COGNIZANT TECHNOLOGY SOLUTIONS CORP
Form 10-K
February 19, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from

to

Commission File Number 0-24429

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

Delaware 13-3728359

(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Glenpointe Centre West 500 Frank W. Burr Blvd. Teaneck, New Jersey	07666
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 par value per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ý No

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. ý Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer ý	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging Growth Company	

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

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

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant on June 30, 2018, based on $78.99 per share, the last reported sale price on the Nasdaq Global Select Market of the Nasdaq Stock Market LLC on that date, was $45.7 billion.

The number of shares of Class A common stock, $0.01 par value, of the registrant outstanding as of February 8, 2019 was 575,099,275 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant’s definitive Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

Overview

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

Business Segments

We go to market across our four industry-based business segments. Our customers seek to partner with service providers that have a deep understanding of their businesses, industry initiatives, clients, markets and cultures and the ability to create solutions tailored to meet their individual business needs. We believe that our deep knowledge of the industries we serve and our clients' businesses has been central to our revenue growth and high customer satisfaction. Our business segments are as follows:

Financial Services	Healthcare	Products and Resources	Communications, Media and Technology
		• Retail and Consumer Goods	
• Banking	• Healthcare	• Manufacturing and Logistics	• Communications and Media
• Insurance	• Life Sciences	• Travel and Hospitality	• Technology
		• Energy and Utilities	

Our Financial Services segment includes banking, capital markets and insurance companies. Demand in this segment is driven by our customers' focus on cost optimization in the face of profitability pressures, the need to be compliant with significant regulatory requirements and adaptable to regulatory change, and their adoption and integration of digital technologies, including customer experience enhancement, robotic process automation, analytics and artificial intelligence in areas such as digital lending and next generation payments.

Our Healthcare segment consists of healthcare providers and payers as well as life sciences companies, including pharmaceutical, biotech and medical device companies. Demand in this segment is driven by emerging industry trends, including enhanced compliance, integrated health management, claims investigative services, as well as services that drive operational improvements in areas such as claims processing, enrollment, membership and billing, in addition to the adoption and integration of digital technologies, such as artificial intelligence, personalized care plans and predictive data analytics to improve patient outcomes.

Our Products and Resources segment includes manufacturers, retailers, travel and hospitality companies, as well as companies providing logistics, energy and utility services. Demand in this segment is driven by our customers' focus on improving the efficiency of their operations, the enablement and integration of mobile platforms to support sales and other omni channel commerce initiatives, and their adoption and integration of digital technologies, such as the application of intelligent systems to manage supply chain and enhance overall customer experiences.

Our Communications, Media and Technology segment includes information, media and entertainment, communications and technology companies. Demand in this segment is driven by our customers' need to manage their digital content, create differentiated user experiences, transition to agile development methodologies, enhance their networks and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products.

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For the year ended December 31, 2018, the distribution of our revenues across our four industry-based business segments was as follows:

See Note 3 to our consolidated financial statements for additional information related to disaggregation of revenues by customer location, service line and contract-type for each of our business segments.

Services and Solutions

Our services include digital services and solutions, consulting, application development, systems integration, application testing, application maintenance, infrastructure services and business process services. Additionally, we develop, license, implement and support proprietary and third-party software products and platforms for the healthcare industry. Digital services and solutions, such as analytics and artificial intelligence, digital engineering, intelligent process automation, interactive and hybrid cloud, are becoming an increasingly important part of our portfolio of services and solutions. In many cases, our customers' new digital systems are built upon the backbone of their existing legacy systems. Also, customers often look for efficiencies in the way they run their operations so they can fund investments in new digital capabilities. We believe our deep knowledge of their infrastructure and systems provides us with a significant advantage as we work with them to build new digital capabilities and apply digital technologies to make their operations more efficient. We deliver all our services and solutions across our four industry-based business segments to best address our customers individual needs.

We seek to drive organic growth through investments in our digital capabilities, including the extensive training and re-skilling of our technical teams and the expansion of our local workforces in the United States and other markets around the world where we operate. Additionally, we pursue select strategic acquisitions, joint ventures, investments and alliances that can expand our digital capabilities or the geographic or industry coverage of our business. In 2018, we completed five such acquisitions: Bolder Healthcare Solutions, a provider of revenue cycle management solutions to the healthcare industry in the United States; Hedera Consulting, a business advisory and data analytics service provider in Belgium and the Netherlands; Softvision, a digital engineering and consulting company with significant operations in Romania and India that focuses on agile development of custom cloud-based software and platforms for customers primarily in the United States; ATG, a United States based consulting company that helps companies plan, implement, and optimize automated cloud-based quote-to-cash business processes and technologies; and SaaSfocus, a Salesforce services provider in Australia.

We have organized our services and solutions into three practice areas: Digital Business, Digital Operations, and Digital Systems and Technology. These practice areas are supported by Cognizant Consulting, our Global Technology Office and Cognizant Accelerator.

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Cognizant Digital Business

Our digital business practice helps customers rethink their business models, working with customers to reinvent existing businesses and create new ones by innovating products, services, and experiences. Areas of focus within this practice area are digital strategy, artificial intelligence and analytics, connected products, interactive user experiences and digital engineering that builds next-generation applications and experiences at speed and scale. These services are often delivered along with our application development, systems integration and digital services.

Cognizant Digital Operations

Our digital operations practice helps customers rethink their operating models and modernize their business operations by re-engineering and managing their most essential business processes resulting in lower operating costs, better employee and customer outcomes and improved top-line growth. Areas of focus within this practice area are intelligent process automation, industry and platform solutions and enterprise services. We have extensive knowledge of core front office, middle office and back office processes, including finance and accounting, procurement, data management, and research and analytics, which we integrate with our industry and technology expertise to deliver targeted business process services and solutions. Our highly specialized domain expertise is important in creating industry-aligned solutions for our customers' needs in areas such as clinical data management, pharmacovigilance, equity research support, commercial operations and order management.

Cognizant Digital Systems & Technology

Our digital systems and technology practice helps customers reshape their technology models to simplify, modernize and secure the enabling systems that form the backbone of their business. Areas of focus within this practice area include system integration services, infrastructure services (including cloud), quality engineering and assurance, and security and application services. Our application services include traditional development, testing and maintenance and agile development of new software and applications that transform existing businesses at speed and scale.

Cognizant Consulting, Global Technology Office, and Cognizant Accelerator

Supporting our three practice areas, the Cognizant Consulting team provides global business, process, operations and technology consulting services to our customers. Our consulting professionals and domain experts from our industry-focused business segments work closely with our practice areas to create frameworks, platforms and solutions that customers find valuable as they pursue new efficiencies and look to leverage digital technologies across their operations. Our Global Technology Office and Cognizant Accelerator focus on utilizing new technologies to develop innovative and practical offerings for customers' emerging needs and support our business segments and practice areas.

Global Delivery Model

We utilize a global delivery model, with delivery centers worldwide, to provide the full range of services we offer to our customers. Our global delivery model includes four distinct delivery methods, with most customer engagements utilizing several or all of these delivery methods. Our global delivery model includes employees located in the following locations: customers’ sites, local or in-country delivery centers, regional delivery centers and offshore delivery centers. As we scale our digital services and solutions, we are focused on hiring in the United States and other countries to expand our in-country delivery capabilities. Our extensive facilities, technology and communications infrastructure are designed to enable the effective collaboration of our global workforce across locations and geographies.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our global headquarters and business development offices, which are strategically located around the world. The sales and marketing group works with our customer delivery team as the sales process moves closer to a customer’s selection of a services provider. The duration of the sales process may vary widely depending on the type and complexity of services.

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Customers

The services we provide are distributed among a number of customers in each of our business segments. A loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for that segment. However, the services we provide to our larger customers are often critical to their operations and a termination of our services would typically require an extended transition period with gradually declining revenues. The volume of work performed for specific customers is likely to vary from year to year, and a significant customer in one year may not use our services in a subsequent year. Revenues from our top customers as a percentage of total revenues were as follows:

	For the years ended December 31,		
	2018	2017	2016
Top five customers	8.6 %	8.9 %	10.0 %
Top ten customers	15.4 %	14.9 %	16.7 %

Competition

The markets for our services are highly competitive, characterized by a large number of participants and subject to rapid change. Competitors may include systems integration firms, contract programming companies, application software companies, cloud computing service providers, traditional consulting firms, professional services groups of computer equipment companies, infrastructure management and outsourcing companies and boutique digital companies. Our direct competitors include, among others, Accenture, Atos, Capgemini, Deloitte Digital, DXC Technology, EPAM Systems, Genpact, HCL Technologies, IBM Global Services, Infosys Technologies, Tata Consultancy Services and Wipro. In addition, we compete with numerous smaller local companies in the various geographic markets in which we operate.

The principal competitive factors affecting the markets for our services include the provider’s reputation and experience, vision and strategic advisory ability, digital services capabilities, performance and reliability, responsiveness to customer needs, financial stability, corporate governance and competitive pricing of services. Accordingly, we rely on the following to compete effectively:

- investments to scale our digital services;
- our recruiting, training and retention model;
- our global service delivery model;
- an entrepreneurial culture and approach to our work;
- a broad customer referral base;
- investment in process improvement and knowledge capture;
- financial stability and good corporate governance;
- continued focus on responsiveness to customer needs, quality of services and competitive prices; and
- project management capabilities and technical expertise.

Intellectual Property

We provide value to our customers based, in part, on our proprietary innovations, methodologies, reusable knowledge capital and other intellectual property ("IP") assets. We recognize the importance of IP and its ability to differentiate us from our competitors. We seek IP protection for some of our innovations and rely on a combination of IP laws, confidentiality procedures and contractual provisions, to protect our IP and our brand. We have registered, and applied for the registration of, U.S. and international trademarks, service marks, domain names and copyrights. We own or are licensed under a number of patents, trademarks, copyrights, and licenses, which vary in duration, relating to our products and services. While our proprietary IP rights are important to our success, we believe our business as a whole is not materially dependent on any particular IP right, or any particular group of patents, trademarks, copyrights or licenses.

Employees

We had approximately 281,600 employees at the end of 2018, with approximately 50,000 in North America, approximately 18,300 in Europe and approximately 213,300 in various other locations throughout the rest of the world, including approximately 194,700 in India. We are not party to any significant collective bargaining agreements.

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Our Executive Officers

On February 6, 2019, we announced that the Board of Directors has appointed Brian Humphries as our Chief Executive Officer and as a member of the Board, in each case effective April 1, 2019. Francisco D’Souza will step down as the Company’s Chief Executive Officer, effective April 1, 2019, and has agreed to serve as an advisor to the new Chief Executive Officer with the title of “Executive Vice Chairman” from April 1, 2019 through June 30, 2019. Thereafter, he will continue to serve as Vice Chairman of the Board of Directors. Rajeev Mehta will step down as our President, effective on April 1, 2019, and will thereafter serve as an advisor to the new Chief Executive Officer from April 1, 2019 through May 1, 2019, at which point Mr. Mehta’s employment with us will terminate.

The following table identifies our current executive officers:

Name	Age	Capacities in Which Served	In Current Position Since
Francisco D’Souza(1)	50	Chief Executive Officer	2007
Rajeev Mehta(2)	52	President	2016
Karen McLoughlin(3)	54	Chief Financial Officer	2012
Ramakrishnan Chandrasekaran(4)	61	Executive Vice Chairman, Cognizant India	2013
Debashis Chatterjee(5)	53	Executive Vice President and President, Global Delivery	2016
Ramakrishna Prasad Chintamaneni(6)	49	Executive Vice President and President, Global Industries and Consulting	2016
Malcolm Frank(7)	52	Executive Vice President, Strategy and Marketing	2012
Matthew Friedrich (8)	52	Executive Vice President, General Counsel, Chief Corporate Affairs Officer and Secretary	2017
Sumithra Gomatam(9)	51	Executive Vice President and President, Digital Operations	2016
Gajakarnan Vibushanan Kandiah(10)	51	Executive Vice President and President, Digital Business	2016
Venkat Krishnaswamy(11)	65	Vice Chairman, Healthcare and Life Sciences	2013
James Lennox(12)	54	Executive Vice President, Chief People Officer	2016
Sean Middleton(13)	37	Senior Vice President and President, Cognizant Accelerator	2017
Allen Shaheen(14)	56	Executive Vice President, North American Digital Hubs	2018
Dharmendra Kumar Sinha(15)	56	Executive Vice President and President, Global Client Services	2013
Robert Telesmanic(16)	52	Senior Vice President, Controller and Chief Accounting Officer	2017
Santosh Thomas(17)	50	Executive Vice President and President, Global Growth Markets	2016
Srinivasan Veeraraghavachary(18)	59	Chief Operating Officer	2016

(1) Francisco D’Souza has been our Chief Executive Officer and a member of the Board of Directors since 2007. He has been Vice Chair of our Board of Directors since 2018. He also served as our President from 2007 to 2012. Mr. D’Souza joined Cognizant as a co-founder in 1994, the year it was started as a division of The Dun & Bradstreet Corporation, and was our Chief Operating Officer from 2003 to 2006 and held a variety of other senior management positions at Cognizant from 1997 to 2003. Mr. D’Souza has served on the Board of Directors of General Electric Company ("GE") since 2013, where he is currently a member of the Governance & Public Affairs Committee and the Management Development & Compensation Committee. He also serves on the Board of Trustees of Carnegie Mellon University and as Co-Chairman of the Board of Trustees of The New York Hall of Science. Mr. D’Souza has a Bachelor of Business Administration degree from the University of Macau and a Master of Business Administration ("MBA") degree from Carnegie Mellon University.

(2) Rajeev Mehta has been our President since September 2016. From December 2013 to September 2016, Mr. Mehta served as our Chief Executive Officer, IT Services. From February 2012 to December 2013, Mr. Mehta served as our Group Chief Executive - Industries and Markets. Mr. Mehta held other senior management positions in client

services and our financial services business segment from 2001 to 2012. Prior to joining Cognizant in 1997, Mr. Mehta was involved in implementing GE Information Services' offshore outsourcing program and also held consulting positions at Deloitte & Touche LLP and

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Andersen Consulting. Mr. Mehta has a Bachelor of Science degree from the University of Maryland and an MBA degree from Carnegie Mellon University.

(3) Karen McLoughlin has been our Chief Financial Officer since February 2012. Ms. McLoughlin has held various senior management positions in our finance department since she joined Cognizant in 2003. Prior to joining Cognizant, Ms. McLoughlin held various financial management positions at Spherion Corporation and Ryder System, Inc. and served in various audit roles at Price Waterhouse (now PricewaterhouseCoopers). Ms. McLoughlin has served on the Board of Directors of Best Buy Co., Inc. since 2015, where she is currently a member of the Audit Committee and the Finance and Investment Policy Committee. Ms. McLoughlin has a Bachelor of Arts degree in Economics from Wellesley College and an MBA degree from Columbia University.

(4) Ramakrishnan Chandrasekaran has been our Executive Vice Chairman, Cognizant India since December 2013. From February 2012 to December 2013, Mr. Chandrasekaran served as our Group Chief Executive - Technology and Operations. Mr. Chandrasekaran held other senior management positions in global delivery from 1999 to 2012. Prior to joining us in 1994, Mr. Chandrasekaran worked with Tata Consultancy Services. Mr. Chandrasekaran has a Mechanical Engineering degree and an MBA degree from the Indian Institute of Management.

(5) Debashis Chatterjee has been our Executive Vice President and President, Global Delivery and managed our Digital Systems and Technology practice area since August 2016. From December 2013 to August 2016, Mr. Chatterjee served as Executive Vice President and President, Technology Solutions. From May 2013 to December 2013, Mr. Chatterjee served as Senior Vice President and Global Head, Technology and Information Services. From March 2012 to April 2013, he was Senior Vice President, Transformational Services. Mr. Chatterjee worked at International Business Machine Corporation from 2011 to 2012 as Vice President and Sectors Leader, Global Business Services, Global Delivery. Prior to that, Mr. Chatterjee held various senior positions in the Banking and Financial Services ("BFS") practice at Cognizant from 2004 to 2011 and other management roles at Cognizant since joining us in 1996. He has been in our industry since 1987, having previously worked at Tata Consultancy Services and Mahindra & Mahindra. Mr. Chatterjee has a Bachelor of Engineering degree in Mechanical Engineering from Jadavpur University in India.

(6) Ramakrishna Prasad Chintamaneni has been our Executive Vice President and President, Global Industries and Consulting since August 2016. Mr. Chintamaneni served as our Executive Vice President and President, BFS, from December 2013 to August 2016. From 2011 to December 2013, Mr. Chintamaneni served as our Global Head of the BFS practice. Mr. Chintamaneni held various senior positions in the BFS practice from 2006 to 2011 and was a client partner in our BFS practice from 1999 to 2006. Prior to joining Cognizant in 1999, Mr. Chintamaneni spent seven years in the investment banking and financial services industry, including working at Merrill Lynch and its affiliates for five years as an Investment Banker and a member of Merrill's business strategy committee in India. Mr. Chintamaneni has a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology, Kanpur and a Postgraduate Diploma in Business Management from the XLRI - Xavier School of Management in India.

(7) Malcolm Frank has been our Executive Vice President, Strategy and Marketing since February 2012. Mr. Frank served as our Senior Vice President of Strategy and Marketing from 2005 to 2012. Prior to joining Cognizant in 2005, Mr. Frank was a founder and the President and Chief Executive Officer of CXO Systems, Inc., an independent software vendor providing dashboard solutions for senior managers, a founder and the President, Chief Executive Officer and Chairman of NerveWire Inc., a management consulting and systems integration firm, and a founder and executive officer at Cambridge Technology Partners, an information technology professional services firm. Mr. Frank has served on the Board of Directors of Factset Research Systems Inc. since June 2016, where he is a member of the Compensation Committee. Mr. Frank has a Bachelor degree in Economics from Yale University.

(8) Matthew Friedrich has been our Executive Vice President, General Counsel, Chief Corporate Affairs Officer and Secretary since May 2017. Prior to joining Cognizant, Mr. Friedrich was Chief Corporate Counsel for Chevron Corporation, a multinational energy company, from August 2014 to May 2017, a partner with the law firm of Freshfields Bruckhaus Deringer LLP from April 2013 to August 2014 and a partner with the law firm of Boies Schiller & Flexner LLP from June 2009 to April 2013. Mr. Friedrich began his legal career in 1995 as a federal

prosecutor with the United States Department of Justice, where he remained for nearly 14 years, culminating with his designation as the acting assistant Attorney General of the Criminal Division in 2008. Mr. Friedrich is a life member of the Council on Foreign Relations and serves on the Board of Directors of the U.S.-India Business Council. Mr. Friedrich has a Bachelor of Arts degree in Foreign Affairs from the University of Virginia and a Juris Doctor degree from the University of Texas School of Law.

(9) Sumithra Gomatam has been our Executive Vice President and President, Digital Operations since August 2016. From December 2013 to August 2016, Ms. Gomatam served as our Executive Vice President and President, Industry Solutions. From 2008 to December 2013, Ms. Gomatam served as Senior Vice President, and global leader for our Testing practice. Ms. Gomatam held other management positions in our global delivery and BFS practices from 1995 to 2008. Ms. Gomatam has a Bachelor of Engineering degree in Electronics and Communication from Anna University.

(10) Gajakarnan Vibushanan Kandiah has been our Executive Vice President and President, Digital Business since August 2016. Mr. Kandiah previously served as Executive Vice President of Business Process Services ("BPS") and Digital Works from January 2014 to August 2016, and as Senior Vice President of BPS from 2011 to December 2013. Previous roles he held at

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Cognizant included roles in System Integration, Testing, BPS, Information, Media and Entertainment, and Communications practices. Before joining Cognizant in 2003, Mr. Kandiah was a founder and the Chief Operating Officer of NerveWire, Inc. and the Global Vice President of the Interactive Solutions business of Cambridge Technology Partners. Mr. Kandiah completed his advanced level education at the Royal College in Sri Lanka.

(11) Venkat Krishnaswamy has been our Vice Chairman, Healthcare and Life Sciences since May 2017. From December 2013 to May 2017, he served as our President of Healthcare and Life Sciences. From February 2012 to December 2013, Mr. Krishnaswamy served as our Executive Vice President of Healthcare and Life Sciences. Mr. Krishnaswamy served as our Senior Vice President and General Manager of Healthcare and Life Sciences from 2007 to 2012 and in various other management positions since he joined Cognizant in 1997. Prior to joining Cognizant, Mr. Krishnaswamy spent over ten years in retail and commercial banking with Colonial State Bank (now Commonwealth Bank of Australia). Mr. Krishnaswamy has a Bachelor of Engineering degree from the University of Madras and a Master of Electrical Engineering degree from the Indian Institute of Technology, New Delhi.

(12) James Lennox has been our Executive Vice President, Chief People Officer since January 2016. Mr. Lennox previously served as our Senior Vice President, Chief People Officer from June 2013 to December 2016, and as Vice President, North America Human Resources ("HR") from July 2011 to June 2013. Previous roles he held at Cognizant included leading the Workforce Management team, Operations Director for our Banking and Insurance practices, leading regional HR teams, and serving as the Chief of Staff to the Company's Chief Executive Officer. Prior to joining Cognizant in 2004, Mr. Lennox held various management roles in operations, HR, resource management and recruiting for the North American regions of Cap Gemini and Ernst & Young. He started his career at Ernst & Young Consulting. Mr. Lennox has a Bachelor of Science degree in Business Administration from St. Thomas Aquinas College and an MBA degree from Fordham University.

(13) Sean Middleton has been our Senior Vice President and President, Cognizant Accelerator since January 2017. He was previously Vice President and President, Cognizant Accelerator from July 2016 to January 2017. Mr. Middleton served as Chief Operating Officer of our Emerging Business Accelerator division from 2012 to July 2016 and as Chief of Staff to the Company's Chief Executive Officer from 2010 to 2013. Prior to joining Cognizant in 2010, Mr. Middleton worked at PricewaterhouseCoopers as a management consultant. Mr. Middleton has a Bachelor degree in Computer Science from Cornell University and an MBA degree from the Wharton School at the University of Pennsylvania.

(14) Allen Shaheen has been our Executive Vice President, North American Digital Hubs since January 2018. He has also served as a director of the Cognizant U.S. Foundation, a non-profit organization, since April 2018. From August 2015 to December 2017, Mr. Shaheen was Executive Vice President, Corporate Development. From December 2013 to August 2016, Mr. Shaheen was also responsible for various Cognizant practices, including our Enterprise Application Services Practice. Mr. Shaheen was the General Manager for our German business unit from February 2013 to December 2014 and our Markets Delivery Leader for Europe from May 2012 to December 2014. Mr. Shaheen's prior roles included being responsible for our IT Infrastructure Services, head of our Global Technology Office and head of our Systems Integration and Testing practices. Prior to joining Cognizant in 2006, Mr. Shaheen was a consultant for Cognizant from 2004 to 2006, a founder and Executive Vice President of International Operations of Cambridge Technology Partners and the Chief Executive Officer of ArsDigita Corporation. Mr. Shaheen has a Bachelor of Arts degree in Engineering and Applied Sciences from Harvard College.

(15) Dharmendra Kumar Sinha has been our Executive Vice President and President, Global Client Services since December 2013. He has also served as President and a director of the Cognizant U.S. Foundation, a non-profit organization, since April 2018. From 2007 to December 2013, Mr. Sinha served as our Senior Vice President and General Manager, Global Sales and Field Marketing. From 2004 to 2007, Mr. Sinha served as our Vice President, responsible for our Manufacturing and Logistics, Retail and Hospitality, and Technology verticals. From 1997 to 2004, Mr. Sinha held a variety of other management roles. Prior to joining Cognizant in 1997, Mr. Sinha worked with Tata Consultancy Services and CMC Limited, an IT solutions provider. Mr. Sinha has a Bachelor of Science degree from Patna Science College, Patna and an MBA degree from the Birla Institute of Technology, Mesra.

(16) Robert Telesmanic has been our Senior Vice President, Controller and Chief Accounting Officer since January 2017, a Senior Vice President since 2010 and our Corporate Controller since 2004. Prior to that, he served as our Assistant Corporate Controller from 2003 to 2004. Prior to joining Cognizant, Mr. Telesmanic spent over 14 years with Deloitte & Touche LLP. Mr. Telesmanic has a Bachelor of Science degree from New York University and an MBA degree from Columbia University.

(17) Santosh Thomas has been our Executive Vice President and President, Global Growth Markets since August 2016. Prior to his current role, Mr. Thomas served as our Head, Growth Markets from 2011 through July 2016. From 1999 to 2011, Mr. Thomas held various senior positions at Cognizant including leading Continental European operations and various roles in client relationships and market development in North America. Prior to joining Cognizant in 1999, Mr. Thomas worked with Informix and HCL Hewlett Packard Limited. Mr. Thomas has an undergraduate degree in engineering from RV College of Engineering, Bangalore and a Postgraduate Diploma in Business Management from the XLRI - Xavier School of Management in India.

(18) Srinivasan Veeraraghavachary has been our Chief Operating Officer since August 2016. Prior to his current role, Mr. Veeraraghavachary served as our Executive Vice President, Products and Resources from December 2013 to November 2016 and as our Senior Vice President, Products and Resources from 2011 to December 2013. Previously, he served in various senior management positions in our BFS practice and in our central U.S. operations. Mr. Veeraraghavachary joined Cognizant

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in 1998. Mr. Veeraraghavachary has a Bachelor degree in Mechanical Engineering from the National Institute of Technology (formerly the Regional Engineering College) in Trichy, India and an MBA degree from the Indian Institute of Management in Calcutta, India.

None of our executive officers is related to any other executive officer or to any of our Directors. Our executive officers are appointed annually by the Board of Directors and generally serve until their successors are duly appointed and qualified.

Corporate History

We began our IT development and maintenance services business in early 1994 as an in-house technology development center for The Dun & Bradstreet Corporation and its operating units. In 1996, we were spun-off from The Dun & Bradstreet Corporation and, in 1998, we completed an initial public offering to become a public company.

Available Information

We make available the following public filings with the Securities and Exchange Commission ("SEC") free of charge through our website at www.cognizant.com as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC:

- our Annual Reports on Form 10-K and any amendments thereto;
- our Quarterly Reports on Form 10-Q and any amendments thereto; and
- our Current Reports on Form 8-K and any amendments thereto.

In addition, we make available our code of ethics entitled “Core Values and Code of Ethics” free of charge through our website. We intend to post on our website all disclosures that are required by law or Nasdaq Stock Market listing standards concerning any amendments to, or waivers from, any provision of our code of ethics.

No information on our website is incorporated by reference into this Form 10-K or any other public filing made by us with the SEC.

Item 1A. Risk Factors

Factors That May Affect Future Results

We face various important risks and uncertainties, including those described below, that could adversely affect our business, results of operations and financial condition and, as a result, cause a decline in the trading price of our common stock.

Our results of operations could be adversely affected by economic and political conditions globally and in particular in the markets in which our customers and operations are concentrated.

Global macroeconomic conditions have a significant effect on our business as well as the businesses of our customers. Volatile, negative or uncertain economic conditions could cause our customers to reduce, postpone or cancel spending on projects with us and could make it more difficult for us to accurately forecast customer demand and have available the right resources to profitably address such customer demand. The short-term nature of contracts in our industry means that actions by customers may occur quickly and with little warning, which may cause us to incur extra costs where we have employed more professionals than customer demand supports.

Our business is particularly susceptible to economic and political conditions in the markets where our customers or operations are concentrated. Our revenues are highly dependent on customers located in the United States and Europe, and any adverse economic, political or legal uncertainties or adverse developments, including due to the anticipated exit of the United Kingdom from the European Union as a result of the 2016 United Kingdom referendum to exit the European Union (the "Brexit Referendum") may cause customers in these geographies to reduce their spending and materially adversely impact our business. Many of our customers are in the financial services and healthcare industries, so any decrease in growth or significant consolidation in these industries or regulatory policies that restrict these industries may reduce demand for our services. Economic and political developments in India, where a significant majority of our operations and technical professionals are located, or in other countries where we maintain delivery operations, may also have a significant impact on our business and costs of operations. As a developing country, India has experienced and may continue to experience high inflation and wage growth, fluctuations in gross domestic product growth and volatility in currency exchange rates, any of which could materially adversely affect our cost of operations. Additionally, we benefit from governmental policies in India that encourage foreign investment and promote the ease of doing business, such as tax incentives, and any change in policy or circumstances that results in the elimination of such benefits or degradation of the rule of law, or imposition of new adverse restrictions or costs on our operations could have a material adverse effect on our business, results of operations and financial condition.

If we are unable to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally, our business and results of operations may be materially adversely affected.

Our success is dependent, in large part, on our ability to keep our supply of skilled professionals, including project managers, IT engineers and senior technical personnel, in balance with customer demand around the world and on our ability to attract and retain senior management with the knowledge and skills to lead our business globally. Each year, we must hire tens of thousands of new professionals and retrain, retain, and motivate our workforce of hundreds of thousands of professionals with diverse skills and expertise in order to serve customer demands across the globe, respond quickly to rapid and ongoing technological, industry and macroeconomic developments and grow and manage our business. We also must continue to maintain an effective senior leadership team. The loss of senior executives, or the failure to attract, integrate and retain new senior executives as the needs of our business require, could have a material adverse effect on our business and results of operations.

Competition for skilled labor is intense and, in some jurisdictions in which we operate, there are more jobs for IT professionals than qualified persons to fill these jobs. Our business has experienced significant employee attrition, which may cause us to incur increased costs to hire new professionals with the desired skills. Costs associated with recruiting and training professionals are significant. If we are unable to hire or deploy professionals with the needed skillsets or if we are unable to adequately equip our professionals with the skills needed, this could materially adversely affect our business. Additionally, if we are unable to maintain an employee environment that is competitive and contemporary, it could have an adverse effect on engagement and retention, which may materially adversely affect our business.

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We face challenges related to growing our business organically as well as inorganically through acquisitions, and we may not be able to achieve our targeted growth rates.

Achievement of our targeted growth rates requires continued significant organic growth of our business as well as inorganic growth through acquisitions. To achieve such growth, we must, among other things, continue to significantly expand our global operations, increase our product and service offerings and scale our infrastructure to support such business growth. Continued business growth increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions, which we will have to continue to develop and improve to sustain such growth. We must continually recruit, train and retain technical, finance, marketing and management personnel with the knowledge, skills and experience that our business model requires and effectively manage our personnel worldwide to support our culture, values, strategies and goals. Additionally, we expect to continue pursuing strategic and targeted acquisitions, investments and joint ventures to enhance our offerings of services and solutions or to enable us to expand in certain geographic and other markets. We may not be successful in identifying suitable opportunities, completing targeted transactions or achieving the desired results, and such opportunities may divert our management's time and focus away from our core business. We may face challenges in effectively integrating acquired businesses into our ongoing operations and in assimilating and retaining employees of those businesses into our culture and organizational structure. If we are unable to manage our growth effectively, complete acquisitions of the number, magnitude and nature we have targeted, or successfully integrate any acquired businesses into our operations, we may not be able to achieve our targeted growth rates or improve our market share, profitability or competitive position generally or in specific markets or services.

We may not be able to achieve our profitability and capital return goals.

Our goals for profitability and capital return rely upon a number of assumptions, including our ability to improve the efficiency of our operations and make successful investments to grow and further develop our business. Our profitability depends on the efficiency with which we run our operations and the cost of our operations, especially the compensation and benefits costs of the professionals we employ. We may not be able to efficiently utilize our professionals if increased regulation, policy changes or administrative burdens of immigration, work visas or outsourcing prevents us from deploying our professionals globally on a timely basis, or at all, to fulfill the needs of our customers. Wage and other cost pressures may put pressure on our profitability. Fluctuations in foreign currency exchange rates can also have adverse effects on our revenues, income from operations and net income when items originally denominated in other currencies are translated or remeasured into U.S. dollars for presentation of our consolidated financial statements. We have entered into foreign exchange forward contracts intended to partially offset the impact of the movement of the exchange rates on future operating costs and to mitigate foreign currency risk on foreign currency denominated net monetary assets. However, the hedging strategies that we have implemented, or may in the future implement, to mitigate foreign currency exchange rate risks may not reduce or completely offset our exposure to foreign exchange rate fluctuations and may expose our business to unexpected market, operational and counterparty credit risks. We are particularly susceptible to wage and cost pressures in India and the exchange rate of the Indian rupee relative to the currencies of our customer contracts due to the fact that the substantial majority of our employees are in India while our contracts with customers are typically in the local currency of the country where our customers are located. If we are unable to improve the efficiency of our operations, our operating margin may decline and our business, results of operations and financial condition may be materially adversely affected. Failure to achieve our profitability goals could adversely affect our business, financial condition and results of operations.

With respect to capital return, our ability and decisions to pay dividends and repurchase shares consistent with our announced goals or at all depend on a variety of factors, including our cash flow generated from operations, the amount and geographic location of our cash and investment balances, our net income, our overall liquidity position, potential alternative uses of cash, such as acquisitions, and anticipated future economic conditions and financial results. Failure to achieve our capital return goals may adversely impact our reputation with shareholders and shareholders' perception of our business and the value of our common stock.

Our failure to meet specified service levels required by certain of our contracts may result in our contracts being less profitable, potential liability for penalties or damages or reputational harm.

Many of our contracts include clauses that tie our compensation to the achievement of agreed-upon performance standards or milestones. Failure to satisfy these measures could significantly reduce or eliminate our fees under the contracts, increase the cost to us of meeting performance standards or milestones, delay expected payments, subject us to potential damage claims under the contract terms or harm our reputation. Customers also often have the right to terminate a contract and pursue damage claims for serious or repeated failure to meet these service commitments. Some of our contracts provide that a portion of our compensation depends on performance measures such as cost-savings, revenue enhancement, benefits produced, business goals attained and adherence to schedule. These goals can be complex and may depend on our customers' actual levels of business activity or may be based on assumptions that are later determined not to be achievable or accurate. As such, these provisions may increase the variability in revenues and margins earned on those contracts.

We face intense and evolving competition in the rapidly changing markets we compete in.

The markets we serve and operate in are highly competitive, subject to rapid change and characterized by a large number of participants, as described in "Part I, Item 1. Business-Competition." In addition to large, global competitors, we face competition from numerous smaller, local competitors in many geographic markets that may have more experience with operations in these markets, have well-established relationships with our desired customers, or be able to provide services and solutions at lower costs or on terms more attractive to customers than we can. Consolidation activity may also result in new competitors with greater scale, a broader footprint or vertical integration that makes them more attractive to customers as a single provider of integrated products and services. In addition, the short-term nature of contracts in our industry and the long-term concurrent use by many customers of multiple professional service providers means that we are required to be continually competitive on the quality, scope and pricing of our offerings or face a reduction or elimination of our business.

Our success depends on our ability to continue to develop and implement services and solutions that anticipate and respond to rapid and continuing changes in technology to serve the evolving needs of our customers. If we do not sufficiently invest in new technologies, successfully adapt to industry developments and changing demand, and evolve and expand our business at sufficient speed and scale to keep pace with the demands of the markets we serve, we may be unable to develop and maintain a competitive advantage and execute on our growth strategy, which would materially adversely affect our business, results of operations and financial condition.

Our relationships with our third party alliance partners, who supply us with necessary components to the services and solutions we offer our customers, are also critical to our ability to provide many of our services and solutions that address customer demands. There can be no assurance that we will be able to maintain such relationships. Among other things, such alliance partners may in the future decide to compete with us, form exclusive or more favorable arrangements with our competitors or otherwise reduce our access to their products impairing our ability to provide the services and solutions demanded by customers.

We face legal, reputational and financial risks if we fail to protect customer and/or Cognizant data from security breaches or cyberattacks.

In order to provide our services and solutions, we depend on global information technology networks and systems, including those of third parties, to process, transmit, host and securely store electronic information (including our confidential information and the confidential information of our customers) and to communicate among our locations around the world and with our customers, suppliers and partners. Security breaches, employee malfeasance, or human or technological error could lead to shutdowns or disruptions of our operations and potential unauthorized disclosure of our or our customers' sensitive data, which in turn could jeopardize projects that are critical to our operations or the operations of our customers' businesses. Like other global companies, we and the businesses we interact with have experienced threats to data and systems, including by perpetrators of random or targeted malicious cyberattacks, computer viruses, malware, worms, bot attacks or other destructive or disruptive software and attempts to misappropriate customer information and cause system failures and disruptions.

A security compromise of our information systems or of those of businesses with whom we interact that results in confidential information being accessed by unauthorized or improper persons could harm our reputation and expose us to regulatory actions, customer attrition, remediation expenses, disruption of our business, and claims brought by our customers or others for breaching contractual confidentiality and security provisions or data protection laws. Monetary damages imposed on us could be significant and not covered by our liability insurance. Techniques used by bad actors to obtain unauthorized access, disable or degrade service, or sabotage systems evolve frequently and may not immediately produce signs of intrusion, and we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, a security breach could require that we expend substantial additional resources related to the security of our information systems, diverting resources from other projects and disrupting our businesses. If we experience a data security breach, our reputation could be damaged and we could be subject to additional litigation, regulatory risks and business losses.

We are required to comply with increasingly complex and changing data security and privacy regulations in the United States, the European Union and in other jurisdictions in which we operate that regulate the collection, use and transfer of personal data, including the transfer of personal data between or among countries. In the United States, for example, the Health Insurance Portability and Accountability Act imposes extensive privacy and security requirements governing the transmission, use and disclosure of protected health information by participants in the health care industry. The European Union’s General Data Protection Regulation, which became effective in May 2018, imposes new compliance obligations regarding the handling of personal data and has significantly increased financial penalties for noncompliance. Additionally, the Digital Information Security in Healthcare Act is under consideration in India, which proposed legislation includes significant penalties related to disclosure of healthcare data. Other countries have enacted or are considering enacting data localization laws that require certain data to stay within their borders. We may also face audits or investigations by one or more domestic or foreign government agencies or our customers pursuant to our contractual obligations relating to our compliance with these regulations. Complying with changing regulatory

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requirements requires us to incur substantial costs, exposes us to potential regulatory action or litigation, and may require changes to our business practices in certain jurisdictions, any of which could materially adversely affect our business operations and operating results.

If our business continuity and disaster recovery plans are not effective and our global delivery capability is impacted, our business and results of operations may be materially adversely affected and we may suffer harm to our reputation.

Our business model is dependent on our global delivery capability, which includes coordination between our main operating offices in India, our other global delivery centers, the offices of our customers and our associates worldwide. System failures, outages and operational disruptions may be caused by factors outside of our control such as hostilities, political unrest, terrorist attacks, natural disasters or pandemics affecting the geographies where our operations and transmission equipment is located. Our business continuity and disaster recovery plans may not be effective at preventing or mitigating the effects of such disruptions, particularly in the case of a catastrophic event. Any such disruption may result in lost revenues, a loss of customers and reputational damage, which would have an adverse effect on our business, results of operations and financial condition.

A substantial portion of our employees in the United States, United Kingdom, European Union and other jurisdictions rely on visas to work in those areas such that any restrictions on such visas or immigration more generally may affect our ability to compete for and provide services to customers in these jurisdictions, which could materially adversely affect our business, results of operations and financial condition.

A substantial portion of our employees in the United States and in many other jurisdictions, including countries in Europe, rely upon temporary work authorization or work permits, which makes our business particularly vulnerable to changes and variations in immigration laws and regulations, including written changes and policy changes to the manner in which the laws and regulations are interpreted or enforced. The political environment in the United States, the United Kingdom and other countries in recent years has included significant support for anti-immigrant legislation and administrative changes. Many of these recent changes have made it more difficult to obtain timely visas and increased the costs of obtaining visas. The governments of these countries may also tighten adjudication standards for labor market tests. For example, in the United States, the current administration has implemented policy changes to increase scrutiny of the issuance of new and the renewal of existing H-1B visa applications and the placement of H-1B visa workers on third party worksites, and has issued executive orders designed to limit immigration. Recently, there has been an increase in the number of visa application rejections and delays in processing such applications. This has affected and may continue to affect our ability to timely obtain visas and staff projects. Additionally, many countries in the European Union ("EU") continue to implement new regulations to move into compliance with the EU Directive of 2014 to harmonize immigration rules for intracompany transferees in most EU member states and to facilitate the transfer of managers, specialists and graduate trainees both into and within the region. The changes have had significant impacts on mobility programs and have led to new notification and documentation requirements for companies sending professionals to EU countries. Recent changes or any additional adverse revisions to immigration laws and regulations in the jurisdictions in which we operate may cause us delays, staffing shortages, additional costs or an inability to bid for or fulfill projects for customers, any of which could have a material adverse effect on our business, results of operations and financial condition.

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

The practice of outsourcing services to organizations operating in other countries is a topic of political discussion in the United States, which is our largest market, as well as other regions in which we have customers. For example, measures aimed at limiting or restricting outsourcing by U.S. companies have been put forward for consideration by the U.S. Congress and in state legislatures to address concerns over the perceived association between offshore outsourcing and the loss of jobs domestically. If any such measure is enacted, our ability to provide services to our customers could be impaired.

In addition, from time to time there has been publicity about purported negative experiences associated with offshore outsourcing, such as alleged domestic job loss and theft and misappropriation of sensitive customer data, particularly involving service providers in India. Current or prospective customers may elect to perform certain services themselves or may be discouraged from utilizing global service delivery providers like us due to negative perceptions that may be associated with using global service delivery models or firms. Any slowdown or reversal of existing industry trends toward global service delivery would seriously harm our ability to compete effectively with competitors that provide the majority of their services from within the country in which our customers operate.

We are subject to numerous and evolving legal and regulatory requirements in the many jurisdictions in which we operate, and violations of or unfavorable changes in such requirements could harm our business.

We provide services to customers and have operations in many parts of the world and in a wide variety of different industries, subjecting us to numerous, and sometimes conflicting, laws and regulations on matters as diverse as import and export controls, temporary work authorizations or work permits, content requirements, trade restrictions, tariffs, taxation, anti-corruption laws (including the U.S. Foreign Corrupt Practices Act ("FCPA") and the U.K. Bribery Act), government affairs, internal and disclosure control obligations, data privacy, intellectual property and labor relations. We are subject to a wide range of potential enforcement actions, audits or investigations regarding our compliance with these laws or regulations in the conduct of our business, and any finding of a violation could subject us to a wide range of civil or criminal penalties, including fines, debarment, or suspension or disqualification from government contracting, prohibitions or restrictions on doing business, loss of customers and business, legal claims by customers and damage to our reputation.

We face significant regulatory compliance costs and risks as a result of the size and breadth of our business. For example, we commit significant financial and managerial resources to comply with our internal control over financial reporting requirements, but we have in the past and may in the future identify material weaknesses or deficiencies in our internal control over financial reporting that causes us to incur incremental remediation costs in order to maintain adequate controls. As another example, we had to spend significant resources on conducting an internal investigation and cooperating with investigations by the U.S. Department of Justice ("DOJ") and the SEC, each of which is now concluded, focused on whether certain payments relating to Company-owned facilities in India were made in violation of the FCPA and other applicable laws.

Changes in tax laws or in their interpretation or enforcement, failure by us to adapt our corporate structure and intercompany arrangements to achieve global tax efficiencies or adverse outcomes of tax audits, investigations or proceedings could have a material adverse effect on our effective tax rate, results of operations and financial condition.

The interpretation of tax laws and regulations in the many jurisdictions in which we operate and the related tax accounting principles are complex and require considerable judgment to determine our income taxes and other tax liabilities worldwide. Tax laws and regulations affecting us and our customers, including applicable tax rates, and the interpretation and enforcement of such laws and regulations are subject to change as a result of economic, political and other factors, and any such changes or changes in tax accounting principles could increase our effective worldwide income tax rate and have a material adverse effect on our net earnings and financial condition. We routinely review and update our corporate structure and intercompany arrangements, including transfer pricing policies, consistent with applicable laws and regulations, to align with our evolving business operations and provide global tax efficiencies across the numerous jurisdictions, such as the United States, India and the United Kingdom, in which we operate. Failure to successfully adapt our corporate structure and intercompany arrangements to align with our evolving business operations and achieve global tax efficiencies may increase our worldwide effective tax rate and have a material adverse effect on our earnings and financial condition. For example, the Tax Cuts and Jobs Reform Act ("Tax Reform Act") was enacted in December 2017 and made a number of significant changes to the corporate tax regime in the United States. Among other things, the Tax Reform Act introduced two new minimum taxes: the “base erosion anti-abuse tax” which requires U.S. corporations to make an alternative determination of taxable income without regard to tax deductions for certain payments to non-U.S. affiliates, and a tax on certain earnings of non-U.S. subsidiaries considered to be “global intangible low taxed income”. In addition, the Organization for Economic Co-operation and Development recently published the Base Erosion and Profit Shifting action plans that are being adopted and implemented in various forms by countries where we do business. Our worldwide effective income tax rate may increase as a result of these recent developments, changes in interpretations and assumptions made and additional guidance that may be issued, and the successful implementation of ongoing and future actions the Company has or may take with respect to our corporate structure and intercompany arrangements.

Additionally, we are subject from time to time to tax audits, investigations and proceedings. Tax authorities have disagreed, and may in the future disagree, with our judgments, and are taking increasingly aggressive positions, including with respect to our intercompany transactions. For example, we are currently involved in an ongoing dispute with the Indian Income Tax Department ("ITD") in which the ITD asserts that we owe additional taxes for two transactions by which our principal operating subsidiary in India ("CTS India") repurchased shares from its shareholders, as more fully described in Note 11 to the consolidated financial statements. Adverse outcomes in any such audits, investigations or proceedings could increase our tax exposure and cause us to incur increased expense, which could materially adversely affect our results of operations and financial condition.

Our business subjects us to considerable potential exposure to litigation and legal claims and could be materially adversely affected if we incur legal liability.

We are subject to, and may become a party to, a variety of litigation or other claims and suits that arise from time to time in the conduct of our business. Our business is subject to the risk of litigation involving current and former employees, clients, alliance partners, subcontractors, suppliers, competitors, shareholders, government agencies or others through private actions, class actions, whistleblower claims, administrative proceedings, regulatory actions or other litigation. While we maintain insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to various exclusions as well as caps on amounts recoverable.

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Our customer engagements expose us to significant potential legal liability and litigation expense if we fail to meet our contractual obligations or otherwise breach obligations to third parties or if our subcontractors breach or dispute the terms of our agreements with them and impede our ability to meet our obligations to our customers. For example, third parties could claim that we or our customers, whom we typically contractually agree to indemnify with respect to the services and solutions we provide, infringe upon their intellectual property rights. Any such claims of intellectual property infringement could harm our reputation, cause us to incur substantial costs in defending ourselves, expose us to considerable legal liability or prevent us from offering some services or solutions in the future. We may have to engage in legal action to protect our own intellectual property rights, and enforcing our rights may require considerable time, money and oversight, and existing laws in the various countries in which we provide services or solutions may offer only limited protection.

We also face considerable potential legal liability from a variety of other sources. Our acquisition activities have in the past and may in the future be subject to litigation or other claims, including claims from professionals, customers, stockholders, or other third parties. We have also been the subject of a number of putative securities class action complaints and putative shareholder derivative complaints relating to the matters that were the subject of our now concluded internal investigation into potential violations of the FCPA and other applicable laws, and may be subject to such legal actions for these or other matters in the future. See "Part I, Item 3. Legal Proceedings" for more information. We establish reserves for these and other matters when a loss is considered probable and the amount can be reasonably estimated; however, the estimation of legal reserves and possible losses involves significant judgment and may not reflect the full range of uncertainties and unpredictable outcomes inherent in litigation, and the actual losses arising from particular matters may exceed our estimates and materially adversely affect our results of operations.

Our earnings may be adversely affected if we change our intent not to repatriate Indian accumulated undistributed earnings.

A significant portion of our accumulated earnings are held and ongoing earnings are derived from our operations in India. We consider our Indian accumulated undistributed earnings to be indefinitely reinvested in India. While we have no plans to do so, we may change our intent not to repatriate such earnings, including as a result of capital requirements in other parts of our business that may necessitate such repatriation. As of December 31, 2018, the amount of unrepatriated Indian earnings was estimated at approximately $4,679 million. If all of our accumulated unrepatriated Indian earnings were to be repatriated, based on our current interpretation of India tax law, we estimate that we would incur an additional income tax expense of approximately $980 million. This estimate is subject to change based on legislative developments in India and other jurisdictions as well as judicial and interpretive developments of applicable tax laws.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have major sales and marketing offices, innovation labs, and digital design and consulting centers in major business markets, including New York, London, Paris, Melbourne, Singapore, and Sao Paulo, among others, which are used to deliver services to our customers across all four of our business segments. We lease 0.1 million square feet of office space for our worldwide headquarters in Teaneck, NJ. In total, we have offices and operations in more than 74 cities in 37 countries around the world.

We utilize a global delivery model with delivery centers worldwide, including in-country, regional and global delivery centers. We have over 26 million square feet of owned and leased facilities for our delivery centers. Our largest delivery center presence is in India: Chennai (10 million square feet); Pune (4 million square feet); Kolkata (3 million square feet); Bangalore (2 million square feet); and Hyderabad (2 million square feet). Our India delivery centers represent more than two-thirds of our total delivery centers on a square-foot basis. We also have a significant number of delivery centers in other countries, including the United States, Philippines, Canada, Mexico and countries throughout Europe.

We believe our current facilities are adequate to support our operations in the immediate future, and that we will be able to obtain suitable additional facilities on commercially reasonable terms as needed.

Item 3. Legal Proceedings

See Note 15 to our consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock trades on the Nasdaq Global Select Market ("Nasdaq") under the symbol "CTSH". As of December 31, 2018, the approximate number of holders of record of our Class A common stock was 125 and the approximate number of beneficial holders of our Class A common stock was 376,500.

Cash Dividends

During 2018, we paid a quarterly cash dividend of $0.20 per share. Beginning in 2019, our new capital return plan anticipates the deployment of approximately 50% of our global free cash flow[1] for dividends and share repurchases and approximately 25% of our global free cash flow[1] for acquisitions, as needed. Accordingly, we intend to continue to pay quarterly cash dividends during 2019. Our ability and decisions to pay future dividends depend on a variety of factors, including our cash flow generated from operations, the amount and location of our cash and investment balances, our net income, our overall liquidity position, potential alternative uses of cash, such as acquisitions, and anticipated future economic conditions and financial results.

Issuer Purchases of Equity Securities

In November 2018, the Board of Directors approved an amendment to our stock repurchase program. Under our stock repurchase program, as amended, we are authorized to repurchase $5.5 billion, excluding fees and expenses, of our Class A common stock through open market purchases, including under a trading plan adopted pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or in private transactions, including through accelerated stock repurchase agreements entered into with financial institutions, in accordance with applicable federal securities laws through December 31, 2020. The timing of repurchases and the exact number of shares to be purchased are determined by management, in its discretion, or pursuant to a Rule 10b5-1 trading plan, and will depend upon market conditions and other factors.

As of December 31, 2018, the remaining available balance under the Board of Directors' authorized stock repurchase program was $2.5 billion. The stock repurchase activity under our stock repurchase program during the fourth quarter of 2018 was as follows:

Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (in millions)
October 1, 2018 - October 31, 2018				
Open market purchases	1,649,171	$ 71.56	1,649,171	$ 657
November 1, 2018 - November 30, 2018				
Open market purchases	1,175,683	69.70	1,175,683	2,575
December 1, 2018 - December 31, 2018				
Open market purchases	776,935	64.34	776,935	2,525
Total	3,601,789	$ 69.39	3,601,789	

We regularly purchase shares in connection with our stock-based compensation plans as shares of our Class A common stock are tendered by employees for payment of applicable statutory tax withholdings. For the three months ended December 31, 2018, we purchased 234,127 shares at an aggregate cost of $17 million in connection with employee tax withholding obligations.

For information on all of our share repurchases for the three years ended December 31, 2018 and further discussion of our share repurchase activity, see Note 14 to our consolidated financial statements.

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[1] Free cash flow is not a measurement of financial performance prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). See “Non-GAAP Financial Measures” in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

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Performance Graph

The following graph compares the cumulative total stockholder return on our Class A common stock with the cumulative total return on the S&P 500 Index, Nasdaq-100 Index and a Peer Group Index (capitalization weighted) for the period beginning December 31, 2013 and ending on the last day of our last completed fiscal year. The stock performance shown on the graph below is not indicative of future price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN[1][2]
Among Cognizant, the S&P 500 Index, the Nasdaq-100 Index
And a Peer Group Index[3] (Capitalization Weighted)

Company / Index	Base Period 12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Cognizant Technology Solutions Corp	$ 100	$ 104.30	$ 118.88	$ 110.97	$ 141.57	$ 127.87
S&P 500 Index	100	113.69	115.26	129.05	157.22	150.33
Nasdaq-100	100	117.94	127.88	135.40	178.07	176.22
Peer Group	100	107.07	123.24	126.80	161.82	153.76

(1) Graph assumes $100 invested on December 31, 2013 in our Class A common stock, the S&P 500 Index, the Nasdaq-100 Index, and the Peer Group Index (capitalization weighted).

(2) Cumulative total return assumes reinvestment of dividends.

(3) We have constructed a Peer Group Index of other information technology consulting firms. Our peer group consists of Accenture plc., DXC Technology, EPAM Systems Inc., ExlService Holdings Inc., Genpact Limited, Infosys Ltd., Wipro Ltd. and WNS (Holdings) Limited. In 2018, we elected to change the composition of our peer group. We removed Syntel Inc., as it is no longer a publicly traded company, and added EPAM Systems, Inc. as they are a peer information technology services firm. The total return for the former peer group is not presented separately as it is not materially different from the new peer group information.

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Item 6. Selected Financial Data

The following table sets forth our selected consolidated historical financial data as of the dates and for the periods indicated. Our selected consolidated financial data set forth below as of December 31, 2018 and 2017 and for each of the years ended December 31, 2018, 2017 and 2016 have been derived from the audited consolidated financial statements included elsewhere herein. Our selected consolidated financial data set forth below as of December 31, 2016, 2015 and 2014 and for each of the years ended December 31, 2015 and 2014 are derived from our consolidated financial statements not included elsewhere herein. Our selected consolidated financial information for 2018, 2017 and 2016 should be read in conjunction with the consolidated financial statements and the accompanying notes and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Annual Report on Form 10-K.

	2018[1]	2017	2016	2015	2014
	(in millions, except per share data)				
For the year ended December 31:					
Revenues	$16,125	$14,810	$13,487	$12,416	$10,263
Income from operations	2,801	2,481	2,289	2,142	1,885
Net income[2]	2,101	1,504	1,553	1,624	1,439
Basic earnings per share[2]	$3.61	$2.54	$2.56	$2.67	$2.37
Diluted earnings per share[2]	$3.60	$2.53	$2.55	$2.65	$2.35
Cash dividends declared per common share	$0.80	$0.45	$—	$—	$—
Weighted average number of common shares outstanding-Basic	582	593	607	609	608
Weighted average number of common shares outstanding-Diluted	584	595	610	613	613
As of December 31:					
Cash, cash equivalents and short-term investments[3]	$4,511	$5,056	$5,169	$4,949	$3,775
Working capital[3]	5,900	6,272	6,182	5,195	3,829
Total assets[3]	15,913	15,221	14,262	13,061	11,473
Total debt	745	873	878	1,283	1,632
Stockholders' equity	11,424	10,669	10,728	9,278	7,740

(1) On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" ("New Revenue Standard") using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. During 2018, the adoption of the New Revenue Standard had a positive impact on revenue of $96 million, income from operations of $134 million and diluted earnings per share of $0.19 per share. See Note 3 to our consolidated financial statements for additional information.

(2) In March 2016, the Financial Accounting Standards Board ("FASB") issued an update related to stock compensation. The update simplified the accounting for excess tax benefits and deficiencies related to employee stock-based payment transactions. We adopted this standard prospectively on January 1, 2017. For the years ended December 31, 2018 and 2017, we recognized net excess tax benefits on stock-based compensation awards in our income tax provision in the amount of $20 million or $0.03 per share and $40 million or $0.07 per share, respectively. In prior periods, such net excess tax benefits were recorded in additional paid in capital.

(3) Includes $423 million in restricted time deposits as of December 31, 2018. See Note 11 in our consolidated financial statements.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

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

In 2018, we executed on our strategy to grow revenues and expand operating margins while completing our previously announced capital return plan. Revenues for the year ended December 31, 2018 increased to $16,125 million from $14,810 million for the year ended December 31, 2017, representing growth of 8.9%, or 8.5% on a constant currency basis[1]. Going forward, we expect to continue to invest in our digital capabilities, including the extensive training and re-skilling of our technical teams and the expansion of our local workforces in the United States and other markets around the world. We expect these investments to contribute significantly to our organic revenue growth. Additionally, we plan to supplement our organic growth through select strategic acquisitions, joint ventures, investments and alliances that can expand our digital capabilities, geographic footprint or industry capabilities. In 2018, we completed five acquisitions: Bolder Healthcare Solutions ("Bolder"), a provider of revenue cycle management solutions to the healthcare industry in the United States; Hedera Consulting, a business advisory and data analytics service provider in Belgium and the Netherlands; Softvision, a digital engineering and consulting company with significant operations in Romania and India that focuses on agile development of custom cloud-based software and platforms for customers primarily in the United States; ATG, a United States based consulting company that helps companies plan, implement, and optimize automated cloud-based quote-to-cash business processes and technologies; and SaaSfocus, a Salesforce services provider in Australia.

We are focused on driving margin enhancement while continuing to invest in our business. In 2018, our operating margin increased to 17.4% as compared to 16.8% in 2017, as we continued to target higher margin digital services customer contracts and improve our cost structure through our realignment program and other margin enhancement initiatives, primarily by optimizing our resource pyramid, improving utilization and containing our corporate spend.

As part of our capital return plan, we returned $3.7 billion to our stockholders through share repurchases and dividend payments over the two years ended December 31, 2018, exceeding our previously announced target of $3.4 billion as shown below.

	2017 Capital Return Plan		
	2018	2017	Total
	(in millions)		
Dividends paid(1)	$468	$265	$733
Share repurchases under our Board authorized stock repurchase plan	1,175	1,800	2,975
Total	$1,643	$2,065	$3,708

(1) In 2018, we paid quarterly dividends of $0.20 per share. In 2017, we paid quarterly dividends of $0.15 per share for the quarters ended June 30, September 30 and December 31, 2017.

Beginning in 2019, our new capital return plan anticipates the deployment of approximately 50% of our global free cash flow[1] for dividends and share repurchases and approximately 25% of our global free cash flow[1] for acquisitions, as needed. For the year ended December 31, 2018, our cash flows from operating activities were $2,592 million while our global free cash flow[1] was $2,215 million. We review our capital return plan on an on-going basis, considering our financial performance and liquidity position, investments required to execute our strategic plans and initiatives, acquisition opportunities, the economic outlook, regulatory changes and other relevant factors. As these factors may change over time, the actual amounts expended on stock repurchase activity, dividends and acquisitions, if any, during any particular period cannot be predicted and may fluctuate from time to time.

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[1] Constant currency revenue growth and free cash flow 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 measures, as applicable.

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In 2018, we announced a plan to modify our non-GAAP financial measures. Our historical non-GAAP financial measures, non-GAAP operating margin[2], non-GAAP income from operations[2] and non-GAAP diluted earnings per share[2] ("non-GAAP diluted EPS")[2], excluded stock-based compensation expense, acquisition-related charges and unusual items, and our non-GAAP diluted EPS[2] additionally excluded net non-operating foreign currency exchange gains or losses and the tax impacts of all applicable adjustments. Our new non-GAAP financial measures, Adjusted Operating Margin[2], Adjusted Income From Operations[2] and Adjusted Diluted Earnings Per Share[2] ("Adjusted Diluted EPS")[2], exclude only unusual items and Adjusted Diluted EPS[2] additionally excludes net non-operating foreign currency exchange gains or losses and the tax impact of all applicable adjustments. We are also introducing two new non-GAAP financial measures, free cash flow[2] and constant currency revenue growth[2]. Free cash flow[2] is defined as cash flow from operating activities net of purchases of property and equipment. Constant currency revenue growth[2] is defined as revenues for a given period restated at the comparative period’s foreign currency exchange rates measured against the comparative period's reported revenues. See “Non-GAAP Financial Measures” for more information.

2018 Financial Results

The following table sets forth a summary of our financial results for the years ended December 31, 2018 and 2017:

	2018(1)	2017	Increase $	Increase %
	(Dollars in millions, except per share data)			
Revenues	$16,125	$14,810	$1,315	8.9
Income from operations	2,801	2,481	320	12.9
Net income	2,101	1,504	597	39.7
Diluted earnings per share	3.60	2.53	1.07	42.3
Other Financial Information[2]				
Non-GAAP income from operations	$3,345	$2,912	$433	14.9
Adjusted Income From Operations	2,920	2,553	367	14.4
Non-GAAP diluted EPS	4.57	3.77	0.80	21.2
Adjusted Diluted EPS	4.02	3.42	0.60	17.5

(1) On January 1, 2018, we adopted the New Revenue Standard using the modified retrospective method. Results for reporting periods beginning on or after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. During 2018, the adoption of the New Revenue Standard had a positive impact on revenue of $96 million, income from operations of $134 million and diluted earnings per share of $0.19 per share. See Note 3 to our consolidated financial statements for additional information.

The following charts set forth revenues and revenue growth by business segment and geography for the years ended December 31, 2017 and 2018:

2 Non-GAAP income from operations, Adjusted Income From Operations, non-GAAP operating margin, Adjusted Operating Margin, non-GAAP diluted EPS, Adjusted Diluted EPS, free cash flow and constant currency revenue growth are not measurements of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for more information and reconciliations to the most directly comparable GAAP financial measures, as applicable.

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The following factors impacted our revenue growth during the year ended December 31, 2018 as compared to the year ended December 31, 2017:

- Solid performance in our Communications, Media and Technology, Products and Resources and Healthcare segments;
- Revenues in our Financial Services segment grew below Company average as certain banking customers continue to optimize the cost of supporting their legacy systems and operations, including moving a portion of their services to captives, as they shift their spend to transformation and digital services;
- Sustained strength in the North American market;
- Revenues from our customers in Europe grew 18.3%, or 15.2% on a constant currency[3] basis;
  Revenues from our Rest of Europe customers increased 25.2%, or 22.2% on a constant currency basis[3];
  Revenues from our United Kingdom customers increased 10.8%, or 7.6% on a constant currency basis[3]. Revenue growth in the United Kingdom continues to be negatively affected by weakness in the banking sector in that region;
- Revenues from our customers in our Rest of World region grew 3.4%, or 6.1% on a constant currency basis[3];
- 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 of existing customers.

The following chart sets forth our GAAP operating margin, Adjusted Operating Margin[3] and non-GAAP operating margin[3] for the years ended December 31, 2017 and 2018:

The increases in our GAAP operating margin, Adjusted Operating Margin[3] and non-GAAP operating margin[3] were attributable to our margin enhancement initiatives, which targeted the optimization of our resource pyramid, improvement of utilization and the containment of our corporate spend, as well as the depreciation of the Indian Rupee against the U.S. dollar, net of lower gains on settlement of our cash flow hedges in 2018 compared to 2017. Our GAAP operating margin was negatively impacted by the initial funding of the Cognizant U.S. Foundation. Our GAAP operating margin and our Adjusted Operating Margin were both negatively impacted by the increase in amortization expense due to recent acquisitions.

In 2017, the United States enacted the Tax Cuts and Jobs Act ("Tax Reform Act") which significantly revised the U.S. corporate income tax law for tax years beginning after December 31, 2017. As a result of this enactment, in 2017, we recorded a one-time provisional net income tax expense of $617 million. During 2018, we recognized a $5 million reduction to the provision for income taxes as we finalized our calculation of this one-time net income tax expense, bringing the one-time cost to $612 million. Our effective income tax rate for 2018 was 25.0% as compared to 43.4% in 2017. The decrease in our effective tax rate in 2018 was primarily driven by the one-time net income tax expense of $617 million that was recorded in 2017 as a result of the enactment of the Tax Reform Act and the reduction of the U.S. federal statutory corporate income tax rate in 2018 from 35% to 21%.

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

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Other Matters

We are involved in an ongoing dispute with the Indian Income Tax Department ("ITD") in connection with which we received a notice in March 2018 asserting that the ITD is owed additional taxes on our previously disclosed 2016 India Cash Remittance, which was the transaction undertaken by our principal operating subsidiary in India ("CTS India") to repurchase shares from its shareholders, which are non-Indian Cognizant entities, valued at $2.8 billion. As a result of that transaction, undertaken pursuant to a plan approved by the Madras High Court in Chennai, India, we previously paid $135 million in Indian income taxes, which we believe are all the applicable taxes owed for this transaction under Indian law. The ITD is asserting that we owe an additional 33 billion Indian rupees ($475 million at the December 31, 2018 exchange rate) related to the 2016 India Cash Remittance. In addition to the dispute on the 2016 India Cash Remittance, we are involved in another ongoing dispute with the ITD relating to a 2013 transaction undertaken by CTS India to repurchase shares from its shareholders valued at $523 million (the two disputes collectively referred to as the "ITD Dispute"), for which we also believe we have paid all applicable taxes owed. Accordingly, we have not recorded any reserves for these matters as of December 31, 2018. The ITD Dispute is currently pending before the Madras High Court, and no final decision has been reached. While we believe that we have paid all applicable taxes related to the transactions underlying the ITD Dispute, if it is ultimately determined that we are liable for the full amount of additional taxes the ITD alleges we owe, there could be a material adverse effect on our results of operations, cash flows and financial condition.

In March 2018, the ITD placed an attachment on certain of our India bank accounts, relating to the 2016 India Cash Remittance. In April 2018, the Madras High Court granted our application for a stay of the actions of the ITD and lifted the ITD’s attachment of our bank accounts. As part of the interim stay order, we have deposited 5 billion Indian rupees ($71 million at the December 31, 2018 exchange rate), representing 15% of the disputed tax amount related to the 2016 India Cash Remittance, with the ITD. This amount is presented in "Other current assets" on our consolidated statement of financial position. In addition, the court has placed a lien on certain time deposits of CTS India in the amount of 28 billion Indian rupees ($404 million at the December 31, 2018 exchange rate), which is the remainder of the disputed tax amount related to the 2016 India Cash Remittance. The affected time deposits are considered restricted assets and we have reported them in “Short-term investments” on our consolidated statement of financial position. As of December 31, 2018, the restricted time deposits balance was $423 million, including accumulated interest.

In February 2019, we completed our internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in violation of the U.S. Foreign Corrupt Practices Act ("FCPA") and other applicable laws. The investigation was conducted under the oversight of the Audit Committee, with the assistance of outside counsel. During the year ended December 31, 2016, we recorded out-of-period corrections related to $4 million of potentially improper payments between 2009 and 2016 that had been previously capitalized when they should have been expensed. These out-of-period corrections were not material to any previously issued financial statements. There were no adjustments recorded during 2018 or 2017 related to the amounts then under investigation.

On February 15, 2019, we announced a resolution of the previously disclosed investigations by the U.S. Department of Justice ("DOJ") and the U.S. Securities and Exchange Commission ("SEC") into the matters that were the subject of our internal investigation. The resolution required the Company to pay approximately $28 million to the DOJ and SEC, an amount consistent with the Company’s accrual ("FCPA Accrual") recorded during the quarter ended September 30, 2018.

During the years ended December 31, 2018, 2017 and 2016, we incurred $16 million (not including the FCPA Accrual), $36 million and $27 million, respectively, in costs related to the above investigations and the legal matters described in Note 15 to our consolidated financial statements. We expect to continue to incur legal fees and other expenses, including indemnification and expense advancement obligations, related to stockholder litigation and other legal proceedings pertaining to the matters that were the focus of the now completed FCPA investigations described

above.
2019 Business Considerations
During 2019, barring any unforeseen events, we expect the following factors to affect our business and our operating results:
- Demand from our customers for digital services and industry-specific changes driven by evolving digital technologies;
- Our customers' dual mandate of simultaneously achieving cost savings while investing in transformation and innovation;
- Continued focus by customers on directing technology spending towards cost containment projects;
- Discretionary spending by our customers may be negatively affected by international trade policies as well as other macroeconomic factors;
- Uncertainty related to the potential economic and regulatory impacts of the 2016 United Kingdom referendum to exit the European Union (the "Brexit Referendum");

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- Demand from certain banking customers may continue to be negatively affected by their ongoing efforts to optimize the cost of supporting their legacy systems and operations, including moving a portion of their services to captives, as they shift their spend to transformation and digital services;
- Demand from our healthcare customers may continue to be affected by the uncertainty in the regulatory environment and industry-specific trends, including industry consolidation and convergence;
- Demand among our technology customers may be affected by uncertainty in the regulatory environment while significant merger and acquisition activity continues to impact our customers in the communications and media industry;
- Uncertainty regarding regulatory changes, including potential regulatory changes with respect to immigration and taxes;
- Legal fees and other expenses, including indemnification and expense advancement obligations, related to stockholder litigation and other legal proceedings pertaining to the matters that were the focus of now completed FCPA investigations described above; and
- Volatility in foreign currency rates.

In response to this environment, we plan to:

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

Business
Segments

Our reportable segments are:

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

Our chief operating decision maker evaluates the Company's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating segments may affect revenues and operating expenses to differing degrees.

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, the services we provide to our larger customers are often critical to the operations of such customers and we believe that a termination of our services would require an extended transition period with gradually declining revenues.

See Note 19 to our consolidated financial statements for additional information on our business segments.

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Results of Operations for the Three Years Ended December 31, 2018

The following table sets forth certain financial data for the three years ended December 31, 2018:

	2018[1]	% of Revenues	2017	% of Revenues	2016	% of Revenues	Increase/Decrease 2018	Increase/Decrease 2017
	(Dollars in millions, except per share data)							
Revenues	$16,125	100.0	$14,810	100.0	$13,487	100.0	$1,315	$1,323
Cost of revenues[2]	9,838	61.0	9,152	61.8	8,108	60.1	686	1,044
Selling, general and administrative expenses[2]	3,026	18.8	2,769	18.7	2,731	20.2	257	38
Depreciation and amortization expense	460	2.9	408	2.8	359	2.7	52	49
Income from operations	2,801	17.4	2,481	16.8	2,289	17.0	320	192
Other income (expense), net	(4)		174		68		(178)	106
Income before provision for income taxes	2,797	17.3	2,655	17.9	2,357	17.5	142	298
Provision for income taxes	(698)		(1,153)		(805)		455	(348)
Income from equity method investment	2		2		1		—	1
Net income	$2,101	13.0	$1,504	10.2	$1,553	11.5	$597	$(49)
Diluted EPS	$3.60		$2.53		$2.55		$1.07	$(0.02)
Other Financial Information [3]								
Non-GAAP income from operations and non-GAAP operating margin	$3,345	20.7	$2,912	19.7	$2,636	19.5	433	$276
Adjusted Income From Operations and Adjusted Operating Margin	$2,920	18.1	$2,553	17.3	$2,289	17.0	367	264
Non-GAAP diluted EPS	$4.57		$3.77		$3.39		0.80	0.38
Adjusted Diluted EPS	$4.02		$3.42		$2.98		$0.60	$0.44

(1) Results for 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. See Note 3 to our consolidated financial statements for additional information.

(2) Exclusive of depreciation and amortization expense.

(3) Non-GAAP income from operations, Adjusted Income from Operations, non-GAAP operating margin, Adjusted Operating Margin, non-GAAP diluted EPS and Adjusted Diluted EPS are not measurements of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” for more information and reconciliations to the most directly comparable GAAP financial measures.

Revenues - Overall

Our revenue growth in 2018 and 2017 was primarily attributed to services related to the integration of digital technologies that are reshaping our customers' business and operating models, increased customer spending on discretionary projects, continued interest in using our global delivery model as a means to reduce overall technology and operations costs and continued penetration in all our geographic markets. Revenues from new customers contributed $305 million and $208 million, representing 23.2% and 15.7% of the year-over-year revenue growth for 2018 and 2017, respectively.

On January 1, 2018, we adopted the New Revenue Standard using the modified retrospective method. For the year ended December 31, 2018, adoption of the New Revenue Standard had a positive impact on revenue of $96 million. See Note 3 to our consolidated financial statements for additional information.

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

	For the years ended December 31,		
	2018	2017	2016
Top five customers	8.6 %	8.9 %	10.0%
Top ten customers	15.4%	14.9%	16.7%

As we continue to add new customers and increase our penetration at existing customers, we expect the percentage of revenues from our top five and top ten customers to decline over time.

Revenues - Reportable Business Segments

Revenues by reportable business segment were as follows:

	2018[1]	2017	2016	Increase 2018 $	%	2017 $	%
	(Dollars in millions)						
Financial Services	$5,845	$5,636	$5,366	$209	3.7	$270	5.0
Healthcare	4,668	4,263	3,871	405	9.5	392	10.1
Products and Resources	3,415	3,040	2,660	375	12.3	380	14.3
Communications, Media and Technology	2,197	1,871	1,590	326	17.4	281	17.7
Total revenues	$16,125	$14,810	$13,487	$1,315	8.9	$1,323	9.8

(1) Results for 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. See Note 3 to our consolidated financial statements for additional information.

Financial Services

Revenues from our Financial Services segment grew 3.7% in 2018. In 2018, growth was stronger among our insurance customers, where revenues increased by $163 million as compared to an increase of $46 million from our banking customers. In this segment, revenues from customers added during 2018 were $40 million and represented 19.1% of the year-over-year revenues increase in this segment. Demand in this segment was driven by our customers' focus on cost optimization in the face of profitability pressures, the need to be compliant with significant regulatory requirements and adaptable to regulatory change, and their adoption and integration of digital technologies that are reshaping our customers' business and operating models, including customer experience enhancement, robotic process automation and analytics and artificial intelligence. Demand from certain banking customers has been and may continue to be negatively affected as they focus on optimizing the cost of supporting their legacy systems and operations, including moving a portion of their services to captives, as they shift their spend to transformation and digital services.

Revenues from our Financial Services segment grew 5.0% in 2017. In 2017, growth was stronger among our insurance customers, where revenues increased by $191 million as compared to an increase of $79 million from our banking customers. In 2017, revenues from customers added during that year were $56 million and represented 20.7% of the year-over-year revenues increase in this segment. In 2017, demand from certain banking customers was negatively affected by their continued focus on optimizing their cost structure and managing their discretionary spending.

Healthcare

Revenues from our Healthcare segment grew 9.5% in 2018. In 2018, revenues in this segment increased by $342 million from our healthcare customers as compared to an increase of $63 million among our life sciences customers. Revenue growth from our healthcare customers includes revenues from Bolder, which we acquired in 2018, partially offset by a ramp down of a customer relationship in which we were a subcontractor to a third party for the purpose of delivering healthcare-related systems implementation services to local government. Revenues from customers added during 2018, including Bolder's customers, were $139 million and represented 34.3% of the year-over-year revenue increase in this segment. Demand in this segment was driven by emerging industry trends, including enhanced compliance, integrated health management, claims investigative services, as well as services that drive operational improvements in areas such as claims processing, enrollment, membership and billing, in addition to the adoption and integration of digital technologies, such as artificial intelligence, personalized care plans and predictive data analytics to improve patient outcomes. Demand from our healthcare customers has been and may continue to be affected by the uncertainty in the regulatory environment and industry-specific trends, including industry consolidation and convergence. We believe that in the long term the healthcare industry continues to present a significant growth opportunity due to factors that are transforming the industry, including the changing regulatory environment, increasing focus on medical costs and the consumerization of healthcare.

Revenues from our Healthcare segment grew 10.1% in 2017. In 2017, revenues in this segment increased by $279 million from our healthcare customers as compared to an increase of $113 million for our life sciences customers. Revenues from customers added during 2017 were $40 million and represented 10.2% of the year-over-year revenues increase in this segment. The increase in revenues from our life sciences customers was driven by a growing demand for a broader range of services, including business process services, advanced data analytics and solutions that span multiple service lines while leveraging cloud technologies and platforms. In 2017, the demand for our services among our healthcare customers was affected by uncertainty in the regulatory environment.

Products and Resources

Revenues from our Products and Resources segment grew 12.3% in 2018. In 2018, revenue growth in this segment was strongest among our energy and utilities customers and our manufacturing and logistics customers, where revenues increased by a combined $220 million. Revenues from our retail and consumer goods customers and travel and hospitality customers increased by a combined $155 million. Revenues from customers added during 2018 were $93 million and represented 24.8% of the year-over-year revenues increase in this segment. Demand in this segment was driven by our customers' focus on improving the efficiency of their operations, the enablement and integration of mobile platforms to support sales and other omni channel commerce initiatives, and their adoption and integration of digital technologies, such as the application of intelligent systems to manage supply chain and enhance overall customer experiences.

Revenues from our Products and Resources segment grew 14.3% in 2017. In 2017, revenue growth in this segment was strongest among our energy and utilities customers and manufacturing and logistic customers, where revenue increased by a combined $326 million, including revenues from a new strategic customer acquired in the fourth quarter of 2016. Revenue from our retail and consumer goods customers and travel and hospitality customers increased by a combined $54 million. Revenues from customers added during 2017 were $85 million and represented 22.4% of the year over year revenue increase in this segment. In 2017, demand within this segment was driven by the increased adoption of digital technologies as well as growing demand for analytics, supply chain consulting, implementation initiatives, smart products, transformation of business models, internet of things and omni channel commerce implementation and integration services. In 2017, discretionary spending by our retail customers was affected by weakness in the retail sector.

Communications, Media and Technology

Revenues from our Communications, Media and Technology segment grew 17.4% in 2018. In 2018, growth was stronger among our technology customers where revenues increased $259 million as compared to an increase of $67 million for our communications and media customers. Revenues from customers added during 2018 were $33 million and represented 10.1% of the year-over-year revenues increase in this segment. Demand in this segment was driven by our customers' need to manage their digital content, create differentiated user experiences, expand their range of services, including business process services, transition to agile development methodologies, enhance their network and adopt and integrate digital technologies, such as cloud enablement and interactive and connected products. Additionally, demand among our technology customers may be affected by uncertainty in the regulatory environment while significant merger and acquisition activity continues to impact our customers in the communications and media industry.

Revenues from our Communications, Media and Technology segment grew 17.7% in 2017. In 2017, revenue growth was $154 million among our communications and media customers and $127 million among our technology customers. Revenues from customers added during 2017 were $27 million and represented 9.6% of the year-over-year revenues increase in this segment. In 2017, demand within this segment was driven by the increased adoption of digital technologies, digital content operations, services to help our customers balance rationalizing costs while creating a differentiated user experience and an expanded range of services, such as business process services.

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Revenues - Geographic Locations

Revenues by geographic market, as determined by customer location, were as follows:

				Increase (Decrease)			
	2018(1)	2017	2016	2018		2017	
				$	%	$	%
	(Dollars in millions)						
North America	$12,293	$11,450	$10,546	$843	7.4	$904	8.6
United Kingdom	1,274	1,150	1,176	124	10.8	(26)	(2.2)
Rest of Europe	1,563	1,248	969	315	25.2	279	28.8
Europe - Total	2,837	2,398	2,145	439	18.3	253	11.8
Rest of World	995	962	796	33	3.4	166	20.9
Total revenues	$16,125	$14,810	$13,487	$1,315	8.9	$1,323	9.8

(1) Results for 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. See Note 3 to our consolidated financial statements for additional information.

North America continues to be our largest market, representing 76.2% of total 2018 revenues and 64.1% of total revenue growth in 2018. Revenues from our customers in Europe grew 18.3%, or 15.2% on a constant currency[4] basis. Specifically, revenues from our Rest of Europe customers increased 25.2%, or 22.2% on a constant currency[4] basis, while within the United Kingdom we experienced an increase in revenues of 10.8%, or 7.6% on a constant currency[4] basis. Revenues from our Rest of World customers was 3.4%, or 6.1% on a constant currency[4] basis. Revenue growth in the United Kingdom and Rest of World was negatively affected by weakness in our Financial Services segment as certain banking customers in those regions focus on optimizing the cost of supporting their legacy systems and operations, including moving a portion of their services to captives, as they shift their spend to transformation and digital services. We believe that Europe, India, Middle East, Asia Pacific and Latin America regions will continue to be areas of significant investment for us as we see these regions as long term growth opportunities.

In 2017, North America represented 77.3% of total revenues and 68.3% of total revenue growth. In 2017, the increase in revenues in this region was primarily attributed to services related to the integration of digital technologies that are reshaping our customers' business and operating models to align with shifts in consumer preferences, increased customer spending on discretionary projects and continued interest in using our global delivery model as a means to reduce overall technology and operations costs. In 2017, revenue growth in Europe and Rest of World markets was driven by an increase in demand for an expanded range of services, such as business process services and customer adoption and integration of digital technologies. Revenues from our customers in Europe grew 11.8%, or 13.0% on a constant currency[4] basis. Specifically, revenues from our Rest of Europe customers, increased 28.8%, or 26.8% on a constant currency[4] basis, while within the United Kingdom we experienced a decrease in revenues of 2.2%, or an increase of 1.6% on a constant currency[4] basis. Revenue growth in the United Kingdom was negatively affected by weakness in the banking sector in that country. In 2017, revenues from our Rest of World customers grew 20.9%, primarily driven by the Australia and India markets.

Cost of Revenues (Exclusive of Depreciation and Amortization Expense)

Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, project-related immigration and travel for technical personnel and subcontracting costs relating to revenues. Our cost of revenues increased by 7.5% during 2018 as compared to an increase of 12.9% during 2017, decreasing as a percentage of revenue to 61.0% during 2018 compared to 61.8% in 2017. In 2018, the decrease in cost of revenues was due primarily to a decrease, as a percentage of revenues, in compensation and benefits costs due to the optimization of our resource pyramid, improved utilization and the depreciation of the Indian rupee against the

U.S. dollar, partially offset by an increase in fees paid to strategic partners and other vendors in our digital operations, platform and infrastructure services and increases in certain professional service costs. In 2017, cost of revenues increased, as a percentage of revenue, to 61.8% as compared to 60.1% in 2016, primarily due to an increase in compensation and benefits costs and an increase in certain professional services costs.

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

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Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by 9.7% during 2018 as compared to an increase of 2.8% during 2017. Selling, general and administrative expenses, including depreciation and amortization, remained relatively flat as a percentage of revenues at 21.6% in 2018 as compared to 21.5% in 2017 and decreased from 22.9% in 2016. In 2018, selling, general and administrative expense included the initial funding of the Cognizant U.S. Foundation and the FCPA Accrual, collectively representing 0.8% of revenues. This was partially offset by a decrease in compensation and benefit costs due to our efforts to contain corporate spend. In 2017, the decrease as a percentage of revenues was due primarily to a decrease in compensation and benefit costs and a decrease in immigration expense, partially offset by increases in certain operating and professional service costs and increases in depreciation and amortization due to acquisitions.

Income from Operations and Operating Margin - Overall

The following charts set forth our GAAP operating margin, Adjusted Operating Margin[5] and non-GAAP operating margin[5] for the years ended December 31, 2018 and 2017:

The increases in our GAAP operating margin, Adjusted Operating Margin[5] and non-GAAP operating margin[5] were attributable to our margin enhancement initiatives, which targeted the optimization of our resource pyramid, improvement of utilization and the containment of our corporate spend, as well as the depreciation of the Indian Rupee against the U.S. dollar, net of lower gains on settlement of our cash flow hedges in 2018 compared to 2017. In 2018, our GAAP operating margin was negatively impacted by the impact of the initial funding of the Cognizant U.S. Foundation. Further, our GAAP operating margin and our Adjusted Operating Margin for 2018 were both negatively impacted by the increase in amortization expense due to recent acquisitions.

Excluding the impact of applicable designated cash flow hedges, the depreciation of the Indian rupee against the U.S. dollar positively impacted our operating margin by approximately 89 basis points or 0.89 percentage points in 2018, while in 2017 the appreciation of the Indian rupee against the U.S. dollar negatively impacted our operating margin by approximately 58 basis points or 0.58 percentage points. Each additional 1.0% change in exchange rate between the Indian rupee and the U.S. dollar will have the effect of moving our operating margin by approximately 18 basis points or 0.18 percentage points.

We enter into foreign exchange forward contracts to hedge certain Indian rupee denominated payments in India. These hedges are intended to mitigate the volatility of the changes in the exchange rate between the U.S. dollar and the Indian rupee. During the year ended December 31, 2018, the settlement of cash flow hedges positively impacted our operating margin by approximately 44 basis points or 0.44 percentage points as compared to a positive impact of approximately 87 basis points or 0.87 percentage points in 2017 and a positive impact of approximately 13 basis points or 0.13 percentage points in 2016.

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[5] Non-GAAP operating margin and Adjusted Operating Margin are not measurements of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" for more information and reconciliations to the most directly comparable GAAP financial measures.

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Our most significant costs are the salaries and related benefits for our employees. In certain regions, competition for professionals with the advanced technical skills necessary to perform our services has caused wages to increase at a rate greater than the general rate of inflation. As with other service providers in our industry, we must adequately anticipate wage increases, particularly on our fixed-price and transaction- or volume-based priced contracts. Historically, we have experienced increases in compensation and benefit costs in India; however, this has not had a material impact on our results of operations as we have been able to absorb such cost increases through cost management strategies, such as managing discretionary costs, the mix of professional staff and utilization levels, and achieving other operating efficiencies. There can be no assurance that we will be able to offset such cost increases in the future.

We finished the year with approximately 281,600 employees, which is an increase of approximately 21,600 over the prior year end. For the three months ended December 31, 2018, annualized turnover, including both voluntary and involuntary, was approximately 18.9%. Turnover for the years ended December 31, 2018, 2017 and 2016, including both voluntary and involuntary, was approximately 20.8%, 19.6% and 16.0%, respectively. The higher than usual annual turnover rate in 2018 reflects the highly competitive labor market in our industry in the geographies in which we compete for talent, including India. Annual attrition rates at on-site customer locations are generally below our global attrition rate. In addition, attrition is weighted more towards the junior members of our staff.

Segment Operating Profit and Margin

In 2018, we made changes to the internal measurement of segment operating profits for the purpose of evaluating segment performance and resource allocation. The primary reason for the changes was to charge to our business segments costs that are directly managed and controlled by them. Specifically, segment operating profit now includes the stock-based compensation expense of sales managers, account executives, account managers and project teams, which was previously included in "unallocated costs." In addition, we have changed the methodology of allocating costs to our business segments for the use of our global delivery centers and infrastructure from a fixed per employee charge to a variable per employee charge that differs depending on location and assets deployed.

Segment operating profit and margin were as follows:

							Increase / (Decrease)	
	2018	Operating Margin %	2017	Operating Margin %	2016(1)	Operating Margin %	2018	2017(1)
	(Dollars in millions)							
Financial Services	$1,757	30.1	$1,771	31.4	$1,707	31.8	$(14)	$ 64
Healthcare	1,431	30.7	1,301	30.5	1,153	29.8	130	148
Products and Resources	1,043	30.5	923	30.4	851	32.0	120	72
Communications, Media and Technology	700	31.9	601	32.1	488	30.7	99	113
Total segment operating profit and margin	4,931	30.6	4,596	31.0	4,199	31.1	335	397
Less: unallocated costs	2,130		2,115		1,910		15	205
Income from operations	$2,801	17.4	$2,481	16.8	$2,289	17.0	$320	$ 192

(1) As described above, in 2018 we made changes to the internal measurement of segment operating profits. While we have restated the 2017 results to conform to the new methodology, it is impracticable for us to restate our 2016 segment operating results as the detailed information required for the allocation of such costs to the segments is not reasonably available.

In 2018, our Financial Services segment operating margin decreased due to investments in our digital platform and infrastructure services as well as costs incurred to re-skill service delivery personnel, partially offset by the depreciation of the Indian rupee against the U.S. dollar. In our Healthcare, Products and Resources and Communications, Media and Technology segments, operating margins remained relatively flat.

In 2017, prior to giving effect to the changes in the measurement of our segment operating profit as described above, our operating margins for our Financial Services, Healthcare, Products and Resources and Communications, Media and Technology segments were 29.0%, 30.6%, 28.6% and 30.2%, respectively. Our Financial Services, Products and Resources and Communications, Media and Technology segments operating margins decreased due to increases in compensation and benefits costs, investments to accelerate our shift to digital, including re-skilling of service delivery personnel, and the negative impact of the appreciation of various currencies, including the Indian rupee, against the U.S. dollar. Our Financial Services segment's operating profit was negatively impacted by weakness in the banking sector as certain customers focused on optimizing their cost

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structure and managing their discretionary spending. In 2017, our Healthcare segment operating margin increased, benefiting from lower losses on certain fixed-price contracts with customers.

Other Income (Expense), Net

Total other income (expense), net consists primarily of foreign currency exchange gains and losses, interest income and interest expense. The following table sets forth total other income (expense), net for the years ended December 31:

				Increase / Decrease	
	2018	2017	2016	2018	2017
	(in millions)				
Foreign currency exchange (losses) gains	$(183)	$90	$(27)	$(273)	$117
Gains (losses) on foreign exchange forward contracts not designated as hedging instruments	31	(23)	(3)	54	(20)
Foreign currency exchange gains (losses), net	(152)	67	(30)	(219)	97
Interest income	177	133	115	44	18
Interest expense	(27)	(23)	(19)	(4)	(4)
Other, net	(2)	(3)	2	1	(5)
Total other income (expense), net	$(4)	$174	$68	$(178)	$106

The foreign currency exchange gains and losses in all the years presented were primarily attributable to the remeasurement of the Indian rupee denominated net monetary assets and liabilities in our U.S. dollar functional currency India subsidiaries and, to a lesser extent, the remeasurement of other net monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries. The gains and losses on foreign exchange forward contracts not designated as hedging instruments relate to the realized and unrealized gains and losses on foreign exchange forward contracts entered into to partially offset foreign currency exposure to the British pound, Euro, Indian rupee and other non-U.S. dollar denominated net monetary assets and liabilities. As of December 31, 2018, the notional value of our undesignated hedges was $507 million. The increases in interest income in 2018 and 2017 were primarily attributed to increases in average invested balances and higher yields.

Provision for Income Taxes

The provision for income taxes was $698 million in 2018, $1,153 million in 2017 and $805 million in 2016. The effective income tax rate decreased to 25.0% in 2018 from 43.4% in 2017 and 34.2% in 2016. The decrease in our effective tax rate in 2018 was primarily driven by the one-time net income tax expense of $617 million that was recorded in 2017 as a result of the enactment of the Tax Reform Act and the reduction of the U.S. federal statutory corporate income tax rate in 2018 from 35% to 21%. In 2016, we incurred an incremental income tax expense of $238 million related to the India Cash Remittance.

Net Income

Net income was $2,101 million in 2018, $1,504 million in 2017 and $1,553 million in 2016. Net income as a percentage of revenues increased to 13.0% in 2018 from 10.2% in 2017 primarily due to the decrease in the provision for income taxes and an increase in income from operations, partially offset by the fluctuation in the value of the Indian rupee which generated foreign currency exchange losses in 2018 compared to foreign currency exchange gains in 2017. In 2017, net income as a percentage of revenues decreased to 10.2% from 11.5% in 2016 primarily due to the incremental income tax expense related to the Tax Reform Act in 2017.

Non-GAAP Financial Measures

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

In 2018, we announced a plan to modify our non-GAAP financial measures. Our historical non-GAAP financial measures, non-GAAP operating margin, non-GAAP income from operations and non-GAAP diluted EPS, excluded stock-based compensation expense, acquisition-related charges and unusual items, such as realignment charges and in 2018, the initial funding of the Cognizant

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U.S. Foundation. Our non-GAAP diluted EPS additionally excluded net non-operating foreign currency exchange gains or losses and unusual items, such as the effect of the net income tax expense and benefit related to the enactment of the Tax Reform Act in 2018 and 2017, respectively, the effect of the recognition of an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position in 2017, the effect of an incremental income tax expense related to the India Cash Remittance in 2016, and the tax impacts of all applicable adjustments. Our new non-GAAP financial measures, Adjusted Operating Margin and Adjusted Income From Operations, exclude only unusual items and Adjusted Diluted EPS additionally excludes net non-operating foreign currency exchange gains or losses and the tax impact of all applicable adjustments. The income tax impact of each item is calculated by applying the statutory rate and local tax regulations in the jurisdiction in which the item was incurred. Additionally, we are introducing two new non-GAAP financial measures, free cash flow and constant currency revenue growth. Free cash flow is defined as cash flows from operating activities net of purchases of property and equipment. Constant currency revenue growth is defined as revenues for a given period restated at the comparative period’s foreign currency exchange rates measured against the comparative period's reported revenues.

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into our operating results. For our internal management reporting and budgeting purposes, we use various GAAP and non-GAAP financial measures for financial and operational decision-making, to evaluate period-to-period comparisons, to determine portions of the compensation for our executive officers and for making comparisons of our operating results to those of our competitors. Therefore, it is our belief that the use of non-GAAP financial measures excluding certain costs provides a meaningful supplemental measure for investors to evaluate our financial performance. We believe that changing our historical non-GAAP financial measures, as discussed above, will result in non-GAAP financial measures that more closely align with how we intend to manage the Company. We believe that the presentation of our new non-GAAP financial measures (Adjusted Income from Operations, Adjusted Operating Margin, Adjusted Diluted EPS, free cash flow and constant currency revenue growth) as well as our historical non-GAAP financial measures (non-GAAP income from operations, non-GAAP operating margin and non-GAAP diluted EPS) along with reconciliations to the most comparable GAAP measure, as applicable, can provide useful supplemental information to our management and investors regarding financial and business trends relating to our financial condition and results of operations.

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

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

	2018	% of Revenues	2017	% of Revenues	2016	% of Revenues
	(Dollars in millions, except per share data)					
GAAP income from operations and operating margin	$2,801	17.4 %	$2,481	16.8 %	$2,289	17.0 %
Realignment charges (1)	19	0.1	72	0.5	—	—
Initial funding of Cognizant U.S. Foundation (2)	100	0.6	—	—	—	—
Adjusted Income From Operations and Adjusted Operating Margin	2,920	18.1	2,553	17.3	2,289	17.0
Stock-based compensation expense (3)	267	1.6	221	1.5	217	1.6
Acquisition-related charges (4)	158	1.0	138	0.9	130	0.9
Non-GAAP income from operations and non-GAAP operating margin	$3,345	20.7 %	$2,912	19.7 %	$2,636	19.5 %
GAAP diluted EPS	$3.60		$2.53		$2.55	
Effect of realignment charges and initial funding of Cognizant U.S. Foundation, as applicable, pre-tax	0.20		0.12		—	
Effect of non-operating foreign currency exchange losses (gains), pre-tax (5)	0.26		(0.12)		0.04	
Tax effect of above adjustments (6)	(0.03)		(0.06)		—	
Effect of net incremental income tax expense related to the Tax Reform Act (7)	(0.01)		1.04		—	
Effect of recognition of income tax benefit related to an uncertain tax position (8)	—		(0.09)		—	
Effect of incremental income tax expense related to the India Cash Remittance (9)	—		—		0.39	
Adjusted Diluted EPS	4.02		3.42		2.98	
Effect of stock-based compensation expense and acquisition-related charges, pre-tax	0.73		0.60		0.57	
Tax effect of stock-based compensation expense and acquisition-related charges (6)	(0.18)		(0.25)		(0.16)	
Non-GAAP diluted EPS	$4.57		$3.77		$3.39	
Net cash provided by operating activities	$2,592		$2,407		$1,645	
Purchases of property and equipment	(377)		(284)		(300)	
Free cash flow	$2,215		$2,123		$1,345	

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(1) Realignment charges include severance costs, lease termination costs, and advisory fees related to non-routine shareholder matters and to the development of our realignment and return of capital programs, as applicable. The total costs related to the realignment are reported in Selling, general and administrative expenses in our consolidated statements of operations. See Note 5 to our consolidated financial statements for additional information.

(2) In 2018, we provided $100 million of initial funding to Cognizant U.S. Foundation, which is focused on science, technology, engineering and math education in the United States.

(3) Stock-based compensation expense reported in:

For the years ended December 31,

	2018	2017	2016
	(in millions)		
Cost of revenues	$62	$ 55	$ 53
Selling, general and administrative expenses	205	166	164

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

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

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

	For the years ended December 31,		
	2018	2017	2016
	(in millions)		
Non-GAAP income tax benefit (expense) related to:			
Realignment charges	$5	$25	$ —
Initial funding of Cognizant U.S. Foundation	28	—	—
Foreign currency exchange gains and losses	(12)	10	5
Stock-based compensation expense	66	101	49
Acquisition-related charges	38	48	46

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

(7) In 2017, in connection with the enactment of the Tax Reform Act, we recorded a one-time provisional net income tax expense of $617 million. In 2018, we finalized our calculation of the one-time net income tax expense related to the enactment of the Tax Reform Act and recognized a $5 million income tax benefit, which reduced our provision for income taxes.

(8) In 2017, we recognized an income tax benefit previously unrecognized in our consolidated financial statements related to a specific uncertain tax position of $55 million. The recognition of the benefit in 2017 was based on management's reassessment regarding whether this unrecognized tax benefit met the more-likely-than-not threshold in light of the lapse in the statute of limitations as to a portion of such benefit.

(9) In 2016, as a result of the India Cash Remittance, we incurred an incremental income tax expense of $238 million.

Liquidity and Capital Resources

Our cash generated from operations has historically been our primary source of liquidity to fund operations and investments to grow our business. In addition, as of December 31, 2018, we had cash, cash equivalents and short-term investments of $4,511 million, of which $423 million was restricted and not available for use as a result of our dispute with the ITD with respect to our 2016 India Cash Remittance. See Note 11 of our consolidated financial statements for more information. As of December 31, 2018, we had available capacity under our revolving credit facility of approximately $1,750 million.

The following table provides a summary of our cash flows for the three years ended December 31:

	2018	2017	2016	Increase / Decrease 2018	Increase / Decrease 2017
	(in millions)				
Net cash provided by (used in):					
Operating activities	$2,592	$2,407	$1,645	$185	$762
Investing activities	(1,627)	(582)	(963)	(1,045)	381
Financing activities	(1,693)	(1,985)	(743)	292	(1,242)

Operating activities

The increase in cash generated from operating activities for 2018 compared to 2017 was primarily attributable to the increase in income from operations offset by a higher days sales outstanding ("DSO"). Our DSO was 75 days as of December 31, 2018, 71 days as of December 31, 2017 and 72 days as of December 31, 2016. The increase in cash generated from operating activities for 2017 compared to 2016 was primarily attributable to the increase in pre-tax earnings.

We monitor turnover, aging and the collection of accounts receivable by customer. On January 1, 2018, we adopted the New Revenue Standard using the modified retrospective method. Upon adoption, we reclassified (i) balances representing receivables, as defined by the New Revenue Standard, from Unbilled accounts receivable to Trade accounts receivable, net and (ii) balances representing contract assets, as defined by the New Revenue Standard, from Unbilled accounts receivable to Other current assets. Balances as of December 31, 2018 are presented under the New Revenue Standard, while prior period balances are not adjusted and continue to be reported in accordance with our historic accounting policies. See Note 3 of our consolidated financial statements for more information.

Historically, our DSO calculation included billed and unbilled accounts receivable, net of allowance for doubtful accounts, reduced by the uncollected portion of our deferred revenue. To reflect the adoption of the New Revenue Standard and maintain the comparability of the calculation, in 2018 we adjusted the definition to include receivables, as defined by the New Revenue Standard, net of allowance for doubtful accounts, and contract assets, reduced by the uncollected portion of our deferred revenue.

Investing activities

The increase in net cash used in investing activities in 2018 compared to 2017 is primarily related to an increase in cash used for acquisitions. In 2017, the decrease in net cash used when compared to 2016 was primarily due to lower net purchases of investments and a decrease in cash used for acquisitions.

Financing activities

The decrease in cash used in financing activities in 2018 compared to 2017 is primarily attributable to lower repurchases of common stock, partially offset by an increase in dividend payments and higher net repayments of debt. In 2017, the increase in cash used when compared to 2016 was primarily attributable to repurchases of common stock under the accelerated stock repurchase agreements and dividend payments, partially offset by lower net repayments of debt.

In 2014, we entered into a credit agreement with a commercial bank syndicate, (as amended, the "Credit Agreement") providing for a $1,000 million unsecured term loan and a $750 million unsecured revolving credit facility which were due to mature in November 2019. In November 2018, we completed a debt refinancing in which we entered into a credit agreement with a new commercial bank syndicate (the "New Credit Agreement") providing for a $750 million unsecured term loan (the "New Term Loan") and a $1,750 million unsecured revolving credit facility, which are due to mature in November 2023. We are required under the New Credit Agreement to make scheduled quarterly principal payments on the New Term Loan beginning in December 2019.

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

The New Credit Agreement contains customary affirmative and negative covenants as well as a financial covenant. The financial covenant is tested at the end of each fiscal quarter and requires us to maintain a Leverage Ratio not in excess of 3.50 to 1.00, or for a period of up to four quarters following certain material acquisitions, 3.75 to 1.00. We were in compliance with all debt covenants and representations of the New Credit Agreement as of December 31, 2018. We believe that we currently meet all conditions set forth in the New Credit Agreement to borrow thereunder, and we are not aware of any conditions that would prevent us from borrowing part or all of the remaining available capacity under the revolving credit facility as of December 31, 2018 and through the date of this filing.

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As part of our capital return plan, we returned $3.7 billion to our stockholders through $2,975 million in share repurchases and $733 million in dividend payments over the two years ended December 31, 2018, exceeding our previously announced target of $3.4 billion. Beginning in 2019, our new capital return plan anticipates the deployment of approximately 50% of our global free cash flow[6] for dividends and share repurchases and approximately 25% of global free cash flow[6] for acquisitions, as needed. For the year ended December 31, 2018, our cash flows from operating activities were $2,592 million while our global free cash flow[6] was $2,215 million. We review our capital return plan on an on-going basis, considering our financial performance and liquidity position, investments required to execute our strategic plans and initiatives, acquisition opportunities, the economic outlook, regulatory changes and other relevant factors. As these factors may change over time, the actual amounts expended on stock repurchase activity, dividends, and acquisitions, if any, during any particular period cannot be predicted and may fluctuate from time to time.

Other Liquidity and Capital Resources Information

We seek to ensure that our worldwide cash is available in the locations in which it is needed. As part of our ongoing liquidity assessments, we regularly monitor the mix of our domestic and international cash flows and cash balances. As of December 31, 2018, the amount of our cash, cash equivalents and short-term investments held outside the United States was $2,704 million, of which $1,776 million was in India. As further described in Note 11 of our consolidated financial statements, $423 million of our short-term investment balances held in India were classified as restricted as of December 31, 2018.

As a result of the enactment of the Tax Reform Act, our historical and future foreign earnings are no longer subject to U.S. federal income tax upon repatriation beyond the one-time transition tax accrued in 2017. As such, in 2018, we reevaluated our assertion that our foreign earnings would be indefinitely reinvested and concluded that our Indian earnings will continue to be indefinitely reinvested while historical accumulated undistributed earnings of our foreign subsidiaries other than our Indian subsidiaries, are available for repatriation to the United States. We evaluate on an ongoing basis what portion of the non-U.S. cash, cash equivalents and short-term investments held outside India is needed locally to execute our strategic plans and what amount is available for repatriation back to the United States. During 2018, we repatriated $2,414 million from our foreign subsidiaries.

Our assertion that our earnings in India continue to be indefinitely reinvested is consistent with our ongoing strategy to expand our Indian operations, including through infrastructure investments. However, future events may occur, such as material changes in cash estimates, discretionary transactions, including corporate restructurings, and changes in applicable laws, that may lead us to repatriate the undistributed Indian earnings. As of December 31, 2018, the amount of unrepatriated Indian earnings was approximately $4,679 million. If all of our accumulated unrepatriated Indian earnings were to be repatriated, based on our current interpretation of India tax law, we estimate that we would incur an additional income tax expense of approximately $980 million. This estimate is subject to change based on tax legislation developments in India and other jurisdictions as well as judicial and interpretive developments of applicable tax laws.

We expect our operating cash flow, cash and investment balances (excluding the $423 million of India restricted assets), together with our available capacity under our revolving credit facility to be sufficient to meet our operating requirements, in India and globally, for the next twelve months. Our ability to expand and grow our business in accordance with current plans, make acquisitions and form joint ventures, meet our long-term capital requirements beyond a twelve-month period and execute our capital return plan will depend on many factors, including the rate, if any, at which our cash flow increases, our ability and willingness to pay for acquisitions and joint ventures with capital stock and the availability of public and private debt and equity financing. We cannot be certain that additional financing, if required, will be available on terms and conditions acceptable to us, if at all.

As further described in Note 11 of our consolidated financial statements, certain short-term investment balances in India totaling $423 million were restricted in connection with our dispute with the ITD with respect to our 2016 India Cash Remittance. The ITD Dispute is currently pending before the Madras High Court, and no final decision has been reached. The affected balances may continue to remain restricted and unavailable for our use while the dispute is ongoing.

[6] Free cash flow 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 comparable GAAP financial measure.

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Commitments
and
Contingencies
Commitments
As of December 31, 2018, we had the following obligations and commitments to make future payments under contractual obligations and commercial commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions)				
Long-term debt obligations[1]	$750	$9	$75	$666	$ —
Interest on long-term debt[2]	114	26	48	40	—
Capital lease obligations	71	17	23	12	19
Operating lease obligations	988	226	354	211	197
Other purchase commitments[3]	207	117	69	21	—
Tax Reform Act transition tax[4]	528	51	101	222	154
Total	$2,658	$446	$670	$1,172	$ 370

(1) Consists of scheduled repayments of our term loan.
(2) Interest on the term loan was calculated at interest rates in effect as of December 31, 2018.
(3) Other purchase commitments include, among other things, communications and information technology obligations, as well as other obligations in the ordinary course of business that we cannot cancel or where we would be required to pay a termination fee in the event of cancellation.
(4) The Tax Reform Act transition tax on undistributed foreign earnings is payable in installments through the year 2024. See Note 11 to our consolidated financial statements.

The above table does not include the $28 million FCPA Accrual. See Note 2 to our consolidated financial statements.

As of December 31, 2018, we had $117 million of unrecognized tax benefits. This represents the tax benefits associated with certain tax positions on our U.S. and non-U.S. tax returns that have not been recognized on our financial statements due to uncertainty regarding their resolution. The resolution of these income tax positions with the relevant taxing authorities is at various stages, and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters.
Contingencies

See Note 15 to our consolidated financial statements for additional information.
Off-Balance
Sheet
Arrangements
Other than our foreign exchange forward contracts, there were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in 2018, 2017 and 2016 that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.
Critical
Accounting
Estimates
Management’s discussion and analysis of our financial condition and results of operations is based on our accompanying consolidated financial statements that have been prepared in accordance with GAAP. We base our

estimates on historical experience, current trends and on various other assumptions that are believed to be relevant at the time our consolidated financial statements are prepared. We evaluate our estimates on a continuous basis. However, the actual amounts may differ from the estimates used in the preparation of the accompanying consolidated financial statements.

We believe the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported consolidated financial statements as they require the most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain. Changes to these estimates could have a material adverse

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effect on our results of operations and financial condition. Our significant accounting policies are described in Note 1 of the accompanying consolidated financial statements.

Revenue Recognition. Revenues related to fixed-price contracts for application development and systems integration services, consulting or other technology services are recognized as the service is performed using the cost to cost method, under which the total value of revenues is recognized on the basis of the percentage that each contract's total labor cost to date bears to the total expected labor costs. Revenues related to fixed-price application maintenance, testing and business process services are recognized using the cost to cost method, if the right to invoice is not representative of the value being delivered. The cost to cost method requires estimation of future costs, which is updated as the project progresses to reflect the latest available information. Such estimates and changes in estimates involve the use of judgment. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the change in estimate becomes known and any anticipated losses on contracts are recognized immediately. Changes in estimates of such future costs and contract losses were immaterial to the consolidated results of operations for the periods presented.

Further, we include in the transaction price variable consideration only to the extent it is probable that a significant reversal of revenues recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price may involve judgment and are based largely on an assessment of our anticipated performance and all information that is reasonably available to us. Our estimates of variable consideration were immaterial to the consolidated results of operations for the periods presented.

Income Taxes. Determining the consolidated provision for income tax expense, deferred income tax assets (and related valuation allowance, if any) and liabilities requires significant judgment. We are required to calculate and provide for income taxes in each of the jurisdictions where we operate. Changes in the geographic mix of income before taxes or estimated level of annual pre-tax income can affect our overall effective income tax rate. In addition, transactions between our affiliated entities are arranged in accordance with applicable transfer pricing laws, regulations and relevant guidelines. As a result, and due to the interpretive nature of certain aspects of these laws and guidelines, we have pending before the taxing authorities in some of our most significant jurisdictions applications for Advance Pricing Agreements ("APAs"). It could take years for the relevant taxing authorities to negotiate and conclude these applications. The consolidated provision for income taxes may change period to period based on changes in facts and circumstances, such as settlements of income tax audits or finalization of our applications for APAs.

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

Business Combinations, Goodwill and Intangible Assets. Goodwill and intangible assets, including indefinite-lived intangible assets, arise from the accounting for business combinations. We account for business combinations using the acquisition method which requires us to estimate the fair value of identifiable assets acquired, liabilities assumed, including any contingent consideration, and any noncontrolling interest in the acquiree to properly allocate purchase price consideration to the individual assets acquired and liabilities assumed. The allocation of the purchase price utilizes significant estimates in determining the fair values of identifiable assets acquired and liabilities assumed, especially with respect to intangible assets. The significant estimates and assumptions include the timing and amount of forecasted revenues and cash flows, anticipated growth rates, customer attrition rates, the discount rate reflecting the risk inherent in future cash flows and the determination of useful lives for finite-lived assets.

We exercise judgment to allocate goodwill to the reporting units expected to benefit from each business combination. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, regulatory environment, established business plans, operating performance indicators or competition. Evaluation of goodwill for impairment requires judgment, including the identification of reporting units, assignment of assets, liabilities and goodwill to reporting units and determination of the fair value of each reporting unit. To better align our annual goodwill impairment assessment with the timing of our budget process, we elected to change the date of our annual goodwill impairment assessment from December 31st to October 31st.

We estimate the fair value of our reporting units using a combination of an income approach, utilizing a discounted cash flow analysis, and a market approach, using market multiples. Under the income approach, we estimate projected future cash flows, the timing of such cash flows and long term growth rates, and determine the appropriate discount rate that reflects the risk inherent in the projected future cash flows. The discount rate used is based on our weighted-average cost of capital and may be adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the reporting unit's

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ability to execute on the projected future cash flows. Under the market approach, we estimate fair value based on market multiples of revenues and earnings derived from comparable publicly-traded companies with characteristics similar to the reporting unit. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results, market conditions and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

We also evaluate indefinite-lived intangible assets for impairment at least annually, or as circumstances warrant. Our 2018 qualitative assessment included the review of relevant macroeconomic factors and entity-specific qualitative factors to determine if it was more-likely-than-not that the fair value of our indefinite-lived intangible assets was below carrying value.

Based on our most recent evaluation of goodwill and indefinite-lived intangible assets performed during the fourth quarter of 2018, we concluded the goodwill and indefinite-lived intangible asset balances in each of our reporting units were not at risk of impairment. As of December 31, 2018, our goodwill and indefinite-lived intangible asset balances were $3,481 million and $72 million, respectively.

We review our finite-lived assets, including our finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We recognize an impairment loss when the sum of the undiscounted expected future cash flows is less than the carrying amount of such assets. The impairment loss is determined as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assessing the fair value of assets involves significant estimates and assumptions including estimation of future cash flows, the timing of such cash flows and discount rates reflecting the risk inherent in future cash flows.

Contingencies. Loss contingencies are recorded as liabilities 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 amount of the claim, and an estimate of the loss or range of loss, if such an estimate can be made. Significant judgment is required in the determination of both probability and whether an exposure is reasonably estimable. Our judgments are subjective and based on the information available from the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel. As additional information becomes available, we reassess any potential liability related to any pending litigation and may revise our estimates. Such revisions in estimates of any potential liabilities could have a material impact on our results of operations and financial position.

Recently
Adopted and
New Accounting
Pronouncements

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

Forward
Looking
Statements

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

Such forward-looking statements may be included in various filings made by us with the SEC, in press releases or in oral statements made by or with the approval of one of our authorized executive officers. These forward-looking statements, such as statements regarding our anticipated future revenues or operating margins, earnings, capital expenditures, anticipated effective tax rates and tax expense, liquidity, access to capital, capital return plan, investment strategies, cost management, realignment program, plans and objectives, including those related to our digital practice areas, investment in our business, potential acquisitions, industry trends, customer behaviors and trends, the outcome of regulatory and litigation matters and other statements regarding matters that are not historical facts, are based on our current expectations, estimates and projections, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Actual results, performance, achievements and outcomes could differ materially from the results expressed in, or anticipated or implied by, these forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including:

- economic and political conditions globally and in particular in the markets in which our customers and operations are concentrated;

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- our ability to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally;
- challenges related to growing our business organically as well as inorganically through acquisitions, and our ability to achieve our targeted growth rates;
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