

COGNIZANT TECHNOLOGY SOLUTIONS CORP
Form 10-Q
May 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly
Report
pursuant to
Section 13 or
15(d) of the
Securities
Exchange
Act of 1934
For the
quarterly
period ended
March 31,
2018
Transition
Report
pursuant to
Section 13 or
15(d) of the
Securities
Exchange
Act of 1934
For the
transition
period from

to

Commission File Number 0-24429

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

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

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of April 30, 2018:

Class	Number of Shares
Class A Common Stock, par value \$.01 per share	585,898,903

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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, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,440	\$ 1,925
Short-term investments	3,390	3,131
Trade accounts receivable, net of allowances of \$66 and \$65, respectively	3,145	2,865
Unbilled accounts receivable	—	357
Restricted cash	159	—
Other current assets	856	833
Total current assets	8,990	9,111
Property and equipment, net	1,333	1,324
Goodwill	2,713	2,704
Intangible assets, net	955	981
Deferred income tax assets, net	394	418
Long-term investments	83	235
Other noncurrent assets	577	448
Total assets	\$ 15,045	\$ 15,221
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 293	\$ 210
Deferred revenue	360	383
Short-term debt	100	175
Accrued expenses and other current liabilities	1,716	2,071
Total current liabilities	2,469	2,839
Deferred revenue, noncurrent	70	104
Deferred income tax liabilities, net	113	146
Long-term debt	673	698
Long-term income taxes payable	533	584
	199	181

Other noncurrent liabilities			
Total liabilities	4,057		4,552
Commitments and contingencies (See <u>Note 11</u>)			
Stockholders' equity:			
Preferred stock, \$0.10 par value, 15.0 shares authorized, none issued	—		—
Class A common stock, \$0.01 par value, 1,000 shares authorized, 586 and 588 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively			6
Additional paid-in capital	63		49
Retained earnings	10,856		10,544
Accumulated other comprehensive income (loss)	63		70
Total stockholders' equity	10,988		10,669
Total liabilities and stockholders' equity	\$ 15,045		\$ 15,221

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions, except per share data)

	Three Months Ended March 31,	
	2018	2017
Revenues	\$3,912	\$3,546
Operating expenses:		
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	2,401	2,194
Selling, general and administrative expenses	711	686
Depreciation and amortization expense	107	96
Income from operations	693	570
Other income (expense), net:		
Interest income	41	32
Interest expense	(6	) (6
Foreign currency exchange gains (losses), net	(31	) 52
Other, net	—	1
Total other income (expense), net	4	79
Income before provision for income taxes	697	649
Provision for income taxes	(177	) (92
Income from equity method investments	—	—
Net income	\$520	\$557
Basic earnings per share	\$0.89	\$0.92
Diluted earnings per share	\$0.88	\$0.92
Weighted average number of common shares outstanding - Basic	587	605
Dilutive effect of shares issuable under stock-based compensation plans	2	2
Weighted average number of common shares outstanding - Diluted	589	607
Dividends declared per common share	\$0.20	\$—

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

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

	Three Months Ended March 31,	
	2018	2017
Net income	\$520	\$557
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	37	17
Change in unrealized gains and losses on cash flow hedges, net of taxes	(36)	79
Change in unrealized gains and losses on available-for-sale securities, net of taxes	(7)	1
Other comprehensive income (loss)	(6)	97
Comprehensive income	\$514	\$654

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(in millions)

	Class A Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount	Additional Paid-in Capital				
Balance, December 31, 2017	588	\$ 6	\$ 49	\$10,544	\$ 70		\$10,669
Cumulative effect of changes in accounting principle ⁽¹⁾	—	—	—	122	(1	)	121
Net income	—	—	—	520	—		520
Other comprehensive income (loss)	—	—	—	—	(6	)	(6
Common stock issued, stock-based compensation plans	2	—	60	—	—		60
Stock-based compensation expense	—	—	59	—	—		59
Repurchases of common stock	(4	)	(105	)	(211	)	(316
Dividends	—	—	—	(119	)		(119
Balance, March 31, 2018	586	\$ 6	\$ 63	\$10,856	\$ 63		\$10,988

	Class A Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount	Additional Paid-in Capital				
Balance, December 31, 2016	608	\$ 6	\$ 358	\$10,478	\$ (114	)	\$10,728
Net income	—	—	—	557	—		557
Other comprehensive income (loss)	—	—	—	—	97		97
Common stock issued, stock-based compensation plans	3	—	61	—	—		61
Stock-based compensation expense	—	—	54	—	—		54
Repurchases of common stock	(22	)	(414	)	(1,100	)	(1,514
Balance, March 31, 2017	589	\$ 6	\$ 59	\$9,935	\$ (17	)	\$9,983

(1) Reflects the adoption of accounting standards as described in Note 1.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$520	\$557
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117	104
Provision for doubtful accounts	2	9
Deferred income taxes	2	9
Stock-based compensation expense	59	54
Other	23	(55)
Changes in assets and liabilities:		
Trade accounts receivable	(273)	(86)
Other current assets	352	20
Other noncurrent assets	(105)	(31)
Accounts payable	86	13
Deferred revenues, current and noncurrent	(2)	67
Other current and noncurrent liabilities	(393)	(384)
Net cash provided by operating activities	388	277
Cash flows from investing activities:		
Purchases of property and equipment	(96)	(66)
Purchases of available-for-sale investment securities	(300)	(1,176)
Proceeds from maturity or sale of available-for-sale investment securities	193	1,488
Purchases of held-to-maturity investment securities	(222)	(349)
Proceeds from maturity of held-to-maturity investment securities	171	15
Purchases of other investments	(31)	(59)
Proceeds from maturity or sale of other investments	59	244
Payments for business combinations, net of cash acquired	(1)	(6)
Net cash (used in) provided by investing activities	(227)	91
Cash flows from financing activities:		
Issuance of common stock under stock-based compensation plans	60	61
Repurchases of common stock	(316)	(1,514)
Repayment of term loan borrowings and capital lease obligations	(39)	(21)
Net change in notes outstanding under the revolving credit facility	(75)	350
Dividends paid	(118)	—
Net cash (used in) financing activities	(488)	(1,124)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1	30
(Decrease) in cash, cash equivalents and restricted cash	(326)	(726)
Cash and cash equivalents, beginning of year	1,925	2,034
Cash, cash equivalents and restricted cash, end of period	\$1,599	\$1,308

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

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

Note 1 —
 Interim
 Consolidated
 Financial
 Statements

The terms “Cognizant,” “we,” “our,” “us” and “the Company” refer to Cognizant Technology Solutions Corporation and its subsidiaries unless the context indicates otherwise. We have prepared the accompanying unaudited consolidated financial statements included herein in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, and Regulation S-X under the Securities Exchange Act of 1934, as amended, or 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, 2017. In our opinion, all adjustments considered necessary for a fair statement of the accompanying unaudited consolidated financial statements have been included and all adjustments are of a normal and recurring nature. Operating results for the interim periods are not necessarily indicative of results that may be expected to occur for the entire year.

Recently Adopted Accounting Pronouncements

Date Issued and Topic	Date Adopted and Method	Description	Impact
May 2014 Revenue	January 1, 2018 Modified Retrospective	The new standard, as amended, sets forth a single comprehensive model for recognizing and reporting revenues. The standard also requires additional financial statement disclosures that enable users to understand the nature, amount, timing and uncertainty of revenues and cash flows relating to customer contracts. The standard allows for two methods of adoption: the full retrospective adoption, which requires the standard to be applied to each prior period presented, or the modified retrospective adoption, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption.	See Note 3 for the impact of the adoption of this standard.
November 2016 Statement of Cash Flows	January 1, 2018 Retrospective	This update requires restricted cash to be included with cash and cash equivalents when reconciling the beginning and ending amounts on the statement of cash flows. It also requires a reconciliation of such totals to the amounts on the statement of financial position and disclosure as to the nature of the restrictions.	As of March 31, 2018, we had a restricted cash balance of \$159 million. There were no restricted cash balances in prior periods. Accordingly, the adoption of this update resulted in an increase to the ending cash, cash equivalents and restricted cash balance presented on our unaudited consolidated statement of cash flows for the three months ended

February 2018	January 1, 2018	This update provides an option for entities to reclassify stranded tax effects caused by the newly-enacted Tax Cuts and Jobs Act, or Tax Reform Act, from accumulated other comprehensive income to retained earnings.	March 31, 2018. We have early adopted this update as of January 1, 2018. The adoption resulted in a decrease of \$1 million in accumulated other comprehensive income and a corresponding increase of \$1 million to opening retained earnings.
Income Statement - Reporting Comprehensive Income	In the period of adoption		

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New Accounting Pronouncements

Date Issued and Topic	Effective Date	Description	Impact
February 2016 Leases	January 1, 2019	The new standard replaces the existing guidance on leases and requires the lessee to recognize a right-of-use asset and a lease liability for all leases with lease terms equal to or greater than twelve months. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize total lease expense on a straight-line basis. The methods of adoption are in the process of being finalized by the Financial Accounting Standards Board.	We expect the requirement to recognize a right-of-use asset and a lease liability for operating leases to have a material impact on the presentation of our consolidated statements of financial position. We are currently evaluating the effect the amendments will have on our consolidated financial statements and related disclosures.
March 2017 Nonrefundable Fees and Other Costs	January 1, 2019	This update shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount. Upon adoption, entities will be required to use a modified retrospective transition with the cumulative effect adjustment recognized to retained earnings as of the beginning of the period of adoption.	
Note 2 — Internal Investigation and Related Matters			

We are conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the U.S. Foreign Corrupt Practices Act, or FCPA, and other applicable laws. The investigation is also examining various other payments made in small amounts in India that may not have complied with Company policy or applicable law. In September 2016, we voluntarily notified the U.S. Department of Justice, or DOJ, and Securities and Exchange Commission, or SEC, and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel. To date, the investigation has identified a total of approximately \$6 million in payments made between 2009 and 2016 that may have been improper. During the year ended December 31, 2016, we recorded out-of-period corrections related to \$4 million of such payments that had been previously capitalized that should have been expensed. These out-of-period corrections and the other \$2 million in potentially improper payments were not material to any previously issued financial statements. There were no adjustments recorded during 2018 and 2017 related to the amounts under investigation.

Note 3 —
Revenues

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, we adopted ASC Topic 606, “Revenue from Contracts with Customers,” or the New Revenue Standard, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018.

Results for reporting periods beginning after January 1, 2018 are presented under the New Revenue Standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting policies. For contracts that were modified before the effective date, the Company aggregated the effect of all contract modifications prior to identifying performance obligations and allocating transaction price in accordance with the practical expedient ASC 606-10-65-1-(f)-4. Upon adoption of the New Revenue Standard on January 1, 2018, we recorded a net increase to opening retained earnings of approximately \$121 million, after a tax impact of \$37 million. The impact of adoption primarily relates to (1) changes in the method used to measure progress on our fixed-price application maintenance, consulting and business process services contracts, (2) the longer period of amortization for costs to fulfill a contract, (3) the timing of revenue recognition and allocation of purchase price on our software license contracts, (4) the reclassification of balances representing receivables, as defined by the New Revenue Standard, from Unbilled accounts receivable to Trade accounts receivable, net, (5) the reclassification of balances representing contract assets, as defined by the New Revenue Standard, from Unbilled accounts receivable to Other current assets, as well as (6) the income tax impact of the above items, as applicable.

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The following tables compare the financial statement line items materially affected by the adoption of the New Revenue Standard as of and for the three months ended March 31, 2018, to the pro-forma amounts had the previous guidance been in effect, or Pro-forma Amounts:

	March 31, 2018		
	As Reported	Pro-forma Amounts	Impacts of the New Revenue Standard
	(in millions)		
Assets:			
Trade accounts receivable, net ^{(1), (2)}	\$3,145	\$ 3,015	\$ 130
Unbilled accounts receivable ^{(1), (3)}	—	412	(412)
Other current assets ^{(2), (3)}	856	549	307
Total current assets			25
Other noncurrent assets ⁽⁴⁾	577	533	44
Total assets			\$ 69
Liabilities:			
Deferred revenue ⁽²⁾	\$360	\$ 471	\$ (111)
Total current liabilities			(111)
Deferred revenue, noncurrent ⁽²⁾	70	79	(9)
Deferred income tax liabilities, net ⁽⁵⁾	113	70	43
Total liabilities			(77)
Stockholders' equity:			
Retained earnings	10,856	10,712	144
Accumulated other comprehensive income (loss) ⁽⁶⁾	63	61	2
Total stockholders' equity			146
Total liabilities and stockholders' equity			\$ 69

	Three Months Ended March 31, 2018		
	As Reported	Pro-forma Amounts	Impacts of the New Revenue Standard
	(in millions)		
Revenues ⁽²⁾	\$3,912	\$ 3,891	\$ 21
Cost of revenues ⁽⁴⁾	2,401	2,409	(8)
Selling, general and administrative expenses	711	711	—
Depreciation and amortization expense	107	107	—
Income from operations	693	664	29
Other income (expense), net	4	4	—
Income before provision for income taxes ⁽⁵⁾	697	668	29
Provision for income taxes	(177)	(171)	(6)
Net income	\$520	\$ 497	\$ 23
Basic earnings per share	\$0.89	\$ 0.85	\$ 0.04
Diluted earnings per share	\$0.88	\$ 0.84	\$ 0.04

(1)

Reflects the reclassification of balances representing receivables, as defined by the New Revenue Standard, from Unbilled accounts receivable to Trade accounts receivable, net.

Reflects the impact of changes in the method used to measure progress on our fixed-price application maintenance, consulting and business process services contracts and the timing of revenue recognition and allocation of purchase price on our software license contracts.

(3) Reflects the reclassification of balances representing contract assets, as defined by the New Revenue Standard, from Unbilled accounts receivable to Other current assets.

(4) Reflects the impact of a longer period of amortization for costs to fulfill a contract.

(5) Reflects the income tax impact of the above items.

(6) Reflects the impact of foreign currency translation related to the above impacts.

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Revenue Recognition

We recognize revenues as we transfer control of deliverables (products, solutions and services) to our customers in an amount reflecting the consideration to which we expect to be entitled. To recognize revenues, we apply the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. We account for a contract when it has approval and commitment from all parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience.

We may enter into arrangements that consist of multiple performance obligations. Such arrangements may include any combination of our deliverables. To the extent a contract includes multiple promised deliverables, we apply judgment to determine whether promised deliverables are capable of being distinct and are distinct in the context of the contract. If these criteria are not met, the promised deliverables are accounted for as a combined performance obligation. For arrangements with multiple distinct performance obligations, we allocate consideration among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which we would sell a promised good or service separately to the customer. When not directly observable, we typically estimate standalone selling price by using the expected cost plus a margin approach. We typically establish a standalone selling price range for our deliverables, which is reassessed on a periodic basis or when facts and circumstances change.

For performance obligations where control is transferred over time, revenues are recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the deliverables to be provided. Revenues related to fixed-price contracts for application development and systems integration services, consulting or other technology services are recognized as the service is performed using the cost to cost method, under which the total value of revenues is recognized on the basis of the percentage that each contract's total labor cost to date bears to the total expected labor costs. Revenues related to fixed-price application maintenance, testing and business process services are recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered, in accordance with the practical expedient in ASC 606-10-55-18. If our invoicing is not consistent with value delivered, revenues are recognized as the service is performed based on the cost to cost method described above. The cost to cost method requires estimation of future costs, which is updated as the project progresses to reflect the latest available information; such estimates and changes in estimates involve the use of judgment. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the change in estimate becomes known and any anticipated losses on contracts are recognized immediately. Revenues related to fixed-price hosting and infrastructure services are recognized based on our right to invoice for services performed for contracts in which the invoicing is representative of the value being delivered, in accordance with the practical expedient in ASC 606-10-55-18. If our invoicing is not consistent with value delivered, revenues are recognized on a straight-line basis unless revenues are earned and obligations are fulfilled in a different pattern. The revenue recognition method applied to the types of contracts described above provides the most faithful depiction of performance towards satisfaction of our performance obligations; for example, the cost to cost method is used when the value of services provided to the customer is best represented by the costs expended to deliver those services.

Revenues related to our non-hosted software license arrangements that do not require significant modification or customization of the underlying software are recognized when the software is delivered as control is transferred at a point in time. For software license arrangements that require significant functionality enhancements or modification of the software, revenues for the software license and related services are recognized as the services are performed in accordance with the methods described above. In software hosting arrangements, the rights provided to the customer,

such as ownership of a license, contract termination provisions and the feasibility of the client to operate the software, are considered in determining whether the arrangement includes a license or a service. Sales and usage-based fees promised in exchange for licenses of intellectual property are not recognized as revenue until the uncertainty related to the variable amounts is resolved. Revenues related to software maintenance and support are generally recognized on a straight-line basis over the contract period.

Revenues related to our time-and-materials, transaction-based or volume-based contracts are recognized over the period the services are provided in a manner that corresponds with the value transferred to the customer to-date relative to the remaining services to be provided.

Revenues also include the reimbursement of out-of-pocket expenses. Our warranties generally provide a customer with assurance that the related deliverable will function as the parties intended because it complies with agreed-upon specifications and is therefore not considered an additional performance obligation in the contract.

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From time to time, we may enter into arrangements with third party suppliers to resell products or services. In such cases, we evaluate whether we are the principal (i.e. report revenues on a gross basis) or agent (i.e. report revenues on a net basis). In doing so, we first evaluate whether we control the good or service before it is transferred to the customer. If we control the good or service before it is transferred to the customer, we are the principal; if not, we are the agent. Determining whether we control the good or service before it is transferred to the customer may require judgment.

Our contracts may be modified to add, remove or change existing performance obligations. The accounting for modifications to our contracts involves assessing whether the services added to an existing contract are distinct and whether the pricing is at the standalone selling price. Services added that are not distinct are accounted for on a cumulative catch up basis, while those that are distinct are accounted for prospectively, either as a separate contract if the additional services are priced at the standalone selling price, or as a termination of the existing contract and creation of a new contract if not priced at the standalone selling price. Services added to our application development and systems integration service contracts are typically not distinct, while services added to our other contracts, including application maintenance, testing and business process services contracts, are typically distinct.

Incentive revenues, volume discounts, or any other form of variable consideration is estimated using either the sum of probability weighted amounts in a range of possible consideration amounts (expected value), or the single most likely amount in a range of possible consideration amounts (most likely amount), depending on which method better predicts the amount of consideration to which we may be entitled. We include in the transaction price variable consideration only to the extent it is probable that a significant reversal of revenues recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price may involve judgment and are based largely on an assessment of our anticipated performance and all information that is reasonably available to us.

We assess the timing of the transfer of goods or services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less. If the difference in timing arises for reasons other than the provision of finance to either the customer or us, no financing component is deemed to exist. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our services, not to receive or provide financing from or to customers. We do not consider set up or transition fees paid upfront by our customers to represent a financing component, as such fees are required to encourage customer commitment to the project and protect us from early termination of the contract.

Costs to Fulfill

Recurring operating costs for contracts with customers are recognized as incurred. Certain eligible, nonrecurring costs incurred in the initial phases of our application maintenance, business process outsourcing and infrastructure services contracts (i.e. set-up or transition costs) are capitalized when such costs (1) relate directly to the contract, (2) generate or enhance resources of the Company that will be used in satisfying the performance obligation in the future, and (3) are expected to be recovered. These costs are expensed ratably over the estimated life of the customer relationship, including expected renewals. In determining the estimated life of the customer relationship, we evaluate the average contract term, on a portfolio basis by nature of the services to be provided, as well as the rate of technological and industry change. Capitalized amounts are monitored regularly for impairment. Impairment losses are recorded when projected remaining undiscounted operating cash flows are not sufficient to recover the carrying amount of the capitalized costs to fulfill.

The following table presents information related to the capitalized costs to fulfill, such as set-up or transition activities, for the three months ended March 31, 2018. Costs to obtain contracts are immaterial for the periods disclosed and were expensed as incurred.

	Costs to Fulfill (in millions)
Balance - January 1, 2018	\$ 303
Amortization expense	(14)
Costs capitalized	39
Other	2
Balance - March 31, 2018	\$ 330

Costs to fulfill are recorded in "Other noncurrent assets" in our consolidated statements of financial position.

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Trade Accounts Receivable and Contract Balances

We classify our right to consideration in exchange for deliverables as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional (i.e. only the passage of time is required before payment is due). For example, we recognize a receivable for revenues related to our time and materials and transaction or volume-based contracts. We present such receivables in Trade accounts receivable, net in our consolidated statements of financial position at their net estimated realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that may not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and other applicable factors.

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

	Contract Assets (in millions)
Balance - January 1, 2018	\$ 306
Revenues recognized during the period but not billed	225
Amounts reclassified to accounts receivable	(225)
Other	1
Balance - March 31, 2018	\$ 307

Our contract liabilities, or deferred revenue, consist of advance payments and billings in excess of revenues recognized. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize the revenues. The noncurrent portion of deferred revenue is included in other noncurrent liabilities in our consolidated statements of financial position.

The table below shows significant movements in the deferred revenue balances (current and noncurrent) for the period disclosed:

	Deferred Revenue (in millions)
Balance - January 1, 2018	\$ 431
Amounts billed but not recognized as revenues	99
Revenues recognized related to the opening balance of deferred revenue	(100)
Balance - March 31, 2018	\$ 430

Our contract assets and liabilities are reported in a net position on a contract by contract basis at the end of each reporting period.

Revenues recognized during the three months ended March 31, 2018 for performance obligations satisfied or partially satisfied in previous periods were immaterial.

Remaining Performance Obligations

ASC 606 requires that we disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of March 31, 2018. This disclosure is not required for:

(1)

- contracts with an original duration of one year or less, including contracts that can be terminated for convenience without a substantive penalty,
- (2) contracts for which we recognize revenues based on the right to invoice for services performed, variable consideration allocated entirely to a wholly unsatisfied performance obligation or to a wholly
 - (3) 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.

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Many of our performance obligations meet one or more of these exemptions. As of March 31, 2018, the aggregate amount of transaction price allocated to remaining performance obligations, other than those meeting the exclusion criteria above, was \$1,752 million, of which approximately 70% is expected to be recognized as revenues within 2 years, and the remainder thereafter.

Disaggregation of Revenues

The table below presents disaggregated revenues from contracts with customers by customer location, service line and contract-type for each of our business segments. We believe this disaggregation best depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by industry, market and other economic factors.

	Three Months Ended March 31, 2018				
	Financial Services	Healthcare	Products and Resources	Communications, Media and Technology	Total
	(in millions)				
Revenues					
Geography:					
North America	\$1,044	\$ 1,023	\$ 572	\$ 336	\$2,975
United Kingdom	116	23	87	84	310
Rest of Europe	162	61	109	42	374
Europe - Total	278	84	196	126	684
Rest of World	139	14	53	47	253
Total	\$1,461	\$ 1,121	\$ 821	\$ 509	\$3,912
Service line:					
Consulting and technology services	\$871	\$ 638	\$ 481	\$ 278	\$2,268
Outsourcing services	590	483	340	231	1,644
Total	\$1,461	\$ 1,121	\$ 821	\$ 509	\$3,912
Type of contract:					
Time and materials	\$935	\$ 448	\$ 369	\$ 306	\$2,058
Fixed-price	471	511	361	179	1,522
Transaction or volume-based	55	162	91	24	332
Total	\$1,461	\$ 1,121	\$ 821	\$ 509	\$3,912

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Note 4 —

Investments

Our investments were as follows:

	March 31, 2018	December 31, 2017
	(in millions)	
Short-term investments:		
Equity investment securities	\$25	\$ 25
Available-for-sale investment securities	2,069	1,972
Held-to-maturity investment securities	943	745
Time deposits ⁽¹⁾	353	389
Total short-term investments	\$3,390	\$ 3,131
Long-term investments:		
Equity and cost method investments	\$77	\$74
Held-to-maturity investment securities	6	161
Total long-term investments	\$83	\$235

(1) Includes \$348 million in restricted time deposits as of March 31, 2018. See [Note 14](#).

Equity Investment Securities

Our equity investment securities consist of a U.S. dollar denominated investment in a fixed income mutual fund. Unrealized losses for the three months ended March 31, 2018 and 2017 were immaterial. The value of the fixed income mutual fund invested in fixed income securities is based on the net asset value, or NAV, of the fund, with appropriate consideration of the liquidity and any restrictions on disposition of our investment in the fund. There were no realized gains or losses on equity securities during the three months ended March 31, 2018 and 2017.

Available-for-Sale Investment Securities

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

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
U.S. Treasury and agency debt securities	\$643	\$	—\$ (9)	\$634
Corporate and other debt securities	448	—	(6)	442
Certificates of deposit and commercial paper	563	—	—	563
Asset-backed securities	305	—	(3)	302
Municipal debt securities	129	—	(1)	128
Total available-for-sale investment securities	\$2,088	\$	—\$ (19)	\$2,069

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The amortized cost, gross unrealized gains and losses and fair value of available-for-sale investment securities at December 31, 2017 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
U.S. Treasury and agency debt securities	\$667	\$	—\$ (6)	\$661
Corporate and other debt securities	439	—	(2)	437
Certificates of deposit and commercial paper	450	—	—	450
Asset-backed securities	297	—	(2)	295
Municipal debt securities	130	—	(1)	129
Total available-for-sale investment securities	\$1,983	\$	—\$ (11)	\$1,972

The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of March 31, 2018:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
U.S. Treasury and agency debt securities	\$517	\$ (7)	\$94	\$ (2)	\$611	\$ (9)
Corporate and other debt securities	331	(5)	111	(1)	442	(6)
Certificates of deposit and commercial paper	399	—	—	—	399	—
Asset-backed securities	214	(2)	85	(1)	299	(3)
Municipal debt securities	107	(1)	16	—	123	(1)
Total	\$1,568	\$ (15)	\$306	\$ (4)	\$1,874	\$ (19)

The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
U.S. Treasury and agency debt securities	\$519	\$ (4)	\$124	\$ (2)	\$643	\$ (6)
Corporate and other debt securities	297	(1)	126	(1)	423	(2)
Certificates of deposit and commercial paper	49	—	—	—	49	—
Asset-backed securities	193	(1)	94	(1)	287	(2)
Municipal debt securities	107	(1)	18	—	125	(1)
Total	\$1,165	\$ (7)	\$362	\$ (4)	\$1,527	\$ (11)

The unrealized losses for the above securities as of March 31, 2018 and December 31, 2017 were primarily attributable to changes in interest rates. At each reporting date, we perform an evaluation of impaired available-for-sale securities to determine if the unrealized losses are other-than-temporary. We do not consider any of the investments to be other-than-temporarily impaired as of March 31, 2018. The gross unrealized gains and losses in the above tables were recorded, net of tax, in "Accumulated other comprehensive income (loss)" in our consolidated statements of financial position.

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The contractual maturities of our fixed income available-for-sale investment securities as of March 31, 2018 are set forth in the following table:

	Amortized Cost	Fair Value
	(in millions)	
Due within one year	\$729	\$728
Due after one year up to two years	500	494
Due after two years up to three years	495	487
Due after three years	59	58
Asset-backed securities	305	302
Total available-for-sale investment securities	\$2,088	\$2,069

Asset-backed securities were excluded from the maturity categories because the actual maturities may differ from the contractual maturities since the underlying receivables may be prepaid without penalties. Further, actual maturities of debt securities may differ from those presented above since certain obligations provide the issuer the right to call or prepay the obligation prior to scheduled maturity without penalty.

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

	Three Months Ended March 31, 2018 2017 (in millions)	
Proceeds from sales of available-for-sale investment securities	\$125	\$1,248
Gross gains	\$—	\$1
Gross losses	(1)	(1)
Net realized (losses) on sales of available-for-sale investment securities	\$(1)	\$—

Held-to-Maturity Investment Securities

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Short-term investments:				
Corporate and other debt securities	\$481	\$—	—\$ (1)	\$480
Commercial paper	462	—	(1)	461
Total short-term held-to-maturity investments	943	—	(2)	941
Long-term investments:				
Corporate and other debt securities	6	—	—	6
Total held-to-maturity investment securities	\$949	\$—	—\$ (2)	\$947

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The amortized cost, gross unrealized gains and losses and fair value of held-to-maturity investment securities at December 31, 2017 were as follows:

	Amortized Cost (in millions)	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
Corporate and other debt securities	\$346	\$	—\$ (1)	\$345
Commercial paper	399	—	(2)	397
Total short-term held-to-maturity investments	745	—	(3)	742
Long-term investments:				
Corporate and other debt securities	161	—	(1)	160
Total held-to-maturity investment securities	\$906	\$	—\$ (4)	\$902

The fair value and related unrealized losses of held-to-maturity investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of March 31, 2018:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in millions)						
Corporate and other debt securities	\$327	\$ (1)	\$32	\$	—\$359	\$ (1)
Commercial paper	322	(1)	—	—	322	(1)
Total	\$649	\$ (2)	\$32	\$	—\$681	\$ (2)

The fair value and related unrealized losses of held-to-maturity investment securities in a continuous unrealized loss position for less than 12 months and for 12 months or longer were as follows as of December 31, 2017:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in millions)						
Corporate and other debt securities	\$473	\$ (2)	\$ —	\$	—\$473	\$ (2)
Commercial paper	394	(2)	—	—		