

COGNIZANT TECHNOLOGY SOLUTIONS CORP
Form 10-K
February 16, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-24429

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of

13-3728359
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

500 Glenpointe Centre West, Teaneck, New Jersey
(Address of Principal Executive Offices)

07666
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.01 par value per share	NASDAQ Global Select Market

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

Preferred Share Purchase Rights

(Title of Class)

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant on June 30, 2006, based on \$67.37 per share, the last reported sale price on the NASDAQ Global Select Market on that date, was \$9,451,819,602.

The number of shares of Class A common stock, \$0.01 par value, of the registrant outstanding as of February 8, 2007 was 142,684,891 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant's definitive Proxy Statement for its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

Overview

We are a leading provider of custom IT consulting and technology services as well as outsourcing services for Global 2000 companies located in North America, Europe and Asia. Our core competencies include Technology Strategy Consulting, Complex Systems Development, Enterprise Software Package Implementation and Maintenance, Data Warehousing and Business Intelligence, Application Testing, Application Maintenance, Infrastructure Management, and Vertically-Oriented Business Process Outsourcing (V-BPO). We tailor our services to specific industries, and utilize an integrated on-site/offshore business model. This seamless on-site/offshore business model combines technical and account management teams located on-site at the customer location and offshore at dedicated development centers located primarily in India.

Industry Background

Many companies today face intense competitive pressure and rapidly changing market dynamics, driven by such factors as changes in government regulations, globalization and technology innovation. In response to these challenges, many companies are focused on improving productivity, increasing service levels, lowering costs and accelerating delivery times. In order to achieve these goals, companies are focusing on a number of technology-centric areas, such as:

Business and IT alignment and optimization;

Advanced custom systems development;

Data Warehousing and Business Intelligence;

Enterprise Resource Planning;

Customer Relationship Management;

Supply Chain Management;

Enterprise 2.0 business models and technology solutions; and

Service-Oriented Architectures, Open Source and Radio Frequency Identification (RFID).

These approaches and technologies facilitate faster, more responsive, lower-cost business operations. However, their development, integration and on-going maintenance present major challenges and require a large number of highly skilled professionals trained in many diverse technologies. In addition, companies also require additional technical resources to maintain, enhance and re-engineer their core legacy IT systems and to address application maintenance projects. Increasingly, companies are relying on custom IT solutions providers, such as us, to provide these services.

In order to respond effectively to a changing and challenging business environment, IT departments of many companies have focused increasingly on improving returns on IT investments, lowering costs and accelerating the delivery of new systems and solutions. To accomplish these objectives, many IT departments have shifted all or a portion of their IT development, integration and maintenance requirements to outside

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service providers operating with on-site/offshore business models.

Global demand for high quality, lower cost IT services from outside providers has created a significant opportunity for IT service providers that can successfully leverage the benefits of, and address the challenges in using, an offshore talent pool. The effective use of offshore personnel can offer a variety of benefits, including lower costs, faster delivery of new IT solutions and innovations in vertical solutions, processes and technologies. Certain developing countries, particularly India, have a large talent pool of highly qualified technical professionals that can provide high quality IT and BPO services at a lower cost. India is a leader in IT services, and is regarded as having one of the largest and highest quality pools of talent in the world. Historically, IT service providers have used offshore labor pools primarily to supplement the internal staffing needs of customers. However, evolving customer demands have led to the increasing acceptance and use of offshore resources for higher value-added services. These services include application design, development, testing, integration and maintenance, as well as technology consulting and infrastructure management. India's services and software exports continue to see significant growth. According to NASSCOM (India's National Association of Software and Services Companies), the IT/BPO sector in India was an estimated \$24.7 billion industry in 2006, and is projected to grow to greater than \$60 billion by 2010.

Using a globally distributed workforce to provide value-added services presents a number of challenges to IT service providers. The offshore implementation of value-added IT services requires that IT service providers continually and effectively attract, train and retain highly skilled software development professionals with the advanced technical skills

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necessary to keep pace with continuing changes in information technology, evolving industry standards and changing customer preferences. These skills are necessary to design, develop and deploy high-quality technology solutions in a cost-effective and timely manner. In addition, IT service providers must have the methodologies, processes and communications capabilities to enable offshore workforces to be successfully integrated with on-site personnel. Service providers must also have strong research and development capabilities, technology competency centers and relationship management skills in order to compete effectively.

The Cognizant Approach

Our business is organized and managed primarily around our four vertically-oriented business segments:

Financial Services;

Healthcare;

Manufacturing, Retail & Logistics; and

Other, which includes Telecommunications, Information Services, Media and High Technology.

This vertical focus has been central to our revenue growth and high customer satisfaction. As the IT Services industry continues to mature, clients are looking for service providers who understand their businesses, industry initiatives, culture and have solutions tailored to meet their individual business needs. We have continued to hire experts out of industry, establish a broad base of business analysts, invest in industry training for our staff, and build out industry-specific services and solutions. This approach is central to our high-levels of on-time delivery and customer satisfaction, as we understand the full context of our clients' challenges and have deep experience in addressing them.

Our key service areas—IT Consulting and Technology Services, and Outsourcing Services—are delivered to our clients across our four business segments in a standardized, high-quality manner through a Global Delivery Model. These service areas include:

IT Consulting and Technology Services

Business Process Consulting

IT Strategy Consulting

Technology Consulting

Application Design, Development, Integration and Re-engineering

Complex Custom Systems Development

DataWarehousing / Business Intelligence (BI)

Customer Relationship Management (CRM) System implementation

Enterprise Resource Planning (ERP) System implementation

Software Testing Services

Outsourcing Services

Application Maintenance

Custom Application Maintenance

CRM and ERP Maintenance

IT Infrastructure Outsourcing

Business Process Outsourcing (BPO)

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Business Segments

We are organized around industry verticals, and we report the operations of our business in the following four business segments:

Cognizant's Business Segments			
Financial Services	Healthcare	Manufacturing/Retail/Logistics	Other
Capital Markets	Healthcare	Manufacturing	Telecommunications
Banking	Life Sciences	Logistics	Media and Information Services
Insurance		Retail	High Technology

Financial Services

In 2006, our Financial Services business segment represented approximately 48% of our total revenues. This business segment provides services to our customers operating in the following industries:

Capital Markets, focusing on the needs of broker / dealers, asset management firms, depositories, clearing organizations and exchanges. Some of the key areas we help these clients in both driving efficiencies and establishing new capabilities include: Front Office, Middle Office, Back Office, Sales & Brokerage, Research, Exchange Operations and Prime Brokerage solutions.

Banking, focusing on traditional retail and commercial banks, and diversified financial enterprises. We assist these clients in such areas as: Consumer Lending, Cards & Payments, Wholesale Banking, Risk Management, Investment Management, Corporate Services and Retail Banking.

Insurance, assisting with the needs of property and casualty insurers, life insurers, reinsurance firms and insurance brokers. We focus on such areas as: Business Acquisition, Policy Administration, Claims Processing, Management Reporting, Regulatory Compliance and Reinsurance.

Healthcare

In 2006, our Healthcare business segment represented approximately 23% of our total revenues. This business segment provides services to our customers operating in the following industries:

Healthcare. We worked with many leading healthcare organizations, including three of the top five healthcare organizations in the United States. Our Healthcare service teams focus on the following key industry solutions: Broker Compensation, Sales & Underwriting Systems, Provider Management, Plan Sponsor Administration, Electronic Enrollment, Membership, Billing, Claims Processing, Medical Management and Pharmacy Benefit Management. We are also partnering with our customers to enable their IT systems for initiatives such as self service portals (member / provider / broker), consumer-driven healthcare, behavioral health, Medicare Modernization Act (MMA) and healthcare data warehousing and analytics.

Life Sciences. We partner with the leading organizations in the Life Sciences industry to assist them with the opportunities and challenges of their rapidly evolving market. In 2006, we worked with seven of the world's top pharmaceutical companies. We are assisting these companies in dealing with such challenges as: Consolidation, Data Integration, Time to Market, Safety, Globalization and Regulations. Some of our Life Sciences solutions include: Prescriber Behavior Analysis and Insight, Longitudinal Prescription Data Management Systems, Sales Force Compensation Systems, Sales Data and Claims Data Management Systems, Clinical Trial Solutions, 21CFR11 Assessment and Computer Systems Validation, Data Mining and Business Intelligence Solutions, e-Business and Data Portals, and ERP implementation, upgrade, and maintenance services.

Manufacturing / Retail / Logistics

In 2006, our Manufacturing, Logistics & Retail business segment represented approximately 15% of our total revenues. This business segment services customers in the following industry groups:

Manufacturing and Logistics. We help organizations improve operational efficiencies, enhance responsiveness and collaborate with trading partners to better serve their end customers. We leverage a comprehensive understanding of the business and technology drivers of the industry. Some of our Manufacturing and Logistics solutions include: Supply Chain Management, Warehouse and Yard Management, Waste Management, Transportation Management, Optimization, Portals and ERP solutions.

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Retail. We serve a wide spectrum of retailers and distributors, including supermarkets, specialty premium retailers and large mass-merchandise discounters. We deliver the best of both worlds: in-depth experience with retailing applications and a strong enterprise architecture foundation. As a result, we have helped retailers:

Upgrade supply chain systems, ranging from order management to category and space management, warehouse management, logistics management, pricing and promotions, and merchandising management;

Implement new point of sale solutions that embrace new international standards and provide new flexibility for supporting new merchandising initiatives;

Implement point solutions developed by our Retail Center of Excellence. The Center of Excellence has built solution accelerators and defined implementation methodologies for multi-channel integration, and for Point of Sale systems migration;

Accelerate the implementation of enterprise and customer relationship management; and

Improve business intelligence effectiveness.

Other

The Other reportable business segment is an aggregation of operating segments which, individually, are less than 10% of consolidated revenues and segment operating profit. The Other business segment includes telecommunications, information services, media and high technology operating segments. In 2006, our Other reportable business segment represented approximately 14% of our total revenues. A description of operating segments included in Other is as follows:

Telecommunications. Our Telecommunications industry practice serves some of the world's leading telecommunications service providers, equipment vendors and software vendors. We have several industry-specific solutions, including: OSS / BSS Implementation, Network Management Services, Mobile Applications, Conformance Testing, Product Lifecycle Management, Product Implementation, Portals, Business Activity Monitoring, Mobile Systems Integration, Broadband Evolution Services and Billing Quality Assurance.

Media and Information Services. We have an extensive track record working with some of the world's largest media and entertainment companies. With the emergence of digital technologies promising to revolutionize the business, we are ready to offer the consulting and outsourcing services to help media and entertainment companies concentrate on their end product. Some of our solutions include:

Supply chain management solutions, from pre-press to material procurement, circulation, logistics, and vendor management;

Business solutions covering advertising management, online media, and e-business;

Workflow automation covering the product development process for broadcasters;

Spot ad buying systems covering agency of record, traffic management, post-buy analysis, and financial management;

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Digital Asset Management (DAM) and Digital Rights Management (DRM); and

Operational systems including ad sales, studio management, outsourcing billing and payments, along with content management and delivery.

High Technology. Our High Technology vertical is a dedicated practice serving some of the world's leading Independent Software Vendors (ISVs) and Online Service Providers. We believe that the needs of technology companies are different—more technically complex, challenging and advanced than what is typically found in other industries. Catering to these needs, our High Technology practice assists with the unique needs of these clients in areas such as: Product Development, Product Sustainance, Compatibility Testing, Internationalization, Product Re-engineering, Multiple Channel Extension, Security Testing and Content Management.

Our Solution and Services

We believe that we have developed an effective integrated on-site/offshore business model and that this business model will be a critical element of our continued growth. To support this business model, at December 31, 2006, we employed over 38,800 IT professionals and support staff globally. We have also established facilities, technology and communications infrastructure in order to support our business model.

Across each of our business segments, we provide a broad, and expanding, range of consulting, information technology and business processing outsourcing services, including:

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IT Consulting and Technology Services

IT Consulting. Consulting offerings that are based on rigorous and proven methodologies and scientifically driven frameworks. In the areas of business processes, technologies and offshoring, we analyze the existing environment, identify opportunities for optimization and provide a robust roadmap for significant cost savings and productivity improvement. The broad areas of coverage include: offshoring strategy, IT strategy, technology rationalization, business process rationalization, change management and IT solution strategy.

Application Design, Development, Integration and Re-engineering. Define customer requirements, write specifications and design, develop, test and integrate software across multiple platforms including Internet technologies. Modify and test applications to enable systems to function in new operating environments. In addition, these services include DataWarehousing / Business Intelligence (BI), ERP and CRM implementation services, as well as testing services. We follow either one of two alternative approaches to application development and integration:

full life-cycle application development, in which we assume start-to-finish responsibility for analysis, design, implementation, testing and integration of systems; or

cooperative development, in which our employees work with a customer's in-house IT personnel to jointly analyze, design, implement, test and integrate new systems.

In both of these approaches, our on-site team members work closely and collaboratively with our clients. Detailed design, implementation and testing are generally performed offshore at our 28 IT development centers located in India and China, as well as our development centers in Boston, Chicago, Phoenix, Amsterdam and Toronto. In addition, we maintain an on-site presence at each customer location in order to address evolving customer needs and resulting changes to the project.

A key part of our application development and integration offering is a suite of services to help organizations build and integrate business applications with the rest of their operations. In this suite of services, we leverage our skills in business application development and enterprise application integration to build sophisticated business applications and to integrate these new applications and Web sites with client server and legacy systems. We build and deploy robust, scalable and extensible architectures for use in a wide range of industries. We maintain competency centers specializing in Microsoft, IBM, SAP and JAVA, among others, in order to be able to provide application development and integration services to a broad spectrum of customers.

Our re-engineering service offerings assist customers migrating from systems based on legacy computing environments to newer, open systems-based platforms and client/server architectures, often in response to the more stringent demands of business. Our re-engineering tools automate many of the processes required to implement advanced client/server technologies. We believe that this automation substantially reduces the time and cost to perform re-engineering services, savings that benefit both us and our customers. These tools also enable us to perform source code analysis and to re-design target databases and convert certain programming languages. If necessary, our programmers also help customers re-design and convert user interfaces.

Software Testing Service. Our Software Testing service offering has experienced significant growth in the past several years. Through this practice, we provide an independent verification and validation service focused exclusively on supporting the software testing needs of our clients. Our testing service has four key offerings: 1.) Independent Functional Testing, 2.) Test Automation, 3.) Test Process Consulting, and 4.) Performance Testing. We utilize our own Managed Test Center process model to ensure our clients receive the highest quality code possible after it has been tested by us. We focus our Managed Test Centers on specific domains (e.g., specific industries and software solutions), ensuring we tailor our testing solutions to the particular needs of our clients.

Outsourcing

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Application Maintenance. Support some or all of a customer's applications ensuring that systems remain operational and responsive to changing user requirements, and to provide on-going enhancement as required by the customer.

We provide services to help ensure that a customer's core operational systems are free of defects and responsive to the customer's changing needs. As part of this process, we are often able to introduce product and process enhancements and improve service levels to customers requesting modifications and on-going support.

Our on-site/offshore business model enables us to provide a range of rapid response and cost-effective support services to our customers. Our on-site team members often provide help-desk services at the customer's facility. These team members typically carry pagers in the event of an emergency service request and are available to quickly resolve customer problems from remote locations. In the case of more complex maintenance services, including modifications, enhancements and documentation, which typically have longer turnaround times, we take full advantage of our offshore resources to develop solutions more cost-effectively than would be possible relying on higher cost local professionals. The services provided by our offshore team members are delivered to customers using satellite and fiber-optic telecommunications.

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As part of our application maintenance services, we assist customers in renovating their core systems to meet the requirements imposed by new regulations, new standards or other external events. These services include, or have previously included, Year 2000 compliance, Eurocurrency compliance, decimalization within the securities industry and compliance with the Health Insurance Portability and Accountability Act for the healthcare industry.

We seek to anticipate the operational environment of customer s IT systems as we design and develop such systems. We also offer diagnostic services to customers to assist them in identifying shortcomings in their IT systems and optimizing the performance of their systems.

IT Infrastructure Services. We provide IT Infrastructure Management Outsourcing services. This is a newer service at Cognizant, but one where we anticipate growing demand in the coming years. As a result of our acquisition of AimNet Solutions, Inc. in September 2006, we now provide service capability in redundant Network Operating Centers (NOCs) in North America and India through which we are able to provide significant scale, quality and cost savings to our clients in IT Infrastructure Services. We focus on a number of key areas, including such key areas of infrastructure management as: Networks, Servers, Middleware, Security, Vendors, Storage, Messaging, Databases, and Desktops. We can provide these through an IT Service Desk model, focusing on such areas as IT Operations and IT Help Desk.

Vertical Business Process Outsourcing (V-BPO). We provide Vertically-Oriented BPO to our clients. This is a newer service at Cognizant, but one in which we anticipate future growth. At Cognizant, we made a strategic decision to stay out of more generic, horizontally-based BPO markets (i.e., call centers) and instead have focused on value-added processes that are specific to clients in our key industry segments (particularly in Financial Services, Healthcare and Manufacturing / Logistics / Retail). Our BPO practice focuses on core back office services covering: Transaction Processing, Voice Processes, Data Administration, Data Management and Data Analytics.

In addition to our industry-specific expertise and focus, our strengths, which we believe differentiate us from other IT service providers, include the following:

Established and Scalable Proprietary Processes. We have developed proprietary methodologies for integrating on-site and offshore teams to facilitate cost-effective, on-time delivery of high-quality projects. These methodologies comprise our proprietary Q*VIEW software engineering process, which is available to all on-site and offshore programmers. We use this ISO 9001:2000 certified process to define and implement projects from the design, development and deployment stages through on-going application maintenance. For most projects, Q*VIEW is used as part of an initial setting up of processes that allows us to define the scope and risks of the project and subdivide the project into smaller phases with frequent deliverables and feedback from customers. We also use our Q*VIEW process to detect, mitigate and correct possible quality defects and to establish appropriate contingencies for each project. In order to ensure implementation of the quality process, we assign a quality facilitator to each project who reports to a centralized quality assurance and software engineering group. This group performs, on a sample basis, quality audits, deliverables verifications, metrics collection and analysis, which are used to improve processes and methodologies. These processes and methodologies have proven to be scalable, as we have significantly increased the number of offshore development centers, customers and projects. In addition, all of our principal development centers have been assessed by KPMG LLP at Level 5 (the highest possible rating) of both the Capability Maturity Model and the Capability Maturity Model Integration of the Software Engineering Institute at Carnegie Mellon University, which are widely recognized means of measuring the quality and maturity of an organization s software development and maintenance processes. In addition, all of our principal development centers have been certified by the STQC Directorate Ministry of Communications and Information Technology, Government of India (the accreditation authority for companies in India) under the internationally recognized BS 7799 Part 2:2002 Information Security Standards, a comprehensive set of controls comprising best practices in information security and business continuity planning. Our quality management system has also been certified by KPMG to International Standard ISO 9001:2000 of the International Organization for Standardization, an internationally recognized standard for quality management systems directed to the achievement of business results, including satisfaction of customers and others. In addition, in late 2006 (through our Coimbatore facility) Cognizant became the first company to achieve Maturity Level 5 of CMMI v1.2 Model of SCAMPI v1.2.

Highly Skilled Workforce. Our managers and senior technical personnel provide in-depth project management expertise to customers. To maintain this level of expertise, we have placed significant emphasis on recruiting and training our workforce of highly skilled professionals. We have over 3,000 project managers and senior technical personnel around the world, many of whom have significant work experience in North America, Europe and Asia. We also maintain programs and personnel to hire and train the best available technical professionals in both legacy systems and emerging technologies. We provide five months of combined classroom and on-the-job training to newly hired programmers, as well as additional annual

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training programs designed to enhance the business practices, tools, technology and consulting skills of our professional staff. We were recently assessed by KPMG at Level 5 (the highest possible rating) of the People Capability Maturity Model (P-CMM) of the Software Engineering Institute at Carnegie Mellon University, a widely recognized means of implementing best current practices in fields such as human resources, knowledge management, and organizational development which improves our processes for managing and developing our workforce and addressing critical people issues.

Research and Development and Competency Centers. We have project experience and expertise across multiple architectures and technologies, and have made significant investments in our competency centers and in research and development to keep abreast of the latest technology developments. Most of our programmers are trained in multiple technologies and architectures. As a result, we are able to react to customers needs quickly and efficiently redeploy programmers to different technologies. In order to develop and maintain this flexibility, we have made a substantial investment in our competency centers where the experience gained from particular projects and research and development efforts is leveraged across our entire organization. In addition, through our investment in research and development activities and the continuing education of our technical personnel, we enlarge our knowledge base and develop the necessary skills to keep pace with emerging technologies. We believe that our ability to work in new technologies allows us to foster long-term relationships by having the capacity to continually address the needs of both existing and new customers.

Well-Developed Infrastructure. Our extensive facilities, technology and communications infrastructure facilitate the seamless integration of our on-site and offshore workforces. This is accomplished by permitting team members in different locations to access common project information and to work directly on customer projects. This infrastructure allows for:

rapid completion of projects;

highest level of quality;

off-peak use of customers' technological resources; and

real-time access to project information by the on-site account manager or the customer.

International time differences enable our offshore teams located in India to access a customer's computing facilities located in North America, Europe and the Asia Pacific region during off-peak hours. This ability to perform services during off-peak hours enables us to complete projects more rapidly and does not require our customers to invest in duplicative hardware and software. In addition, for large projects with short time frames, our offshore facilities allow for parallel processing of various development phases to accelerate delivery time. In addition, we can deliver services more rapidly than some competitors without an offshore labor pool because our lower labor costs enable us to cost-effectively assign more professionals to a project.

Business Strategies

Our objectives are to maximize stockholder value and enhance our position as a leading provider of custom IT services. We implement the following core strategies to achieve these objectives:

Further Develop Long-Term Customer Relationships. We have strong long-term strategic relationships with our customers and business partners. We seek to establish long-term relationships that present recurring revenue opportunities, frequently trying to establish relationships with our customers' chief information officers, or other IT decision makers, by offering a wide array of cost-effective high quality services. Approximately 96% of our revenues in the year ended December 31, 2006, were derived from customers who had been using our services at the end of 2005. We also seek to leverage our experience with a customer's IT systems into new business opportunities. Knowledge of a customer's processes and IT systems gained during the performance of application maintenance services, for example, may provide us with a competitive advantage in securing additional development and maintenance projects from that customer.

Expand Service Offerings and Solutions. We have several teams dedicated to developing new, high value services. These teams collaborate with customers to develop these services. For example, we are currently developing new offerings in Business Consulting and IT Consulting, Vertically-Oriented Business Process Outsourcing, and vertically-oriented IT solutions atop innovative technologies including: RFID, Service

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Oriented Architectures (SOA) and Open Source. In addition, we invest in internal research and development and promote knowledge building and sharing across the organization in order to promote the development of new services and solutions that we can offer to our customers. Furthermore, we continue to enhance our capabilities and service offerings in the areas of:

Customer Relationship Management (CRM);

Enterprise Resource Planning (ERP);

Data Warehousing / Business Intelligence (BI);

Software Testing; and

Infrastructure Management.

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We believe that the continued expansion of our service offerings will reduce our reliance on any one technology initiative and will help foster long-term relationships with our customers by allowing us to serve their needs better.

Enhance Processes, Methodologies and Productivity Toolsets. We are committed to improving and enhancing our proprietary Q*VIEW software engineering process and other methodologies and toolsets. In light of the rapid evolution of technology, we believe that continued investment in research and development is critical to our continued success. We are constantly designing and developing additional productivity software tools to automate testing processes and improve project estimation and risk assessment techniques. In addition, we use groupware technology to share project experience and best practice methodologies across the organization with the objective of improving productivity.

Expand Domestic and International Geographic Presence. As we expand our customer base, we plan to open additional sales and marketing offices in North America, Europe and Asia. It is expected that this expansion will facilitate sales and service to existing and new customers. We have established sales and marketing offices in Atlanta, Boston, Chicago, Dallas, Minneapolis, Phoenix, Los Angeles, Norwalk, San Francisco and Teaneck. In addition, we have been pursuing market opportunities internationally through our offices in Toronto, London, Frankfurt, Paris, Zurich, Geneva, Amsterdam, Shanghai, Tokyo, Melbourne and Singapore.

Continue to be an Employer of Choice in the Industry. As a rapidly growing professional services firm, a key attribute of our continued success is an ability to continually hire, assimilate, motivate and retain the best talent possible in the industry. We have developed strong relationships with key universities around the world, and in particular in India, to provide a continual funnel of talented staff from Tier One schools. In addition, we continue to expand our presence and brand in our key supply markets to ensure our continued momentum in making senior lateral hires from competing IT services firms and industry as needed to support our client needs and growth. We also invest heavily in training programs (centered around Cognizant Academy), motivational programs and career development to ensure personal professional growth for each of our associates.

Pursue Selective Strategic Acquisitions, Joint Ventures and Strategic Alliances. We believe that opportunities exist in the fragmented IT services market to expand our business through selective strategic acquisitions, joint ventures and strategic alliances. We believe that acquisition and joint venture candidates may enable us to expand our geographic presence and our capabilities more rapidly, especially in geographic markets and key industries. For example, in 2006 we acquired AimNet Solutions, a leading IT Infrastructure Management services firm based in Holliston, Massachusetts to provide us, and our customers, with further depth in IT Infrastructure Management services. In addition, through our working relationships with independent software vendors we obtain projects using the detailed knowledge we gain in connection with a joint development process. Finally, we will continue to strategically partner with select IT service firms that offer complementary services in order to best meet the requirements of our customers.

Sales and Marketing

We market and sell our services directly through our professional staff, senior management and direct sales personnel operating out of our Teaneck, New Jersey headquarters and our business development offices located across the country and the world in Atlanta, Boston, Chicago, Dallas, Minneapolis, Norwalk, Phoenix, Los Angeles, San Francisco, Teaneck, London, Amsterdam, Frankfurt, Zurich, Geneva, Paris, Shanghai, Toronto, Tokyo, Melbourne and Singapore. At December 31, 2006, we had approximately 57 direct sales persons and over 328 account managers. The sales and marketing group works with our technical team as the sales process moves closer to the customer's selection of an IT service provider. The duration of the sales process varies depending on the type of service, ranging from approximately two months to over one year. The account manager or sales executive works with the technical team to:

define the scope, deliverables, assumptions and execution strategies for a proposed project;

develop project estimates;

prepare pricing and margin analyses; and

finalize sales proposals.

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Management reviews and approves proposals, which are then presented to the prospective customer. Our sales and account management personnel remain actively involved in the project through the execution phase. We focus our marketing efforts on businesses with intensive information processing needs. We maintain a prospect/customer database that is continuously updated and used throughout the sales cycle from prospect qualification to close. As a result of this marketing system, we pre-qualify sales opportunities, and direct sales representatives are able to minimize the time spent on prospect

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qualification. In addition, substantial emphasis is placed on customer retention and expansion of services provided to existing customers. In this regard, our account managers play an important marketing role by leveraging their ongoing relationship with the customer to identify opportunities to expand and diversify the type of services provided to that customer.

Customers

The number of customers served by us has increased significantly in recent years. As of December 31, 2006, we were providing services to approximately 400 customers, as compared to approximately 250 customers as of December 31, 2005, and 233 customers as of December 31, 2004.

For the year ended December 31, 2006, we derived our revenues from the following business segments: 48% from Financial Services, 23% from Healthcare, 15% from Retail/Manufacturing/Logistics and 14% from Other.

We provide services either on a time-and-material basis or on a fixed price basis. The volume of work performed for specific customers is likely to vary from year to year, and a significant customer in one year may not use our services in a subsequent year. While no individual customer accounted for greater than 10% of our revenues in the fiscal year ended December 31, 2006 or 2005, approximately 13.7% of our revenues in the fiscal year ended December 31, 2004 were generated from JPMorgan Chase.

Our customers include:

- | | |
|---------------------------------------|-------------------------------------|
| ACNielsen Corporation | First Data Corporation |
| ADP Incorporated | IMS Health Incorporated |
| Brinker International Incorporated | JPMorgan Chase |
| CCC Information Services Incorporated | Metropolitan Life Insurance Company |
| Computer Sciences Corporation | Royal & SunAlliance USA |
| The Dun & Bradstreet Corporation | United Healthcare |

Presented in the table below is additional information about our customers.

	Year Ended December 31,		
	2006	2005	2004
Percent of revenues from top five customers	29%	34%	38%
Percent of revenues from top ten customers	39%	46%	52%
Revenues under fixed-bid contracts as a percent of revenues	25%	25%	24%

Competition

The intensely competitive IT services market includes a large number of participants and is subject to rapid change. This market includes participants from a variety of market segments, including:

systems integration firms;

contract programming companies;

application software companies;

Internet solutions providers;

the professional services groups of computer equipment companies; and

facilities management and outsourcing companies.

Our most direct competitors include, among others, Infosys Technologies, Tata Consultancy Services and WIPRO, which utilize an integrated on-site/offshore business model comparable to that used by us. We also compete with large IT service providers with greater resources than us, such as Accenture, Computer Sciences Corporation, Electronic Data Systems and IBM Global Services. In addition, we compete with numerous smaller local companies in the various geographic markets in which we operate.

Many of our competitors have significantly greater financial, technical and marketing resources and greater name recognition than we do. The principal competitive factors affecting the markets for our services include:

performance and reliability;

quality of technical support, training and services;

responsiveness to customer needs;

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reputation, experience and financial stability; and

competitive pricing of services.

We rely on the following to compete effectively:

a well developed recruiting, training and retention model;

a successful service delivery model;

a broad referral base;

continual investment in process improvement and knowledge capture;

investment in research and development;

continued focus on responsiveness to customer needs, quality of services, competitive prices; and

project management capabilities and technical expertise.

Intellectual Property

Our intellectual property rights are important to our business. We presently hold no patents or registered copyrights. Instead, we rely on a combination of intellectual property laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. We require our employees, independent contractors, vendors and customers to enter into written confidentiality agreements upon the commencement of their relationships with