UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2023

☐ **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.jpg

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.)**

300 Frank W. Burr Blvd.
Teaneck, New Jersey 07666
(Address of Principal Executive Offices including Zip Code)

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No: ☐

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 28, 2023:

Class	**Number of Shares**
Class A Common Stock, par value $0.01 per share	507,477,456

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
TABLE OF CONTENTS

GLOSSARY

Defined Term	Definition
10b5-1 Plan	Trading plan adopted pursuant to Rule 10b5-1 of the Exchange Act
Adjusted Diluted EPS	Adjusted diluted earnings per share
ASC	Accounting Standards Codification
ASR	Accelerated Stock Repurchase
CC	Constant Currency
CE	Continental Europe
CITA	Commissioner of Income Tax (Appeals) in India
CMT	Communications, Media and Technology
Credit Agreement	Credit agreement with a commercial bank syndicate dated October 6, 2022
CTS India	Our principal operating subsidiary in India
DOJ	United States Department of Justice
DSO	Days Sales Outstanding
EPS	Earnings per share
EU	European Union
Exchange Act	Securities Exchange Act of 1934, as amended
FS	Financial Services
GAAP	Generally Accepted Accounting Principles in the United States of America
HS	Health Sciences
High Court	Madras, India High Court
India Defined Contribution Obligation	Certain statutory defined contribution obligations of employees and employers in India
IoT	Internet of Things
IRS	Internal Revenue Service
ITD	Indian Income Tax Department
Mobica	MOBICA HOLDINGS LIMITED
NA	North America
P&R	Products & Resources
RoW	Rest of World
SCI	Supreme Court of India
SEC	United States Securities and Exchange Commission
Second Circuit	United States Court of Appeals for the Second Circuit
SG&A	Selling, general and administrative
Syntel	Syntel Sterling Best Shores Mauritius Ltd.
Tax Reform Act	Tax Cuts and Jobs Act
Term Loan	Unsecured term loan under the Credit Agreement
TriZetto	The TriZetto Group, Inc., now known as Cognizant Technology Software Group, Inc.
UK	United Kingdom
USDC-NJ	United States District Court for the District of New Jersey
USDC-SDNY	United States District Court for the Southern District of New York

Forward Looking Statements

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

Such forward-looking statements may be included in various filings made by us with the SEC, in press releases or in oral statements made by or with the approval of one of our authorized executive officers. These forward-looking statements, such as statements regarding our anticipated future revenues or operating margin, earnings, capital expenditures, impacts to our business, financial results and financial condition as a result of the competitive marketplace for talent and future attrition trends, anticipated effective income tax rate and income tax expense, liquidity, financing strategy, access to capital, capital return strategy, investment strategies, cost management, plans and objectives, including those related to our digital practice areas, investment in our business, potential acquisitions, industry trends, client behaviors and trends, the outcome of and costs associated with regulatory and litigation matters, the appropriateness of the accrual related to the India Defined Contribution Obligation and other statements regarding matters that are not historical facts, are based on our current expectations, estimates and projections, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Actual results, performance, achievements and outcomes could differ materially from the results expressed in, or anticipated or implied by, these forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including:

- economic and political conditions globally, including inflation and the invasion of Ukraine by Russia, and in particular in the markets in which our clients and operations are concentrated;
- our ability to attract, train and retain skilled employees, including highly skilled technical personnel and personnel with experience in key digital areas and senior management to lead our business globally, at an acceptable cost;
- unexpected terminations of client contracts on short notice or reduced spending by clients for reasons beyond our control;
- challenges related to growing our business organically as well as inorganically through acquisitions, and our ability to achieve our targeted growth rates;
- our ability to successfully implement our NextGen program and the amount of costs, timing of incurring costs, and ultimate benefits of such plans;
- our ability to achieve our profitability goals and maintain our capital return strategy;
- the impact of future pandemics, epidemics or other outbreaks of disease, on our business, results of operations, liquidity and financial condition;
- fluctuations in foreign currency exchange rates, or the failure of our hedging strategies to mitigate such fluctuations;
- our ability to meet specified service levels or milestones required by certain of our contracts;
- intense and evolving competition and significant technological advances that our service offerings must keep pace with in the rapidly changing markets we compete in;
- legal, reputation and financial risks if we fail to protect client and/or our data from security breaches and/or cyber attacks;
- climate change impact on our business;
- the effectiveness of our risk management, business continuity and disaster recovery plans and the potential that our global delivery capabilities could be impacted;
- restrictions on visas, in particular in the United States, United Kingdom and EU, or immigration more generally or increased costs of such visas or the wages we are required to pay employees on visas, which may affect our ability to compete for and provide services to our clients;
- risks related to anti-outsourcing legislation, if adopted, and negative perceptions associated with offshore outsourcing, both of which could impair our ability to serve our clients;
- risks and costs related to complying with numerous and evolving legal and regulatory requirements and client expectations in the many jurisdictions in which we operate;
- potential changes in tax laws, or in their interpretation or enforcement, failure by us to adapt our corporate structure and intercompany arrangements, or adverse outcomes of tax audits, investigations or proceedings;

- potential exposure to litigation and legal claims in the conduct of our business; and
- the factors set forth in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022.

You are advised to consult any further disclosures we make on related subjects in the reports we file with the SEC, including this report in the section titled "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part I, Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2022. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited).

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(in millions, except par values)	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 2,458	$ 2,191
Short-term investments	23	310
Trade accounts receivable, net	3,718	3,796
Other current assets	1,029	969
Total current assets	7,228	7,266
Property and equipment, net	1,102	1,101
Operating lease assets, net	842	876
Goodwill	6,040	5,710
Intangible assets, net	1,262	1,168
Deferred income tax assets, net	666	642
Long-term investments	424	427
Other noncurrent assets	583	662
Total assets	$ 18,147	$ 17,852
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 332	$ 360
Deferred revenue	469	398
Short-term debt	16	8
Operating lease liabilities	173	174
Accrued expenses and other current liabilities	2,331	2,407
Total current liabilities	3,321	3,347
Deferred revenue, noncurrent	32	19
Operating lease liabilities, noncurrent	688	714
Deferred income tax liabilities, net	215	180
Long-term debt	630	638
Long-term income taxes payable	283	283
Other noncurrent liabilities	317	362
Total liabilities	5,486	5,543
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Preferred stock, $0.10 par value, 15 shares authorized, none issued	—	—
Class A common stock, $0.01 par value, 1,000 shares authorized, 507 and 509 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	5	5
Additional paid-in capital	22	15
Retained earnings	12,856	12,588
Accumulated other comprehensive income (loss)	(222)	(299)
Total stockholders' equity	12,661	12,309
Total liabilities and stockholders' equity	$ 18,147	$ 17,852

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

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in millions, except per share data)	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenues	$ 4,812	$ 4,826
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	3,143	3,097
Selling, general and administrative expenses	835	862
Depreciation and amortization expense	132	143
Income from operations	702	724
Other income (expense), net:		
Interest income	30	6
Interest expense	(9)	(2)
Foreign currency exchange gains (losses), net	12	—
Other, net	3	1
Total other income (expense), net	36	5
Income before provision for income taxes	738	729
Provision for income taxes	(158)	(170)
Income (loss) from equity method investments	—	4
Net income	$ 580	$ 563
Basic earnings per share	$ 1.14	$ 1.07
Diluted earnings per share	$ 1.14	$ 1.07
Weighted average number of common shares outstanding - Basic	509	524
Dilutive effect of shares issuable under stock-based compensation plans	—	1
Weighted average number of common shares outstanding - Diluted	509	525

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

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

(in millions)	Three Months Ended March 31,	
	2023	2022
Net income	$ 580	$ 563
Change in Accumulated other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	43	(37)
Unrealized gains and losses on cash flow hedges	34	(19)
Other comprehensive income (loss)	77	(56)
Comprehensive income	$ 657	$ 507

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

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

(in millions)	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	509	$ 5	$ 15	$ 12,588	$ (299)	$ 12,309
Net income	—	—	—	580	—	580
Other comprehensive income (loss)	—	—	—	—	77	77
Common stock issued, stock-based compensation plans	2	—	23	—	—	23
Stock-based compensation expense	—	—	44	—	—	44
Repurchases of common stock	(4)	—	(60)	(163)	—	(223)
Dividends declared, $0.29 per share	—	—	—	(149)	—	(149)
Balance, March 31, 2023	507	$ 5	$ 22	$ 12,856	$ (222)	$ 12,661

(in millions)	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	525	$ 5	$ 27	$ 11,922	$ 37	$ 11,991
Net income	—	—	—	563	—	563
Other comprehensive income (loss)	—	—	—	—	(56)	(56)
Common stock issued, stock-based compensation plans	1	—	31	—	—	31
Stock-based compensation expense	—	—	56	—	—	56
Repurchases of common stock	(5)	—	(83)	(387)	—	(470)
Dividends declared, $0.27 per share	—	—	—	(142)	—	(142)
Balance, March 31, 2022	521	$ 5	$ 31	$ 11,956	$ (19)	$ 11,973

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

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

(in millions)	For the Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income	$ 580	$ 563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132	143
Deferred income taxes	(16)	70
Stock-based compensation expense	44	56
Other	27	27
Changes in assets and liabilities:		
Trade accounts receivable	89	(117)
Other current and noncurrent assets	(17)	(73)
Accounts payable	(26)	35
Deferred revenues, current and noncurrent	71	36
Other current and noncurrent liabilities	(155)	(434)
Net cash provided by operating activities	729	306
Cash flows from investing activities:		
Purchases of property and equipment	(98)	(120)
Purchases of available-for-sale investment securities	—	(65)
Proceeds from maturity or sale of available-for-sale investment securities	225	310
Purchases of held-to-maturity investment securities	(3)	(16)
Proceeds from maturity of held-to-maturity investment securities	15	20
Purchases of other investments	(26)	(39)
Proceeds from maturity or sale of other investments	81	591
Proceeds from sales of businesses	—	19
Payments for business combinations, net of cash acquired	(409)	—
Net cash (used in) provided by investing activities	(215)	700
Cash flows from financing activities:		
Issuance of common stock under stock-based compensation plans	23	31
Repurchases of common stock	(222)	(474)
Repayment of Term Loan borrowings and finance lease and earnout obligations	(1)	(14)
Dividends paid	(150)	(143)
Net cash (used in) financing activities	(350)	(600)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	(6)
Increase in cash, cash equivalents and restricted cash	164	400
Cash, cash equivalents and restricted cash beginning of year	2,294	1,792
Cash and cash equivalents, end of period	$ 2,458	$ 2,192

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

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

Note 1 — Interim Consolidated Financial Statements

The terms "Cognizant," "we," "our," "us" and "the Company" refer to Cognizant Technology Solutions Corporation and its subsidiaries unless the context indicates otherwise. We have prepared the accompanying unaudited consolidated financial statements included herein in accordance with GAAP and the Exchange Act. The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) included in our Annual Report on Form 10-K for the year ended December 31, 2022. In our opinion, all adjustments considered necessary for a fair statement of the accompanying unaudited consolidated financial statements have been included and all adjustments are of a normal and recurring nature. Operating results for the interim periods are not necessarily indicative of results that may be expected to occur for the entire year.

Note 2 — Revenues and Trade Accounts Receivable

Disaggregation of Revenues

The tables below present disaggregated revenues from contracts with clients by client location, service line and contract type for each of the business segments. We believe this disaggregation best depicts how the nature, amount, timing and uncertainty of revenues and cash flows are affected by industry, market and other economic factors. Our consulting and technology services include consulting, application development, systems integration and application testing services as well as software solutions and related services while our outsourcing services include application maintenance, infrastructure and business process services. Revenues are attributed to geographic regions based upon client location, which is the client's billing address. Substantially all revenues in the North America region relate to clients in the United States.

	Three Months Ended March 31, 2023				
(in millions)	**Financial Services**	**Health Sciences**	**Products and Resources**	**Communications, Media and Technology**	**Total**
Revenues					
Geography:					
North America	$ 1,033	$ 1,248	$ 741	$ 523	$ 3,545
United Kingdom	162	37	132	147	478
Continental Europe	152	124	150	35	461
Europe - Total	314	161	282	182	939
Rest of World	129	24	95	80	328
Total	$ 1,476	$ 1,433	$ 1,118	$ 785	$ 4,812
Service line:					
Consulting and technology services	$ 1,000	$ 812	$ 732	$ 442	$ 2,986
Outsourcing services	476	621	386	343	1,826
Total	$ 1,476	$ 1,433	$ 1,118	$ 785	$ 4,812
Type of contract:					
Time and materials	$ 861	$ 490	$ 445	$ 464	$ 2,260
Fixed-price	545	650	585	293	2,073
Transaction or volume-based	70	293	88	28	479
Total	$ 1,476	$ 1,433	$ 1,118	$ 785	$ 4,812

(in millions)	Three Months Ended March 31, 2022 Financial Services	Health Sciences	Products and Resources	Communications, Media and Technology	Total
Revenues					
Geography:					
North America	$ 1,080	$ 1,195	$ 761	$ 533	$ 3,569
United Kingdom	151	44	132	126	453
Continental Europe	157	120	145	37	459
Europe - Total	308	164	277	163	912
Rest of World	140	33	92	80	345
Total	$ 1,528	$ 1,392	$ 1,130	$ 776	$ 4,826
Service line:					
Consulting and technology services	$ 1,057	$ 804	$ 754	$ 448	$ 3,063
Outsourcing services	471	588	376	328	1,763
Total	$ 1,528	$ 1,392	$ 1,130	$ 776	$ 4,826
Type of contract:					
Time and materials	$ 890	$ 494	$ 467	$ 448	$ 2,299
Fixed-price	557	618	572	292	2,039
Transaction or volume-based	81	280	91	36	488
Total	$ 1,528	$ 1,392	$ 1,130	$ 776	$ 4,826

Costs to Fulfill

The following table presents information related to the capitalized costs to fulfill for the three months ended March 31:

(in millions)	2023	2022
Beginning balance	$ 265	$ 394
Costs capitalized	15	12
Amortization expense	(22)	(27)
Ending balance	$ 258	$ 379

Costs to obtain contracts were immaterial for the periods disclosed.

Contract Balances

The table below shows movements in contract assets for the three months ended March 31:

(in millions)	2023	2022
Beginning balance	$ 326	$ 310
Revenues recognized during the period but not billed	248	259
Amounts reclassified to trade accounts receivable	(223)	(202)
Amounts acquired in business combinations	9	—
Ending balance	$ 360	$ 367

The table below shows movements in the deferred revenue balances (current and noncurrent) for the three months ended March 31:

(in millions)	2023	2022
Beginning balance	$ 417	$ 443
Amounts billed but not recognized as revenues	322	396
Revenues recognized related to the beginning balance of deferred revenue	(251)	(361)
Amounts acquired in business combinations	13	—
Ending balance	$ 501	$ 478

Revenues recognized during the three months ended March 31, 2023 for performance obligations satisfied or partially satisfied in previous periods were immaterial.

Remaining Performance Obligations

As of March 31, 2023, the aggregate amount of transaction price allocated to remaining performance obligations was $3,680 million, of which approximately 50% is expected to be recognized as revenues within 2 years and 80% is expected to be recognized as revenues within 5 years. Disclosure is not required for performance obligations that meet any of the following criteria:

(1) contracts with a duration of one year or less as determined under ASC Topic 606: "Revenue from Contracts with Customers",

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

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

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

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

Trade Accounts Receivable and Allowance for Credit Losses

We calculate expected credit losses for trade accounts receivable based on historical credit loss rates for each aging category as adjusted for the current market conditions and forecasts about future economic conditions. The following table presents the activity in the allowance for credit losses for trade accounts receivable for the three months ended March 31:

(in millions)	2023	2022
Beginning balance	$ 43	$ 50
Credit loss expense	4	9
Write-offs charged against the allowance	(11)	(2)
Ending balance	$ 36	$ 57

Note 3 — Business Combinations

Acquisitions completed during the three months ended March 31, 2023 were not individually or in the aggregate material to our operations. Accordingly, pro forma results have not been presented. We have allocated the purchase price related to these transactions to tangible and intangible assets acquired and liabilities assumed, including goodwill, based on their estimated fair values.

During the three months ended March 31, 2023, we acquired 100% ownership in each of the following:

- certain net assets of OneSource Virtual, the professional and application management services business of OneSource Virtual, Inc. and OneSource Virtual (UK) Ltd., a leading provider of Workday services, solutions and products, acquired to complement our existing finance and human resources advisory implementation services related to Workday (acquired January 1, 2023), and
- Mobica, an IoT software engineering services provider, acquired to expand our IoT embedded software engineering capabilities (acquired March 10, 2023).

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

(in millions)	OneSource Virtual	Mobica	Total	Weighted Average Useful Life
Cash	$ —	$ 20	$ 20	
Trade accounts receivable	—	10	10	
Other current assets	4	8	12	
Property and equipment and other assets	1	6	7	
Non-deductible goodwill	18	203	221	
Tax-deductible goodwill	88	—	88	
Customer relationship assets	11	118	129	10.9 years
Current liabilities	(17)	(38)	(55)	
Noncurrent liabilities	(1)	(2)	(3)	
Purchase price	$ 104	$ 325	$ 429	

Goodwill from our acquisition of OneSource Virtual is expected to benefit all of our reportable segments and has been allocated as such. Goodwill from our acquisition of Mobica has been allocated to our Financial Services, Products and Resources and Communications, Media and Technology segments. The primary items that generated goodwill are the value of the acquired assembled workforces and synergies between the acquired companies and us, neither of which qualify as an identifiable intangible asset. The above allocations are preliminary and will be finalized as soon as practicable within the measurement period, but in no event later than one year following the date of acquisition.

Note 4 — Investments

Our investments were as follows:

(in millions)	March 31, 2023	December 31, 2022
Short-term investments:		
Equity investment security	$ 10	$ 10
Available-for-sale investment securities	—	225
Held-to-maturity investment securities	12	24
Time deposits	1	51
Total short-term investments	$ 23	$ 310
Long-term investments:		
Other investments	$ 64	$ 70
Restricted time deposits[1]	360	357
Total long-term investments	$ 424	$ 427

(1) See Note 7.

Equity Investment Security

Our equity investment security is a U.S. dollar denominated investment in a fixed income mutual fund. Realized and unrealized gains and losses were immaterial for the three months ended March 31, 2023 and 2022.

Available-for-Sale Investment Securities

As of March 31, 2023, we had no available-for-sale investment securities. As of December 31, 2022, the amortized cost and fair value of the available-for-sale investments were each $225 million. Our available-for-sale investment securities consisted of highly rated U.S. dollar denominated investments in certificates of deposit and commercial paper maturing within one year. Unrealized losses were immaterial as of December 31, 2022. There were no realized gains or losses related to the available-for-sale investment securities during the three months ended March 31, 2023 and 2022. There were no sales of available-for sale investment securities during the three months ended March 31, 2023 and 2022.

Held-to-Maturity Investment Securities

Our held-to-maturity investment securities consist of Indian rupee denominated investments in commercial paper and international corporate bonds. The basis for the measurement of fair value of the held-to-maturity investment securities is Level 2 in the fair value hierarchy.

The amortized cost and fair value of corporate debt securities as of March 31, 2023 and December 31, 2022 were each $6 million and $12 million, respectively. The amortized cost and fair value of commercial paper securities as of March 31, 2023 and December 31, 2022 were each $6 million and $12 million, respectively.

As of March 31, 2023, $6 million of corporate debt securities and $6 million of commercial paper were in an unrealized loss position. The total unrealized loss was less than $1 million and none of the securities had been in an unrealized loss position for longer than 12 months. As of December 31, 2022, $12 million of corporate debt securities and $12 million of commercial paper were in an unrealized loss position. The total unrealized loss was less than $1 million and none of the securities had been in an unrealized loss position for longer than 12 months.

The securities in our portfolio are highly rated and short-term in nature. As of March 31, 2023, the corporate debt securities were rated AA+ or better and the commercial paper securities were rated A-1+ by CRISIL, an Indian subsidiary of S&P Global, or ICRA, the Indian affiliate of Moody's.

Other Investments

As of March 31, 2023 and December 31, 2022, we had equity method investments of $62 million and $68 million, respectively, primarily related to an investment in the technology sector. As of each of March 31, 2023 and December 31, 2022, we had equity securities without a readily determinable fair value of $2 million.

Note 5 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

(in millions)	March 31, 2023	December 31, 2022
Compensation and benefits	$ 1,206	$ 1,446
Customer volume and other incentives	251	222
Income taxes	348	217
Professional fees	154	165
Other	372	357
Total accrued expenses and other current liabilities	$ 2,331	$ 2,407

Note 6 — Debt

In 2022, we entered into the Credit Agreement providing for the $650 million Term Loan and a $1,850 million unsecured revolving credit facility, which are each due to mature in October 2027. We are required under the Credit Agreement to make scheduled quarterly principal payments on the Term Loan beginning in December 2023.

The Credit Agreement requires interest to be paid, at our option, at either the Term Benchmark, Adjusted Daily Simple RFR or the ABR Rate (each as defined in the Credit Agreement), plus, in each case, an Applicable Margin (as defined in the Credit Agreement). Initially, the Applicable Margin is 0.875% with respect to Term Benchmark loans and RFR loans and 0.00% with respect to ABR loans. Subsequently, the Applicable Margin with respect to Term Benchmark loans and RFR loans will be determined quarterly and may range from 0.75% to 1.125%, depending on our public debt ratings or, if we have not received public debt ratings, from 0.875% to 1.125%, depending on our Leverage Ratio, which is the ratio of indebtedness for borrowed money to Consolidated EBITDA, as defined in the Credit Agreement. Initially, the Term Loan is a Term Benchmark loan. The Credit Agreement contains customary affirmative and negative covenants as well as a financial covenant. We were in compliance with all debt covenants and representations of the Credit Agreement as of March 31, 2023.

In March 2023, our India subsidiary renewed its working capital facility at 15 billion Indian rupees ($183 million at the March 31, 2023 exchange rate). The facility requires us to repay any balances within 90 days from the date of disbursement. There is a 1.0% prepayment penalty applicable to payments made within 30 days of disbursement. This working capital facility contains affirmative and negative covenants and may be renewed annually. As of March 31, 2023, we have not borrowed funds under this facility or any of its predecessor facilities.

Short-term Debt

As of March 31, 2023 and December 31, 2022, we had $16 million and $8 million, respectively of short-term debt related to current maturities of our Term Loan.

Long-term Debt

The following table summarizes the long-term debt balances as of:

(in millions)	March 31, 2023	December 31, 2022
Term Loan	$ 650	$ 650
Less:		
Current maturities	(16)	(8)
Unamortized deferred financing costs	(4)	(4)
Long-term debt, net of current maturities	$ 630	$ 638

The carrying value of our debt approximated its fair value as of March 31, 2023 and December 31, 2022.

Note 7 — Income Taxes

Our effective income tax rates were as follows:

	Three Months Ended March 31,	
	2023	2022
Effective income tax rate	21.4 %	23.3 %

In March 2023, we reached an agreement with the IRS, which effectively settled tax years 2017 and 2018. As a result of this effective settlement, in the first quarter of 2023, we recorded a reduction of $42 million to our uncertain tax position balance, which resulted in a $25 million discrete benefit to the provision for income taxes and a $17 million adjustment to our current income tax balance sheet accounts. The effective tax rate for the three months ended March 31, 2023 decreased primarily as a result of this discrete benefit. Tax years that remain subject to examination by the IRS are 2019 onward.

We are involved in two separate ongoing disputes with the ITD in connection with previously disclosed share repurchase transactions undertaken by CTS India in 2013 and 2016 to repurchase shares from its shareholders (non-Indian Cognizant entities) valued at $523 million and $2.8 billion, respectively.

The 2016 transaction was undertaken pursuant to a plan approved by the High Court in Chennai, India, and resulted in the payment of $135 million in Indian income taxes - an amount we believe includes all the applicable taxes owed for this transaction under Indian law. In March 2018, the ITD asserted that it is owed an additional 33 billion Indian rupees ($402 million at the March 31, 2023 exchange rate) on the 2016 transaction. We deposited 5 billion Indian rupees, representing 15% of the disputed tax amount related to the 2016 transaction, with the ITD. As of each of March 31, 2023 and December 31, 2022, the deposit with the ITD was $60 million, presented in "Other noncurrent assets". Additionally, certain time deposits of CTS India were placed under lien in favor of the ITD, representing the remainder of the disputed tax amount. As of March 31, 2023 and December 31, 2022, the balance of deposits under lien was 30 billion Indian rupees, including previously earned interest, or $360 million and $357 million, respectively, as presented in "Long-term investments". The dispute in relation to the 2013 share repurchase transaction is also in litigation. At this time, the ITD has not made specific demands with regards to the 2013 transaction.

In April 2020, we received a formal assessment from the ITD on the 2016 transaction, which is consistent with the ITD's previous assertions. In June 2020, we filed an appeal against this assessment to the CITA. In March 2022, we received a negative decision from the CITA. The matter is currently pending before the Income Tax Appellate Tribunal.

We continue to believe we have paid all applicable taxes owed on both the 2016 and the 2013 transactions and we continue to defend our positions with respect to both matters. Accordingly, we have not recorded any reserves for these matters as of March 31, 2023.

Note 8 — Derivative Financial Instruments

In the normal course of business, we use foreign exchange forward and option contracts to manage foreign currency exchange rate risk. Derivatives may give rise to credit risk from the possible non-performance by counterparties. Credit risk is limited to the fair value of those contracts that are favorable to us. We have limited our credit risk by limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which we do business. In addition, all the assets and liabilities related to the foreign exchange derivative contracts set forth in the below table are subject to master netting arrangements, such as the International Swaps and Derivatives Association Master Agreement, with each individual counterparty. These master netting arrangements generally provide for net settlement of all outstanding contracts with the counterparty in the case of an event of default or a termination event. We have presented all the assets and liabilities related to the foreign exchange derivative contracts, as applicable, on a gross basis, with no offsets, in our unaudited consolidated statements of financial position. There is no financial collateral (including cash collateral) posted or received by us related to the foreign exchange derivative contracts.

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

(in millions)		March 31, 2023		December 31, 2022	
Designation of Derivatives	Location on Statement of Financial Position	Assets	Liabilities	Assets	Liabilities
Foreign exchange forward and option contracts – Designated as cash flow hedging instruments	Other current assets	$ 5	$ —	$ 1	$ —
	Other noncurrent assets	3	—	1	—
	Accrued expenses and other current liabilities	—	26	—	53
	Other noncurrent liabilities	—	5	—	17
	Total	8	31	2	70
Foreign exchange forward contracts – Not designated as hedging instruments	Other current assets	2	—	4	—
	Accrued expenses and other current liabilities	—	10	—	5
	Total	2	10	4	5
Total		$ 10	$ 41	$ 6	$ 75

Cash Flow Hedges

We have entered into a series of foreign exchange derivative contracts that are designated as cash flow hedges of Indian rupee denominated payments in India. These contracts are intended to partially offset the impact of movement of the Indian rupee against the U.S. dollar on future operating costs and are scheduled to mature each month during the remainder of 2023, 2024 and the first three months of 2025. The changes in fair value of these contracts are initially reported in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of financial position and are subsequently reclassified to earnings within "Cost of revenues" and "Selling, general and administrative expenses" in our unaudited consolidated statements of operations in the same period that the forecasted Indian rupee denominated payments are recorded in earnings. As of March 31, 2023, we estimate that $16 million, net of tax, of net losses related to derivatives designated as cash flow hedges reported in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of financial position is expected to be reclassified into earnings within the next 12 months.

The notional value of the outstanding contracts by year of maturity was as follows:

(in millions)	March 31, 2023	December 31, 2022
2023	$ 1,513	$ 1,865
2024	1,235	1,010
2025	190	—
Total notional value of contracts outstanding (1)	$ 2,938	$ 2,875

(1) Includes $20 million notional value of option contracts as of March 31, 2023, with the remaining notional value related to forward contracts. There were no option contracts outstanding as of December 31, 2022.

The following table provides information on the location and amounts of pre-tax gains and losses on our cash flow hedges for the three months ended March 31:

(in millions)	Change in Derivative Gains and Losses Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion)		Location of Net (Losses) and Gains Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net (Losses) and Gains Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2023	2022		2023	2022
Foreign exchange forward and option contracts – Designated as cash flow hedging instruments	$ 33	$ (10)	Cost of revenues	$ (11)	$ 12
			SG&A expenses	(1)	1
			Total	$ (12)	$ 13

The activity related to the change in net unrealized gains and losses on the cash flow hedges included in "Accumulated other comprehensive income (loss)" in our unaudited consolidated statements of stockholders' equity is presented in Note 10.

Other Derivatives

We use foreign exchange forward contracts to provide an economic hedge against balance sheet exposures to certain monetary assets and liabilities denominated in currencies other than the functional currency of our foreign subsidiaries. We entered into foreign exchange forward contracts that are scheduled to mature in the second quarter of 2023. Realized gains or losses and changes in the estimated fair value of these derivative financial instruments are recorded in the caption "Foreign currency exchange gains (losses), net" in our unaudited consolidated statements of operations.

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

(in millions)	March 31, 2023		December 31, 2022	
	Notional	Fair Value	Notional	Fair Value
Contracts outstanding	$ 1,505	$ (8)	$ 1,433	$ (1)

The following table provides information on the location and amounts of realized and unrealized pre-tax gains and losses on the other derivative financial instruments for the three months ended March 31:

(in millions)	Location of Net (Losses) Gains on Derivative Instruments	Amount of Net (Losses) Gains on Derivative Instruments	
		2023	2022
Foreign exchange forward contracts – Not designated as hedging instruments	Foreign currency exchange gains (losses), net	$ (10)	$ 13

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

Note 9 — Fair Value Measurements

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

The fair value hierarchy consists of the following three levels:

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

The following table summarizes the financial assets and (liabilities) measured at fair value on a recurring basis as of March 31, 2023:

(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 554	$ —	$ —	$ 554
Time deposits	—	604	—	604
Short-term investments:				
Time deposits	—	1	—	1
Equity investment security	10	—	—	10
Other current assets:				
Foreign exchange forward contracts	—	7	—	7
Long-term investments:				
Restricted time deposits[1]	—	360	—	360
Other noncurrent assets				
Foreign exchange forward contracts	—	3	—	3
Accrued expenses and other current liabilities:				
Foreign exchange forward contracts	—	(36)	—	(36)
Contingent consideration liabilities	—	—	(10)	(10)
Other noncurrent liabilities:				
Foreign exchange forward contracts	—	(5)	—	(5)
Contingent consideration liabilities	—	—	(24)	(24)

(1) See Note 7.

The following table summarizes the financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2022:

(in millions)	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 367	$ —	$ —	$ 367
Time deposits	—	359	—	359
Commercial paper	—	512	—	512
Short-term investments:				
Time deposits	—	51	—	51
Equity investment security	10	—	—	10
Available-for-sale investment securities:				
Certificates of deposit and commercial paper	—	225	—	225
Other current assets:				
Foreign exchange forward contracts	—	5	—	5
Long-term investments:				
Restricted time deposits[(1)]	—	357	—	357
Other noncurrent assets:				
Foreign exchange forward contracts	—	1	—	1
Accrued expenses and other current liabilities:				
Foreign exchange forward contracts	—	(58)	—	(58)
Contingent consideration liabilities	—	—	(9)	(9)
Other noncurrent liabilities:				
Foreign exchange forward contracts	—	(17)	—	(17)
Contingent consideration liabilities	—	—	(13)	(13)

(1) See Note 7.

The following table summarizes the changes in Level 3 contingent consideration liabilities for the three months ended:

(in millions)	March 31, 2023	March 31, 2022
Beginning balance	$ 22	$ 35
Initial measurement recognized at acquisition	—	1
Change in fair value recognized in SG&A expenses	12	3
Payments	—	(3)
Ending balance	$ 34	$ 36

We measure the fair value of money market funds based on quoted prices in active markets for identical assets and measure the fair value of our equity investment security based on the published daily net asset value at which investors can freely subscribe to or redeem from the fund. The fair value of certificates of deposit and commercial paper is measured based on relevant trade data, dealer quotes, or model-driven valuations using significant inputs derived from or corroborated by observable market data, such as yield curves and credit spreads. The carrying value of the time deposits approximated fair value as of March 31, 2023 and December 31, 2022.

We estimate the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model calculates the difference between the current market forward price and the contracted forward price for each foreign exchange forward contract and applies the difference in the rates to each outstanding contract. The market forward rates include a discount and credit risk factor. We estimate the fair value of each foreign exchange option contract by using a variant of the Black-Scholes model. This model uses present value techniques and reflects the time value and intrinsic value based on observable market rates.

We estimate the fair value of contingent consideration liabilities associated with acquisitions using a variation of the income approach, which utilizes one or more significant inputs that are unobservable. This approach calculates the fair value of such liabilities based on the probability-weighted expected performance of the acquired entity against the target performance metric, discounted to present value when appropriate.

During the three months ended March 31, 2023 and the year ended December 31, 2022, there were no transfers among Level 1, Level 2 or Level 3 financial assets and liabilities.

Note 10 — Accumulated Other Comprehensive Income (Loss)

Changes in "Accumulated other comprehensive income (loss)" by component were as follows for the three months ended March 31, 2023:

(in millions)	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:			
Beginning balance	$ (256)	$ 8	$ (248)
Change in foreign currency translation adjustments	41	2	43
Ending balance	$ (215)	$ 10	$ (205)
Unrealized gains and losses on cash flow hedges:			
Beginning balance	$ (68)	$ 17	$ (51)
Unrealized gains arising during the period	33	(8)	25
Reclassifications of net loss:			
Cost of revenues	11	(3)	8
SG&A expenses	1	—	1
Net change	45	(11)	34
Ending balance	$ (23)	$ 6	$ (17)
Accumulated other comprehensive income (loss):			
Beginning balance	$ (324)	$ 25	$ (299)
Other comprehensive income (loss)	86	(9)	77
Ending balance	$ (238)	$ 16	$ (222)

Changes in "Accumulated other comprehensive income (loss)" by component were as follows for the three months ended March 31, 2022:

(in millions)	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:			
Beginning balance	$ (22)	$ 2	$ (20)
Change in foreign currency translation adjustments	(38)	1	(37)
Ending balance	$ (60)	$ 3	$ (57)
Unrealized gains and losses on cash flow hedges:			
Beginning balance	$ 71	$ (14)	$ 57
Unrealized (losses) arising during the period	(10)	2	(8)
Reclassifications of net (gains) to:			
Cost of revenues	(12)	2	(10)
SG&A expenses	(1)	—	(1)
Net change	(23)	4	(19)
Ending balance	$ 48	$ (10)	$ 38
Accumulated other comprehensive income (loss):			
Beginning balance	$ 49	$ (12)	$ 37
Other comprehensive income (loss)	(61)	5	(56)
Ending balance	$ (12)	$ (7)	$ (19)

Note 11— Commitments and Contingencies

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

On January 15, 2015, Syntel sued TriZetto and Cognizant in the USDC-SDNY. Syntel's complaint alleged breach of contract against TriZetto, and tortious interference and misappropriation of trade secrets against Cognizant and TriZetto, stemming from Cognizant's hiring of certain former Syntel employees. Cognizant and TriZetto countersued on March 23, 2015, for breach of contract, misappropriation of trade secrets and tortious interference, based on Syntel's misuse of TriZetto confidential information and abandonment of contractual obligations. Cognizant and TriZetto subsequently added federal Defend Trade Secrets Act and copyright infringement claims for Syntel's misuse of TriZetto's proprietary technology. The parties' claims were narrowed by the court and the case was tried before a jury, which on October 27, 2020 returned a verdict in favor of Cognizant in the amount of $855 million, including $570 million in punitive damages. On April 20, 2021, the USDC-SDNY issued a post-trial order that, among other things, affirmed the jury's award of $285 million in actual damages, but reduced the award of punitive damages from $570 million to $285 million, thereby reducing the overall damages award from $855 million to $570 million. The USDC-SDNY subsequently issued a final judgment consistent with the April 20th order. On May 26, 2021, Syntel filed a notice of appeal to the Second Circuit, and on June 3, 2021 the USDC-SDNY stayed execution of judgment pending appeal. We will not record the gain in our financial statements until it becomes realizable.

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

On October 31, 2016, November 15, 2016 and November 18, 2016, three putative shareholder derivative complaints were filed in New Jersey Superior Court, Bergen County, naming us, all of our then current directors and certain of our current and former officers at that time as defendants. These actions were consolidated in an order dated January 24, 2017. The complaints assert claims for breach of fiduciary duty, corporate waste, unjust enrichment, abuse of control, mismanagement, and/or insider selling by defendants. On April 26, 2017, the New Jersey Superior Court deferred further proceedings by dismissing the consolidated putative shareholder derivative litigation without prejudice but permitting the parties to file a motion to vacate the dismissal in the future.

On February 22, 2017, April 7, 2017, May 10, 2017 and March 11, 2019, four additional putative shareholder derivative complaints were filed in the USDC-NJ, naming us and certain of our current and former directors and officers at that time as defendants. These actions were consolidated in an order dated May 14, 2019. On August 3, 2020, lead plaintiffs filed a consolidated amended complaint. The consolidated amended complaint asserts claims similar to those in the previously-filed putative shareholder derivative actions. On February 14, 2022, we and certain of our current and former directors and officers moved to dismiss the consolidated amended complaint. On September 27, 2022, the USDC-NJ granted those motions and dismissed the consolidated amended complaint in its entirety with prejudice. Plaintiffs filed a notice of appeal on October 27, 2022.

On June 1, 2021, an eighth putative shareholder derivative complaint was filed in the USDC-NJ, naming us and certain of our current and former directors and officers at that time as defendants. The complaint asserts claims similar to those in the previously-filed putative shareholder derivative actions. On March 31, 2022, we and certain of our current and former directors and officers moved to dismiss the complaint. On November 30, 2022, the USDC-NJ denied without prejudice those motions. The USDC-NJ ordered the parties to conduct limited discovery related to the issue of whether our board of directors wrongfully refused the plaintiff's earlier litigation demand and, after the conclusion of such limited discovery, to file targeted motions for summary judgment on the issue of wrongful refusal.

We are presently unable to predict the duration, scope or result of the putative shareholder derivative actions. Although the Company continues to defend the putative shareholder derivative actions vigorously, these lawsuits are subject to inherent uncertainties, the actual cost of such litigation will depend upon many unknown factors and the outcome of the litigation is necessarily uncertain.

We have indemnification and expense advancement obligations pursuant to our bylaws and indemnification agreements with respect to certain current and former members of senior management and the Company's board of directors. In connection with the matters that were the subject of our previously disclosed internal investigation, the DOJ and SEC investigations and the related litigation, we have received and expect to continue to receive requests under such indemnification agreements and our bylaws to provide funds for legal fees and other expenses. There are no amounts remaining available to us under applicable insurance policies for our ongoing indemnification and advancement obligations with respect to certain of our current and former officers and directors or incremental legal fees and other expenses related to the above matters.

See Note 7 for information relating to the ITD Dispute.

Many of our engagements involve projects that are critical to the operations of our clients' business and provide benefits that are difficult to quantify. Any failure in a client's systems or our failure to meet our contractual obligations to our clients, including any breach involving a client's confidential information or sensitive data, or our obligations under applicable laws or regulations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering our services, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances or will otherwise protect us from liability for damages. Although we have general liability insurance coverage, including coverage for errors or omissions, we retain a significant portion of risk through our insurance deductibles and there can be no assurance that such coverage will cover all types of claims, continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed or are not covered by our insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations, financial position and cash flows for a particular period.

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

Note 12 — Segment Information

We have seven industry-based operating segments, which are aggregated into four reportable business segments:

- Financial Services, which consists of the banking and insurance operating segments;
- Health Sciences, which consists of a single operating segment of the same name;
- Products and Resources, which consists of the retail and consumer goods; manufacturing, logistics, energy, and utilities; and travel and hospitality operating segments; and
- Communications, Media and Technology, which consists of a single operating segment of the same name.

Our segments are industry-based, and as such, we report revenue from clients in the segment with which our clients are most closely aligned. Our client partners, account executives and client relationship managers are aligned in accordance with the specific industries they serve. Our chief operating decision maker evaluates the Company's performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by the operating segments may affect revenues and operating expenses to differing degrees.

In the first quarter of 2023, we made certain changes to the internal measurement of segment operating profit for the purpose of evaluating segment performance and resource allocation. The primary reason for the change was to reflect a more complete cost of delivery. Specifically, segment operating profit now includes an allocation of both SG&A costs related to our integrated practices and the excess or shortfall of incentive-based compensation for commercial and delivery employees as compared to target, which were previously included in "unallocated costs." We have reported 2023 segment operating profits using the new allocation methodology and have recast the 2022 results to conform to the new methodology.

Corporate expenses, a portion of depreciation and amortization and the impact of the settlements of the cash flow hedges are not allocated to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are excluded from segment operating profit and are included below as “unallocated costs” and adjusted against our total income from operations. Additionally, we do not disclose assets by segment as a significant portion of the assets is used interchangeably among the segments and the chief operating decision maker does not review such information.

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

Segment operating profits by reportable segment were as follows for the three ended March 31:

(in millions)	2023	2022
Financial Services	$ 306	$ 318
Health Sciences	327	296
Products and Resources	215	245
Communications, Media and Technology	158	188
Total segment operating profit	1,006	1,047
Less: unallocated costs	304	323
Income from operations	$ 702	$ 724

Geographic Area Information

Long-lived assets by geographic area are as follows:

	As of	
(in millions)	March 31, 2023	December 31, 2022
Long-lived Assets: (1)		
North America(2)	$ 355	$ 354
Europe	95	86
Rest of World (3)	652	661
Total	$ 1,102	$ 1,101

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

Note 13 — Subsequent Events

Dividend

On May 1, 2023, the Board of Directors approved the Company's declaration of a $0.29 per share dividend with a record date of May 19, 2023 and a payment date of May 30, 2023.

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

Executive Summary

Cognizant is one of the world’s leading professional services companies, engineering modern businesses and delivering strategic outcomes for our clients. We help clients modernize technology, reimagine processes and transform experiences so they can stay ahead in a fast-changing world. We tailor our services and solutions to specific industries with an integrated global delivery model that employs client service and delivery teams based at client locations and dedicated global and regional delivery centers. Our services include digital services and solutions, consulting, application development, systems integration, quality engineering and assurance, application maintenance, infrastructure and security as well as business process services and automation. Digital services continue to be an important part of our portfolio, aligning with our clients' focus on becoming data-enabled, customer-centric and differentiated businesses.

Our services and solutions are organized into integrated practices. In the first quarter of 2023, we added an Industry Solutions Group practice, which leverages our domain expertise to help clients solve problems specific to their industry. This new practice has been added to our four existing practices: Core Technologies and Insights, Enterprise Platform Services, Intuitive Operations and Automation, and Software and Platform Engineering.

Q1 2023 Financial Results

Revenue	Income from Operations	Operating Margin	Diluted EPS
			GAAP Adjusted[1]
1522	1523	1524	1525
Revenue down $14 million or 0.3% from Q1 2022; up 1.5% in constant currency[1]	Income from Operations down $22 million or 3.0% from Q1 2022	Operating margin down 40 bps from Q1 2022	Diluted EPS up $0.07 or 6.5% from Q1 2022 Adjusted Diluted EPS[1] up $0.03 or 2.8% from Q1 2022

During the quarter ended March 31, 2023, revenues decreased by $14 million as compared to the quarter ended March 31, 2022, representing a decline of 0.3%, or growth of 1.5% on a constant currency basis[1]. On a constant currency basis, revenue growth was driven by our Health Sciences and Communications, Media and Technology segments partially offset by a revenue decline in our Financial Services segment, which was negatively impacted by weakness in the banking sector. Our recently completed acquisitions contributed 100 basis points to revenue growth, primarily benefiting our Products and Resources segment.

Operating margin decreased to 14.6% for the quarter ended March 31, 2023 from 15.0% for the quarter ended March 31, 2022. Our 2023 operating margin was negatively impacted by increased compensation costs for our delivery personnel, partially offset by the benefits of both the depreciation of the Indian rupee against the U.S. dollar and pricing actions taken in 2022.

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[1] Adjusted Diluted EPS and constant currency revenue growth are not measures 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.

As a global professional services company, we compete on the basis of the knowledge, experience, insights, skills and talent of our employees and the value they can provide to our clients. Our success is dependent, in large part, on our ability to keep our supply of skilled employees in balance with client demand. We closely monitor attrition trends focusing on the metric that we believe is most relevant to our business. This metric, which we refer to as Voluntary Attrition - Tech Services, includes all voluntary separations with the exception of employees in our Intuitive Operations and Automation practice. For the trailing twelve months ended March 31, 2023 our Voluntary Attrition - Tech Services was 23% as compared to 30% for the trailing twelve months ended March 31, 2022. We finished the first quarter of 2023 with approximately 351,500 employees as compared to 340,400 employees at the end of the first quarter of 2022.

Business Outlook

We continue to expect the long-term focus of our clients to be on their digital transformation into software-driven, data-enabled, customer-centric and differentiated businesses. We believe clients will continue to contend with industry-specific changes driven by evolving digital technologies, uncertainty in the regulatory environment, industry consolidation and convergence as well as international trade policies and other macroeconomic factors, including the increasing uncertainty related to the global economy, which could affect their demand for our services.

In 2023, we simplified our strategic priorities to the following:

- Accelerate growth - achieve faster growth by shifting the mindset and operating rhythm of the company;
- Become the employer of choice - steward and attract the best technology talent in the industry; and
- Simplify operations - improve operational execution and efficiency to free up cash to fund people and growth investments.

Guided by these priorities, in the second quarter of 2023, we initiated the NextGen program aimed at simplifying our operating model, optimizing corporate functions and consolidating and realigning office space to reflect the post-pandemic hybrid work environment. Our drive for simplification will include operating with fewer layers in an effort to enhance agility and enable faster decision making. We expect the savings generated by the program to help fund continued investments in our people, revenue growth opportunities and the modernization of our office space.

In connection with the NextGen program, we expect to record costs of approximately $400 million with approximately $350 million of such costs anticipated in 2023 and approximately $50 million in 2024. This consists of approximately $200 million of employee severance and other costs primarily related to non-billable and corporate personnel, which we expect to mostly incur in 2023, and approximately $200 million of costs related to the consolidation of office space, with approximately $150 million in 2023 and $50 million in 2024. We expect the personnel-related actions of this program to impact approximately 3,500 employees. The estimates of the charges and expenditures that we expect to incur in connection with the NextGen program, and the timing thereof, are subject to a number of assumptions, including local law requirements in various jurisdictions, and actual amounts may differ materially from estimates. In addition, we may incur other charges or cash expenditures not currently contemplated due to unanticipated events that may occur in connection with the NextGen program.

In addition to the NextGen program, potential tax law and other regulatory changes, including possible U.S. corporate income tax reform and potentially increased costs for employment and post-employment benefits in India as a result of the Code on Social Security, 2020, among other items, may impact our future results.

Results of Operations

Three Months Ended March 31, 2023 Compared to Three Months Ended March 31, 2022

The following table sets forth, for the periods indicated, certain financial data for the three months ended March 31:

(Dollars in millions, except per share data)	2023	% of Revenues	2022	% of Revenues	Increase / Decrease $	Increase / Decrease %
Revenues	$ 4,812	100.0	$ 4,826	100.0	$ (14)	(0.3)
Cost of revenues[(a)]	3,143	65.3	3,097	64.2	46	1.5
Selling, general and administrative expenses[(a)]	835	17.4	862	17.9	(27)	(3.1)
Depreciation and amortization expense	132	2.7	143	3.0	(11)	(7.7)
Income from operations	702	14.6	724	15.0	(22)	(3.0)
Other income (expense), net	36		5		31	620.0
Income before provision for income taxes	738	15.3	729	15.1	9	1.2
Provision for income taxes	(158)		(170)		12	(7.1)
Income (loss) from equity method investments	—		4		(4)	(100.0)
Net income	$ 580	12.1	$ 563	11.7	$ 17	3.0
Diluted earnings per share	$ 1.14		$ 1.07		$ 0.07	6.5
Other Financial Information[2]						
Adjusted Diluted EPS	$ 1.11		$ 1.08		$ 0.03	2.8

(a) Exclusive of depreciation and amortization expense.

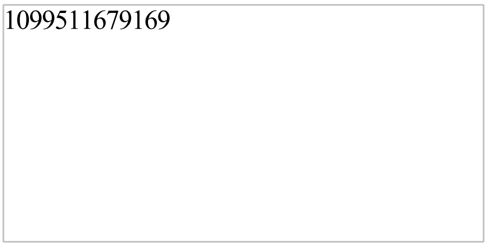
Revenues

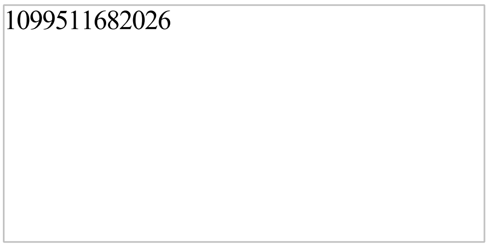
During the quarter ended March 31, 2023, revenues decreased by $14 million as compared to the quarter ended March 31, 2022, representing a decline of 0.3%, or growth of 1.5% on a constant currency basis[2]. Our recently completed acquisitions contributed 100 basis points to revenue growth.

[2]Adjusted Diluted EPS and constant currency revenue growth are not measures 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.

Revenues - Reportable Business Segments and Geographic Markets

Revenues of $4,812 million were as follows for the three months ended March 31, 2023:





Q1 2023 as compared to Q1 2022	**Increase / (Decrease)**		
(Dollars in millions)	**$**	**%**	**CC %[3]**
Financial Services	$ (52)	(3.4)	(1.4)
Health Sciences	41	2.9	3.5
Products and Resources	(12)	(1.1)	1.4
CMT	9	1.2	3.9
Total revenues	$ (14)	(0.3)	1.5

Q1 2023 as compared to Q1 2022	**Increase / (Decrease)**		
(Dollars in millions)	**$**	**%**	**CC %[3]**
North America	$ (24)	(0.7)	(0.5)
United Kingdom	25	5.5	14.4
Continental Europe	2	0.4	5.1
Europe - Total	27	3.0	9.7
Rest of World	(17)	(4.9)	0.9
Total revenues	$ (14)	(0.3)	1.5

Revenues across all of our segments and geographic markets were negatively impacted by foreign currency exchange rate movements. In addition, reduced demand for discretionary work negatively impacted revenues, particularly among banking clients in our Financial Services segment globally, retail and consumer goods clients in our Products and Resources segment in North America and clients in our Communications, Media and Technology segment in North America. Recently completed acquisitions contributed 250 basis points of growth to our Products and Resources segment (primarily in North America) and 190 basis points of growth to our Communications, Media and Technology segment (primarily in the United Kingdom).

In addition:

- Revenue growth in the United Kingdom was driven by the expansion of work with our public sector clients in the Financial Services segment;
- Revenue growth in our Health Sciences segment in North America benefited from increased demand from healthcare payer clients for our integrated software solutions;
- Revenues in the Communications, Media and Technology segment reflected growing demand from our technology clients for services related to digital content, primarily driven by the largest clients in this segment; and
- Constant currency revenue growth in the Continental Europe region was driven by automotive clients within the Products and Resources segment.

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

Cost of Revenues (Exclusive of Depreciation and Amortization Expense)

3545

↑ $46M
↑ 1.1% as a % of revenues
○ % of Revenues

Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, project-related immigration and travel for technical personnel, subcontracting and equipment costs relating to revenues. The increase, as a percentage of revenues, was due to higher compensation costs for delivery personnel (including employees and subcontractors), partially offset by the benefit of the depreciation of the Indian rupee against the U.S. dollar.

SG&A Expenses (Exclusive of Depreciation and Amortization Expense)

SG&A expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, employee benefits, immigration, travel, marketing, communications, management, finance, administrative and occupancy costs. The decrease, as a percentage of revenues, was primarily due to the beneficial impact of foreign currency exchange rate movements and the optimization of non-strategic SG&A expenses, partially offset by higher compensation costs.

4719

↓ $27M
↓ 0.5% as a % of revenues
○ % of Revenues

Depreciation and Amortization Expense

Depreciation and amortization expense decreased by 7.7%, or 0.3% as a percentage of revenues, during the first quarter of 2023 as compared to the first quarter of 2022, primarily driven by a reduction in amortization expense due to certain intangible assets reaching the end of their useful lives.

Operating Margin - Overall

4883

↓ $22 million
↓ 0.4% as a % of revenue
○ % of Revenues

Our 2023 first quarter operating margin was negatively impacted by increased compensation costs for our delivery personnel, partially offset by the benefits of both the depreciation of the Indian rupee against the U.S. dollar and pricing actions taken in 2022.

A predominant portion of our costs in India are denominated in the Indian rupee, representing approximately 23% of our global operating costs during the three months ended March 31, 2023. These costs are subject to foreign currency exchange rate fluctuations, which have an impact on our results of operations. We enter into foreign exchange derivative 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. Net of the impact of the hedges, the depreciation of the Indian rupee contributed 119 basis points to the improvement in our operating margin for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022.

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 171 basis points during the three months ended March 31, 2023. 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 18 basis points (excluding the impact of the hedges). The settlement of our cash flow hedges negatively impacted our operating margin by 25 basis points during the three months ended March 31, 2023, compared to a positive impact of 27 basis points during the three months ended March 31, 2022.

Segment Operating Profit

In the first quarter of 2023, we made certain changes to the internal measurement of segment operating profit for the purpose of evaluating segment performance and resource allocation. The primary reason for the change was to reflect a more complete cost of delivery. Specifically, segment operating profit now includes an allocation of both SG&A costs related to our integrated practices and the excess or shortfall of incentive-based compensation for commercial and delivery employees as compared to target, which were previously included in "unallocated costs." We have reported 2023 segment operating profits using the new allocation methodology and have recast the 2022 results to conform to the new methodology.

Segment operating profit and operating margin percentage were as follows:

7911 7912 7913 7914

Segment operating profit % Segment operating margin

In 2023, segment operating margins across all our segments were negatively impacted by increased compensation costs for our delivery personnel, partially offset by the benefits of both the depreciation of the Indian rupee against the U.S. dollar and pricing actions taken in 2022. In addition, 2023 segment operating margin in:

- Health Sciences benefited from higher margin integrated software solutions for healthcare payer clients;
- Products and Resources was negatively impacted by costs related to recent acquisitions; and
- Communications, Media and Technology was negatively affected by a decrease in utilization due to a slowdown in revenue growth among our largest customers in this segment.

Total segment operating profit and operating margin were as follows for the three months ended March 31:

(Dollars in millions)	2023	% of Revenues	2022	% of Revenues	Increase
Total segment operating profit	$ 1,006	20.9	$ 1,047	21.7	$ (41)
Less: unallocated costs	304		323		(19)
Income from operations	$ 702	14.6	$ 724	15.0	$ (22)

Other Income (Expense), Net

The following table sets forth total other income (expense), net for the three months ended March 31:

(in millions)	2023	2022	Increase/ Decrease
Foreign currency exchange gains (losses)	$ 22	$ (13)	$ 35
(Losses) gains on foreign exchange forward contracts not designated as hedging instruments	(10)	13	(23)
Foreign currency exchange gains (losses), net	12	—	12
Interest income	30	6	24
Interest expense	(9)	(2)	(7)
Other, net	3	1	2
Total other income (expense), net	$ 36	$ 5	$ 31

The foreign currency exchange losses were attributed to the remeasurement of net monetary assets and liabilities denominated in currencies other than the functional currencies of our subsidiaries. The gains on foreign exchange forward contracts not designated as hedging instruments related to the realized and unrealized gains and losses on contracts entered into to offset our foreign currency exposures. As of March 31, 2023, the notional value of our undesignated hedges was $1,505 million. The increase in interest income and interest expense was primarily attributable to higher interest rates in the current period.

Provision for Income Taxes

8985

↓ $12M

○ Effective Income Tax Rate ↓ 1.9%

The effective income tax rate decreased primarily due to the discrete benefit of the effective settlement of the IRS examination for tax years 2017 and 2018 as described in Note 7 to our unaudited consolidated financial statements.

Net Income

The increase in net income was primarily driven by higher interest income and a lower effective tax rate, partially offset by lower income from operations.

9467

↑ $17M

○ ↑ 0.4% of Revenues

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 non-GAAP financial measures to the corresponding GAAP measures set forth below should be carefully evaluated.

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

We believe providing investors with an operating view consistent with how we manage the Company provides enhanced transparency into our operating results. For 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 executive officers and for making comparisons of our operating results to those of our competitors. We believe that the presentation of non-GAAP financial measures, which exclude certain costs, read in conjunction with our reported GAAP results and 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 may exclude costs that are recurring such as 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 non-GAAP financial measures to allow investors to evaluate such non-GAAP financial measures.

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

	2023	2022
GAAP diluted EPS	$ 1.14	$ 1.07
Non-operating foreign currency exchange (gains) losses, pre-tax (1)	(0.02)	—
Tax effect of non-operating foreign currency exchange (gains) losses(2)	(0.01)	0.01
Adjusted Diluted EPS	$ 1.11	$ 1.08

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

(2) Presented below are the tax impacts of our non-GAAP adjustment to pre-tax income:

	Three Months Ended March 31,	
(in millions)	**2023**	**2022**
Non-GAAP income tax benefit (expense) related to:		
Foreign currency exchange gains and losses	5	(6)

The effective tax rate related to non-operating foreign currency exchange gains and losses varies depending on the jurisdictions in which such income and expenses are generated and the statutory rates applicable in those jurisdictions. As such, the income tax effect of non-operating foreign currency exchange gains and losses shown in the above table may not appear proportionate to the net pre-tax foreign currency exchange gains and losses reported in our unaudited consolidated statements of operations.

Liquidity and Capital Resources

Our cash generated from operations has historically been the primary source of liquidity to fund operations and investments to grow our business. As of March 31, 2023, we had cash, cash equivalents and short-term investments of $2,481 million and available capacity under our credit facilities of approximately $2,000 million.

The following table provides a summary of cash flows for the three months ended March 31:

(in millions)	**2023**	**2022**	**Increase / Decrease**
Net cash provided by (used in):			
Operating activities	$ 729	$ 306	$ 423
Investing activities	(215)	700	(915)
Financing activities	(350)	(600)	250

Operating activities

The increase in cash provided by operating activities for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022 was primarily driven by improved collections of our trade accounts receivable.

We monitor turnover, aging and the collection of accounts receivable by client. Our DSO calculation includes receivables, net of allowance for doubtful accounts, and contract assets, reduced by the uncollected portion of deferred revenue. Our DSO was 73 days as of March 31, 2023, a decrease of 1 day from 74 days as of December 31, 2022. Our DSO was 72 days as of March 31, 2022, an increase of 3 days from 69 days as of December 31, 2021.

Investing activities

Cash used in investing activities for the three months ended March 31, 2023 was driven by payments for business combinations partially offset by net maturities of investments. Cash provided by investing activities for the three months ended March 31, 2022 was primarily driven by net maturities of investments.

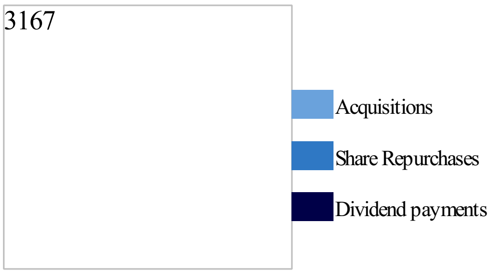
Financing activities

The decrease in cash used in financing activities for the three months ended March 31, 2023 as compared to the three months ended March 31, 2022 was primarily driven by lower repurchases of common stock.

The Credit Agreement provides for a $650 million Term Loan and a $1,850 million unsecured revolving credit facility, which are each due to mature in October 2027. We are required under the Credit Agreement to make scheduled quarterly principal payments on the Term Loan beginning in December 2023. As of March 31, 2023, we had no outstanding balance on the revolving credit facility. See Note 6 to our unaudited consolidated financial statements.

In March 2023, our India subsidiary renewed its working capital facility at 15 billion Indian rupee ($183 million at the March 31, 2023 exchange rate). This facility requires us to repay any balances drawn down within 90 days from the date of disbursement. There is a 1.0% prepayment penalty applicable to payments made within 30 days after disbursement. This working capital facility contains affirmative and negative covenants and may be renewed annually. As of March 31, 2023, we have not borrowed funds under this facility or any of its predecessor facilities.

Capital Allocation



We review our capital allocation on an ongoing 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 ongoing liquidity assessments, we regularly monitor the mix of domestic and international cash flows and cash balances. We evaluate on an ongoing basis what portion of the non-U.S. cash, cash equivalents and short-term investments is needed locally to execute our strategic plans and what amount is available for repatriation back to the United States.

We expect operating cash flows, cash and short-term investment balances, together with the available capacity under our revolving credit facilities, to be sufficient to meet our operating requirements, including purchase commitments, making Tax Reform Act transition tax payments and servicing our debt for the next twelve months. The ability to expand and grow our business in accordance with current plans, make acquisitions, meet 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 cash flow increases, our ability and willingness to pay for acquisitions with capital stock and the availability of public and private debt, including the ability to extend the maturity or refinance our existing debt, and equity financing. We cannot be certain that additional financing, if required, will be available on terms and conditions acceptable to us, if at all.

Commitments and Contingencies

See Note 11 to our unaudited consolidated financial statements.

Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our unaudited consolidated financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, we evaluate our estimates. The most significant estimates relate to the recognition of revenue and profits, including the application of the cost-to-cost method of measuring progress to completion for certain fixed-price contracts, income taxes, business combinations and valuation of goodwill and other long-lived assets. We base our estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual amounts may differ from the estimates used in the preparation of the accompanying unaudited consolidated financial statements. For a discussion of our critical accounting estimates, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2022. Our significant accounting policies are described in Note 1 to the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Recently Adopted and New Accounting Pronouncements

There have been no changes in the information provided regarding recently adopted and new accounting pronouncements in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on February 15, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our chief executive officer and our chief financial officer, evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2023. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of March 31, 2023, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 11 to our unaudited consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on February 15, 2023, except as follows:

Our NextGen program and the associated reductions in headcount and consolidation of office space could disrupt our business, may not result in anticipated savings, and could result in total costs and expenses that are greater than expected.

Guided by our strategic priorities, in the second quarter of 2023 we initiated the Nextgen program aimed at simplifying our operating model, optimizing corporate functions and consolidating and realigning office space to reflect the post-pandemic hybrid work environment. Our drive for simplification will include operating with fewer layers in an effort to enhance agility and enable faster decision making. In connection with the NextGen program, we announced that we expect to record total costs or approximately $400 million consisting of approximately $200 million of employee severance and other personnel costs and $200 million of costs related to the consolidation of office space. The NextGen program may result in the loss of institutional knowledge and expertise, as well as the reallocation of certain roles and responsibilities across the Company, all of which could adversely affect our operations. Such effects from our NextGen program could have a material adverse effect on our ability to execute on our business plan. There can be no assurance that we will be successful in implementing our NextGen program, which may be disruptive to our operations, or may cause difficulties in the retention of our remaining employees or reduced productivity among remaining employees. In addition, we may not realize, in full or in part, the anticipated benefits, savings and improvements in our cost structure from the NextGen program due to unforeseen difficulties, delays or unexpected costs. If the actual amount and timing of costs differ from our current expectations and estimates or we are unable to realize the expected operational efficiencies and cost savings from the NextGen program, our operating results and financial condition would be adversely affected. Furthermore, we may incur unanticipated charges or be required to make cash payments as a result of our NextGen program that were not previously contemplated, which could result in an adverse effect on our business or results of operations.

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

Issuer Purchases of Equity Securities

Our stock repurchase program allows for the repurchase of up to $11.5 billion, excluding fees and expenses, of our Class A common stock through open market purchases, including under a 10b5-1 Plan or in private transactions, including through ASR agreements entered into with financial institutions, in accordance with applicable federal securities laws. The repurchase program does not have an expiration date and had a remaining authorized balance of $2,575 million as of March 31, 2023. The timing of repurchases and the exact number of shares to be purchased are determined by management, in its discretion, or pursuant to a 10b5-1 Plan, and will depend upon market conditions and other factors.

During the three months ended March 31, 2023, we repurchased $200 million of our Class A common stock under our stock repurchase program. The stock repurchase activity under our stock repurchase program during the three months ended March 31, 2023 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)
January 1, 2023 - January 31, 2023	—	$ —	—	$ 2,775
February 1, 2023 - February 28, 2023	1,518,589	65.85	1,518,589	2,675
March 1, 2023 - March 31, 2023	1,676,815	59.64	1,676,815	2,575
Total	3,195,404	$ 62.59	3,195,404	

The aggregate purchase price and weighted average price per share does not include the excise tax on net stock repurchases incurred as part of the recently enacted Inflation Reduction Act. The excise tax was immaterial for the three months ended March 31, 2023.

During the three months ended March 31, 2023, we also purchased shares in connection with our stock-based compensation plans, whereby shares of our common stock were tendered by employees for payment of applicable statutory tax withholdings. For the three months ended March 31, 2023, such repurchases totaled 0.4 million shares at an aggregate cost of $22 million.

Item 5. Other Information

On May 3, 2023, we committed to the NextGen program described in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary -- Business Outlook ("Business Outlook"). The NextGen program is intended to simplify our operating model, optimize corporate functions and consolidate and realign office space to reflect the post-pandemic hybrid work environment. Our drive for simplification will include operating with fewer layers in an effort to enhance agility and enable faster decision making. We expect the personnel-related actions of this program to impact approximately 3,500 employees and that the savings generated by the program will help fund continued investments in our people, revenue growth opportunities and the modernization of our office space. Decisions regarding the elimination of positions are subject to local law and consultation requirements in certain countries, as well as our business needs. The total restructuring charges expected in connection with these plans are described and the anticipated timing of such costs, are described under Business Outlook.

Item 6. Exhibit Index

EXHIBIT INDEX

Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File No.	Exhibit	Date	
3.1	Restated Certificate of Incorporation, dated June 5, 2018	8-K	000-24429	3.1	6/7/2018	
3.2	Amended and Restated Bylaws, as adopted on September 14, 2018	8-K	000-24429	3.1	9/20/2018	
10.1	2022 Form of Executive Employment and Non-Disclosure, Non-Competition and Invention Assignment Agreement, between the Company and the following current Executive Officers: Surya Gummadi	10-Q	000-24429	10.1	7/28/2022	
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					Filed
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					Filed
32.1	Certification of principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350					Furnished
32.2	Certification of principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. 1350					Furnished
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					Filed
101.SCH	Inline XBRL Taxonomy Extension Schema Document					Filed
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					Filed
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					Filed
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					Filed
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					Filed
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					Filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cognizant Technology Solutions Corporation

Date:	May 3, 2023	By:	/s/ RAVI KUMAR S Ravi Kumar S, Chief Executive Officer (Principal Executive Officer)
Date:	May 3, 2023	By:	/s/ JAN SIEGMUND Jan Siegmund, Chief Financial Officer (Principal Financial Officer)