

This report provides a summary of relevant data and documents we received in response to Freedom of Information Act (FOIA) requests we filed on this company.

### Disclosed SEC Investigation(s) Confirmed as On-going

**Watch List Status:** Not on Watch List of Companies with Undisclosed SEC Investigations

In May-2017, Cognizant Technology Solutions disclosed an internal investigation related to the U.S. Foreign Corrupt Practices Act and SEC involvement. The company has reported that \$6 million of potentially improper payments had been identified that were made between 2010 and 2015. For the first three quarters of 2017, CTSH has spent \$31 million on the FCPA investigation and related lawsuits. Relevant excerpts are included in this report.

Even though it's been running for over a year now, we caution investors to remember that there is a reason the company keeps disclosing this investigation. Management believes it remains a material risk. We suggest you trust them on this. However, if you cannot independently understand why they reached that conclusion, you are effectively left with a company that has a known material risk that you cannot properly analyze and discount. We generally recommend investors avoid such scenarios.

Keep in mind that a public company can be involved in more than one SEC investigation at a time. We routinely recommend asking a company if there are any investigations beyond what is disclosed or reported in media stories. Further, since we know there was at least one investigation in the recent past, we recommend those with an interest ask Cognizant Technology Solutions Corporation what contact it has had with the SEC's Division of Enforcement in the past two years.

#### From the Probes Reporter Database:

We filed our first FOIA request on this company in **Oct-2012**.

If we alert you to the existence of an undisclosed SEC investigation – or any response from the SEC – that means we filed a FOIA request on the company in question and have a response, in black-and-white on government letterhead, that supports our statement. Below is the SEC response history for this company:

5-Nov-2012	FOIA Response	No SEC investigative records found.
10-Oct-2013	FOIA Response	No SEC investigative records found.
3-Sep-2014	FOIA Response	No SEC investigative records found.
7-Jul-2015	FOIA Response	No SEC investigative records found.

### Disclosure Insight®

In reviewing Cognizant's recurring disclosures on a now-protracted SEC/FCPA investigation, there are two subtleties that caught our attention, if not concern us. We break them down here.

The first is whether or not we are getting the full story regarding the size of any potential exposure. The company says, "... the investigation has identified a total of approximately \$6 million in payments made between 2009 and 2016 that may have been improper". This exposure sounds small.

Yet, in earlier disclosures (but not recently updated) we see this, "For the first three quarters of 2017, CTSH has spent \$31 million on the FCPA investigation and related lawsuits." That seems like an awfully large amount of money to spend on what, on the surface, appears to be an inconsequential exposure; you know, just a \$6 million problem.

This second one's small, but you can't ignore it on the premise companies carefully choose every word that goes in their filings. Specifically, we observe that since this was first disclosed in a 10-Q in May-2017, every follow-on disclosure includes the term, "We are conducting an internal investigation ..."

It's been over a year now. For all the money they spent, why isn't the internal investigation over yet, with meaningful updates provided to investors? Be careful here.

-- John P. Gavin, CFA

19-Apr-2016	FOIA Response	No SEC investigative records found.
11-May-2017	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
16-Jun-2017	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.
27-Dec-2017	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
16-Jan-2018	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.
26-Jul-2018	FOIA Response	SEC denies access to records over concern their release, "could reasonably be expected to interfere with enforcement activities."
21-Aug-2018	Appeal Response	Existence of on-going SEC enforcement proceedings confirmed on appeal; Access to records remains blocked.

When research history is available in our database, we present it above so you can compare it to company disclosures. Other interpretative guidance and disclosures appear below.

As can be seen in the table above, at least once in the past the SEC cited the "law enforcement exemption" of the Freedom of Information Act (FOIA) as basis to deny the public's access to the detailed records we sought on this company. As a matter of law, the SEC is acknowledging some sort of investigative activity with this response. We filed an appeal with the SEC's Office of the General Counsel to challenge that response. In response to our latest appeal(s), the date(s) of which is/are also shown in the table above, the SEC stated, "We have confirmed with staff that releasing the withheld information could reasonably be expected to interfere with on-going enforcement proceedings."

While the SEC as a matter of course tells the public that an on-going investigation should not be construed as a finding of any wrongdoing, the public interest is understandably high in tracking these investigations and their outcome. In this case, our research shows these SEC proceedings are disclosed by **Cognizant Technology Solutions Corporation**.

**Notable Disclosures:** The company began disclosing the FCPA investigation and SEC involvement starting in May-2017 and continued to do so through the latest 10-Q filed in Aug-2018. See below for the disclosures.

**Documents Acquired Under the Freedom of Information Act:** None in our library at this time.

#### **Supplemental Data:**

From the Cognizant Technology Solutions 10-Q filed on 2-Aug-2018:

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.

From the Cognizant Technology Solutions 10-Q filed on 7-May-2018:

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.

From the Cognizant Technology Solutions 10-K filed on 27-Feb-2018:

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. Of the \$4 million out-of-period correction, \$3 million was recorded in the third quarter of 2016 and \$1 million was recorded in the fourth quarter of 2016. 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 the year ended December 31, 2017.

From the Cognizant Technology Solutions 10-Q filed on 1-Nov-2017:

We are conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the U.S. Foreign Corrupt Practices Act, or FCPA, and other applicable laws. In September 2016, we voluntarily notified the U.S. Department of Justice, or DOJ, and Securities and Exchange Commission, or SEC, and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel. To date, the investigation has identified a total of approximately \$6 million in payments made between 2010 and 2015 that may have been improper. During the year ended December 31, 2016, we recorded out-of-period corrections related to \$4 million of such payments that had been previously capitalized that should have been expensed. Of the \$4 million out-of-period correction, \$3 million was recorded in the third quarter of 2016 and \$1 million was recorded in the fourth quarter of 2016. These out-of-period corrections and the other \$2 million in potentially improper payments were not material to any previously issued financial statements. The investigation is also examining various other payments made in small amounts in India and elsewhere that may not have complied with Company policy or applicable law. There were no adjustments recorded during the nine months ended September 30, 2017.

During the quarter ended September 30, 2017, we incurred \$9 million in costs related to the FCPA investigation and related lawsuits. We expect to continue to incur expenses related to these matters for the remainder of 2017 and future periods.

From the Cognizant Technology Solutions 10-Q filed on 3-Aug-2017:

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

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During the quarter ended June 30, 2017, we incurred \$8 million in costs related to the FCPA investigation and related lawsuits. We expect to continue to incur expenses related to these matters for the remainder of 2017 and future periods, including with respect to remediating the material weakness in our internal control over financial reporting.

From the Cognizant Technology Solutions 10-Q filed on 5-May-2017:

We are conducting an internal investigation focused on whether certain payments relating to Company-owned facilities in India were made improperly and in possible violation of the U.S. Foreign Corrupt Practices Act, or FCPA, and other applicable laws. In September 2016, we voluntarily notified the U.S. Department of Justice, or DOJ, and Securities and Exchange Commission, or SEC, and are cooperating fully with both agencies. The investigation is being conducted under the oversight of the Audit Committee, with the assistance of outside counsel. To date, the investigation has identified a total of approximately \$6 million in payments made between 2010 and 2015 that may have been recorded improperly. During the year ended December 31, 2016, we recorded out-of-period corrections related to \$4 million of such payments that were previously capitalized that should have been expensed. These out-of-period corrections and the other \$2 million in potentially improper payments were not material to any previously issued financial statements.

During the quarter ended March 31, 2017, we incurred \$14 million in costs related to the FCPA investigation and related lawsuits. We expect to continue to incur expenses related to these matters for the remainder of 2017 and future periods, including with respect to remediating the material weakness in our internal control over financial reporting.

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### Independent Investment Research Focused on Public Company Interactions with the SEC.

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**Notes:** *New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. The SEC did not disclose the details on investigations referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies referenced above. Companies with undisclosed SEC investigations are maintained on our Watch List of companies with undisclosed SEC investigations.*

*The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security.*

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