unifying our delivery capabilities to allow for more cost-conscious delivery, leveraging automation and scale, improving our utilization and optimizing our pyramid.

In 2017, we began a realignment of our business by executing on the above strategies and improving the overall efficiency of our operations, with the goal of achieving 22% non-GAAP operating margin[1] in 2019 while continuing to drive revenue growth. As part of this realignment, for the three and six months ended June 30, 2017, we incurred $39 million and $50 million, respectively, in pre-tax realignment charges, reported in "Selling, general and administrative expenses" in our consolidated statements of operations, which are comprised of severance costs, primarily related to a voluntary separation program, or VSP, announced in May 2017, advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs and lease termination costs. The VSP was offered to ensure that our workforce is appropriately aligned to deliver sustained, high-quality growth. We expect the decrease in our workforce resulting from the VSP to reduce our compensation expense, including incentive-based compensation, by approximately $60 million on an annualized basis. We continue to recruit and hire across all of our practices and are expanding facilities globally, ensuring that we have the right expertise to help our customers.

The costs related to the realignment are excluded from non-GAAP operating margin[1] and non-GAAP diluted earnings per share[1]. The total costs related to the realignment, which will consist primarily of severance costs under the VSP, advisory fees and lease termination costs, are expected to be incurred primarily in 2017 and will continue to be excluded from non-GAAP operating margin[1] and non-GAAP diluted earnings per share[1].

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

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We have a capital return plan that includes a combination of stock repurchases and cash dividends. As part of this plan, we entered into accelerated stock repurchase agreements, referred to collectively as the ASR, of $1.5 billion in March 2017 and paid a cash dividend of $0.15 per share in May 2017. Additionally, we have declared another cash dividend of $0.15 per share with a record date of August 22, 2017 and a payment date of August 31, 2017.
There can be no assurances that we will be successful in achieving the objectives of these plans or that other factors beyond our control, including the various risks set forth in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, will not cause us to fail to achieve the targeted improvements.

The following table sets forth summarized operating results for the three months ended June 30, 2017 and 2016:

	2017		2016		Increase $	Increase %
	(Dollars in millions, except per share data)					
Revenues	$3,670		$3,370		$300	8.9
Income from operations and operating margin	606	16.5%	591	17.5%	15	2.5
Net income	470		252		218	86.5
Diluted earnings per share	0.80		0.41		0.39	
Other Financial Information[2]						
Non-GAAP income from operations and Non-GAAP operating margin	735	20.0%	683	20.3%	52	7.6
Non-GAAP diluted earnings per share	0.93		0.87		0.06	

The key drivers of our revenue growth during the three months ended June 30, 2017 as compared to June 30, 2016 were as follows:

- Solid performance in our Communications, Media and Technology (previously referred to as Other), Products and Resources (previously referred to as Manufacturing/Retail/Logistics) and Healthcare business segments with revenue growth of 16.8%, 13.2% and 9.5%, respectively;
- Revenues in our Financial Services business segment grew 4.1% as our banking customers continue to focus on optimizing their cost structure and managing their discretionary spending;
- Sustained strength in the North American market where revenues grew 8.7%;
- Continued penetration of the European and Rest of World (primarily the Asia Pacific) markets:
  In Europe, we experienced revenue growth of 5.7%, after a negative currency impact of 6.1%. Our revenues from customers in the United Kingdom declined 7.4%, after a negative currency impact of 8.7%. Revenues from our Rest of Europe customers, which included revenues from new strategic customers acquired in the fourth quarter of 2016, increased 22.8%, after a negative currency impact of 2.7%;
  Revenues from our Rest of World customers increased 21.2%, after an immaterial currency impact;
- Increased customer spending on discretionary projects;
- Expansion of our service offerings, including consulting and digital services, next-generation IT solutions and platform-based solutions;
- Continued expansion of the market for global delivery of technology and business process services; and
- Increased penetration at existing customers, including strategic customers.

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

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Our customers seek to meet a dual mandate of achieving more efficient and effective operations, while investing in digital technologies that are reshaping their business models. Increasingly, the relative emphasis among our customers is shifting towards investment and innovation, as reflected in accelerated demand for our digital services. We continue to see demand for larger, more complex projects that are transformational for our customers, including managed services contracts. Such contracts may have longer sales cycles and ramp-up periods and could lead to greater period-to-period variability in our operating results. We increased the number of strategic customers by 7 during the quarter, bringing the total number of our strategic customers to 343. We define a strategic customer as one offering the potential to generate at least $5 million to $50 million or more in annual revenues at maturity.
Our operating margin decreased to 16.5% for the quarter ended June 30, 2017 from 17.5% for the quarter ended June 30, 2016, while our non-GAAP operating margin for the same period decreased to 20.0%[3] from 20.3%[3]. The decreases in both our GAAP and non-GAAP operating margins were due to an increase in compensation and benefits costs, the negative impact of the appreciation of the Indian rupee against the U.S. dollar and increases in certain operating and professional costs, partially offset by greater realized gains on settlements of cash flow hedges. Our GAAP operating margin was further negatively affected by the realignment charges incurred in 2017. Additionally, the GAAP and non-GAAP operating margins for the three months ended June 30, 2016 reflected the loss recognized on a fixed-price customer contract of $27 million.

As previously disclosed, the Company is conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the U.S. Foreign Corrupt Practices Act, or FCPA, and other applicable laws. In September 2016, we voluntarily notified the Department of Justice, or DOJ, and the Securities and Exchange Commission, or SEC, and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel. To date, the investigation has identified a total of approximately $6 million in payments made between 2010 and 2015 that may have been improper. In the second half of 2016, we recorded an out-of-period correction related to $4 million of such payments that had been previously capitalized that should have been expensed. The investigation is also examining various other payments made in small amounts in India and elsewhere that may not have complied with Company policy or applicable law. There were no adjustments recorded during the six months ended June 30, 2017 related to the amounts under investigation.

In 2016, there were putative securities class action complaints filed, naming us and certain of our current and former officers as defendants and alleging violations of the Securities Exchange Act of 1934, as amended, or 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 control over financial reporting and our disclosure controls and procedures. Additionally, in 2016 and 2017, putative shareholder derivative complaints were filed, naming us, certain of our directors and certain of our current and former officers as defendants. See the section titled "Part II, Item 1. Legal Proceedings."
During the quarter ended June 30, 2017, we incurred $8 million in costs related to the FCPA investigation and related lawsuits. We expect to continue to incur expenses related to these matters for the remainder of 2017 and future periods, including with respect to remediating the material weakness in our internal control over financial reporting.

We finished the second quarter of 2017 with approximately 256,800 employees, which is an increase of approximately 12,500 as compared to June 30, 2016. The increase in the number of our service delivery staff and the related infrastructure costs to meet the demand for our services are the primary drivers of the increase in our operating expenses in 2017. Annualized turnover, including both voluntary and involuntary, was approximately 23.6% for the three months ended June 30, 2017. The annualized turnover rate was impacted by the reduction in headcount as a result of performance evaluations and the VSP. The majority of our turnover occurs in India. As a result, annualized attrition rates on-site at customers are below our global attrition rate. In addition, attrition is weighted towards the more junior members of our staff.

During the remainder of 2017, barring any unforeseen events, we expect the following factors to affect our business and our operating results:

- Demand from our customers for digital services;
- Our customers' dual mandate of simultaneously achieving cost savings while investing in transformation and innovation;
- Continued focus by customers on directing technology spending towards cost containment projects, such as application maintenance, infrastructure services and business process services;

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

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- Secular changes driven by evolving digital technologies and regulatory changes, including potential regulatory changes with respect to immigration and taxes;
- Demand from our healthcare customers could be affected by the uncertainty in the regulatory environment;
- Demand from our banking customers may continue to be negatively affected by their continued focus on optimizing their cost structure and managing their discretionary spending;
- Discretionary spending by our retail customers may continue to be negatively affected by weakness in the retail sector;
- Legal fees and other expenses related to the internal investigation and related matters as described above;
- Volatility in foreign currency rates; and
- Continued uncertainty in the U.S. and world economies, including as a result of recent changes in the government administrations in the United States and elsewhere.

In response to this environment, we plan to:

- Continue to invest in our digital practice areas of focus 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 technology spend by providing innovative solutions;
- Focus on growing our business in Europe, the Middle East, the Asia Pacific region and Latin America, where we believe there are opportunities to gain market share;
- Increase our strategic customer base across all of our business segments;
- Pursue strategic acquisition opportunities that we believe add new technologies, including digital technologies, or platforms that complement our existing services, improve our overall service delivery capabilities, and/or expand our geographic presence;
- Focus on operating discipline in order to appropriately manage our cost structure; and
- Locate most of our new development center facilities in tax incentivized areas.

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 (previously referred to as Manufacturing/Retail/Logistics), which consists of our retail and consumer goods, manufacturing and logistics, travel and hospitality, and energy and utilities operating segments; and
- Communications, Media and Technology (previously referred to as Other), which includes our communications and media operating segment and our technology operating segment.

Our chief operating decision maker evaluates Cognizant's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each business segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating groups may affect revenues and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the global delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, stock-based compensation expense, 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.

We provide a significant volume of services to many customers in each of our business segments. Therefore, a loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, no individual customer accounted for sales in excess of 10% of our consolidated revenues for the

periods ended June 30, 2017 and 2016. In addition, the services we provide to our larger customers are often critical to the operations of such customers. As such, we believe that a termination of our services would in many instances require an extended transition period with gradually declining revenues.

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Results of Operations

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

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

	2017	% of Revenues	2016	% of Revenues	Increase / Decrease $	%
	(Dollars in millions, except per share data)					
Revenues	$3,670	100.0	$3,370	100.0	$300	8.9
Cost of revenues[1]	2,261	61.6	2,038	60.5	223	10.9
Selling, general and administrative expenses[1]	709	19.3	654	19.4	55	8.4
Depreciation and amortization expense	94	2.6	87	2.6	7	8.0
Income from operations	606	16.5	591	17.5	15	2.5
Other income (expense), net	29		4		25	625.0
Income before provision for income taxes	635	17.3	595	17.6	40	6.7
Provision for income taxes	(165)		(343)		178	(51.9)
Net income	$470	12.8	$252	7.5	$218	86.5
Diluted earnings per share	$0.80		$0.41		$0.39	