Scio Diamond Technology Corp
Form DEFC14A
June 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN
CONSENT STATEMENT

SCHEDULE 14A INFORMATION

Consent Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant ¨
Filed by a Party other than the Registrant x

Check the appropriate box:
o Preliminary Consent Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Consent Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

Scio Diamond Technology Corporation
(Name of Registrant as Specified In Its Charter)

Thomas P. Hartness
Kristoffer Mack
Paul Rapello
Glen R. Bailey
Marsha C. Bailey
Kenneth L. Smith
Bernard M. McPheely
James Carroll
Robert M. Daisley
Michael McMahon
Ben Wolkowitz
Craig Brown
Ronnie Kobrovsky
Lewis Smoak
(Name of Person(s) Filing Consent Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

June 4, 2014

Dear Fellow Stockholder of Scio Diamond Technology Corporation:

I am writing to you on behalf of a group of stockholders of Scio Diamond Technology Corporation (the “Company” or “Scio”). Collectively, our group currently owns more than 16% of the Company on a diluted basis.[1] As described in greater detail below, we are writing to request that you join our efforts to elect a new board to lead the company, and to that end, ask that you complete, sign and return the enclosed consent card (BLUE form) to consent your shares in furtherance of that change.

Each of us, like you, invested in Scio based on the belief (perhaps based on the founders’ representations) that the Company has great assets, big opportunities for growth and a chance to create significant stockholder value. In particular, we invested based on the belief and assurance that the Company’s unique asset, its intellectual property and proprietary processes for manufacturing diamonds (“Diamond Technology”), was valuable but under-exploited. It is now almost 10 years after some of us originally invested in the Diamond Technology and Scio’s predecessor entity. Despite a promise of the ability to synthetically create flawless diamonds, the Company has failed to generate positive earnings and the Company’s enterprise value has consistently fallen.

The current board of Scio (the “Board”) is comprised of five individuals—Edward Adams (chair), Robert Linares (Adams’ father-in-law), Theodore Strous, Gerald McGuire and James Korn (Messrs. McGuire and Korn were appointed as directors on May 29, as announced by Scio in its 8-K filed June 2, 2014). Both Mr. Adams and Mr. Linares have been involved with or led the Company for more than a decade while it has continuously failed to meet the projections and metrics offered to stockholders. In the last three years alone, the Company has reported net losses of more than $13 million under their leadership. Despite reporting such multi-million dollar losses, the directors have awarded themselves during the last three years alone:[2]

- Compensation, consulting payments and bonuses in the amount of more than $400,000.
- Payments to entities affiliated with directors in the amount of more than $350,000.
- Warrants and options for thousands of shares of the Company.

Since 2011, and despite requests from numerous stockholders, the Board has refused to call an annual meeting of the stockholders—in violation of the Company’s Bylaws and applicable corporate laws.

For this reason, I and a group of other concerned stockholders have organized for the purpose of electing a new slate of directors to lead the Company, attempt to capitalize on its Diamond Technology, and increase the value for all stockholders. To this end, attached to this Consent Statement is a stockholder consent card that we would ask that you complete, sign and return to Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003.

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(1) Our group beneficially owns an aggregate of 5,141,178 shares of Common Stock, constituting approximately 10.2% of the shares of Common Stock outstanding on an undiluted basis, calculated assuming 50,264,312 shares of Common Stock outstanding as of the date of this Consent Statement, which is the number of shares of Common Stock reported as issued and outstanding as of February 11, 2014 by Scio on its Form 10-Q filed on February 14, 2014. Our group beneficially owns, on a diluted basis, an aggregate of 8,988,678 shares of Common Stock (including warrants to purchase 3,816,250 shares of Common Stock and options to purchase 31,250 shares of Common Stock), constituting

approximately 16.6% of the shares of Common Stock outstanding on a diluted basis, calculated assuming 54,111,812 shares of Common Stock outstanding as of the date of this Consent Statement, which includes 50,264,312 shares of Common Stock reported as issued and outstanding as of February 11, 2014 by Scio on its Form 10-Q filed on February 14, 2014, plus 3,847,500 shares of Common Stock, assuming the conversion of all warrants and options held by members of our group. The details of our group, including names and share ownership, can be found on our Statement on Schedule 13D filed with the Securities and Exchange Commission (the "Commission") on November 28, 2012, Amendment No. 1 filed with the Commission on March 24, 2014, Amendment No. 2 filed with the Commission on April 14, 2014, Amendment No. 3 filed with the Commission on May 8, 2014, Amendment No. 4 filed with the Commission on May 28, 2014, and Amendment No. 5 filed with the Commission on June 3, 2014.

(2) The Company's SEC filings are the source of the net loss figures and director compensation described in this letter.

By executing the consent card, you will consent your shares in favor the proposals described herein, including:

1. Electing the individuals identified on Annex A of the accompanying Consent Statement to the Company's Board;

2. Repealing any amendments to the Company's Bylaws adopted by the Board without the approval of stockholders after May 13, 2010 (the date of the first public disclosure of the Bylaws); and

3. Amending and restating the Company's Bylaws as set forth in Annex B of the accompanying Consent Statement.

In addition, we would ask that you sign and return the stockholder consent (BLUE form), which could summarily adopt the proposals if executed by more than 50% of stockholders.

We wish to be clear that the focus of our efforts to change the leadership of the Company is limited to the current Board. We believe the Company's Chief Executive Officer, Michael McMahon, and his management team have been as productive as possible in light of the challenges posed by the current Board. As evidence of the confidence that we have in Mr. McMahon, he is included as one of the proposed new Board members described in Annex A of the accompanying Consent Statement.

Lastly, I would like to make clear that our sole objectives in these efforts are to help the Company succeed and enhance stockholder value. During this process, the current Board will likely attempt to make any number of accusations about both me and our group in an effort to divert the focus from their failures. If our participation in this process poses any problem for the stockholders, we will gladly make any changes necessary to support the stockholders' interests.

If you have any questions regarding the enclosed stockholder consent or the efforts of our group generally, please contact Alliance Advisors, LLC, which is assisting us as consent solicitor, at their address and toll-free numbers listed below.

Sincerely,

Bernard M. McPheely

If you have any questions, require assistance in consenting your shares, or need additional copies of Save Scio's Consent Statement, please contact:

ALLIANCE ADVISORS, LLC
200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003
Banks and Brokers Call Collect: (973) 873-7721
Stockholders Call Toll-Free: (855) 973-0096

TABLE OF CONTENTS

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS	4
QUESTIONS AND ANSWERS RELATING TO THIS CONSENT STATEMENT	5
Who is making this solicitation?	5
What are we asking you to consent to?	5
Why are we soliciting your consent?	5
Who are the Nominees?	6
In light of some of the public comments he has made, has Mr. McMahon agreed to be a Nominee and will he serve as a director of the Company if elected by written consent?	6
Who can consent to the Proposals?	7
Won't there be an annual meeting of Stockholders later this year where we can elect directors of the Company?	7
Will my consent be valid under the Amended and Restated Bylaws announced by Scio effective April 8, 2014?	7
Will my consent be affected by, or have any effect on, the Common Stock purchase rights distributed for each share of Common Stock held by Stockholders of record on April 25, 2014?	8
When is the deadline for submitting consents?	9
How many consents must be granted in favor of each of the Proposals?	9
What should you do to consent?	9
Whom should you call if you have questions about the solicitation?	9
What does it mean if I receive more than one BLUE consent card at or about the same time?	9
How do I revoke a consent?	10
Who is paying for the solicitation on behalf of Save Scio?	10
PROPOSAL NO. 1: REPEAL OF ANY AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT THE APPROVAL OF STOCKHOLDERS AFTER MAY 13, 2010	11
PROPOSAL NO. 2: ADOPTION OF PROPOSED AMENDED AND RESTATED BYLAWS	12
PROPOSAL NO. 3: ELECTION OF DIRECTORS	15
Arrangements between Save Scio and the Nominees	21
Compensation of the Company's Directors	21
EXECUTIVE COMPENSATION	23
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF THE COMPANY	25
CERTAIN RELATIONSHIPS WITH THE COMPANY	27
VOTING SECURITIES	29
PROCEDURAL INSTRUCTIONS	29
SAVE SCIO URGES YOU TO CONSENT TO THE BYLAW REPEAL PROPOSAL.	29
SAVE SCIO URGES YOU TO CONSENT TO THE ELECTION OF ALL NOMINEES.	29
YOUR CONSENT IS IMPORTANT	29
CONSENT PROCEDURES	30

NO APPRAISAL OR DISSENTER'S RIGHTS	31
STOCKHOLDER PROPOSALS FOR 2015 ANNUAL MEETING	31
ANNEX A	A-1
ANNEX B	B-1
ANNEX C	C-1

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

THIS SOLICITATION IS BEING MADE BY SAVE SCIO AND NOT ON BEHALF OF THE BOARD

SCIO DIAMOND TECHNOLOGY CORPORATION
CONSENT STATEMENT

This Consent Statement and the enclosed BLUE consent card are being furnished to stockholders of Scio Diamond Technology Corporation, a Nevada corporation (the "Company"), by Thomas P. Hartness, Kristoffer Mack, Paul Rapello, Glen R. Bailey, Marsha C. Bailey, Kenneth L. Smith, Bernard M. McPheely, James Carroll and Robert M. Daisley, in connection with the solicitation of consents from you, the holders (the "Stockholders") of common stock, par value $0.001 per share, of the Company ("Common Stock"). A solicitation of written consents is a process that allows a company's stockholders to act by submitting written consents to any proposed stockholder actions in lieu of voting in person or by proxy at an annual or special meeting of stockholders. Save Scio is soliciting written consents from the Stockholders to take certain actions (each, as more fully described in this Consent Statement, a "Proposal" and together, the "Proposals") without a stockholders' meeting, as authorized by Nevada law. Unless the context requires otherwise, we use the terms "Save Scio," "we," "our" or "us" throughout this Consent Statement to refer to Mr. Hartness, Mr. Mack Mr. Rapello, Mr. Bailey, Mrs. Bailey, Mr. Smith, Mr. McPheely, Mr. Carroll and Mr. Daisley collectively.

Save Scio is soliciting written consents from the Stockholders to take the following actions:

1. The repeal of any amendments to the Bylaws of the Company (the "Bylaws") adopted by the Board of Directors of the Company (the "Board") without the approval of Stockholders after May 13, 2010 (the date of the first public disclosure of the Bylaws);

2. The amendment and restatement of the Bylaws, as set forth in Annex B of this Consent Statement (the "Proposed Amended and Restated Bylaws"); and

3. The election of Ben Wolkowitz, Kristoffer Mack, Bernard M. McPheely, Craig Brown, Ronnie Kobrovsky, Lewis Smoak and Michael McMahon (each a "Nominee" and collectively, the "Nominees") to fill the vacancies resulting from the increase in the size of the Board resulting from the adoption of Proposal No. 2, if adopted, and to serve as directors on the Board until the 2015 annual meeting of Stockholders or until their respective successors are duly elected and qualified.

Save Scio recommends that you consent your shares as follows:

1. CONSENT to the repeal of any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010;

2. CONSENT to the adoption of the Proposed Amended and Restated Bylaws; and

3. CONSENT to the election of the Nominees to fill the vacancies resulting from the increase in the size of the Board, and to serve as directors on the Board until the 2015 annual meeting of Stockholders or until their respective successors are duly elected and qualified.

We are soliciting consents because we believe that our Nominees would contribute significantly to the Board and provide important guidance to senior management. After study and analysis, we believe that the Company has consistently underperformed as a result of factors including, but not limited to, poor oversight by the current Board.

As a result, we have identified, and are submitting for election by written consent, a slate of seven highly qualified Nominees to join the Board. We believe that our Nominees possess the expertise, experience and commitment needed to maximize stockholder value. Each of our Nominees was selected after careful deliberation for what we believe to be his ability to improve Company performance and work constructively with the management team. We believe our Nominees will, consistent with the best interests of the Company, work diligently to deliver value to all Stockholders. We urge all Stockholders to support us in this effort by consenting to the election of our Nominees.

The effectiveness of each of the Proposals requires the affirmative consent of the holders of record of a majority of the Common Stock outstanding as of the date the first executed consent is delivered to the Company. Proposals No. 1 and No. 2 could be effective without further action when we deliver to the Company such requisite number of consents (see the section titled "Questions and Answers Relating to this Consent Statement"). Proposal No. 3 is subject to, or is conditioned upon, the effectiveness of Proposal No. 2.

Save Scio believes that the bylaw amendments purported to be adopted by the Company on April 14, 2014 which, among other things, eliminate the ability of stockholders to act by written consent in lieu of a meeting without advance approval by the Board, are illegal and invalid under Nevada law (see the section titled "Questions and Answers Relating to this Consent Statement"). In the event this is determined to be the case, for the Proposals to be effective, properly completed and unrevoked written consents representing more than 50% of the issued and outstanding shares of Common Stock must be delivered to the Company. Save Scio expects to receive consents dated as early as June 4, 2014. Consequently, Save Scio expects that it will deliver all properly completed and unrevoked written consents to the Proposals from Stockholders as soon as June 16, 2014. Nevertheless, we intend to set July 31, 2014 as the goal for submission of written consents. Effectively, this means that you have until July 31, 2014 to consent to the Proposals. WE URGE YOU TO ACT PROMPTLY TO ENSURE THAT YOUR CONSENT WILL COUNT. Save Scio reserves the right to submit to the Company consents at any time. See the section titled "Consent Procedures" for additional information regarding such procedures.

This Consent Statement is dated June 4, 2014, and this Consent Statement and the accompanying BLUE consent card are first being sent or given to the Stockholders on or about June 4, 2014.

PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED BLUE CONSENT CARD TODAY.

SAVE SCIO URGES YOU TO MARK THE BLUE CONSENT CARD (1) "CONSENT" TO SAVE SCIO'S PROPOSAL TO REPEAL ANY AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT THE APPROVAL OF STOCKHOLDERS AFTER MAY 13, 2010, (2) "CONSENT" TO SAVE SCIO'S PROPOSAL TO ADOPT THE PROPOSED AMENDED AND RESTATED BYLAWS, AND (3) "CONSENT" TO THE ELECTION OF EACH OF THE NOMINEES AS DIRECTORS.

We urge you not to revoke your consent by signing any consent revocation card sent to you by the Company or otherwise, even as a sign of protest.

According to the Company's public filings, there were 50,264,312 shares of Common Stock outstanding as of February 11, 2014. The Stockholders are entitled to one vote per share of Common Stock.

The Company has principal executive offices located at 411 University Ridge, Suite D, Greenville, SC 29601.

This Consent Statement is neither a request for the tender of, nor an offer with respect to, shares of Common Stock and does not convey record or beneficial ownership of shares of Common Stock to Save Scio.

IMPORTANT

PLEASE READ THIS CAREFULLY

If your shares of Common Stock are registered in your own name, please submit your consent to us today by following the instructions on the BLUE consent card.

If you hold your shares in "street" name with a bank, broker firm, dealer, trust company or other nominee, only they can exercise your right to consent with respect to your shares of Common Stock and only upon receipt of your specific instructions. Accordingly, it is critical that you promptly give instructions to consent to the Proposals to your bank, broker firm, dealer, trust company or other nominee. Please follow the instructions to consent provided on the enclosed BLUE consent card. If your bank, broker firm, dealer, trust company or other nominee provides for consent instructions to be delivered to them by telephone or Internet, instructions will be included with the enclosed BLUE consent card. Save Scio urges you to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to Save Scio c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003, so that Save Scio will be aware of all instructions given and can attempt to ensure that such instructions are followed.

Execution and delivery of a consent by a record holder of shares of Common Stock will be presumed to be a consent with respect to all shares held by such record holder unless the consent specifies otherwise.

Only holders of record of shares of Common Stock as of the close of business on the date the first executed consent is delivered to the Company will be entitled to consent to the Proposals. If you are a stockholder of record as of the close of business on that date, you will retain your right to consent even if you sell your shares of Common Stock after that date.

IF YOU TAKE NO ACTION, YOU WILL IN EFFECT BE REJECTING THE PROPOSALS. ABSTENTIONS AND FAILURES TO CONSENT WILL HAVE THE SAME EFFECT AS WITHHOLDING CONSENT.

If you have any questions about executing or delivering your BLUE consent card or require assistance, please contact:

ALLIANCE ADVISORS, LLC
200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003
Banks and Brokers Call Collect: (973) 873-7721
Stockholders Call Toll-Free: (855) 973-0096

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This Consent Statement contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations and the beliefs and expectations of analysts and others, are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “intend,” “plan,” “believe,” “estimate,” “ “continue,” the negative of these terms or other comparable terminology. These statements include, among others, our statements regarding the Company’s business outlook, anticipated financial and operating results, business strategy and means to implement the strategy, objectives, likelihood of success in implementing its strategy and achieving its objectives, and market valuations of the Company’s Common Stock.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our beliefs and assumptions (or those of others, as the case may be), which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the likelihood of the market to value the Company at levels reflecting multiples at which companies deemed comparable to the Company are valued. These assumptions could prove inaccurate, and forward-looking statements also involve risks and uncertainties. Accordingly, actual outcomes could differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on our current assumptions and expectations. You should recognize these statements for what they are and not rely on them as facts. Further, forward-looking statements speak only as of the date they are made, and, except to the extent required by law, we undertake no obligation to update publicly any of them in light of new information or future events.

QUESTIONS AND ANSWERS RELATING TO THIS CONSENT STATEMENT

The following are some of the questions you may have as a Stockholder, as well as the answers to those questions. The following is not a substitute for the information contained elsewhere in this Consent Statement, and the information contained below is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this Consent Statement. We urge you to read this Consent Statement carefully and in its entirety.

Who is making this solicitation?

Save Scio's members are Thomas P. Hartness, Kristoffer Mack, Paul Rapello, Glen R. Bailey, Marsha C. Bailey, Kenneth L. Smith, Bernard M. McPheely, James Carroll and Robert M. Daisley. For information regarding persons who are participating in the solicitation of written consents, and potential interests in the matters described in this Consent Statement, please see Annex A of this Consent Statement.

What are we asking you to consent to?

We are asking you to consent to the following actions on the BLUE consent card:

1. CONSENT to the repeal of any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010 (the "Bylaw Repeal Proposal");

2. CONSENT to the adoption of the Proposed Amended and Restated Bylaws (the "Bylaw Adoption Proposal"); and

3. CONSENT to the election of the Nominees to fill the vacancies resulting from the increase in the size of the Board pursuant to Proposal No. 2, if enacted, and to serve as directors on the Board until the 2015 annual meeting of Stockholders or until their respective successors are duly elected and qualified.

Please see the sections titled "Proposal No. 1: Repeal of Any Amendments to the Bylaws Adopted by the Board Without the Approval of Stockholders after May 13, 2010", "Proposal No. 2: Adoption of Proposed Amended and Restated Bylaws" and "Proposal No. 3: Election of Directors" for a more complete description.

Why are we soliciting your consent?

After study and analysis, we believe that the Company has consistently underperformed as a result of factors including, but not limited to, poor oversight by the current Board. As announced by the Company in its 8-K filed with the Commission on June 2, 2014, the Board appointed two new directors, Gerald McGuire and James Korn to the Board on May 29, 2014. Pursuant to Article II, Section 1(c) of the Bylaws, the Board may appoint additional directors, but only between successive annual meetings of the Stockholders. The Board has not convened an annual meeting of the Stockholders since the Company, formerly known as "Krossbow Holding Corporation", acquired the assets of a corporation with the name "Scio Diamond Technology Corporation" (the name of which was assumed by the Company) on August 5, 2011. None of the current directors of the Company have been nominated by the Board for election by the Stockholders at an annual or special meeting of the Stockholders or for election by written consent in lieu of a meeting of the Stockholders. As a result, we have identified, and are submitting for election by Stockholder consent, a slate of seven highly qualified Nominees to join the Board. We believe that our proposed Nominees possess the expertise, experience and commitment needed to maximize Stockholder value. Each of our Nominees was selected after careful deliberation for what we believe to be his ability to improve Company performance, and work

constructively with the management team. We believe our Nominees will, consistent with the best interests of the Company, work diligently to deliver value to all Stockholders.

The proposals to repeal any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010 and to adopt the Proposed Amended and Restated Bylaws of the Company are intended primarily to facilitate the election of the Nominees by increasing the size of the Board to 12, but are also intended to improve corporate governance by allowing more directors with different perspectives and management philosophies on the Board, and by instituting bylaws which are more appropriate for a publicly reporting Nevada corporation. For example, the Proposed Amended and Restated Bylaws eliminate the Board's ability to fix the quorum for its meetings at less than a majority of the directors. The Proposed Amended and Restated Bylaws also increase stockholder protection by preserving the stockholders' right to act by written consent in lieu of a meeting. The Proposed Amended and Restated Bylaws will also improve corporate functioning by clarifying the duties of the Company's officers. For a more detailed description of the changes which would be made by the adoption of the Proposed Amended and Restated Bylaws, see the section titled "Proposal No. 2: Adoption of Proposed Amended and Restated Bylaws".

The proposal to repeal any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010, if effected, could have the effect of repealing a bylaw amendment that is not inconsistent with or disadvantageous to the election of the Nominees or other Proposals presented in this Consent Statement.

We urge all Stockholders to support us in this effort by "CONSENTING" to the repeal of any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010, "CONSENTING" to

the adoption of the Proposed Amended and Restated Bylaws and "CONSENTING" to the election of our Nominees.

Who are the Nominees?

We are proposing that Ben Wolkowitz, Kristoffer Mack, Bernard M. McPheely, Craig Brown, Ronnie Kobrovsky, Lewis Smoak and Michael McMahon be elected as directors of the Company to serve on the Board until the 2015 annual meeting of Stockholders or until their respective successors are duly elected and qualified. Information with respect to the Nominees, and potential interests of the Nominees in the matters described in this Consent Statement, are included in the section titled "Proposal No. 3: Election of Directors" and Annex A of this Consent Statement.

The Board currently consists of five directors, the candidates for which will stand for election or re-election at the next annual meeting of Stockholders, which the Company has announced may be held in its fiscal 3rd quarter of this year (the "2014 Annual Meeting"). Save Scio, and the other participants hereunder, through this Consent Statement, are soliciting consents to elect the Nominees to serve as directors on the Board to fill vacancies created by the increase in the size of the Board to 12, pursuant to Proposal No. 2, if enacted by Stockholder consent. The Nominees are not running in opposition to the Company's nominations for directors, if any, at the 2014 Annual Meeting, and at present it is not the intent of Save Scio to remove any of the incumbent members of the Board.

If elected, the Nominees would be a majority of the directors and would alone be able to adopt resolutions or otherwise cause the Board to act. Save Scio, and the other participants hereunder, expect the Nominees to be able to actively engage other members of the Board in full discussion of the issues facing the Company and resolve them together. By utilizing their respective experiences and working constructively with other Board members and management, Save Scio believes the Nominees can effect positive change at the Company.

Save Scio has determined that Messrs. Wolkowitz, Mack, Brown, McPheely, Kobrovsky and Smoak are "independent" directors, based upon the independence criteria set forth in the corporate governance listing standards of The NASDAQ Stock Market, the exchange that Save Scio selected in order to determine whether the Nominees meet the independence criteria of a national securities exchange, as required by Item 407(a) of Regulation S-K ("Regulation S-K"). Mr. McMahon is not considered to be independent under those standards.

To Save Scio's knowledge the Company has no standing audit, compensation or nominating committees, and accordingly the full Board fulfills the functions that would otherwise be filled by such committees. As announced by the Company in a press release filed as an exhibit to a Form 8-K filed with the Commission on June 2, 2014, the Board announced the completions of Committee Charters for the Board's Audit, Compensation, Nominating and Corporate Governance Committees. As of the date of this Consent Statement, the Board has not announced the appointment of any members of these committees. Messrs. Wolkowitz, Mack, Brown, McPheely, Kobrovsky and Smoak meet the independence criteria applicable to members of such committees as set forth in the corporate governance listing standards of The NASDAQ Stock Market. Mr. McMahon does not meet those criteria.

In light of some of the public comments he has made, has Mr. McMahon agreed to be a Nominee and will he serve as a director of the Company if elected by written consent?

Yes. Mr. McMahon has publicly stated in a press release attached to the Company's soliciting materials filed on April 22, 2014, among other things, that:

- he does not "have any plans on working with" Save Scio;

- he does "not otherwise support [Save Scio's] proposals in any manner;"
- "the proposals and maneuvers" [like that of Save Scio] "are detrimental to all of [the Company's] shareholders;"
- "the management team of Scio has and will continue to support and execute the actions of the Board;" and
- "in [his] judgment, during [his] tenure as CEO, the Board's actions have intended to enhance and protect shareholder value."

Notwithstanding these statements, Mr. McMahon has confirmed to Save Scio that he has consented and will continue to consent to being named as a Nominee in this Consent Statement and, if elected, to serving as a director of the Company.

In connection with its review of Save Scio's preliminary consent statement on Schedule 14A filed with the U.S. Securities and Exchange Commission (the "Commission") on April 14, 2014, the staff of the Commission requested a written statement by each member of Save Scio and the Nominees, including Mr. McMahon, acknowledging that:

- that person is responsible for the adequacy and accuracy of the disclosure in Save Scio's filings;

- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to Save Scio's filings; and

- that person may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

Save Scio notified Mr. McMahon of the Commission's request. As of the date of this Consent Statement Mr. McMahon has not provided such a written statement to the Commission.

Who can consent to the Proposals?

Pursuant to Nevada law, if you are a record owner of shares of Common Stock as of the first date on which any Stockholder delivers to the Company a consent signed by a Stockholder, you have the right to consent to the Proposals.

You also have the right to consent to the Proposals with respect to any shares of Common Stock of which you are the beneficial owner as of as of the first date on which any Stockholder delivers to the Company a consent signed by the Stockholder, but which are registered in the name of a bank, broker firm, dealer, trust company or other nominee. Please see the section titled "Consent Procedures" for details regarding how to instruct your bank, broker firm, dealer, trust company or other nominee to consent to the Proposals.

Won't there be an annual meeting of Stockholders later this year where we can elect directors of the Company?

As announced by the Company in a press release filed as an exhibit to a Form 8-K filed with the Commission on April 29, 2014, the Board "has set a tentative schedule for a stockholders' meeting during the Company's fiscal 3rd quarter." The Company has not had an annual meeting since March 2011 in violation of Nevada law and the Bylaws, which require the Company to hold annual Stockholders' meetings. Because the Board has only tentatively scheduled a stockholders meeting during the Company's fiscal 3rd quarter, and no definitive date has been set, it is possible that a stockholders meeting may not be held during the Company's fiscal 3rd quarter. Save Scio is soliciting consents pursuant to this Consent Statement because we believe a director election by written consent in lieu of a meeting is necessary at this time in order to capitalize on the Company's technology and increase the value for all Stockholders. Save Scio believes that, given the Company's dramatic decrease in stock price in the last two years and historical operating losses, it is imperative to enact the corporate governance reforms proposed in Proposal Nos. 1, 2 and 3 as soon as possible rather than waiting until the Company's fiscal 3rd quarter.

Will my consent be valid under the Amended and Restated Bylaws announced by Scio effective April 8, 2014?

As announced by the Company in a press release filed as an exhibit to a Form 8-K filed with the Commission on April 15, 2014, the Board purported to amend and restate the Bylaws to, among other things, prohibit Stockholder action by written consent, except in instances approved in advance by the Board. Save Scio has objected to this action by the Board as being inconsistent with Nevada law and the right of Stockholders to take action by a majority of outstanding shares held, and has requested that the Board approve Stockholder action by written consent to enact our Proposals, however as of the date of this Consent Statement the Board has not replied to our request. It is possible the Board may deny our request with respect to one or more of our Proposals, in which case Stockholder action by written consent with respect to those Proposals which the Board denies the ability to enact by written consent will not be

permitted under the express language of the Bylaws as amended by the amendments announced by Scio on April 15, 2014 (the "Amended and Restated Bylaws"), and any consents so granted may be invalid.

Save Scio maintains that some or all of the Amended and Restated Bylaws, including the provisions eliminating the ability of Stockholders to act by written consent in lieu of a meeting, except in instances approved in advance by the Board, were illegally enacted and violate Nevada law, and are therefore unenforceable. Save Scio alleges that the Amended and Restated Bylaws violate the express provisions of Nevada corporation statutes, and also constitute an unreasonable and disproportionate response to Save Scio's efforts to reform Scio's corporate governance practices. At present Save Scio intends to challenge in a court of law the validity of Amended and Restated Bylaws which it believes were illegally adopted by Scio. If Save Scio is able to obtain injunctive relief from a court, and the provision of the Amended and Restated Bylaws limiting the ability of Stockholders to act by written consent is repealed, your consent, if granted pursuant to this Consent Statement, will be valid and enact the Proposals by

written consent in accordance with the Bylaws and Nevada law if the approval requirements set forth in this Consent Statement are reached.

Although it is Save Scio's current intention to seek injunctive relief to permit Stockholder action by written consent, Save Scio may decline to pursue such injunctive relief. In addition, it is also possible, although we cannot say to what degree of probability, that a court may deny any injunctive relief. In either case, unless the provision of the Amended and Restated Bylaws eliminating the ability of Stockholders to act by written consent in lieu of a meeting, except in instances approved in advance by the Board is repealed by the Board or otherwise determined to be invalid, any consents granted pursuant to this Consent Statement may be invalid if the Board denies our request for advance approval to act by written consent.

Will my consent be affected by, or have any effect on, the Common Stock purchase rights distributed for each share of Common Stock held by Stockholders of record on April 25, 2014?

No. The Company announced in a press release filed as an exhibit to a Form 8-K filed with the Commission on April 16, 2014 that it adopted a shareholder rights plan (the "Shareholder Rights Plan"), which is scheduled to expire on April 15, 2017. This type of shareholder rights plan is sometimes referred to as a "poison pill." Under the Shareholder Rights Plan, one common stock purchase right will be distributed for each share of Common Stock held by Stockholders of record on April 25, 2014. Subject to certain exceptions, the rights will be exercisable if a person or group acquires 17% or more of the Company's Common Stock (including the number of shares that are synthetically owned pursuant to derivative transactions or ownership of derivative securities) or announces a tender offer for 17% or more of the Common Stock. Under certain circumstances, each right will entitle stockholders to buy one share of common stock of the Company at an exercise price of $1.20. The Board will be entitled to redeem the rights at $0.001 per right at any time before a person or group has acquired 17% or more of the outstanding common stock. The rights will expire on April 15, 2017, subject to the Company's right to extend such date, unless earlier redeemed or exchanged by the Company or terminated.

Subject to limited exceptions, if a person or group acquires 17% or more of the outstanding Common Stock or announces a tender offer for 17% or more of the Common Stock (we refer to such a person or group as an "acquiring person"), each right will entitle the right holder to purchase, at the right's then-current exercise price, a number of shares of Common Stock having a market value at that time of twice the right's exercise price. Rights held by the acquiring person will become void and will not be exercisable. If the Company is acquired in a merger or other business combination transaction that has not been approved by the Board after the rights become exercisable, each right will entitle its holder to purchase, at the right's then-current exercise price, a number of shares of the acquiring company's common stock having a market value at that time of twice the right's exercise price.

Save Scio does not intend to acquire 17% or more of the outstanding Common Stock or announce a tender offer for 17% or more of the Common Stock while the plan is effective. In addition, under the terms of the plan, the execution of consents pursuant to this Consent Statement does not constitute an acquisition by Save Scio or any other person such as to trigger the ability to purchase Common Stock at a discount as described above. As a result, the solicitation of consents and the grant of consents pursuant to this Consent Statement will have no effect on the rights of Stockholders under the plan.

When is the deadline for submitting consents?

Under Nevada law and the Bylaws there is no deadline for submitting consents. Nevertheless, we intend to set July 31, 2014, as the goal for submission of written consents. Regardless of when consents are submitted, we will submit all consents we have received to the Company prior to or immediately upon receiving consents representing more than 50% of the issued and outstanding Common Stock consenting in the affirmative on Proposal Nos. 1 and 2. WE URGE YOU TO ACT PROMPTLY TO ENSURE THAT YOUR CONSENT WILL COUNT. Save Scio reserves the right to submit to the Company consents at any time. See the section titled "Consent Procedures" for additional information regarding such procedures.

How many consents must be granted in favor of each of the Proposals?

Assuming the provisions in the Amended and Restated Bylaws eliminating the ability of Stockholders to act by written consent without the Board's advance approval are repealed or otherwise found to be invalid or the Board grants our request to act by written consent, each of the Bylaw Repeal Proposal, the Bylaw Adoption Proposal and the election of each Nominee to the Board would be adopted and become effective when properly completed,

unrevoked consents are signed by the holders of a majority of the shares of Common Stock entitled to consent to such matters and the consents are delivered to the Company. According to the Company's Form 10-Q filed with the Commission on February 14, 2014, there were 50,264,312 shares of Common Stock outstanding as of February 11, 2014.

Assuming that the number of outstanding shares of Common Stock remains 50,264,312, the consent of stockholders holding at least 25,132,157 shares of Common Stock would be necessary to enact each of the Bylaw Repeal Proposal, the Bylaw Adoption Proposal and the election of each Nominee to the Board.

IF YOU TAKE NO ACTION, YOU WILL IN EFFECT BE REJECTING THE PROPOSALS. ABSTENTIONS AND FAILURES TO CONSENT WILL HAVE THE SAME EFFECT AS WITHHOLDING CONSENT.

What should you do to consent?

If your shares of Common Stock are registered in your own name, please submit your consent to us by completing, signing, dating and returning the enclosed BLUE consent card in the postage-paid envelope provided.

If you hold your shares in "street" name with a bank, broker firm, dealer, trust company or other nominee, only they can exercise your right to consent with respect to your shares of Common Stock and only upon receipt of your specific instructions. Accordingly, it is critical that you promptly give instructions to consent to the Proposals to your bank, broker firm, dealer, trust company or other nominee. Please follow the instructions to consent provided on the enclosed BLUE consent card. Save Scio urges you to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to Save Scio by mail c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at their address and toll-free numbers listed below, so that Save Scio will be aware of all instructions given and can attempt to ensure that such instructions are followed.

ALLIANCE ADVISORS, LLC
200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003
Banks and Brokers Call Collect: (973) 873-7721
Stockholders Call Toll-Free: (855) 973-0076

Whom should you call if you have questions about the solicitation?

Please call Alliance Advisors, LLC, which is assisting us as consent solicitor, at their address and toll-free numbers listed above.

What does it mean if I receive more than one BLUE consent card at or about the same time?

It generally means you hold shares registered in more than one account. In order to vote all of your shares, please complete, sign, date and return each BLUE consent card you receive.

How do I revoke a consent?

An executed consent card may be revoked at any time by marking, dating, signing and delivering a written revocation before the time that the action authorized by the executed consent becomes effective. Revocations may only be made

by the record holder that granted such consent. A revocation may be in any written form validly signed by the record holder as long as it clearly states that the consent previously given is no longer effective. The delivery of a subsequently dated consent card that is properly completed will constitute a revocation of any earlier consent. The revocation may be delivered either to Save Scio, or to the principal executive offices of the Company. Although a revocation is effective if delivered to the Company, Save Scio requests that either the original or photostatic copies of all revocations of consents be mailed or delivered to Save Scio c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003, so that Save Scio will be aware of all revocations and can more accurately determine if and when sufficient unrevoked consents to the actions described in this Consent Statement have been received.

PLEASE DO NOT RETURN ANY WHITE OR OTHER COLOR CONSENT CARD YOU MAY RECEIVE FROM THE COMPANY OR OTHERWISE GRANT A CONSENT FOR YOUR SHARES OF COMMON STOCK, EVEN AS A SIGN OF PROTEST.

Who is paying for the solicitation on behalf of Save Scio?

Save Scio will bear all costs of the solicitation of consents on behalf of Save Scio and the other participants described on Annex A. Pursuant to a Group Voting Agreement, dated as of April 14, 2014, by and among the members of Save Scio, Mr. McPheely is directly responsible for bearing the costs of the solicitation of consents on behalf of Save Scio and the other participants described on Annex A, and is entitled to reimbursement of such costs

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by the other members of Save Scio. Article II, Section 12 of the Proposed Amended and Restated Bylaws provides for the reimbursement of reasonable expenses incurred in connection with nominating one or more candidates in a contested election of directors to the Board, including, without limitation, printing, mailing, legal, solicitation, travel, advertising and public relations expenses, so long as (a) one or more candidates nominated by the nominator are elected to the Board, (b) Stockholders are not permitted to cumulate their votes for directors, (c) the election occurred concurrent with or after the bylaw's adoption, and (d) doing so would not cause the directors to violate their fiduciary duties to the Company. The amount paid to a nominating Stockholder under this bylaw in respect of a contested election cannot exceed the amount expended by the Company in connection with the election.

Save Scio estimates the total amount to be spent in furtherance of or in connection with the solicitation of security holders of the Company to be approximately $200,000. Save Scio's aggregate expenditures to date in furtherance of or in connection with the solicitation of security holders of the Company are less than $111,000.

If all (or some of) the Nominees are elected, Save Scio intends to seek reimbursement of those costs from the Company, subject to any restrictions based on applicable law or in the Company's Articles of Incorporation or Bylaws. Save Scio does not currently intend to submit the reimbursement of the costs of its solicitation efforts to a vote of the Stockholders for approval.

Save Scio has retained Alliance Advisors, LLC to act as an advisor in connection with this consent solicitation. In connection with its retention by Save Scio, Alliance Advisors, LLC has agreed to provide consulting and analytical services and solicitation services with respect to banks, brokers, institutional investors and individual Stockholders. Save Scio has agreed to pay Alliance Advisors, LLC a fee for its services estimated to be not more than $25,000 and to reimburse Alliance Advisors, LLC for its reasonable out-of-pocket expenses. Save Scio also has agreed to indemnify Alliance Advisors, LLC against certain liabilities and expenses in connection with this consent solicitation, including liabilities under the federal securities laws. Approximately 25 employees of Alliance Advisors, LLC will engage in the solicitation. Proxies may be solicited by mail, advertisement, telephone, facsimile or in person. Solicitations may also be made by persons affiliated with Save Scio. However, no such person will receive additional compensation for such solicitation other than Alliance Advisors, LLC.

PROPOSAL NO. 1: REPEAL OF ANY AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT THE APPROVAL OF STOCKHOLDERS AFTER MAY 13, 2010

Save Scio has proposed to repeal any amendments to the Bylaws adopted by the Board without the approval of Stockholders after May 13, 2010 (the date of the first public disclosure of the Bylaws). This Proposal could have the effect of repealing a bylaw amendment that is not inconsistent with or disadvantageous to the election of the Nominees or other proposals presented in this Consent Statement. The text of the proposed resolution is below:

RESOLVED, that the Bylaws are hereby amended to repeal any amendments thereto adopted by the Board without Stockholder approval after May 13, 2010 and prior to or concurrently with the effectiveness of this Resolution.

WE STRONGLY URGE YOU TO "CONSENT" TO AND USE THE BLUE CONSENT CARD TO AUTHORIZE THE RESOLUTION TO REPEAL ANY AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT THE APPROVAL OF STOCKHOLDERS AFTER MAY 13, 2010.

PROPOSAL NO. 2: ADOPTION OF PROPOSED AMENDED AND RESTATED BYLAWS

Save Scio has proposed, pursuant to Article X, Section 2 of the Bylaws (or Article IX, Section 2 of the Amended and Restated Bylaws, as applicable), to amend and restate the Bylaws as set forth in Annex B to this Consent Statement.

Save Scio believes that it is in the best interests of the Company and its Stockholders that the Proposed Amended and Restated Bylaws be adopted to permit the Nominees to exercise their rights as directors if and when elected. Regardless of whether the Nominees are elected to the Board, Save Scio believes that the Amended and Restated Bylaws improve the corporate governance of the Company by providing bylaws more appropriate for a publicly reporting company. For example, the Proposed Amended and Restated Bylaws eliminate the Board's ability to fix the quorum for its meetings at less than a majority of the directors. The Amended and Restated Bylaws also increase Stockholder protection by preserving the Stockholders' right to act by written consent in lieu of a meeting. The Amended and Restated Bylaws will also improve corporate functioning by clarifying the duties of the Company's officers.

Article VII, Section 1 of the Proposed Amended and Restated Bylaws also includes a provision which prevents the further amendment of the Bylaws unless such amendments are adopted by the Stockholders, by the Board when such power is conferred upon the Board by the Company's Articles of Incorporation or at any special meeting of the Stockholders or the Board if notice of such alteration, amendment, repeal or adoption of new bylaws be contained in the notice of such special meeting. If the power to adopt, amend or repeal bylaws is conferred upon the Board by the Company's Articles of Incorporation, it will not divest or limit the power of the Stockholders to adopt, amend or repeal bylaws.

While Save Scio maintains that some or all of the amendments made in the Amended and Restated Bylaws are invalid (please see the section titled "Questions and Answers Relating to This Consent Statement" for a more detailed explanation as to why Save Scio believes some or all of the provisions of the Amended and Restated Bylaws are illegal and/or invalid), it is possible that some or all of the provisions of the Amended and Restated Bylaws may be considered to be legal and valid. That being the case, below is a brief description of the ways in which the Proposed Amended and Restated Bylaws would modify (i) the Bylaws as they existed prior to April 8, 2014 (the "Original Bylaws"), and (ii) the Amended and Restated Bylaws.

Ways in Which the Proposed Amended and Restated Bylaws Differ from the Original Bylaws

The Proposed Amended and Restated Bylaws:

- Update the name of the Company
- Add information about the registered agent and places of business
- Enable Stockholders to call special meetings by written demand
- Increase the quorum for Stockholders' meetings from two persons to a majority of the outstanding shares entitled to vote
- Eliminate provisions that excuse failure to give notice of Stockholders' meetings
- Require directors, in the event directors are not elected at the time designated for the annual Stockholders' meeting, to cause the election to be held at a special meeting as soon as convenient

- Enable Stockholders and directors to waive notice of meetings
- Ensure that a chairman is not elected at Stockholders' meetings with less than a quorum
- Specify what business may be conducted at adjourned Stockholders' meetings
- Remove the requirement that proxies be appointed in writing and deposited with the Company
- Ensure that stock transfer books do not close after the record date for Stockholder action
- Require the Company to furnish lists of Stockholders entitled to vote at each meeting
- Allow Stockholders to recover expenses incurred to nominate certain director candidates

- Eliminate the chairman's power to conclusively resolve disputes about eligibility to vote at Stockholders' meetings
- Fix the number of directors at 12
- Require a majority of directors as a quorum for Board meetings
- Authorize the Board to fill all director vacancies as necessary between annual meetings
- Revise provisions about setting directors' and officers' compensation
- Clarify when directors are presumed to have assented to corporate action
- Revise eligibility and voting rules for committees
- Explain the duties of corporate officers and ensure their removal does not prejudice their contract rights
- Provide a mechanism to fill officer vacancies
- Require officers to reimburse the corporation for certain non-deductible expenses
- Provide mandatory and contractually protected indemnification of directors and officers under certain circumstances
- Revise provisions regarding indemnity and insurance for directors and similar persons serving other entities
- Permit advancement of litigation expenses
- Change the procedure for indemnification decisions
- Revise provisions regarding share transfers and delete rules governing fractional shares
- Eliminate restrictions on borrowing power to give the Company greater flexibility
- Preserve Stockholders' power to adopt, amend or repeal the bylaws and, if such action is taken at a special meeting, require the action to be contained in the notice

Ways in Which the Proposed Amended and Restated Bylaws Differ from the Amended and Restated Bylaws

The Proposed Amended and Restated Bylaws:

- Add information about the registered agent and places of business
- Enable Stockholders to call special meetings by written demand
- Eliminate provisions that excuse errors in giving notice regarding stockholders' meetings
- Require directors, in the event directors are not elected at the time designated for the annual Stockholders' meeting, to cause the election to be held at a special meeting as soon as convenient

- Permit Stockholders to take action by written consent without the approval of the Board
- Eliminate the requirement that proxies be appointed in writing and deposited with the Company and place a three-year limit on proxy effectiveness
- Ensure that stock transfer books do not close after the record date for Stockholder action
- Protect Stockholders’ notice of adjourned meetings by deleting exceptions to the notice requirement and allowing the Board to set a record date preceding the resolution adopting that record date
- Require a majority of shares entitled to vote to approve all Stockholder action
- Allow Stockholders to recover expenses incurred to nominate certain director candidates
- Lift restrictions on the manner of nominating directors
- Eliminate the advance notice procedures for director nominations and Stockholder proposals

- Fix the number of directors at 12
- Increase directors’ notice for special meetings from 24 to 72 hours
- Clarify when directors are presumed to have assented to corporate action
- Revise eligibility and voting rules for committees
- Explain the duties of corporate officers
- Revise provisions about setting officers’ compensation
- Require officers to reimburse the Company for certain non-deductible expenses
- Relax restrictions on non-certificated shares
- Conform the amounts eligible for indemnification to Nevada law
- Change the procedure for indemnification decisions
- Remove special amendment procedure for indemnification bylaws
- Confirm the Board’s authority to set indemnification amounts for employees and agents
- Revise provisions regarding share transfers and delete rules regarding fractional shares
- Eliminate restrictions on borrowing power to give the Company greater flexibility
- Preserve Stockholders’ power to adopt, amend or repeal the Bylaws and, if such action is taken at a special meeting, requiring the action to be contained in the notice
- Delete super-majority approval requirements for certain transactions
- Lift restrictions on the forum for adjudication of disputes
- Remove provisions that insulate directors and officers from liability for breaches of fiduciary duty

Therefore, Proposal No. 2 seeks to adopt a resolution to adopt the Proposed Amended and Restated Bylaws as the bylaws of the Company in the following form:

RESOLVED, that the Proposed Amended and Restated Bylaws, as described in the accompanying Consent Statement, be, and hereby are, adopted as the bylaws of the Company, effective immediately.

WE STRONGLY URGE YOU TO “CONSENT” TO AND USE THE BLUE CONSENT CARD TO AUTHORIZE THE RESOLUTION TO ADOPT THE PROPOSED AMENDED AND RESTATED BYLAWS OF THE COMPANY.

PROPOSAL NO. 3: ELECTION OF DIRECTORS

We propose that the Stockholders consent to the election of Ben Wolkowitz, Kristoffer Mack, Bernard M. McPheely, Craig Brown, Ronnie Kobrovsky, Lewis Smoak and Michael McMahon as directors of the Company. The Board is currently composed of three directors whose terms expired at the Company's 2012 annual meeting of Stockholders, and two directors whose terms will expire at the 2014 Annual Meeting. Mr. McPheely was a member of the Board from August 13, 2012 until he resigned from the Board on May 13, 2013.

Set forth below are the names, ages, business addresses and business experience for the past five years and certain other information for the individuals nominated by Save Scio as the Nominees to stand for election by written consent. This information has been furnished to Save Scio by the Nominees. Except as specifically provided herein, none of the corporations or other organizations in which any Nominee carried on his principal occupations or employment during the past five years is a subsidiary or other affiliate of the Company. In addition, the table below sets forth a brief discussion of the specific experience, qualifications, attributes or skills that led to the conclusion that the Nominee should serve as a director of the Company as of the date of this Consent Statement, in light of the Company's business and structure.

Nominees

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
Ben Wolkowitz Age 68	32 Dellwood Drive Madison, NJ 07940	Mr. Wolkowitz has had an extensive career in finance and economics. Most recently he headed Madison Financial Technology Partners, a consulting firm that advised technology companies on how to position their products for the financial services industry. Previously he was a Managing Director at Morgan Stanley where he had several assignments in the Fixed Income Division over a sixteen-year career. Initially he set up and ran their financial futures brokerage operation, then ran a significant portion of the Fixed Income sales force. He also was the head of Fixed Income Research and as his last assignment, prior to retiring, he managed a \$100 million portfolio of technology companies in which Morgan Stanley had made investments. Prior to joining Morgan Stanley he was with Citicorp where he started and ran their fixed income futures brokerage operation. Before the New York phase of his career Mr. Wolkowitz was with the Board of Governors of the Federal Reserve System where he was in charge of Financial Studies, a department in the Division of Research and Statistics. His team was responsible for analyzing and advising Governors of the Board on financial markets and financial institutions. Mr. Wolkowitz joined the Fed after

teaching at Tulane University in the economics department. At that time he was also a consultant to the Urban Institute in Washington, D.C.

Mr. Wolkowitz has written and lectured extensively worldwide on both theoretical and applied topics in economics and finance. In addition he co−authored a book, Bank Capital, and has several articles republished in anthologies on financial and economic topics. Mr. Wolkowitz has a BA cum laude from Queens College and a PhD in economics from Brown University.

Mr. Wolkowitz is also a Town Council Member, Madison N.J. and a member of the Advisory Board of the Great Swamp Watershed Association.

Mr. Wolkowitz headed Madison Financial Technology Partners until December 2011. Mr. Wolkowitz has had no other employment during the past five years.

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
		Mr. Wolkowitz's extensive high-level regulatory experience and connections in the financial industry led Save Scio to the conclusion that he should serve as a director of the Company.
Kristoffer Mack Age 50	515 Madison Avenue Suite 1300 New York, NY 10022	Mr. Mack is a Senior Managing Director and Co-Founder of WaveCrest Securities, LLC, a FINRA registered broker dealer and has held such position since January 2013. Mr. Mack has over 26 years of investment banking experience during which time he has held senior level positions in leverage finance, high yield and debt capital markets with Deutsche Bank, Morgan Stanley, Bankers Trust and Drexel Burnham Lambert. Mr. Mack worked for Deutsche Bank from 1999 to December 2010, where he held the position of Managing Director of the Investment Banking Divisions. From December 2010 to February 2012 Mr. Mack was a Managing Director of Focus Capital. From February 2012 to December 2012 Mr. Mack was not officially employed but engaged in the founding of WaveCrest. Throughout his career, he has executed a broad range of advisory, financing and capital raising assignments on behalf of US and international clients. Prior to founding WaveCrest Securities, Mr. Mack was Senior Managing Director of Focus Capital Group, Inc. from 2010-2012. He also spent 11 years in senior positions at Deutsche Bank. Most recently, he was Managing Director and Global Head of Hedge Fund coverage for Deutsche Bank investment banking department in New York. Prior to leading global hedge fund coverage, Mr. Mack spent 6 years in Tokyo, Japan, where he founded and ran Deutsche Bank's principal investment, leverage finance, sponsor coverage and real estate finance businesses in the Asia Pacific region with a specific focus on the Chinese and Japanese regions. In addition to these responsibilities, Mr. Mack was a member of the Asia Pacific management committee and he established and managed a $1.5 billion internal investment fund focused on investing in non–performing and under-performing assets in the Japanese and Chinese markets.

		Mr. Mack has lived, worked and studied in Asia for eight years and has extensive business, political and cultural experience in the region. Mr. Mack holds a BA in International Economics and Japanese language, magna cum laude, from Georgetown University and an MBA from Wharton School of Business. He is a Phi Beta Kappa honors recipient and speaks fluent Japanese. Mr. Mack currently sits on the Boards of Georgetown University and Styleowner, Inc. Mr. Mack's extensive skills and experience in the financial industry led Save Scio to the conclusion that he should serve as a director of the Company.
Bernard M. McPheely Age 62	P.O. Box 26509 Greenville, SC 29615	Bern McPheely recently retired in December 2012 as President of Hartness International after more than 35 years of service. A leader in total solutions to the packaging industry, Hartness provides equipment globally to more than 100 countries. From startup and under Bern's guidance, Hartness was profitable every quarter since

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
		1982. He spearheaded short and long term strategic planning, including four major company-wide transformations to reposition the Hartness value proposition, product portfolio and go-to-market strategy. Bern negotiated and executed the sale of Hartness to ITW (Illinois Tool Works) and was responsible for shepherding the transition from a family owned business to a public company. He has also been responsible for successful synergistic acquisitions. From 2000-2002 Bern was chairman of the PMMI ($6 billion member packaging association) and currently is on the Board of Directors of Dorner Manufacturing Corp. in Hartland Wisconsin. Bern was honored by Start Magazine as one of the top ten "CEO Visionaries Who Ignite Technology" and has briefed President Clinton and cabinet members on the state of US business. Bern previously worked with the US Department of Commerce. A graduate of The Thunderbird Graduate School of International Management, Bern also received his undergraduate degree from Albion College in Albion Michigan. Mr. McPheely was a member of the Board from August 13, 2012 until Mr. McPheely resigned from the Board on May 13, 2013. Mr. McPheely's past experience as a director of the Company, his business acumen and his potential to connect with investors led Save Scio to the conclusion that he should serve as a director of the Company.
Craig Brown Age 63	945 S. Main Street Greenville, SC 29601	Craig Brown has been the President and CEO of Keelers Ridge Associates, a private equity and consulting firm that is engaged in investment and entrepreneurial activities involving sports, technology, and marketing since 2003. He is an active investor and Board member of several companies, including The Baseball Factory, a firm that is the leader in college placement and skill development for high school athletes. Brown is also the President and Co-owner of the Greenville Drive baseball team, the South Atlantic League affiliate of the Boston Red Sox. Brown also led the construction of Fluor Field,

the Drive's award winning stadium in Downtown Greenville. Fluor Field is one of a handful of privately owned stadiums in America and was named Ballpark of the Year upon its debut in 2006. Fluor Field and the Greenville Drive have proven to be catalysts for community engagement and economic growth and development in the region.

Prior to founding Keelers Ridge Associates, Mr. Brown spent 23 years as a key executive in the globalization of the advertising industry, most recently as President and Chief Operating Officer of the Bcom3 Group, an advertising and communications services holding company. Over the course of his career in advertising, Mr. Brown was a principal executive in the industry's three largest and most defining mergers, including the merger of Leo Burnett and The MacManus Group to form Bcom3 and the $4,000,000,000 merger of Bcom3 and the Publicis Groupe. The merger with Bcom3 transformed the Publicis Groupe into one of four firms that dominate the global advertising industry. After the acquisition, Mr. Brown served as an executive of Publicis for 15 months in a transitional capacity and as a director of OBSA Settlement Corporation, an entity formed to monetize the debt consideration received by Bcom3 shareholders in the merger with Publicis.

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
		From 1996 until the formation of Bcom3 in 2000, Mr. Brown served as Vice Chairman, Chief Operating Officer and Chief Financial Officer of The MacManus Group. In those positions, Mr. Brown led The MacManus Group's successful program of global growth via acquisitions and services diversification. This program resulted in the acquisition and integration of over 100 individual companies across all major global geographies and marketing services disciplines. Mr. Brown also pioneered the use of a shared service organization in the industry through the creation of re:SOURCES, the award-winning shared services organization which provides support services in the areas of finance, information technology and administration to agency operating units in all major markets. Mr. Brown joined D'Arcy MacManus & Masius in 1980 and was named its Corporate Executive Vice President and Chief Financial Officer in 1983. Mr. Brown assumed the role of Chief Financial Officer of DMB&B in 1986—following the merger of Benton & Bowles and D'Arcy MacManus Masius—the industry's first mega merger. Mr. Brown started his career in 1972 with Arthur Andersen & Co., and served eight years as a certified public accountant after receiving his Bachelor of Arts degree from Michigan State University. Brown is an active alumnus of Michigan State where he currently serves as Chairman of Spartan Innovations an organization devoted to the commercialization of the University's Intellectual Property. In 2003 the University bestowed upon him the Distinguished Alumnus award, the highest award granted to graduates of MSU. Brown is also a member of the MSU Athletic Director's Council and is the past Chairman and current Board member of the Michigan State University Research Foundation. Mr. Brown also serves on the Board of Directors of The Partnership at Drugfree.org where he is Board Treasurer, the Hydrocephalus Association, where he is Vice Chairman, and is a founding Board member of MiLB Enterprises which oversees brand marketing for Minor League Baseball.

He previously served on the Board of Directors for the USA Ski and Snowboard Team, the Advisory Board of the Eli Broad School of Management at Michigan State University, and "Just Say No, International" where he had a six-year term as the National Board Chairman.

Mr. Brown and his wife Vicki have three grown children and live in Naples, Florida and Greenville, South Carolina. Mr. Brown is an active runner and enjoys golf, skiing and all forms of sports.

Mr. Brown's business acumen, his connections in the capital raising industry and his potential to connect with investors led Save Scio to the conclusion that he should serve as a director of the Company.

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
Ronnie Kobrovsky Age 63	Central Bottling Company PO Box 555 Bnei-Brak 51104 Israel	Ronnie Kobrovsky, 63, joined the Central Bottling Company in 1976 and served CBC until 1995 in various capacities, including Production Engineer, Chief Engineer and, from 1985 to 1995, as Deputy General Manager. Mr. Kobrovsky has been President of CBC since 2002. In 1996, Mr. Kobrovsky built and managed International Beer Breweries ("Carlsberg Israel" and "Prigat Israel") and United Romanian Breweries (Tuborg Romania) serving as Chairman and CEO of both companies. In 1998 he returned to CBC as General Manager, and in 2002 he was appointed President of CBCGroup. Mr. Kobrovsky is a graduate of Tel Aviv University with a degree in Industrial Engineering. In 1994 he received an Executive MBA from the Recanati School of Management at Tel Aviv University. Mr. Kobrovsky has served as Chairman of the Food Industries Association at the Manufacturers' Association of Israel and has also served as the Chairman of the Manufacturers' Association. He has served as Chairman and Director of Turk Tuborg Brewing & Malting Inc. since 2008. He is married to Etty; they have three children and five grandchildren. In 2008, Ronnie was awarded the "Lifetime Achievement in Industry Award" by the Chairman of the Israeli Knesset on behalf of the Manufacturers' Association of Israel, in recognition of his "contribution to Israeli industry, economy and society" and the realization of the vision of turning the Central Bottling Company Group into a thriving group of companies, which sets the tone for the beverage and food markets in 21st century Israel. Mr. Kobrovsky's business acumen and potential to connect with investors, as well as his connections in the European markets, led Save Scio to the conclusion that he should serve as a director of the Company.
Lewis Smoak	c/o Ogletree, Deakins, Nash,	Mr. Smoak is a founding partner of Ogletree, Deakins, Nash, Smoak & Stewart, which was founded in 1977.

Age 70	Smoak & Stewart, P.C. P.O. Box 2757 Greenville, SC 29602	During more than 44 years of representing companies in labor and employment matters, he has personally handled approximately 300 union organizing and decertification campaigns. He has extensive experience in the development and implementation of preventive labor relations programs for clients in all regions of the country. He is among the one percent of U.S. lawyers listed in The Best Lawyers in America, and has also been selected by his peers for inclusion in the ABA's College of Labor and Employment Lawyers, and Chambers USA Leading Lawyers in America. Mr. Smoak is the author of three comprehensive nationwide labor relations studies in the construction industry. He has served on the Greenville (president) and South Carolina State Chambers of Commerce and currently serves on the State Chamber's Good Government Committee. He has served since 2002 as a member of South Carolina BIPEC's Board and its Executive Committee since 2004.

Name and Age	Business Address	Principal Occupation or Employment and Public Company Directorships, in Each Case During the Last Five Years
		He focuses community efforts on early childhood education issues, including service on United Way's Success by Six Board, and chairing both Greenville County (2001-2003) and the State of South Carolina's First Steps for School Readiness Board of Trustees (2003-2013). For his work in early childhood education, he was recognized and received the 2006 Ellis Island Medal of Honor. Mr. Smoak's legal expertise as a practicing attorney led Save Scio to the conclusion that he should serve as a director of the Company.
Michael McMahon Age 63	411 University Ridge Suite D Greenville, SC 29601	Mr. McMahon has been the Chief Executive Officer of the Company since February 2013. He was previously the Company's Chief Operating Officer from October 2011 to February 2013. Mr. McMahon is a graduate of the University of Cincinnati and has over 30 years of senior management leadership experience. Prior to joining the Company, he served as President of Unique Solutions, a startup systems and project management firm, from 2006 to 2011. He has also held Senior Executive Positions at Fluor Corporation, Jacobs Engineering, and CRSS, Inc., managing the design and construction of over 19 billion dollars of constructed value worldwide, much of it in high technology. Mr. McMahon's experience and performance as Chief Executive Officer of the Company led Save Scio to the conclusion that he should serve as a director of the Company.

The Nominees, if elected by Stockholder consent, would hold office until the 2015 annual meeting of Stockholders or until their respective successors have been duly elected and qualified. Each of the Nominees has consented to being named as a Nominee in this Consent Statement and, if elected, to serving as a director of the Company.

The Board currently consists of five directors, the candidates for which will stand for election or re-election at the 2014 Annual Meeting. Save Scio, and the other participants hereunder, through this Consent Statement, are soliciting consents to elect the Nominees to serve as directors on the Board to fill vacancies created by the increase in the size of the Board to 12, pursuant to Proposal No. 2, if enacted by Stockholder consent. The Nominees are not running in

opposition to the Company's nominations for directors, if any, at the 2014 Annual Meeting, and at present it is not the intent of Save Scio to remove any of the incumbent members of the Board.

If elected, the Nominees would be a majority of the directors and would alone be able to adopt resolutions or otherwise cause the Board to act. Save Scio, and the other participants hereunder, expect the Nominees to be able to actively engage other members of the Board in full discussion of the issues facing the Company and resolve them together. By utilizing their respective experiences and working constructively with other Board members and management, Save Scio believes the Nominees can effect positive change at the Company.

Save Scio has determined that Messrs. Wolkowitz, Mack, Brown, McPheely, Kobrovsky and Smoak are "independent" directors, based upon the independence criteria set forth in the corporate governance listing standards of The NASDAQ Stock Market, the exchange that Save Scio selected in order to determine whether the Nominees meet the independence criteria of a national securities exchange, as required by Item 407(a) of Regulation S-K. Mr. McMahon is not considered to be independent under those standards.

To Save Scio's knowledge the Company has no standing audit, compensation or nominating committees, and accordingly the full Board fulfills the functions that would otherwise be filled by such committees. As announced by the Company in a press release filed as an exhibit to a Form 8-K filed with the Commission on June 2, 2014, the Board announced the completions of Committee Charters for the Board's Audit, Compensation, Nominating and Corporate Governance Committees. As of the date of this Consent Statement, the Board has not announced the appointment of any members of these committees. Messrs. Wolkowitz, Mack, Brown, McPheely, Kobrovsky and Smoak meet the independence criteria applicable to members of such committees as set forth in the corporate governance listing standards of The NASDAQ Stock Market. Mr. McMahon does not meet those criteria.

Except for the Voting Agreement (described below), the only commitment each of the Nominees has given to Save Scio, and the only commitment Save Scio has sought from the Nominees, is a promise that he will, if elected, serve as a director, act in the best interests of the Company and its Stockholders and exercise his independent judgment in accordance with his fiduciary duties in all matters that come before the Board.

To the extent that the Company proposes to put up for election nominees at the 2014 Annual Meeting, if the 2014 Annual Meeting occurs before enough consents have been received to effect the proposals described in this Consent Statement, Save Scio reserves the right to nominate the Nominees for election as directors at the 2014 Annual Meeting. Save Scio reserves the right to challenge any action by the Company that has, or if consummated would have, the effect of disqualifying any Nominee.

For information about potential interests the Nominees may have in the Proposals, please see Annex A of this Consent Statement.

Arrangements between Save Scio and the Nominees

Except for Messrs. Mack and McPheely, the only commitment each of the Nominees has given to Save Scio, and the only commitment Save Scio has sought from the Nominees, is a promise that he will, if elected, serve as a director, act in the best interests of the Company and its Stockholders and exercise his independent judgment in accordance with his fiduciary duties in all matters that come before the Board. Pursuant to a Group Voting Agreement, dated as of April 14, 2014 (the "Voting Agreement"), by and among the members of Save Scio, including Messrs. Mack and McPheely, each member of Save Scio, including Messrs. Mack and McPheely, agreed to, among other things, (i) jointly deliver a written demand in accordance with the Bylaws to call a special meeting of the Stockholders (the "Special Meeting"), (ii) vote or grant consents for all shares of Common Stock held by such person, including shares acquired after signing the Voting Agreement, either at the Special Meeting, in person or by proxy, or by written consent in lieu of a meeting, in favor of the election of the Nominees, which includes Messrs. Mack and McPheely, (iii) to vote against any action, proposal, transaction or agreement that could reasonably be expected to change in any manner the voting rights of any shares of Common Stock (including any amendments to the Company's Articles of Incorporation or the Bylaws (other than Proposal Nos. 1 and 2)), (iv) to appoint Mr. McPheely as their proxy and attorney-in-fact to vote or act by written consent during the term of the Voting Agreement their shares of Common Stock in accordance with the Voting Agreement, (v) transfer, sell, offer, exchange, assign, pledge or otherwise dispose of or encumber any of their shares of Common Stock or enter into any contract, option or other agreement with respect to, or consent to, a transfer of any of shares of Common Stock or such person's voting or economic interest therein, except for certain transfers a condition of which is that the transferee agrees to be bound by the terms and provisions of the Voting Agreement, and (vi) to retain, and not in any way compromise or encumber, the right to vote all shares of Common Stock beneficially owned by such person as of the date of the Special Meeting or grant a consent of such shares in lieu of a meeting.

Compensation of the Company's Directors

The Nominees will not receive any compensation from Save Scio to serve as nominees for election and, if elected, as directors of the Company.

They will, however, receive whatever compensation the Board has established for directors of the Company unless and until the Board determines to change such compensation. For information regarding the Company's compensation of directors of the Company, please review the section titled "Executive Compensation" and the Company's annual report on Form 10-K for the fiscal year ended March 31, 2013 filed with the Commission on June 28, 2013.

The Bylaws contain provisions that provide for indemnification of directors, to the fullest extent permitted by law.

Except for Mr. McMahon, none of the Nominees, or any associate of any Nominee, has received any cash compensation, cash bonuses, deferred compensation, compensation pursuant to plans or other compensation, from, or in respect of, services rendered on behalf of the Company, that is required to be disclosed pursuant to Item 402 of Regulation S-K or is otherwise subject to any arrangement described in Item 402 of Regulation S-K. Disclosure of Mr. McMahon's compensation pursuant to Item 402 of Regulation S-K is disclosed in the section titled "Executive Compensation."

Other than Messrs. McPheely and McMahon, none of the Nominees has held any position or office with the Company and no occupation or employment with which the Nominees have been involved during the past five years was carried on with the Company or any corporation or organization that is a parent, subsidiary or other affiliate of the Company. Mr. McMahon is the current CEO of the Company, and has served as such since February 1, 2013, and was the Company's Chief Operating Officer since October 2011. Mr. McPheely was a member of the Board from August 13, 2012, until he resigned on May 13, 2013.

Although Save Scio has no reason to believe that any of the Nominees will be unable or unwilling to serve as directors, if any of the Nominees are not available for election, the persons named on the BLUE consent card may designate such other nominee or nominees to be elected to the Board. Each of the Nominees has agreed to be named in this Consent Statement and to serve as a director of the Company, if elected. If elected, each Nominee will hold office until his successor is elected and qualified at Company's 2015 annual meeting of Stockholders or until their respective successors are duly elected and qualified.

It is possible that some, but not all, of the vacancies on the Board created pursuant to Proposal No. 2, if effected, will not be filled. To the extent that not all of the potential vacancies are filled, vacancies will be filled by the Nominee receiving the most number of consents filling the first available vacancy, until all vacancies are filled. If two or more Nominees receive an equal number of consents, the elder of such Nominees will fill the next available vacancy until all vacancies are filled. To the extent that a Nominee is elected by you but such Nominee cannot serve because there is no vacancy, the new Board may propose an amendment to the Bylaws to increase the size of the Board and fill such vacancy, subject to Stockholder approval in accordance with the Bylaws.

For more information on the Nominees, please see Annex A of this Consent Statement.

Proposal No. 3 provides for the adoption of the resolution in the following form:

RESOLVED, that the following persons are elected as the members of the Board effective immediately upon the adoption of this Resolution, and shall serve in such capacities until the next annual meeting of the Stockholders or until their earlier death, resignation or removal or until their respective successors are duly elected and qualified:

Ben Wolkowitz
Kristoffer Mack
Bernard M. McPheely
Craig Brown
Ronnie Kobrovsky
Lewis Smoak
Michael McMahon

WE STRONGLY URGE YOU TO "CONSENT" TO THE ELECTION OF EACH OF BEN WOLKOWITZ, KRISTOFFER MACK, BERNARD M. MCPHEELY, CRAIG BROWN, RONNIE KOBROVSKY, LEWIS SMOAK AND MICHAEL MCMAHON BY COMPLETING, SIGNING, DATING AND RETURNING THE ENCLOSED BLUE CONSENT CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED TO YOU WITH THIS CONSENT STATEMENT. IF YOU HAVE SIGNED THE BLUE CONSENT CARD AND NO MARKING IS MADE, YOU WILL BE DEEMED TO HAVE GIVEN A DIRECTION TO CONSENT THE SHARES OF COMMON STOCK REPRESENTED BY THE BLUE CONSENT CARD FOR THE ELECTION OF EACH OF BEN WOLKOWITZ, KRISTOFFER MACK, BERNARD M. MCPHEELY, CRAIG BROWN, RONNIE KOBROVSKY, LEWIS SMOAK AND MICHAEL MCMAHON.

22

EXECUTIVE COMPENSATION

The following table shows the compensation awarded to, earned by or paid to Mr. McMahon, who served as the Company's chief executive officer during the fiscal year ended March 31, 2014. Other than Mr. McMahon no member of Save Scio or any Nominee served as an executive officer of the Company during the fiscal year ended March 31, 2014. The information below is based, in part, on the Company's public filings.

Summary Compensation Table

Name and Principal Position	Fiscal Year Ended March 31,	Salary	Bonus	Option Awards(1)	All Other Compensation	Total
Michael McMahon(2)	2014	$ 249,999	$ —	$ —	$ —	$ 249,999
Chief Executive Officer	2013	$ 163,461	$ —	$ 1,538,300	$ —	$ 1,701,761

(1) In accordance with FASB ASC Topic 718, Save Scio chose the Black-Scholes option pricing model to determine the aggregate grant date fair value of the options set forth in this table. Our use of this model should not be construed as an endorsement of its accuracy at valuing options. All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. Assumptions made to calculate the grant date fair value of the options reported are as follows: (a) for options to purchase 3,000,000, 600,000 and 425,000 shares granted to Mr. McMahon in May 2012: expected dividend yield- 0%, risk-free interest rate- 0.79%, expected life in years- 3, and expected volatility of 100%; (b) for options to purchase 500,000, 300,000 and 300,000 shares granted to Mr. McMahon in August 2012: expected dividend yield- 0%, risk-free interest rate- 0.67%, expected life in years- 3, and expected volatility of 100%; and (c) for options to purchase 1,500,000 and 700,000 shares granted to Mr. McMahon in February 2013: the assumptions set forth in Item 8, Note 9 (Share Based Compensation) of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013, filed with the Commission on June 28, 2013.

(2) Mr. McMahon was appointed Chief Executive Officer on January 29, 2013. During fiscal 2013 until such appointment, Mr. McMahon served as the Company's Chief Operating Officer.

Narrative Disclosure to Summary Compensation Table

Michael W. McMahon In connection with his appointment as the Company's Chief Executive Officer effective on February 1, 2013, Michael McMahon entered into an employment letter with the Company that supersedes the employment letter and change of control agreement he had previously entered into in connection with his employment as the Company's Chief Operating Officer. Under his current employment letter, Mr. McMahon is paid a base annual salary of $249,999, subject to potential increases in connection with an annual salary review by the Board. The Board, in its discretion, may award Mr. McMahon an annual bonus, which for Fiscal 2015 may be up to $100,000 for achieving performance targets in the Company's Fiscal 2015 plan following acceptance of such plan by the Board, and for performance in excess of the plan the Board may in its discretion award an additional bonus of up to $50,000.

Under his employment letter Mr. McMahon is entitled during his term of employment to participate in all employee benefit plans and programs available to similarly situated employees (subject to eligibility) that the Company has in force from time to time, and is entitled to 20 days paid vacation each calendar year. Mr. McMahon is also entitled to options, granted on February 2, 2013 pursuant to the Company's 2012 Share Incentive Plan (the "Plan"), to purchase a

total of 1,500,000 shares of Common Stock at $0.93 per share (the closing price of Common Stock on the date of grant), vesting as follows: options to purchase 271,250 shares vested immediately upon commencement of employment; options to purchase 234,375 shares vested upon the six-month anniversary of his start date; options to purchase 468,750 shares will vest when the Company achieves cumulative revenues of $5 million (cumulative from January 1, 2013); options to purchase 234,375 shares will vest when the Company achieves cumulative EBITDA of $1 million (cumulative from January 1, 2013); and options to purchase 291,250 shares will vest when the Company achieves cumulative EBITDA of $2.5 million (cumulative from January 1, 2013); subject to the terms of the Plan. Mr. McMahon is also subject to a proprietary information and inventions agreement.

Mr. McMahon’s employment letter also provides that if Mr. McMahon’s employment is terminated for any reason other than for “Cause” (as defined in the Employment Letter) or his voluntary resignation, in exchange for a general release by Mr. McMahon of the Company and its officers, directors, employees, shareholders, and agents from liability, as well as one-year non-solicitation and non-competition covenants from Mr. McMahon, Mr. McMahon will be entitled to receive, for 12 months following his date of termination, (i) his base salary plus (ii)

$2,000 per month to offset his potential medical, dental and life insurance expenses and any premiums required under COBRA and comparable state law, each paid in accordance with the Company's payroll and benefit policies. In addition, the Company will (also in exchange for a general release by Mr. McMahon of the Company and its officers, directors, employees, shareholders, and agents from liability) (1) extend the period during which Mr. McMahon may exercise his option with respect to any portion or all of his vested options to purchase shares to within 12 months following his date of separation, and (2) agree not to exercise any right of repurchase. All granted options will automatically vest in the event of a "change in control" of the Company, which will be deemed to have occurred on the date of closing of any of the following: (i) a merger in which the Company is not the surviving entity, (ii) a sale of all of the outstanding shares of the Company's stock or (iii) a sale by the Company of substantially all of its assets. In the event of a change in control, the employment letter provides that the options will be exercisable for five years from the vesting date, subject to approval of the Board, provided that no options may be exercised after 10 years following the date of grant. If Mr. McMahon's employment is terminated for "Cause" or due to his voluntary resignation, he will not be entitled to severance or benefit payments.

In addition, under the employment letter, in the event Mr. McMahon's employment is terminated, for any reason other than for "Cause" or his voluntary resignation, during the four-month period before or the twelve-month period after a "change in control" that implies a Company value of $50,000,000 or more, Mr. McMahon will be entitled to (i) a lump-sum cash payment equal to the sum of (a) 2.0 times his annual base salary on the day before the change in control or the day before termination, whichever is higher, plus (b) any base salary or bonus earned or accrued through the date of termination and not previously paid, and (ii) payment of $2,000 per month for 24 months, which payments are intended to offset potential medical, dental and life insurance expenses. Mr. McMahon would also remain subject to the terms of the Company's proprietary information and inventions agreement.

For purposes of Mr. McMahon's employment letter, "Cause" means: (i) conviction of, or plea of guilty or no contest by Mr. McMahon of a felony or crime of dishonesty or moral turpitude; (ii) Mr. McMahon's commission, as determined by the Board, of an intentional act, or an act of fraud, dishonesty or theft affecting the Company's property, reputation or business; (iii) Mr. McMahon's willful and persistent neglect of the duties and responsibilities of his position; (iv) failure or refusal to carry out the lawful directives of the Board; (v) diversion of any of the Company's or the Company's affiliates' business opportunities for his own personal gain; (vi) misrepresentation of a significant fact on his employment application and/or resume; (vii) misuse of alcohol or drugs affecting work performance; or (viii) death or disability that prevents him from performing the essential functions of his position with or without reasonable accommodation.

On May 7, 2012, the Company entered into an option grant agreement with Mr. McMahon during his service as the Company's Chief Operating Officer under which the Company granted to Mr. McMahon an option to purchase up to 300,000 shares of Common Stock at an exercise price of $0.70 per share, subject to the achievement of certain performance milestones by the Company as set forth below, and an option to purchase up to 300,000 shares of Common Stock at an exercise price of $0.70 per share, vesting immediately. The incrementally vesting options vest upon the achievement of certain performance milestones by the Company as set forth below:

Percentage of Option Vested	Performance Milestone
10%	Delivery of ten machines to South Carolina production
20%	Production of 1,000 gross carats
30%	Achievement of one-month positive operating cash flow
40%	Achievement of two consecutive quarters of profitability

On August 13, 2012, the Company entered into an option grant agreement with Mr. McMahon during his service as the Company's Chief Operating Officer under which the Company granted to Mr. McMahon an option to purchase up to 300,000 shares of Common Stock at an exercise price of $0.80 per share, subject to the achievement of certain performance milestones by the Company as set forth below:

Percentage of Option Vested	Performance Milestone
20%	Implementation of laser operation in South Carolina
40%	Achievement of $1M in EBITDA cumulative from July 1, 2012
40%	Achievement $5M in revenue cumulative from July 1, 2012

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding equity award holdings held by Mr. McMahon at March 31, 2014. All awards represent options to purchase shares of Common Stock, granted under the Company's 2012 Share Incentive Plan.

Outstanding Equity Awards at 2014 Fiscal Year-End

	Option awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Michael McMahon	390,000	210,000(1)	$0.70	5/6/2015
	60,000	240,000(2)	$0.80	8/3/2015
	505,625	994,375(3)	$0.93	1/28/2016

(1) Of the number reported, 90,000 options vest based on the Company achieving positive operating cash flow and 120,000 options vest based on the Company attaining two consecutive quarters of profitability.
(2) Of the number reported, 120,000 options vest based on the Company attaining $1 million in cumulative EBITDA from July 1, 2012 forward and 120,000 options vest based on the Company attaining $5 million in cumulative revenue from July 1, 2012 forward.
(3) Of the number reported, 468,750 options vest upon the Company attaining $5 million in cumulative revenue from January 1, 2013; 234,375 options vest upon the Company attaining $1 million in cumulative EBITDA from January 1, 2013 forward; and 291,250 options vest upon the Company attaining $2.5 million in cumulative EBITDA from January 1, 2013 forward.

Director Compensation

Mr. McPheely served on the Board during the fiscal year ended March 31, 2014 from April 1, 2013 until he resigned from the Board on May 13, 2013. Mr. McPheely received no compensation for his service as a director during the fiscal year ended March 31, 2014.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF THE COMPANY

The following table sets forth, as of the date of this Consent Statement, the beneficial ownership of the outstanding Common Stock by: (i) the persons or groups known to us to be the beneficial owners of more than 5% of the shares of outstanding Common Stock; (ii) each of the Company's named executive officers and current directors; and (iii) the Company's current directors and executive officers as a group. The information in the following table is based on the Company's disclosure in the Company's annual report for the fiscal year ended March 31, 2013, and has been updated to include changes in ownership of Common Stock held by directors and executive officers and beneficial owners of more than 5% of the shares of outstanding Common Stock since the Company's 2013 annual report reflected on Forms 3 and 4 and Schedules 13D and 13G filed with the Commission as of the date of this Consent Statement. The table includes shares held by a family member even if a director or executive officer or beneficial owner of more than 5%

of the shares of outstanding Common Stock has disclaimed beneficial ownership. Unless otherwise indicated, each of the Stockholders named in the table below has sole voting and dispositive power with respect to such shares of Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)(3)		Percentage of Beneficial Ownership	
Directors and Named Executive Officers				
Edward S. Adams 411 University Ridge, Suite D, Greenville, SC 29601	5,390,000	(4)	10.7	%
Robert C. Linares 411 University Ridge, Suite D, Greenville, SC 29601	1,018,750	(5)	2.0	%
Michael W. McMahon 411 University Ridge, Suite D, Greenville, SC 29601	955,875		1.9	%
Theodorus Strous 411 University Ridge, Suite D, Greenville, SC 29601	624,000		1.2	%
Gerald McGuire 411 University Ridge, Suite D, Greenville, SC 29601	0	(6)	-	%
James Korn 411 University Ridge, Suite D, Greenville, SC 29601	0	(7)	-	%
Jonathan M. Pfohl 411 University Ridge, Suite D, Greenville, SC 29601	235,958		*	%
All directors and named executive officers as a group (5 persons)	8,224,583		15.9	%
Other 5% Stockholders				
Save Scio (a "group" for Section 13 reporting purposes consisting of (i) the Thomas P. Hartness Revocable Trust u/a DTD July 30, 2010, (ii) Kristoffer Mack, (iii) Paul Rapello, (iv) Glen R. Bailey and Marsha C. Bailey as joint tenants and Mr. Bailey in his individual capacity, (v) Kenneth L. Smith, (vi) the Bernard M. McPheely Revocable Trust U/A DTD May 25, 2011, (vii) James Carroll and the Guarantee & Trust Co. TTEE James Carroll r/o IRA, and (viii) Robert M. Daisley) c/o Bernard M. McPheely, P.O. Box 26509, Greenville, SC 29615	8,988,678	(8)	16.6	%
Michael R. Monahan 411 University Ridge, Suite D, Greenville, SC 29601	5,025,575	(9)	10.0	%
Thomas P. Hartness Revocable Trust dated July 30, 2010 1200 Garlington Road, Greenville, SC 29615	5,000,000	(10)	9.5	%

* Less than 1%

(1) Includes shares for which the named person has sole voting and investment power, has shared voting and investment power, or holds in an IRA or other retirement plan and shares held by the named person's spouse.

(2) For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock which that person has the right to acquire within 60 days following March 31, 2014, except that pursuant to Exchange Act Rule 13d-3(d)(1) and Item 403 of Regulation S-K, all warrants and options held by Save Scio are reported as being beneficially owned by Save Scio regardless of whether such warrants or options are exercisable 60 days or more from March 31, 2014. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named above, any shares which that person or persons has or have the right to acquire within 60 days following March 31, 2014, is deemed to be outstanding, but is not deemed to be outstanding for the purpose of computing the

percentage ownership of any other person, except that pursuant to Exchange Act Rule 13d-3(d)(1) and Item 403 of Regulation S-K, all shares underlying warrants and options held by Save Scio are deemed to be outstanding for the purpose of computing the percentage ownership of Save Scio.

(3) Includes shares that may be acquired within 60 days of the date hereof by exercising stock options, except that pursuant to Exchange Act Rule 13d-3(d)(1) and Item 403 of Regulation S-K, all shares underlying warrants and options held by Save Scio are included. In calculating the number of shares beneficially owned by an individual and the percentage ownership of that individual, shares underlying options held by that individual that are either currently exercisable or exercisable within 60 days from March 31, 2014 are deemed outstanding, except that pursuant to Exchange Act Rule 13d-3(d)(1) and Item 403 of Regulation S-K, all shares underlying warrants and options held by Save Scio are deemed outstanding regardless of whether such warrants or options are exercisable 60 days or more from March 31, 2014. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other individual or entity. Numbers reported include the following shares subject to options and warrants exercisable currently or within 60 days of March 31, 2013:

Mr. Adams: 75,000 options; Mr. Monahan: 75,000 options; Mr. McMahon: 955,625 options; Mr. Nichols: 100,000 options; Mr. Pfohl: 235,958 options; Mr. Strous: 130,250 options; Dr. Linares: 0; Mr. McGuire: 0; Mr. Korn: 0. Numbers reported include the following shares subject to options and warrants exercisable at any time, even if exercisable 60 days or more from March 31, 2013: Save Scio: 3,816,250 warrants and 31,250 options held by various group members; and the Hartness Revocable Trust: 2,500,000 warrants.

(4) Based on the Form 4 filed October 15, 2013 by Mr. Adams with the Commission reporting on beneficial ownership as of August 12, 2013. Includes 2,000,000 shares owned by Mr. Adams' wife, for which Mr. Adams disclaims beneficial ownership. Includes 790,000 shares owned by the Edward S. Adams Revocable Trust, of which Mr. Adams disclaims beneficial ownership.

(5) Includes 250,000 shares owned by Dr. Linares's wife, of which Dr. Linares disclaims beneficial ownership.

(6) Mr. McGuire was appointed as a director on May 29, 2014, as announced by Scio in its 8-K filed June 2, 2014. As of the date of this Consent Statement, Mr. McGuire has not filed a Form 3 statement of beneficial ownership with the Commission.

(7) Mr. Korn was appointed as a director on May 29, 2014, as announced by Scio in its 8-K filed June 2, 2014. As of the date of this Consent Statement, Mr. Korn has not filed a Form 3 statement of beneficial ownership with the Commission.

(8) Includes warrants to purchase 3,816,250 shares of Common Stock and options to purchase 31,250 shares of Common Stock held by various group members. Includes 1,250 shares of Common Stock held by each of two of Mr. and Mrs. Bailey's adult children, of which Mr. and Mrs. Bailey disclaim beneficial ownership, and 31,250 shares of Common Stock and rights to acquire 31,250 shares of Common Stock upon the exercise of stock warrants held by each of two of Mr. McPheely's adult children, of which Mr. McPheely disclaims beneficial ownership.

(9) Includes 1,000,000 shares owned by Mr. Monahan's wife, of which Mr. Monahan disclaims beneficial ownership.

(10) Although the Hartness Revocable Trust is a member of Save Scio, the Hartness Revocable Trust is also independently a beneficial owner of more than 5% of the issued and outstanding shares of Common Stock. All shares and warrants reported are held by Thomas P. Hartness as trustee of the Trust, and in that capacity Mr. Hartness has shared voting pursuant to the Voting Agreement and sole dispositive power with respect to such shares.

According to the Company's Form 10-Q filed with the Commission on February 14, 2014, there were 50,264,312 shares of Common Stock outstanding as of February 11, 2014.

CERTAIN RELATIONSHIPS WITH THE COMPANY

As of April 28, 2014: (i) Mr. Hartness beneficially owns, as the trustee and settler of the Thomas P. Hartness Revocable Trust u/a DTD July 30, 2010, 2,500,000 shares of Common Stock, and rights to acquire 2,500,000 shares upon the exercise of stock warrants; (ii) Mr. Mack beneficially owns 400,000 shares of Common Stock; (iii) Mr. Rapello beneficially owns 350,000 shares of Common Stock; (iv) Mr. and Mrs. Bailey beneficially own 350,000 shares of Common Stock as joint tenants; (v) Mr. Bailey beneficially owns in his individual capacity 250,000 shares of Common Stock, and rights to acquire 250,000 shares upon the exercise of stock warrants; (vi) Mr. Smith beneficially owns 339,000 shares of Common Stock, and rights to acquire 312,500 shares upon the exercise of stock

warrants; (vii) Mr. McPheely beneficially owns, as the trustee and settler of the Bernard M. McPheely Revocable Trust U/A DTD May 25, 2011, 374,500 shares of Common Stock, and rights to acquire 312,500 shares upon the exercise of stock warrants; (viii) Mr. Carroll beneficially owns 313,750 shares of Common Stock, including 93,750 shares held by the trustee of the Guarantee & Trust Co. TTEE James Carroll r/o IRA, of which Mr. Carroll is trustee, and rights to acquire 313,750 shares upon the exercise of stock warrants; and (ix) Mr. Daisley beneficially owns 125,000 shares of Common Stock, and rights to acquire 125,000 shares upon the exercise of stock warrants. Save Scio by virtue of being considered a "group" under Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is deemed to beneficially own the shares owned by the other members of such "group." Collectively, Save Scio beneficially owns 8,988,678 shares of Common Stock, or approximately 16.6% of the issued and outstanding shares of Common Stock as of the date of this Consent Statement.

Other than the Voting Agreement or as set forth in this Consent Statement or on Annex A, after reasonable inquiry, none of the members of Save Scio, or the persons listed on Annex A, including the Nominees, or any of their respective associates, is, or was within the past year, a party to any contract, arrangement or understanding with any person with respect to any of the Company's securities including, but not limited to, joint ventures, loan or

option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies.

Since January 1, 2013, there has not been and there is no currently proposed transaction or series of transactions, in which any member of Save Scio or any Nominee was or is to be a participant and the amount involved exceeds $120,000, and in which any member of Save Scio or Nominee or any associate of any member of Save Scio or any Nominee or any immediate family member of any Nominee or member of Save Scio or any such associate had or will have any direct or indirect material interest.

There are no material proceedings to which any Nominee, or any associate of any such Nominee is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

There are no family relationships (as such term is defined in Item 401(d) of Regulation S-K) among any of the Nominees or between any of the Nominees and any director or executive officer of the Company or any person nominated or chosen by the Company to become a director or executive officer.

Mr. McMahon is the current CEO of the Company. Except for this, none of the Nominees is a current or former officer of the Company and none of the Nominees was an employee of the Company during fiscal year 2014. During Fiscal 2014, Mr. McMahon did not serve as a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity of which any Nominee was an executive officer.

VOTING SECURITIES

According to the Company's public filings, the shares of Common Stock constitute the only class of outstanding voting securities of the Company, and as of February 11, 2014, there were 50,264,312 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote, and only record holders of Common Stock as of the date the first consent signed by a Stockholder is delivered to the Company are entitled to execute consents. Stockholders of the Company do not have cumulative voting rights.

PROCEDURAL INSTRUCTIONS

The Bylaw Repeal Proposal. You may consent to the Bylaw Repeal Proposal by marking the box "CONSENT" on the enclosed BLUE consent card. You may withhold your consent to the Bylaw Repeal Proposal by marking the proper box on the consent card. You may abstain from consenting to the Bylaw Repeal Proposal by marking the proper box on the consent card. If the BLUE consent card is signed and dated, but no direction is given with respect to the Bylaw Repeal Proposal, you will be deemed to consent to the Bylaw Repeal Proposal.

SAVE SCIO URGES YOU TO CONSENT TO THE BYLAW REPEAL PROPOSAL.

The Bylaw Adoption Proposal. You may consent to the Bylaw Adoption Proposal by marking the box "CONSENT" on the enclosed BLUE consent card. You may withhold your consent to the Bylaw Adoption Proposal by marking the proper box on the consent card. You may abstain from consenting to the Bylaw Adoption Proposal by marking the proper box on the consent card. If the BLUE consent card is signed and dated, but no direction is given with respect to the Bylaw Adoption Proposal, you will be deemed to consent to the Bylaw Adoption Proposal.

SAVE SCIO URGES YOU TO CONSENT TO THE BYLAW ADOPTION PROPOSAL.

The Director Election Proposal. You may consent to the election of all the Nominees by marking the "CONSENT" box on the enclosed BLUE consent card. You may also withhold your consent for the entire slate of Nominees by marking the proper box on the enclosed BLUE consent card. You may also withhold your consent from any one or more of the Nominees by marking the box "CONSENT" and writing the designated number of any Nominee you wish to withhold your consent from in the space provided on the BLUE consent card. If the BLUE consent card is signed and dated, but no direction is given with respect to the election of Nominees, you will be deemed to consent to the election of all Nominees.

SAVE SCIO URGES YOU TO CONSENT TO THE ELECTION OF ALL NOMINEES.

Although Save Scio has no reason to believe that any of the Nominees will be unable or unwilling to serve as directors, if any vacancy in the slate nominated by Save Scio occurs because the Amended and Restated Bylaws are adopted pursuant to Proposal No. 2 and any of the Nominees are not available for election, the persons named on the BLUE consent card may designate such other nominee or nominees as they desire to be elected to the Board.

Revocation of Written Consents. An executed consent card may be revoked at any time by marking, dating, signing and delivering a written revocation before the time that the action authorized by the executed consent becomes effective. Revocations may only be made by the record holder that granted such consent. A revocation may be in any written form validly signed by the record holder as long as it clearly states that the consent previously given is no longer effective. The delivery of a subsequently dated consent card that is properly completed will constitute a revocation of any earlier consent. The revocation may be delivered either to Save Scio, or to the principal executive offices of the Company. Although a revocation is effective if delivered to the Company, Save Scio requests that either

the original or photostatic copies of all revocations of consents be mailed or delivered to Save Scio c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003, so that Save Scio will be aware of all revocations and can more accurately determine if and when sufficient unrevoked consents to the actions described in this Consent Statement have been received.

YOUR CONSENT IS IMPORTANT

Your CONSENT to the Bylaw Repeal Proposal, the Bylaw Adoption Proposal and election of all the Nominees to the Board will send a strong message that you want to change how the Company is governed.

CONSENT PROCEDURES

Nevada Revised Statutes Section 78.320 provides that, absent a contrary provision in a Nevada corporation's articles of incorporation or bylaws, any action required or permitted to be taken at a meeting of the stockholders may be taken without a meeting if, before or after the action, a written consent thereto is signed by stockholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for such an action at a meeting, then that proportion of written consents is required. The Company's Articles of Incorporation and Bylaws do not contain any such contrary provision.

As announced by the Company in a press release filed as an exhibit to a Form 8-K filed with the Commission on April 15, 2014, the Board purported to amend and restate the Bylaws to, among other things, prohibit stockholder action by written consent, except in instances approved in advance by the Board. Save Scio requested that the Board approve Stockholder action by written consent to enact our Proposals, however as of the date of this Consent Statement the Board has not replied to our request. It is possible the Board may deny our request with respect to one or more of our Proposals, in which case Stockholder action by written consent with respect to those proposals which the Board denies the ability to enact by written consent will not be permitted under the express language of the Amended and Restated Bylaws, and any consents so granted may be invalid.

Save Scio maintains that some or all of the Amended and Restated Bylaws, including the provisions eliminating the ability of Stockholders to act by written consent in lieu of a meeting, except in instances approved in advance by the Board, were illegally enacted and violate Nevada law, and are therefore unenforceable. Save Scio alleges that the Amended and Restated Bylaws violate the express provisions of Nevada corporation statutes, and also constitute an unreasonable and disproportionate response to Save Scio's efforts to reform the Company's corporate governance practices. At present Save Scio intends to challenge in a court of law the validity of Amended and Restated Bylaws which it believes were illegally adopted by Scio. If Save Scio is able to obtain injunctive relief from a court, and the provision of the Amended and Restated Bylaws limiting the ability of Stockholders to act by written consent is repealed, or if the Board grants our request for advance approval to act by written consent, your consent, if granted pursuant to this Consent Statement, will be valid and enact the Proposals by written consent in accordance with the Bylaws and Nevada law if the approval requirements set forth in this Consent Statement are reached.

Although it is Save Scio's current intention to seek injunctive relief to permit stockholder action by written consent in the event the Board does not grant our request for advance approval to act by written consent, Save Scio may decline to pursue such injunctive relief. In addition, it is also possible, although we cannot say to what degree of probability, that a court may deny any injunctive relief. In either case, unless the provision in the Amended and Restated Bylaws eliminating the ability of Stockholders to act by written consent in lieu of a meeting, except in instances approved in advance by the Board is repealed by the Board or otherwise determined to be invalid, any consents granted pursuant to this Consent Statement may be invalid if the Board denies our request for advance approval to act by written consent.

In the event the Board grants our request for advance approval to take Stockholder action pursuant to this Consent Statement, or the bylaw amendments announced by Scio on April 15, 2014 eliminating the ability of Stockholders to act by written consent in lieu of a meeting, except in instances approved in advance by the Board are repealed by the Board or otherwise determined to be invalid, for the Proposals to be effective, properly completed and unrevoked written consents representing more than 50% of the issued and outstanding shares of Common Stock must be delivered to the Company. Save Scio expects to receive consents dated as early as June 4, 2014. Consequently, Save Scio expects that it will deliver all properly completed and unrevoked written consents to the Proposals from Stockholders as soon as June 16, 2014. Nevertheless, we intend to set July 31, 2014 as the goal for submission of written consents. Effectively, this means that you have until July 31, 2014 to consent to the Proposals. WE URGE YOU TO ACT PROMPTLY TO ENSURE THAT YOUR CONSENT WILL COUNT. Save Scio reserves the right to submit to the Company consents at any time.

If the Proposals become effective as a result of this consent solicitation, the Company is obligated under the federal securities laws to notify those Stockholders who did not grant consent of the matters adopted by the Stockholders.

If you hold your shares in "street" name with a bank, broker firm, dealer, trust company or other nominee, only they can exercise your right to consent with respect to your shares of Common Stock and only upon receipt of your specific instructions. Accordingly, it is critical that you promptly give instructions to consent to the Proposals to your bank, broker firm, dealer, trust company or other nominee. Please follow the instructions to consent provided

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on the enclosed BLUE consent card. If your bank, broker firm, dealer, trust company or other nominee provides for consent instructions to be delivered to them by telephone or Internet, instructions will be included with the enclosed BLUE consent card. Save Scio urges you to confirm in writing your instructions to the person responsible for your account and provide a copy of those instructions to Save Scio c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003, so that Save Scio will be aware of all instructions given and can attempt to ensure that such instructions are followed.

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” consent statements. This means that only one copy of this Consent Statement may have been sent to multiple Stockholders in your household. Save Scio will promptly deliver a separate copy of the document to you if you write to Save Scio c/o Alliance Advisors, LLC, which is assisting us as consent solicitor, at 200 Broadacres Drive, 3rd Fl., Bloomfield, NJ 07003.

This Consent Statement is dated June 4, 2014. You should not assume that the information contained in this Consent Statement is accurate as of any date other than such date, and the mailing of this Consent Statement to Stockholders shall not create any implication to the contrary.

NO APPRAISAL OR DISSENTER’S RIGHTS

Stockholders will not have rights of appraisal or similar dissenter’s rights with respect to any matters identified in this Consent Statement to be acted on by Stockholders.

STOCKHOLDER PROPOSALS FOR 2014 ANNUAL MEETING

Save Scio anticipates that the Company’s 2014 proxy statement and annual report will contain procedures for submitting director nominees for consideration or submitting proposals for inclusion in the Company’s proxy statement at the 2014 Annual Meeting and information on how to attend the 2014 Annual Meeting and vote in person. We also anticipate the Company’s 2014 proxy statement will include information concerning the date by which director nominees submitted for consideration or proposals of security holders intended to be presented at the next annual meeting of Stockholders must be received by the Company for inclusion in the Company’s proxy statement and form of proxy for that meeting. The Stockholders should refer to the Company’s public filings in order to review this disclosure including the Company’s 2014 proxy statement, when available. Save Scio has no knowledge of, or responsibility for, the accuracy of the Company’s disclosures in its proxy materials.

YOUR CONSENT IS IMPORTANT, NO MATTER HOW MANY SHARES YOU OWN. SAVE SCIO URGES YOU TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED BLUE CONSENT CARD TODAY TO CONSENT TO THE ELECTION OF OUR NOMINEES, SAVE SCIO’S PROPOSAL TO REPEAL ANY AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT THE APPROVAL OF STOCKHOLDERS AFTER MAY 13, 2010, AND SAVE SCIO’S PROPOSAL TO ADOPT THE PROPOSED AMENDED AND RESTATED BYLAWS.

Thank you for your support.

Bernard M. McPheely
Thomas P. Hartness
Kristoffer Mack

Paul Rapello
Glen R. Bailey and Marsha C. Bailey
Robert M. Daisley
James Carroll
Kenneth L. Smith

Annex A

INFORMATION CONCERNING THE PARTICIPANTS IN THE SOLICITATION

PERSONS WHO ARE PARTICIPANTS IN THE SOLICITATION OF WRITTEN CONSENTS

Save Scio and the Nominees comprise the “participants” in the solicitation of consents from Stockholders to vote in favor of the proposals described in this Consent Statement. Information regarding the participants in the solicitation is set forth below. The terms “associate,” “affiliate” and “participant” used in connection with the statements in this Annex A have the meanings ascribed to them in the Exchange Act.

Set forth below are the names, principal business addresses and principal occupations or employment of the members of Save Scio and Nominees who are “participants” under SEC rules in Save Scio’s solicitation of written consents in connection with this Consent Statement, and the name, principal business and address of any corporation or other organization in which their employment is carried on. Information with respect to the Nominees is included in the section titled “The Nominees” and this Annex A.

Name	Principal Occupation or Employment	Address of Principal Employer
Thomas P. Hartness	Retired Founder of Hartness International	PO Box 25309 Greenville, SC 29616
James Carroll	Currently unemployed	8210 W. 109th St. Bloomington, MN 55438 (residential address)
Kristoffer Mack	Senior Managing Director and Founder of WaveCrest Securities LLC, which provides M&A advisory, corporate finance and capital raising services	515 Madison Ave., 13th Floor New York, NY 10022
Paul Rapello	Senior Managing Director and Founder of WaveCrest Securities LLC, which provides M&A advisory, corporate finance and capital raising services	515 Madison Ave., 13th Floor New York, NY 10022
Glen R. Bailey	Insurance Agent with Beecher Carlson Insurance Services LLC	6 Concourse Pkwy. NE, Ste. 2300 Atlanta, GA 30328
Marsha C. Bailey	Housewife	5146 Creek Walk Circle, Norcross, GA 30092 (residential address)
Kenneth L. Smith	Senior Vice President with Fluor Corporation, a leading engineering construction company	6700 Las Colinas Blvd. Irving, TX 75039
Bernard M. McPheely	President of Hartness Vertique Warehouse Automation and Chief Executive Officer of Hartness International, Inc.	1200 Garlington Road Greenville, SC 29615
Robert M. Daisley	Attorney (full-time mediator)	4006 S. MacDill Ave. Tampa, FL 33611
		411 University Ridge, Suite D

Michael McMahon	Chief Executive Officer of the Company	Greenville, South Carolina 29601
Ben Wolkowitz	Advisor at Headstrong Corporation	4035 Ridge Top Road Suite 300 Fairfax, VA 22030
Craig Brown	President and CEO of Keelers Ridge Associates	945 S. Main Street Greenville, SC 29601
Ronnie Kobrovsky	President of Central Bottling Co. Ltd.	PO Box 555 Bnei-Brak 51104 Israel
Lewis Smoak	Founding Partner of Ogletree, Deakins, Nash, Smoak & Stewart	P.O. Box 2757 Greenville, SC 29602

INTERESTS OF PARTICIPANTS IN THE SOLICITATION OF WRITTEN CONSENTS

Interest of the Members of Save Scio

The members of Save Scio beneficially own the following shares of Common Stock and warrants and options to purchase Common Stock. Except for Kristoffer Mack and Bernard M. McPheely, who will be elected as directors if Proposals No. 2 and 3 are effected (see the section titled "Interests of the Nominees" below), we have no substantial interest in this solicitation other than as owners of Common Stock.

Name	Shares		Percentage (non-diluted)(1)		Warrants	Options	Percentage (diluted)(2)	
Thomas P. Hartness(3)	2,500,000		4.9	%	2,500,000	–	9.5	%
James Carroll	455,178	(4)	0.9		313,750	–	1.5	
Kristoffer Mack	400,000		0.8		–	–	0.8	
Bernard M. McPheely(5)	374,500		0.7		312,500	31,250	1.4	
Paul Rapello	350,000		0.7		–	–	0.7	
Glen R. Bailey and Marsha C. Bailey (as joint tenants)(6)	347,500		0.7		2,500	–	0.7	
Kenneth L. Smith	339,000		0.7		312,500	–	1.3	
Glen R. Bailey (individually)	250,000		0.5		250,000	–	1.0	
Robert M. Daisley	125,000		0.2		125,000	–	0.5	
Total	5,141,178		10.1		3,816,250	31,250	16.6	(7)

(1) Based on 50,264,312 shares of Common Stock outstanding as of February 11, 2014, as reported by the Company on the Company's Form 10-Q filed with the Commission on February 14, 2014.
(2) Based on 50,264,312 shares of Common Stock outstanding plus the number of shares of Common Stock into which warrants or options held only by the respective person may be converted.
(3) The shares of Common Stock and warrants are held by Thomas P. Hartness as the trustee of the Thomas P. Hartness Revocable Trust u/a DTD July 30, 2010.
(4) Includes 93,750 shares of Common Stock owned by the Guarantee & Trust Co. TTEE James Carroll r/o IRA, of which Mr. Carroll is trustee.
(5) The shares of Common Stock and warrants are held by Bernard M. McPheely as the trustee of the Bernard M. McPheely Revocable Trust U/A DTD May 25, 2011. Two of Mr. McPheely's adult children each own 31,250 shares of Common Stock and rights to acquire 31,250 shares of Common Stock upon the exercise of stock warrants, of which Mr. McPheely disclaims beneficial ownership.
(6) Two of Mr. and Mrs. Bailey's adult children each own 1,250 shares of Common Stock, of which Mr. and Mrs. Bailey disclaim beneficial ownership.
(7) Based on 50,264,312 shares of Common Stock outstanding plus 3,847,500, the aggregate number of shares of Common Stock into which warrants or options held by the members of Save Scio may be converted.

Except as described in this Consent Statement, none of the members of Save Scio or any of the Nominees beneficially own any securities of the Company or have any personal ownership interest, direct or indirect, in any securities of the Company.

Mr. Hartness beneficially owns, as the trustee and settler of the Hartness Revocable Trust, 2,500,000 shares of Common Stock, representing a 4.9% interest in the Company on an undiluted basis. Mr. Hartness also beneficially o STYLE="margin-top:0px;margin-bottom:0px; text-indent:4%">*Stock-Based Compensation*. Utilizing the fair value recognition provisions prescribed by the authoritative guidance, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term over which the stock awards will be outstanding before they are exercised, the expected volatility of our stock and the number of stock-based awards that are expected to be forfeited. In addition, for performance stock units, we are required to estimate the most probable outcome of the performance conditions in order to determine the amount of stock compensation costs to be recorded over the vesting period. If actual results differ significantly from our estimates, stock-based compensation expense and our results of operations could be materially impacted.

Income Taxes. Determining the consolidated provision for income tax expense, deferred income tax assets (and related valuation allowance, if any) and liabilities requires significant judgment. We are required to calculate and provide for income taxes in each of the jurisdictions where we operate and changes in the geographic mix of income before taxes or estimated level of annual pre-tax income can affect the overall effective income tax rate. The consolidated provision for income taxes may also change period to period based on non-recurring events, such as the settlement of income tax audits and changes in tax laws, regulations, or accounting principles.

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

Significant judgment is also required in determining any valuation allowance recorded against deferred income tax assets. In assessing the need for a valuation allowance, we consider all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event we change our determination as to the amount of deferred income tax assets that can be realized, we will adjust the valuation allowance with a corresponding impact recorded to income tax expense in the period in which such determination was made.

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented and are eligible for certain income tax holiday benefits granted by the Indian government for export activities. These benefits for export activities conducted within STPs expired on March 31, 2011. The income of our STPs is now subject to corporate income tax at the current rate of 32.4%. The expiration of the income tax holiday for STPs is the primary driver of the significant increase in our effective tax rate for 2011. We have constructed and expect to continue to locate most of our newer development facilities in SEZs, which are entitled to certain income tax incentives for export activities for periods up to 15 years. Effective April 1, 2011, all Indian profits, including those generated within SEZs, are subject to the MAT, at the current rate of approximately 20.0%. Any MAT paid is creditable against future corporate income taxes, subject to limitations. Currently, we anticipate utilizing our existing MAT balances against future corporate income tax. However, our ability to fully do so will depend on possible changes to the Indian tax laws as well as the future financial results of Cognizant India.

Derivative Financial Instruments. Derivative financial instruments are accounted for in accordance with the authoritative guidance which requires that each derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. Our derivative financial instruments consist of foreign exchange forward contracts. We estimate the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model utilizes various assumptions, including, but not limited to timing and amounts of cash flows, discount rates, and credit risk factors. The use of different assumptions could have a positive or negative effect on our results of operations and financial condition.

Investments. Our investment portfolio is primarily comprised of time deposits and U.S. dollar denominated corporate bonds, municipal bonds, debt issuances by the U.S. government, U.S. government agencies, foreign governments and supranational entities and asset-backed securities. The asset-backed securities include securities backed by auto loans, credit card receivables, and other receivables and are rated AAA/Aaa. The years of issuance of our asset-backed securities fall in the 2002 to 2011 range.

We utilize various inputs to determine the fair value of our investment portfolio. To the extent they exist, unadjusted quoted market prices for identical assets in active markets (Level 1) or quoted prices on similar assets (Level 2) are utilized to determine the fair value of each investment in the portfolio. In the absence of quoted prices or liquid markets, valuation techniques would be used to determine fair value of any investments that require inputs that are both significant to the fair value measurement and unobservable (Level 3). Valuation techniques are based on various assumptions, including, but not limited to timing and amounts of cash flows, discount rates, rate of return, and adjustments for nonperformance and liquidity. A significant degree of judgment is involved in valuing investments using Level 3 inputs. The use of different assumptions could have a positive or negative effect on our results of operations and financial condition. See Note 10 to our consolidated financial statements for additional information related to our security valuation methodologies.

We periodically evaluate if unrealized losses, as determined based on the security valuation methodologies discussed above, on individual securities classified as available for sale in the investment portfolio are considered to be other-than-temporary. The analysis of other-than-temporary impairment requires the use of various assumptions, including, but not limited to, the length of time an investment s book value is greater than fair value, the severity of the investment s decline, any credit deterioration of the investment, whether management intends to sell the security and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is generally recorded to income and a new cost basis in the investment is established.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit-worthiness of each customer, historical collections experience and other information, including the aging of the receivables. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Goodwill. We evaluate goodwill for impairment at least annually, or as circumstances warrant. When determining the fair value of our reporting units, we utilize various assumptions, including projections of future cash flows. Any adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge. Based upon our most recent evaluation of goodwill, there are no significant risks of impairment. As of December 31, 2011, our goodwill balance was $288.8 million.

Long-Lived Assets and Intangibles. We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, we will recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such asset. The measurement for such an impairment loss is then based on the fair value of the asset. If such assets were determined to be impaired, it could have a material adverse effect on our business, results of operations and financial condition.

Risks. The majority of our development and delivery centers, including a majority of our employees, are located in India. As a result, we may be subject to certain risks associated with international operations, including risks associated with foreign currency exchange rate fluctuations and risks associated with the application and imposition of protective legislation and regulations relating to import and export or otherwise resulting from foreign policy or the variability of foreign economic or political conditions. Additional risks associated with international operations include difficulties in enforcing intellectual property rights, limitations on immigration

programs, the burdens of complying with a wide variety of foreign laws, potential geo-political and other risks associated with terrorist activities and local and cross border conflicts, and potentially adverse tax consequences, tariffs, quotas and other barriers. We are also subject to risks associated with our overall compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The inability of our management to ensure the adequacy and effectiveness of our internal control over financial reporting for future year ends could result in adverse consequences to us, including, but not limited to, a loss of investor confidence in the reliability of our financial statements, which could cause the market price of our stock to decline. See Part I, Item 1A. Risk Factors.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data expressed for the three years ended December 31, 2011:

(Dollars in thousands)

	2011	% of Revenues	2010	% of Revenues	2009	% of Revenues	Increase (Decrease) 2011	Increase (Decrease) 2010
Revenues	$ 6,121,156	100.0	$ 4,592,389	100.0	$ 3,278,663	100.0	$ 1,528,767	$ 1,313,726
Cost of revenues[(1)]	3,538,622	57.8	2,654,569	57.8	1,849,443	56.4	884,053	805,126
Selling, general and administrative[(2)]	1,328,665	21.7	972,093	21.2	721,359	22.0	356,572	250,734
Depreciation and amortization	117,401	1.9	103,875	2.3	89,371	2.7	13,526	14,504
Income from operations	1,136,468	18.6	861,852	18.8	618,490	18.9	274,616	243,362
Other income (expense), net	32,681		16,728		18,461		15,953	(1,733)
Provision for income taxes	285,531		145,040		101,988		140,491	43,052
Net income	$ 883,618	14.4	$ 733,540	16.0	$ 534,963	16.3	$ 150,078	$ 198,577

(1) Includes stock-based compensation expense of $15,257, $13,147, and $14,889 for the years ended December 31, 2011, 2010 and 2009, respectively, and stock-based Indian fringe benefit tax expense of $187 for the year ended December 31, 2009, and is exclusive of depreciation and amortization expense.

(2) Includes stock-based compensation expense of $74,975, $43,837, and $29,927 for the years ended December 31, 2011, 2010 and 2009, respectively, and stock-based Indian fringe benefit tax expense of $758 for the year ended December 31, 2009, and is exclusive of depreciation and amortization expense.

The following table includes non-GAAP income from operations, excluding stock-based compensation and applicable stock-based Indian fringe benefit tax expense, a measure defined by the Securities and Exchange Commission as a non-GAAP financial measure. This non-GAAP financial measure is not based on any comprehensive set of accounting rules or principles and should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure, the financial statements prepared in accordance with GAAP and reconciliations of our GAAP financial statements to such non-GAAP measure should be carefully evaluated.

We seek to manage the company to a targeted operating margin, excluding stock-based compensation expense and applicable stock-based Indian fringe benefit tax expense, of 19% to 20% of revenues. Accordingly, we believe that non-GAAP income from operations, excluding stock-based compensation expense and applicable stock-based Indian fringe benefit tax, which was repealed during the third quarter of 2009, retroactive to April 1,

2009, is a meaningful measure for investors to evaluate our financial performance. For our internal management reporting and budgeting purposes, we use financial statements that do not include stock-based compensation expense and applicable stock-based Indian fringe benefit tax expense for financial and operational decision making, to evaluate period-to-period comparisons and for making comparisons of our operating results to that of our competitors. Moreover, because of varying available valuation methodologies and the variety of award types that companies can use to account for stock-based compensation expense, we believe that providing a non-GAAP financial measure that excludes stock-based compensation expense and applicable stock-based Indian fringe benefit tax expense allows investors to make additional comparisons between our operating results and those of other companies. Accordingly, we believe that the presentation of non-GAAP income from operations when read in conjunction with our reported GAAP income from operations can provide useful supplemental information to our management and to investors regarding financial and business trends relating to our financial condition and results of operations.

A limitation of using non-GAAP income from operations versus income from operations reported in accordance with GAAP is that non-GAAP income from operations excludes stock-based compensation expense, which is recurring. Stock-based compensation expense will continue to be for the foreseeable future a significant recurring expense in our business. In addition, other companies may calculate non-GAAP financial measures differently than us, thereby limiting the usefulness of this non-GAAP financial measure as a comparative tool. We compensate for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP income from operations and evaluating such non-GAAP financial measures with financial measures calculated in accordance with GAAP.

A reconciliation of income from operations as reported and non-GAAP income from operations, excluding stock-based compensation expense and stock-based Indian fringe benefit tax expense, is as follows for the years ended December 31:

(Dollars in thousands)

	2011	% of Revenues	2010	% of Revenues	2009	% of Revenues
Income from operations, as reported	$ 1,136,468	18.6	$ 861,852	18.8	$ 618,490	18.9
Add: stock-based compensation expense	90,232	1.4	56,984	1.2	44,816	1.4
Add: stock-based Indian fringe benefit tax expense					945	
Non-GAAP income from operations, excluding stock-based compensation expense and stock-based Indian fringe benefit tax expense	$ 1,226,700	20.0	$ 918,836	20.0	$ 664,251	20.3

The fringe benefit tax regulation in India obligated us to pay, upon exercise or distribution of shares under a stock-based compensation award, a non-income related tax on the appreciation of the award from date of grant to date of vest. There was no cash cost to us as we recovered the cost of the Indian fringe benefit tax from the employee s proceeds from the award. Under U.S. GAAP, the stock-based Indian fringe benefit tax expense is required to be recorded as an operating expense and the related recovery of such tax from our employee is required to be recorded to stockholders equity as proceeds from a stock-based compensation award. During the third quarter of 2009, the Indian government repealed the fringe benefit tax retroactive to April 1, 2009.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue. Revenue increased by 33.3%, or approximately $1,528.8 million, from approximately $4,592.4 million during 2010 to approximately $6,121.2 million in 2011. This increase was primarily attributed

Table of Contents

to greater acceptance of the global delivery model among an increasing number of industries, continued interest in using the global delivery model as a means to reduce overall IT costs and increased customer spending on discretionary development projects. Revenue from customers existing as of December 31, 2010 increased by approximately $1,371.3 million and revenue from new customers added during 2011 was approximately $157.5 million or approximately 10.3% of the year over year revenue increase and 2.6% of total revenues for the year ended December 31, 2011. In addition, revenue from our North American and European customers increased in 2011 by $1,220.2 million and $241.9 million, respectively, as compared to 2010. We had approximately 785 active clients as of December 31, 2011 as compared to approximately 712 active clients as of December 31, 2010. In addition, we experienced strong demand across all of our business segments for an increasingly broad range of services. Our Financial Services and Healthcare business segments accounted for approximately $574.0 million and $445.0 million, respectively, of the $1,528.8 million increase in revenue. Additionally, our IT consulting and technology services and IT outsourcing revenues increased by approximately 40.7% and 26.4%, respectively, compared to 2010 and represented approximately 50.9% and 49.1%, respectively, of total revenues in 2011. No customer accounted for sales in excess of 10% of revenues during 2011 or 2010.

Cost of Revenues (Exclusive of Depreciation and Amortization Expense). Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employees benefits, immigration and project-related travel for technical personnel, subcontracting and sales commissions related to revenues. Our cost of revenues increased by approximately 33.3% or $884.0 million from $2,654.6 million during 2010 to $3,538.6 million in 2011. The increase was due primarily to an increase in compensation and benefits costs of approximately $821.8 million, resulting from the increase in the number of our technical personnel necessary to support our revenue growth.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, travel, promotion, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by approximately 34.4% or $370.1 million, from $1,076.0 million during 2010, to $1,446.1 million during 2011, and increased as a percentage of revenue from 23.4% in 2010 to 23.6% in 2011. The increase as a percentage of revenue was due primarily to increases in compensation and benefit costs and investments to grow our business, including expanded sales and marketing activities.

Income from Operations. Income from operations increased approximately 31.9%, or $274.6 million, from approximately $861.9 million during 2010 to approximately $1,136.5 million during 2011, representing operating margins of 18.6% of revenues in 2011 and 18.8% of revenues in 2010. The decrease in operating margin was attributed to an increase in compensation and benefit costs and investments to grow our business, including expanded sales and marketing activities. Excluding the impact of applicable designated cash flow hedges, the depreciation of the Indian rupee against the U.S. dollar positively impacted our operating margin by approximately 54 basis points or 0.54 percentage points. Each additional 1.0% change in the exchange rate between the Indian rupee and the U.S. dollar will have the effect of moving our operating margin by approximately 27 basis points or 0.27 percentage points. Excluding stock-based compensation expense of $90.2 million and $57.0 million for 2011 and 2010, respectively, operating margins for the years ended December 31, 2011 and 2010 were 20.0% and 20.0%, respectively.

We entered into foreign exchange forward contracts to hedge certain Indian rupee denominated payments in India. These hedges are intended to mitigate the volatility of the changes in the exchange rate between the U.S. dollar and the Indian rupee. During 2011, settlement of certain cash flow hedges favorably impacted our operating margin by approximately 31 basis points or 0.31 percentage points.

Other Income (Expense), Net. Total other income (expense), net consists primarily of foreign currency exchange gains and (losses) and interest income. The following table sets forth, for the periods indicated, Total other income (expense), net:

(Dollars in thousands)

	2011	2010	Increase/ (Decrease)
Foreign currency exchange (losses) gains	$ (32,400)	$ 11,220	$ (43,620)
Gains (losses) on foreign exchange forward contracts not designated as hedging instruments	23,621	(21,088)	44,709
Net foreign currency exchange (losses)	(8,779)	(9,868)	1,089
Interest income	39,249	25,793	13,456
Other, net	2,211	803	1,408
Total other income (expense), net	$ 32,681	$ 16,728	$ 15,953

The foreign currency exchange losses of approximately $32.4 million were primarily attributed to the remeasurement of the Indian rupee net monetary assets on Cognizant India s books to the U.S. dollar functional currency. The $23.6 million of gains on foreign exchange forward contracts were primarily related to the change in fair value of foreign exchange forward contracts entered into to offset foreign currency exposure to Indian rupee denominated net monetary assets and the realized losses related to the settlement of certain foreign exchange forward contracts in 2011. At December 31, 2011, the notional value of our undesignated hedges was $234.2 million. The $13.5 million increase in interest income was primarily attributed to higher invested balances.

Provision for Income Taxes. The provision for income taxes increased from approximately $145.0 million in 2010 to approximately $285.5 million in 2011. The effective income tax rate increased from 16.5% in 2010 to 24.4% in 2011. The increase in our effective income tax rate was primarily attributed to the expiration of India s STP tax holiday program in 2011.

Net Income. Net income increased from approximately $733.5 million in 2010 to approximately $883.6 million in 2011, representing 16.0% and 14.4% of revenues, respectively. The decrease in net income as a percentage of revenues in 2011 is primarily attributed to a higher effective income tax rate in 2011.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue. Revenue increased by 40.1%, or approximately $1,313.7 million, from approximately $3,278.7 million during 2009 to approximately $4,592.4 million in 2010. This increase was primarily attributed to greater acceptance of the global delivery model among an increasing number of industries, continued interest in using the global delivery model as a means to reduce overall IT costs, increased customer spending on post-acquisition integration engagements and discretionary development projects, and greater penetration in the European market. Revenue from customers existing as of December 31, 2009 increased by approximately $1,193.3 million and revenue from new customers added during 2010 was approximately $120.4 million or approximately 9.2% of the year over year revenue increase and 2.6% of total revenues for the year ended December 31, 2010. In addition, revenue from our North American and European customers increased in 2010 by $988.5 million and $248.8 million, respectively, as compared to 2009. We had approximately 712 active clients as of December 31, 2010 as compared to approximately 589 active clients as of December 31, 2009. In addition, during 2010 we experienced strong demand across all of our business segments for an increasingly broad range of services. Our Financial Services and Healthcare business segments accounted for approximately

$537.8 million and $316.7 million, respectively, of the $1,313.7 million increase in revenue. Additionally, our IT consulting and technology services and IT outsourcing revenues increased by approximately 52.1% and 30.4%, respectively, compared to 2009 and represented approximately 48.3% and 51.7%, respectively, of total revenues in 2010. No customer accounted for sales in excess of 10% of revenues during 2010 or 2009.

Cost of Revenues (Exclusive of Depreciation and Amortization Expense). Our cost of revenues consists primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, benefits, immigration and project-related travel for technical personnel, subcontracting and sales commissions related to revenues. Our cost of revenues increased by approximately 43.5% or $805.2 million from $1,849.4 million during 2009 to $2,654.6 million in 2010. The increase was due primarily to an increase in compensation and benefits costs of approximately $671.2 million, resulting from the increase in the number of our technical personnel and incentive-based compensation, as well as the appreciation of the Indian rupee versus the U.S. dollar.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of salaries, incentive-based compensation, stock-based compensation expense, payroll taxes, employee benefits, travel, promotion, communications, management, finance, administrative and occupancy costs. Selling, general and administrative expenses, including depreciation and amortization, increased by approximately 32.7% or $265.2 million, from $810.7 million during 2009, to $1,075.9 million during 2010, and decreased as a percentage of revenue from 24.7% in 2009 to 23.4% in 2010. The decrease as a percentage of revenue was due primarily to economies of scale driven by increased revenues that resulted from our expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization, partially offset by an increase in compensation and benefit costs, including incentive-based compensation and the impact of the appreciation of the Indian rupee versus the U.S. dollar.

Income from Operations. Income from operations increased approximately 39.3%, or $243.4 million, from approximately $618.5 million during 2009 to approximately $861.9 million during 2010, representing operating margins of 18.8% of revenues in 2010 and 18.9% of revenues in 2009. The operating margin was impacted by an increase in compensation and benefit costs, including incentive-based compensation costs, and investments to grow our business, partially offset by expanded sales and marketing activities in the current and prior years that allowed us to leverage our cost structure over a larger organization. Excluding the impact of applicable designated cash flow hedges, the appreciation of the Indian rupee against the U.S. dollar negatively impacted our operating margin by approximately 157 basis points or 1.57 percentage points. Each additional 1.0% change in the exchange rate between the Indian rupee and the U.S. dollar will have the effect of moving our operating margin by approximately 27 basis points or 0.27 percentage points. Excluding stock-based compensation expense of $57.0 million and $44.8 million for 2010 and 2009 and stock-based Indian fringe benefit tax expense of $0.9 million in 2009, operating margins for the years ended December 31, 2010 and 2009 were 20.0% and 20.3%, respectively.

We entered into foreign exchange forward contracts to hedge certain Indian rupee denominated payments in India. These hedges are intended to mitigate the volatility of the changes in the exchange rate between the U.S. dollar and the Indian rupee. During 2010, settlement of certain cash flow hedges favorably impacted our operating margin by approximately 91 basis points or 0.91 percentage points.

Table of Contents

Other Income (Expense), Net. Total other income (expense), net consists primarily of foreign currency exchange gains and (losses) and interest income. The following table sets forth, for the periods indicated, Total other income (expense), net:

(Dollars in thousands)

	2010	2009	Increase/ (Decrease)
Foreign currency exchange gains	$ 11,220	$ 22,493	$ (11,273)
(Losses) on foreign exchange forward contracts not designated as hedging instruments	(21,088)	(20,821)	(267)
Net foreign currency exchange (losses) gains	(9,868)	1,672	(11,540)
Interest income	25,793	15,895	9,898
Other, net	803	894	(91)
Total other income (expense), net	$ 16,728	$ 18,461	$ (1,733)

The foreign currency exchange gains of approximately $11.2 million were primarily attributed to intercompany balances between our European subsidiaries and Cognizant India for services performed by Cognizant India on behalf of our European customers and the remeasurement of the Indian rupee net monetary assets on Cognizant India s books to the U.S. dollar functional currency. The $21.1 million of losses on foreign exchange forward contracts were related to the change in fair value of foreign exchange forward contracts entered into to offset foreign currency exposure to Indian rupee denominated net monetary assets and the realized losses related to the settlement of certain foreign exchange forward contracts in 2010. At December 31, 2010, the notional value of these undesignated hedges was $234.0 million. The $9.9 million increase in interest income was primarily attributed to higher invested balances.

Provision for Income Taxes. The provision for income taxes increased from approximately $102.0 million in 2009 to approximately $145.0 million in 2010. The effective income tax rate increased from 16.0% in 2009 to 16.5% in 2010. The increase in our effective income tax rate was primarily attributed to discrete tax items in 2010, a higher U.S. state effective income tax rate in 2010, as well as an increase in our taxable income in India resulting from an increase in non-export profits that are taxable at the India statutory rate.

Net Income. Net income increased from approximately $535.0 million in 2009 to approximately $733.5 million in 2010, representing 16.3% and 16.0% of revenues, respectively. The decrease in net income as a percentage of revenues in 2010 is primarily attributed to an increase in net foreign currency exchange losses and a higher effective income tax rate.

Results by Business Segment

Our reportable segments are: Financial Services, which includes customers providing banking / transaction processing, capital markets and insurance services; Healthcare, which includes healthcare providers and payers as well as life sciences customers; Manufacturing/Retail/Logistics, which includes manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and Other, which is an aggregation of industry operating segments which, individually, are less than 10.0% of consolidated revenues and segment operating profit. The Other segment includes information, media and entertainment services, communications, and high technology operating segments. Our sales managers, account executives, account managers and project teams are aligned in accordance with the specific industries they serve.

Our chief operating decision maker evaluates Cognizant s performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are

subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating groups may affect revenue and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the development and delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, a portion of depreciation and amortization, stock-based compensation expense and the related stock-based Indian fringe benefit tax, and the impact of the settlements of our cash flow hedges are not allocated to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are excluded from segment operating profit.

As of December 31, 2011, we had approximately 785 active customers. Accordingly, we provide a significant volume of services to many customers in each of our business segments. Therefore, a loss of a significant customer or a few significant customers in a particular segment could materially reduce revenues for such segment. However, no individual customer exceeded 10.0% of our consolidated revenues for the years ended December 31, 2011, 2010, or 2009. In addition, the services we provide to our larger customers are often critical to the operations of such customers and a termination of our services would require an extended transition period with gradual declining revenues.

Revenues from external customers and segment operating profit, before unallocated expenses, for the Financial Services, Healthcare, Manufacturing/Retail/Logistics, and Other segments for the years ended December 31, 2011, 2010, and 2009 are as follows:

	2011	2010	2009	2011 Increase	%	2010 Increase	%
			(Dollars in thousands)				
Revenues:							
Financial Services	$ 2,518,422	$ 1,944,450	$ 1,406,629	$ 573,972	29.5	$ 537,821	38.2
Healthcare	1,622,157	1,177,113	860,427	445,044	37.8	316,686	36.8
Manufacturing/Retail/ Logistics	1,197,472	849,643	564,917	347,829	40.9	284,726	50.4
Other	783,105	621,183	446,690	161,922	26.1	174,493	39.1
Total revenues	$ 6,121,156	$ 4,592,389	$ 3,278,663	$ 1,528,767	33.3	$ 1,313,726	40.1
Segment Operating Profit:							
Financial Services	$ 872,267	$ 668,595	$ 503,689	$ 203,672	30.5	$ 164,906	32.7
Healthcare	625,052	436,879	331,007	188,173	43.1	105,872	32.0
Manufacturing/Retail/ Logistics	440,416	283,676	184,636	156,740	55.3	99,040	53.6
Other	254,145	208,306	147,246	45,839	22.0	61,060	41.5
Total segment operating profit	$ 2,191,880	$ 1,597,456	$ 1,166,578	$ 594,424	37.2	$ 430,878	36.9

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Financial Services Segment

Revenue. Revenue increased by 29.5%, or approximately $573.9 million, from approximately $1,944.5 million during 2010 to approximately $2,518.4 million in 2011. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2010 and customers added during 2011 was approximately $531.3 million and approximately $42.6 million, respectively. Within the segment, revenue from our banking and insurance customers increased approximately $395.7 million and $178.2

million, respectively, over the prior year. Overall, the full year 2011 increase in the segment can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased by 30.5%, or approximately $203.7 million, from approximately $668.6 million during 2010 to approximately $872.3 million during 2011. The increase in segment operating profit was attributable primarily to increased revenues during the year.

Healthcare Segment

Revenue. Revenue increased by 37.8%, or approximately $445.0 million, from approximately $1,177.1 million during 2010 to approximately $1,622.2 million in 2011. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2010 and customers added during 2011 was approximately $394.7 million and approximately $50.3 million, respectively. Within the segment, growth was strong among both our healthcare and life sciences customers, where revenue during 2011 increased by approximately $279.8 million and $165.2 million, respectively. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased 43.1%, or approximately $188.2 million, from approximately $436.9 million during 2010 to approximately $625.1 million during 2011. The increase in segment operating profit was attributable primarily to increased revenues, achieving operating efficiencies, including continued leverage of prior sales and marketing investments, and the impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefit costs resulting from additional headcount to support our revenue growth.

Manufacturing/Retail/Logistics Segment

Revenue. Revenue increased by 40.9%, or approximately $347.8 million, from approximately $849.6 million during 2010 to approximately $1,197.5 million in 2011. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2010 and customers added during 2011 was approximately $307.2 million and approximately $40.6 million, respectively. Within the segment, growth was strong among both our retail and hospitality and manufacturing and logistics customers, where revenue during 2011 increased by approximately $221.7 million and $126.1 million, respectively. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased 55.3%, or approximately $156.7 million, from approximately $283.7 million during 2010 to approximately $440.4 million during 2011. The increase in segment operating profit was attributable primarily to increased revenues during the year, achieving operating efficiencies, including continued leverage of prior sales and marketing investments, and the impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefit costs resulting from additional headcount to support our revenue growth.

Other Segment

Revenue. Revenue increased by 26.1%, or approximately $161.9 million, from approximately $621.2 million in 2010 to approximately $783.1 million in 2011. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The

increase in revenue from customers existing as of December 31, 2010 and customers added during 2011 was approximately $137.9 million and approximately $24.0 million, respectively. Within the Other segment, growth was particularly strong among our telecommunication customers, where revenue during 2011 increased approximately $75.7 million. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on discretionary development projects.

Segment Operating Profit. Segment operating profit increased 22.0%, or approximately $45.8 million, from approximately $208.3 million in 2010 to approximately $254.1 million in 2011. The increase in segment operating profit was attributable primarily to increased revenues during the year and the impact of the depreciation of the Indian rupee versus the U.S. dollar, partially offset by an increase in compensation and benefit costs resulting from additional headcount to support our revenue growth, continued investment in sales and marketing and an increase in compensation and benefit costs.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Financial Services Segment

Revenue. Revenue increased by 38.2%, or approximately $537.8 million, from approximately $1,406.6 million during 2009 to approximately $1,944.5 million in 2010. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2009 and customers added during 2010 was approximately $508.1 million and approximately $29.7 million, respectively. Within the segment, revenue from our banking and insurance customers increased approximately $410.3 million and $127.5 million, respectively, over the prior year. Overall, the full year 2010 increase in the segment can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increased customer spending on post-acquisition integration engagements and discretionary development projects.

Segment Operating Profit. Segment operating profit increased by 32.7%, or approximately $164.9 million, from approximately $503.7 million during 2009 to approximately $668.6 million during 2010. The increase in segment operating profit was attributable primarily to increased revenues, partially offset by additional headcount to support our revenue growth, continued investment in sales and marketing, an increase in compensation and benefit costs and the impact of the appreciation of the Indian rupee versus the U.S. dollar.

Healthcare Segment

Revenue. Revenue increased by 36.8%, or approximately $316.7 million, from approximately $860.4 million during 2009 to approximately $1,177.1 million in 2010. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2009 and customers added during 2010 was approximately $293.9 million and approximately $22.8 million, respectively. Within the segment, growth was strong among both our healthcare and life sciences customers, where revenue during 2010 increased by approximately $205.4 million and $111.3 million, respectively. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increase in discretionary development projects.

Segment Operating Profit. Segment operating profit increased 32.0%, or approximately $105.9 million, from approximately $331.0 million during 2009 to approximately $436.9 million during 2010. The increase in segment operating profit was attributable primarily to increased revenues, partially offset by additional headcount to support our revenue growth, continued investment in sales and marketing, an increase in compensation and benefit costs and the impact of the appreciation of the Indian rupee versus the U.S. dollar.

Manufacturing/Retail/Logistics Segment

Revenue. Revenue increased by 50.4%, or approximately $284.7 million, from approximately $564.9 million during 2009 to approximately $849.6 million in 2010. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2009 and customers added during 2010 was approximately $241.7 million and approximately $43.0 million, respectively. Within the segment, growth was strong among both our retail and hospitality and manufacturing and logistics customers, where revenue during 2010 increased by approximately $159.6 million and $125.1 million, respectively. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increase in discretionary development projects.

Segment Operating Profit. Segment operating profit increased 53.6%, or approximately $99.1 million, from approximately $184.6 million during 2009 to approximately $283.7 million during 2010. The increase in segment operating profit was attributable primarily to increased revenues during the year and achieving operating efficiencies, including continued leverage of prior sales and marketing investments, partially offset by additional headcount to support our revenue growth, an increase in compensation and benefit costs and the impact of the appreciation of the Indian rupee versus the U.S. dollar.

Other Segment

Revenue. Revenue increased by 39.1%, or approximately $174.5 million, from approximately $446.7 million in 2009 to approximately $621.2 million in 2010. The increase in revenue was primarily driven by continued expansion of existing customer relationships as well as revenue contributed by new customers. The increase in revenue from customers existing as of December 31, 2009 and customers added during 2010 was approximately $149.6 million and approximately $24.9 million, respectively. Within the Other segment, growth was particularly strong among both our information, media and entertainment services customers and our telecommunication customers, where revenue during 2010 increased approximately $74.1 million and $56.6 million, respectively. The increase can also be attributed to leveraging sales and marketing investments in this business segment as well as greater acceptance of our global services delivery model and increase in discretionary development projects.

Segment Operating Profit. Segment operating profit increased 41.5%, or approximately $61.1 million, from approximately $147.2 million in 2009 to approximately $208.3 million in 2010. The increase in segment operating profit was attributable primarily to increased revenues during the year and achieving operating efficiencies, including continual leverage of prior sales and marketing investments, partially offset by additional headcount to support our revenue growth, an increase in compensation and benefit costs and the impact of the appreciation of the Indian rupee versus the U.S. dollar.

Liquidity and Capital Resources

At December 31, 2011, we had cash and cash equivalents and short-term investments of $2,432.3 million. We have used, and plan to use, such cash for expansion of existing operations, including our offshore development and delivery centers; continued development of new service lines; possible acquisitions of related businesses; formation of joint ventures; stock repurchases; and general corporate purposes, including working capital. As of December 31, 2011, we had no third party debt and had working capital of approximately $2,875.8 million as compared to working capital of approximately $2,587.5 million as of December 31, 2010. Accordingly, we do not anticipate any near-term liquidity issues.

Net cash provided by operating activities was approximately $875.2 million for the year ended December 31, 2011, $764.7 million for the year ended December 31, 2010 and $672.3 million for the year ended December 31, 2009. The increase in both years is primarily attributed to the increase in our net income. Trade

Table of Contents

accounts receivable increased from approximately $626.3 million at December 31, 2009 to approximately $901.3 million at December 31, 2010 and to approximately $1,179.0 million at December 31, 2011. Unbilled accounts receivable increased from approximately $83.0 million at December 31, 2009 to approximately $113.0 at December 31, 2010 and to approximately $139.6 million at December 31, 2011. The increase in trade accounts receivable and unbilled receivables during 2011 was due primarily to increased revenues. We monitor turnover, aging and the collection of accounts receivable through the use of management reports that are prepared on a customer basis and evaluated by our finance staff. At December 31, 2009, our days sales outstanding, including unbilled receivables, was approximately 72 days as compared to 71 days as of December 31, 2010 and 73 days as of December 31, 2011.

Our investing activities used net cash of approximately $850.3 million for the year ended December 31, 2011, $446.9 million for the year ended December 31, 2010 and $394.8 million for the year ended December 31, 2009. The increase in net cash used in investing activities during 2011 is related to an increase in net purchases of investments, an increase in capital expenditures during the year and increased payments for acquisitions. The increase in net cash used in investing activities during 2010 as compared to 2009 related to an increase in capital expenditures during the year partially offset by decreased payments for acquisitions and a decrease in net purchases of investments.

Our financing activities used net cash of approximately $255.5 million for the year ended December 31, 2011, and provided net cash of approximately $120.0 million for the year ended December 31, 2010 and $76.9 million for the year ended December 31, 2009. The increase in net cash used in financing activities in 2011 is primarily related to additional repurchases of our common stock under our stock repurchase program. The increase in net cash provided by the financing activities in 2010 as compared to 2009 was related to additional proceeds and excess tax benefits from issuances under our stock-based compensation plans partially offset by additional repurchases of our common stock under our stock repurchase program.

As of December 31, 2011, a majority of our cash, cash equivalents and short-term investments was held by our foreign subsidiaries. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. Most of the amounts held outside of the United States could be repatriated to the United States but, under current law, would be subject to United States federal income taxes, less applicable foreign tax credits. However, other than amounts representing pre-2002 undistributed Indian earnings for which we have already accrued U.S. taxes, our intent is to permanently reinvest these funds outside the U.S. and our current plans do not demonstrate a need to repatriate these amounts to fund our U.S. operations.

Our ability to expand and grow our business in accordance with current plans, to make acquisitions and form joint ventures and to meet our long-term capital requirements beyond a twelve month period will depend on many factors, including the rate, if any, at which our cash flow increases, our ability and willingness to accomplish acquisitions and joint ventures with capital stock, our continued intent not to repatriate foreign earnings, and the availability of public and private debt and equity financing. We cannot be certain that additional financing, if required, will be available on terms favorable to us, if at all. We expect our operating cash flow and cash and cash equivalents to be sufficient to meet our operating requirements for the next twelve months. There were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in 2011, 2010, and 2009 that would have affected our liquidity or the availability of, or requirements for, capital resources.

Table of Contents

Commitments and Contingencies

As of December 31, 2011, we had outstanding fixed capital commitments of approximately $240.1 million related to our India development center expansion program, which included expenditures for land acquisition, facilities construction and furnishings to build new state-of-the-art development and delivery centers in regions primarily designated as SEZs located in India. As of December 31, 2011, we had the following obligations and commitments to make future payments under contractual obligations and commercial commitments:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands)		
Operating leases	$ 510,092	$ 104,985	$ 185,294	$ 138,565	$ 81,248
Fixed capital commitments[1]	240,134	240,134			
Other purchase commitments[2]	23,714	23,714			
Total	$ 773,940	$ 368,833	$ 185,294	$ 138,565	$ 81,248

(1) Relates to our India development and delivery center expansion program.

(2) Other purchase commitments include, among other things, information technology, software support and maintenance obligations, as well as other obligations in the ordinary course of business that we cannot cancel or where we would be required to pay a termination fee in the event of cancellation.

As of December 31, 2011, we had $56.5 million of unrecognized tax benefits. This represents the tax benefits associated with certain tax positions on our domestic and international tax returns that have not been recognized on our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the relevant taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on our quarterly or annual operating results, cash flows, or consolidated financial position. Additionally, many of our engagements involve projects that are critical to the operations of our customers business and provide benefits that are difficult to quantify. Any failure in a customer s systems or our failure to meet our contractual obligations to our clients, including any breach involving a customer s confidential information or sensitive data, or our obligations under applicable laws or regulations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering our services, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances or will otherwise protect us from liability for damages. Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our quarterly and annual operating results, financial position and cash flows.

Foreign Currency Risk

Overall, we believe that we have limited revenue risk resulting from movement in foreign currency exchange rates as approximately 78.5% of our revenues for the year ended December 31, 2011 were generated from customers located in North America. However, a portion of our costs in India, representing approximately

33.2% of our global operating costs for the year ended December 31, 2011, are denominated in the Indian rupee and are subject to foreign exchange rate fluctuations. These foreign currency exchange rate fluctuations have an impact on our results of operations. In addition, a portion of our balance sheet is exposed to foreign currency exchange rate fluctuations, which may result in non-operating foreign currency exchange gains or losses upon remeasurement. In 2011 and 2010, we reported foreign currency exchange (losses) and gains, exclusive of hedging gains or losses, of approximately ($32.4) million and $11.2 million, respectively, which were primarily attributed to the remeasurement of Indian rupee net monetary assets on Cognizant India s books to the U.S. dollar functional currency. On an ongoing basis, we manage a portion of this risk by limiting our net monetary asset exposure to certain currencies in our foreign subsidiaries, primarily the Indian rupee.

We entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of certain Indian rupee denominated payments in India. Cognizant India converts U.S. dollar receipts from intercompany billings to Indian rupees to fund local expenses. These hedges to buy Indian rupees and sell U.S. dollars are intended to partially offset the impact of movement of exchange rates on future operating costs. During 2011 and 2010, we recorded income of $18.8 million and $41.6 million, respectively, on contracts that settled during each year. As of December 31, 2011, we have outstanding contracts with a notional value of $1,193.5 million and a weighted average forward rate of 49.1 rupees to the U.S. dollar scheduled to mature in 2012, outstanding contracts with a notional value of $1,080.0 million and a weighted average forward rate of 50.4 rupees to the U.S. dollar scheduled to mature in 2013, outstanding contracts with a notional value of $810.0 million and a weighted average forward rate of 52.7 rupees to the U.S. dollar scheduled to mature in 2014, and outstanding contracts with a notional value of $420.0 million and a weighted average forward rate of 54.3 rupees to the U.S. dollar scheduled to mature in 2015.

Our foreign subsidiaries are exposed to foreign exchange rate risk for transactions denominated in currencies other than the functional currency of the respective subsidiary. We also use foreign exchange forward contracts to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary. These contracts are not designated as hedges and are intended to offset the foreign currency exchange gains or losses upon remeasurement of these net monetary assets. We entered into a series of foreign exchange forward contracts scheduled to mature in 2012 which are primarily used to hedge our Indian rupee denominated net monetary assets. At December 31, 2011, the notional value of the outstanding contracts was $234.2 million and the related fair value was an asset of $30.7 million. During 2011, inclusive of gains of $23.6 million on these undesignated balance sheet hedges, we reported net foreign currency exchange (losses) of approximately ($8.8) million.

Effects of Inflation

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

Recent Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board, or FASB, issued new guidance clarifying certain disclosure requirements related to business combinations that are material on an individual or aggregate basis. Specifically, the guidance states that, if comparative financial statements are presented, the entity should

disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year occurred as of the beginning of the comparable prior annual reporting period only. Additionally, the new standard expands the supplemental pro forma disclosures required by the authoritative guidance to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination in the reported pro forma revenue and earnings. We adopted the new guidance effective January 1, 2011. Our adoption of this standard did not have a material effect on our financial condition or consolidated results of operations. However, it may result in additional disclosures in the event that we enter into a business combination that is material either on an individual or aggregate basis.

In June 2011, the FASB issued new guidance, which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements, thus eliminating the option of presenting the components of comprehensive income as part of the statement of changes in stockholders equity. In addition, the new guidance requires that the reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the face of the financial statements. In December 2011, the FASB deferred the new requirements related to the presentation of reclassification adjustments. The requirement to present comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements has not been deferred and will be effective on a retrospective basis for periods beginning on or after January 1, 2012. The adoption of this standard affects financial statement presentation only and will have no effect on our financial condition or consolidated results of operations.

In September 2011, the FASB issued new guidance related to goodwill impairment testing. This standard allows, but does not require, an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The new standard gives an entity the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. This new standard will be effective for periods beginning on or after January 1, 2012 and will not have a material effect on our financial condition or consolidated results of operations.

In December 2011, the FASB issued guidance requiring enhanced disclosures related to the nature of an entity s rights to offset and any related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed and the related net exposure. The new guidance will be effective for periods beginning on or after January 1, 2013. The adoption of this standard affects financial statement disclosures only and will have no effect on our financial condition or consolidated results of operations.

Forward Looking Statements

The statements contained in this Annual Report on Form 10-K that are not historical facts are forward-looking statements (within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended) that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes, expects, may, could, would, plan, intend, predict, potential, continue, should or anticipates or the negative thereof or other

Table of Contents

variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing.

Such forward-looking statements may be included in various filings made by us with the Securities and Exchange Commission, or press releases or oral statements made by or with the approval of one of our authorized executive officers. These forward-looking statements, such as statements regarding anticipated future revenues or operating margins, contract percentage completions, earnings, capital expenditures and other statements regarding matters that are not historical facts, involve predictions. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements. These factors include those set forth in Part I, in the section entitled Item 1A. Risk Factors .

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to foreign currency exchange rate risk in the ordinary course of doing business as we transact or hold a portion of our funds in foreign currencies, particularly the Indian rupee. Accordingly, we periodically evaluate the need for hedging strategies, including the use of derivative financial instruments, to mitigate the effect of foreign currency exchange rate fluctuations and expect to continue to use such instruments in the future to reduce foreign currency exposure to appreciation or depreciation in the value of certain foreign currencies. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures.

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of certain Indian rupee denominated payments in India. Cognizant India converts U.S. dollar receipts from intercompany billings to Indian rupees to fund local expenses. These U.S. dollar / Indian rupee hedges are intended to partially offset the impact of movement of exchange rates on future operating costs. As of December 31, 2011 and December 31, 2010, the notional value of these contracts was $3,503.5 million and $2,160.0 million, respectively. The outstanding contracts as of December 31, 2011 are scheduled to mature each month during 2012, 2013, 2014 and 2015. At December 31, 2011 and December 31, 2010, the net unrealized (loss) gain on our outstanding foreign exchange forward contracts was ($385.6) million and $32.3 million, respectively. The change in the net unrealized gain (loss) position from December 31, 2010 to December 31, 2011 was attributed to the depreciation of the Indian rupee versus the U.S. dollar in the latter part of 2011. Based upon a sensitivity analysis of our foreign exchange forward contracts at December 31, 2011, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10.0% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in a change in the fair value of approximately $291.1 million.

Our foreign subsidiaries are exposed to foreign exchange rate risk for transactions denominated in currencies other than the functional currency of the respective subsidiary. We also use foreign exchange forward contracts to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of the subsidiary. These contracts are not designated as hedges and are intended to offset the foreign currency exchange gains or losses upon remeasurement of these net monetary assets. We entered into a series of foreign exchange forward contracts scheduled to mature in 2012 which are primarily used to hedge our Indian rupee denominated net monetary assets. At December 31, 2011, the notional value of the outstanding contracts was $234.2 million and the related fair value was an asset of $30.7 million. Based upon a sensitivity analysis of our foreign exchange forward contracts at December 31, 2011, which estimates the fair value of the contracts based upon market exchange rate fluctuations, a 10.0% change in the foreign currency exchange rate against the U.S. dollar with all other variables held constant would have resulted in a change in the fair value of approximately $18.6 million.

Table of Contents

There were no off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons in 2011, 2010 and 2009 that would have affected our liquidity or the availability of or requirements for capital resources.

We do not believe we are exposed to material direct risks associated with changes in interest rates other than with our cash and cash equivalents and short-term investments. As of December 31, 2011, we had approximately $2,432.3 million of cash and cash equivalents and short-term investments most of which are impacted almost immediately by changes in short-term interest rates.

We typically invest in highly rated securities and our policy generally limits the amount of credit exposure to any one issuer. Our investment policy requires investments to be investment grade with the objective of minimizing the potential risk of principal loss. We may sell our investments prior to their stated maturities for strategic purposes, in anticipation of credit deterioration, or for duration management. As of December 31, 2011, our short-term investments totaled $1,121.4 million. Our investment portfolio is primarily comprised of time deposits and U.S. dollar denominated corporate bonds, municipal bonds, debt issuances by the U.S. government and U.S. government agencies, debt issuances by foreign governments and supranational entities and asset-backed securities.

Item 8. Financial Statements and Supplementary Data

The financial statements required to be filed pursuant to this Item 8 are appended to this Annual Report on Form 10-K. A list of the financial statements filed herewith is found in Part IV, Item 15. Exhibits, Financial Statements and Financial Statement Schedule .

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management under the supervision and with the participation of our chief executive officer and our chief financial officer, evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2011. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our chief executive officer and our chief financial officer as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally

accepted in the United States of America and include amounts based on management s best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company s financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the Company s independent registered public accounting firm and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent registered public accounting firm. The independent registered public accounting firm has free access to the Audit Committee.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) of the Exchange Act and is a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of the company s internal control over financial reporting as of December 31, 2011. In making this assessment, the Company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on its evaluation, our management has concluded that, as of December 31, 2011, our internal control over financial reporting was effective. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included on page F-2.

Inherent Limitations of Internal Controls

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

None.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information relating to our directors and nominees for election as directors under the heading Election of Directors in our definitive proxy statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement. The information relating to our executive officers in response to this item is contained in part under the caption Our Executive Officers in Part I of this Annual Report on Form 10-K and the remainder is incorporated herein by reference to our definitive proxy statement for the 2012 Annual Meeting of Stockholders under the headings Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance-Code of Ethics and Committees of the Board-Audit Committee.

We have adopted a written code of business conduct and ethics, entitled Cognizant s Core Values and Standards of Business Conduct, that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. We make available our code of business conduct and ethics free of charge through our website which is located at *www.cognizant.com*. We intend to disclose any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC and the NASDAQ Global Select Market by filing such amendment or waiver with the SEC and by posting it on our website.

Item 11. Executive Compensation

The discussion under the heading Executive Compensation, Compensation Committee Report, Executive Compensation Tables and Compensation Committee Interlocks and Insider Participation in our definitive proxy statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The discussion under the heading Security Ownership of Certain Beneficial Owners and Management in our definitive proxy statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The discussion under the heading Certain Relationships and Related Transactions and Director Independence in our definitive proxy statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement.

Item 14. Principal Accountant Fees and Services

The discussion under the heading Independent Registered Public Accounting Firm Fees and Other Matters in our definitive proxy statement for the 2012 Annual Meeting of Stockholders is incorporated herein by reference to such proxy statement.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Consolidated Financial Statements.

Reference is made to the Index to Consolidated Financial Statements on Page F-1.

(2) Consolidated Financial Statement Schedule.

Reference is made to the Index to Financial Statement Schedule on Page F-1.

(3) Exhibits.

Reference is made to the Index to Exhibits on Page 71.

Schedules other than as listed above are omitted as not required or inapplicable or because the required information is provided in the consolidated financial statements, including the notes thereto.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 27th day of February, 2012.

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

By: /s/ FRANCISCO D SOUZA
Francisco D Souza,
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRANCISCO D SOUZA	Chief Executive Officer and Director	February 27, 2012
Francisco D Souza	(Principal Executive Officer)	
/s/ GORDON COBURN	President	February 27, 2012
Gordon Coburn		
/s/ KAREN MCLOUGHLIN	Chief Financial Officer	February 27, 2012
Karen McLoughlin	(Principal Financial and Accounting Officer)	
/s/ JOHN E. KLEIN	Chairman of the Board and Director	February 27, 2012
John E. Klein		
/s/ LAKSHMI NARAYANAN	Vice Chairman of the Board and Director	February 27, 2012
Lakshmi Narayanan		
/s/ THOMAS M. WENDEL	Director	February 27, 2012
Thomas M. Wendel		
/s/ ROBERT W. HOWE	Director	February 27, 2012
Robert W. Howe		
/s/ ROBERT E. WEISSMAN	Director	February 27, 2012
Robert E. Weissman		
/s/ JOHN N. FOX, JR.	Director	February 27, 2012

John N. Fox, Jr.

/s/ MAUREEN BREAKIRON-EVANS	Director	February 27, 2012
Maureen Breakiron-Evans		

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated February 13, 2003.)
3.2	Amended and Restated By-laws of the Company, as amended on April 18, 2008. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated April 18, 2008.)
3.3	Amendment to Restated Certificate of Incorporation dated May 26, 2004. (Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.4	Amendment to Restated Certificate of Incorporation dated June 13, 2006. (Incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K dated June 13, 2006.)
3.5	Amendment to Restated Certificate of Incorporation dated June 2, 2011. (Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K dated June 2, 2011.)
3.6	Amendment to Amended and Restated By-laws of the Company, as amended, dated June 2, 2011. (Incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K dated June 2, 2011.)
4.1	Rights Agreement, dated March 5, 2003, between the Company and American Stock Transfer & Trust Company, as Rights Agent, which includes the Certificate of Designations for the Series A Junior Participating Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (Incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K dated March 5, 2003.)
4.2	Specimen Certificate for shares of Class A common stock. (Incorporated by reference to Exhibit 4.2 to the Company s Amendment Number 4 to the Company s Form S-4 dated January 30, 2003.)
10.1*	Form of Indemnification Agreement for Directors and Officers. (Incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-1 (File Number 333-49783) which became effective on June 18, 1998.)
10.2*	Amended and Restated Cognizant Technology Solutions Key Employees Stock Option Plan. (Incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-1 (File Number 333-49783) which became effective on June 18, 1998.)
10.3*	Amended and Restated Cognizant Technology Solutions Non-Employee Directors Stock Option Plan. (Incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-1 (File Number 333-49783) which became effective on June 18, 1998.)
10.4*	Form of Severance and Non-Competition Agreement between the Company and each of its Executive Officers. (Incorporated by reference to Exhibit 10.9 to the Company s Registration Statement on Form S-1 (File Number 333-49783) which became effective on June 18, 1998.)
10.5*	Amended and Restated 1999 Incentive Compensation Plan (As Amended and Restated Through April 26, 2007). (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated June 7, 2007.)
10.6*	2004 Employee Stock Purchase Plan (as amended and restated effective as of April 1, 2010). (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K dated June 1, 2010.)
10.7*	Form of Stock Option Certificate. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)

Table of Contents

Exhibit No.	Description of Exhibit
10.8*	The Cognizant Technology Solutions Executive Pension Plan. (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
10.9	Distribution Agreement between IMS Health Incorporated and the Company dated January 7, 2003. (Incorporated by reference to Exhibit 10.13 to the Company s Amendment Number 4 to the Company Form S-4 dated January 30, 2003.)
10.10*	Form of Stock Option Agreement between the Company and Lakshmi Narayanan pursuant to which stock options were granted on February 5, 2003. (Incorporated by reference to Exhibit 10.11 to the Company s Form 10-K dated March 12, 2004.)
10.11*	Form of Stock Option Agreement between the Company and Francisco D Souza pursuant to which stock options were granted on February 5, 2003. (Incorporated by reference to Exhibit 10.13 to the Company s Form 10-K dated March 12, 2004.)
10.12*	Severance and Noncompetition Agreement between the Company and Ramakrishnan Chandrasekaran dated December 13, 2004. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated December 17, 2004.)
10.13*	Amended and Restated 1999 Incentive Compensation Plan Amendment No. 1, which became effective on March 2, 2007. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.)
10.14*	Amended and Restated Key Employees Stock Option Plan Amendment No. 1, which became effective on March 2, 2007. (Incorporated by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.)
10.15*	Amended and Restated Non-Employee Directors Stock Option Plan Amendment No. 1, which became effective on March 2, 2007. (Incorporated by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.)
10.16*	Severance and Noncompetition Agreement with Rajeev Mehta dated July 23, 2007. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated July 18, 2007.)
10.17*	Form of Performance Unit Award for grants to certain executive officers. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated December 6, 2007.)
10.18*	Form of Stock Unit Award Agreement pursuant to the Cognizant Technology Solutions Corporation Amended and Restated 1999 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K dated September 4, 2008.)
10.19*	Form of Amendment to Severance and Noncompetition Agreements with the Named Executive Officers. (Incorporated by reference to Exhibit 10.1 to the Company s Form 8-K dated December 3, 2008.)
10.20*	The Cognizant Technology Solutions Executive Pension Plan, as amended and restated. (Incorporated by reference to Exhibit 10.2 to the Company s Form 8-K dated December 3, 2008.)
10.21*	Cognizant Technology Solutions Corporation 2009 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 3, 2010.)
10.22*	Form of Cognizant Technology Solutions Corporation Stock Option Agreement. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed July 6, 2010.

Table of Contents

Exhibit No.	Description of Exhibit
10.23*	Form of Cognizant Technology Solutions Corporation Notice of Grant of Stock Option. (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed July 6, 2010.)
10.24*	Form of Cognizant Technology Solutions Corporation Restricted Stock Unit Award Agreement Time-Based Vesting. (Incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed July 6, 2010.)
10.25*	Form of Cognizant Technology Solutions Corporation Notice of Award of Restricted Stock Units Time-Based Vesting. (Incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed July 6, 2010.)
10.26*	Form of Cognizant Technology Solutions Corporation Restricted Stock Unit Award Agreement Performance-Based Vesting. (Incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed July 6, 2010.)
10.27*	Form of Cognizant Technology Solutions Corporation Notice of Award of Restricted Stock Units Performance-Based Vesting. (Incorporated by reference to Exhibit 10.6 to the Company s Current Report on Form 8-K filed July 6, 2010.)
10.28*	Form of Cognizant Technology Solutions Corporation Notice of Award of Restricted Stock Units Non-Employee Director Deferred Issuance. (Incorporated by reference to Exhibit 10.8 to the Company s Current Report on Form 8-K filed July 6, 2010.)
21.1	List of subsidiaries of the Company.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
31.2	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).
32.1	Certification Pursuant to 18 U.S.C. Section 1350 (Chief Executive Officer).
32.2	Certification Pursuant to 18 U.S.C. Section 1350 (Chief Financial Officer).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.
Filed herewith. All other exhibits previously filed.
Furnished herewith.

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND FINANCIAL STATEMENT SCHEDULE

	Page
Consolidated Financial Statements:	
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Financial Position as of December 31, 2011 and 2010	F-3
Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009	F-4
Consolidated Statements of Stockholders Equity for the years ended December 31, 2011, 2010 and 2009	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009	F-6
Notes to Consolidated Financial Statements	F-7
Financial Statement Schedule:	
Schedule of Valuation and Qualifying Accounts	F-32

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cognizant Technology Solutions Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cognizant Technology Solutions Corporation (the Company) and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York

February 27, 2012

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except par values)

	At December 31, 2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 1,310,906	$ 1,540,969
Short-term investments	1,121,358	685,419
Trade accounts receivable, net of allowances of $24,658 and $20,991, respectively	1,179,043	901,308
Unbilled accounts receivable	139,627	112,960
Deferred income tax assets, net	109,042	96,164
Other current assets	225,530	181,414
Total current assets	4,085,506	3,518,234
Property and equipment, net of accumulated depreciation of $455,506 and $352,472, respectively	758,034	570,448
Goodwill	288,772	223,963
Intangible assets, net	97,616	85,136
Deferred income tax assets, net	164,192	109,808
Other noncurrent assets	113,813	75,485
Total assets	$ 5,507,933	$ 4,583,074
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 72,205	$ 75,373
Deferred revenue	105,713	84,590
Accrued expenses and other current liabilities	1,031,787	770,763
Total current liabilities	1,209,705	930,726
Deferred income tax liabilities, net	3,339	4,946
Other noncurrent liabilities	342,003	62,971
Total liabilities	1,555,047	998,643
Commitments and contingencies (See Note 13)		
Stockholders equity:		
Preferred stock, $.10 par value, 15,000 shares authorized, none issued		
Class A common stock, $.01 par value, 1,000,000 shares authorized at December 31, 2011 and 500,000 shares authorized at December 31, 2010; 303,106 and 303,941 shares issued and outstanding at December 31, 2011 and 2010, respectively	3,031	3,039
Additional paid-in capital	692,723	846,886
Retained earnings	3,582,526	2,698,908
Accumulated other comprehensive income (loss)	(325,394)	35,598
Total stockholders equity	3,952,886	3,584,431
Total liabilities and stockholders equity	$ 5,507,933	$ 4,583,074

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

F-3

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Revenues	$ 6,121,156	$ 4,592,389	$ 3,278,663
Operating expenses:			
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	3,538,622	2,654,569	1,849,443
Selling, general and administrative expenses	1,328,665	972,093	721,359
Depreciation and amortization expense	117,401	103,875	89,371
Income from operations	1,136,468	861,852	618,490
Other income (expense), net:			
Interest income	39,249	25,793	15,895
Other, net	(6,568)	(9,065)	2,566
Total other income (expense), net	32,681	16,728	18,461
Income before provision for income taxes	1,169,149	878,580	636,951
Provision for income taxes	285,531	145,040	101,988
Net income	$ 883,618	$ 733,540	$ 534,963
Basic earnings per share	$ 2.91	$ 2.44	$ 1.82
Diluted earnings per share	$ 2.85	$ 2.37	$ 1.78
Weighted average number of common shares outstanding Basic	303,277	300,781	293,304
Dilutive effect of shares issuable under stock-based compensation plans	7,074	8,356	7,811
Weighted average number of common shares outstanding Diluted	310,351	309,137	301,115

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

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Class A Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total
	Shares	Amount				
Balance, December 31, 2008	291,670	$ 2,917	$ 541,735	$ 1,430,405	$ (9,479)	$ 1,965,578
Net income				534,963		534,963
Foreign currency translation adjustments					11,922	11,922
Change in unrealized gain on cash flow hedges, net of taxes of $550					17,834	17,834
Comprehensive income						$ 564,719
Common stock issued, stock-based compensation plans	6,326	63	61,588			61,651
Tax benefit, stock-based compensation plans			32,672			32,672
Stock-based compensation expense			44,816			44,816
Repurchases of common stock	(765)	(8)	(16,251)			(16,259)
Balance, December 31, 2009	297,231	2,972	664,560	1,965,368	20,277	2,653,177
Net income				733,540		733,540
Foreign currency translation adjustments					2,411	2,411
Change in unrealized gain on cash flow hedges, net of taxes of $1,044					12,313	12,313
Change in unrealized gain on available-for-sale securities, net of taxes of $408					597	597
Comprehensive income						$ 748,861
Common stock issued, stock-based compensation plans	7,529	75	107,009			107,084
Tax benefit, stock-based compensation plans			73,839			73,839
Stock-based compensation expense			56,984			56,984
Repurchases of common stock	(892)	(9)	(58,991)			(59,000)
Acquisition (See Note 2)	73	1	3,485			3,486
Balance, December 31, 2010	303,941	3,039	846,886	2,698,908	35,598	3,584,431
Net income				883,618		883,618
Foreign currency translation adjustments					(7,839)	(7,839)
Change in unrealized (loss) gain on cash flow hedges, net of taxes of ($64,217)					(353,762)	(353,762)
Change in unrealized gain on available-for-sale securities, net of taxes of $372					609	609
Comprehensive income						$ 522,626
Common stock issued, stock-based compensation plans	4,513	45	79,506			79,551
Tax benefit, stock-based compensation plans			39,778			39,778
Stock-based compensation expense			90,232			90,232
Repurchases of common stock	(5,511)	(55)	(374,092)			(374,147)
Acquisition (See Note 2)	163	2	10,413			10,415
Balance, December 31, 2011	303,106	$ 3,031	$ 692,723	$ 3,582,526	$ (325,394)	$ 3,952,886

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

Table of Contents

COGNIZANT TECHNOLOGY SOLUTIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 883,618	$ 733,540	$ 534,963
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	124,175	110,172	89,371
Provision for doubtful accounts	4,582	5,950	3,347
Deferred income taxes	(8,599)	(51,909)	(26,589)
Stock-based compensation expense	90,232	56,984	44,816
Excess tax benefit on stock-based compensation plans	(39,141)	(71,919)	(31,556)
Other	46,036	(7,598)	(6,101)
Changes in assets and liabilities:			
Trade accounts receivable	(284,167)	(278,418)	(98,451)
Other current assets	(99,224)	(75,347)	(42,778)
Other assets	(28,805)	(24,296)	(9,255)
Accounts payable	(8,593)	18,597	6,675
Other current and noncurrent liabilities	195,038	348,898	207,883
Net cash provided by operating activities	875,152	764,654	672,325
Cash flows (used in) investing activities:			
Purchases of property and equipment	(288,221)	(185,512)	(76,639)
Purchases of investments	(1,338,664)	(934,185)	(348,209)
Proceeds from maturity or sale of investments	859,404	706,670	98,697
Acquisitions, net of cash acquired	(82,800)	(33,863)	(68,613)
Net cash (used in) investing activities	(850,281)	(446,890)	(394,764)
Cash flows (used in) provided by financing activities:			
Issuance of common stock under stock-based compensation plans	79,551	107,084	61,651
Excess tax benefit on stock-based compensation plans	39,141	71,919	31,556
Repurchases of common stock	(374,147)	(59,000)	(16,259)
Net cash (used in) provided by financing activities	(255,455)	120,003	76,948
Effect of currency translation on cash and cash equivalents	521	2,272	11,355
(Decrease) increase in cash and cash equivalents	(230,063)	440,039	365,864
Cash and cash equivalents, at beginning of year	1,540,969	1,100,930	735,066
Cash and cash equivalents, at end of year	$ 1,310,906	$ 1,540,969	$ 1,100,930
Supplemental information:			
Cash paid for income taxes during the year	$ 248,229	$ 127,129	$ 120,544

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

F-6

Notes to Consolidated Financial Statements

(Dollars in thousands, except share data)

1. Summary of Significant Accounting Policies

The terms Cognizant, we, our, us and the Company refer to Cognizant Technology Solutions Corporation and its subsidiaries unless the co indicates otherwise.

Description of Business. Cognizant is a leading provider of custom information technology, or IT, consulting and business process outsourcing services. Our customers are primarily Global 2000 companies. Our core competencies include Technology Strategy Consulting, Complex Systems Development and Integration, Enterprise Software Package Implementation and Maintenance, Data Warehousing, Business Intelligence and Analytics, Application Testing, Application Maintenance, Infrastructure Management and Business and Knowledge Process Outsourcing. We tailor our services to specific industries, and utilize an integrated global delivery model. This seamless global delivery model combines technical and account management teams located on-site at the customer location and at dedicated near-shore and offshore development and delivery centers located primarily in India, China, the United States, Canada, Argentina, Hungary and the Philippines.

Basis of Presentation and Principles of Consolidation. The consolidated financial statements are presented in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, and reflect the consolidated financial position, results of operations and cash flows of our consolidated subsidiaries for all periods presented. All intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents and Investments. Cash and cash equivalents consist of all cash balances, including money market funds and liquid instruments. Liquid instruments are classified as cash equivalents when their maturities at the date of purchase are three months or less and as short-term investments when their maturities at the date of purchase are greater than three months.

We determine the appropriate classification of our investments in marketable securities at the date of purchase and reevaluate such designation at each balance sheet date. We have classified and accounted for our marketable securities as available-for-sale. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. As we view these marketable securities as available to support current operations, we classify such securities with maturities at the date of purchase beyond twelve months as short-term investments because such investments represent an investment in cash that is available for current operations. Non-marketable investments are classified as short-term investments when their maturities are between three and twelve months and as long-term investments when their maturities are greater than twelve months.

Available-for-sale securities are reported at fair value with changes in unrealized gains and losses recorded as a separate component of accumulated other comprehensive income (loss) until realized. We determine the cost of the securities sold based on the specific identification method. Trading securities are reported at fair value with any unrealized gains or losses related to the changes in fair value recorded in income or loss. Time deposits with financial institutions are valued at cost, which approximates fair value.

Interest and amortization of premiums and discounts for debt securities are included in interest income. We also evaluate our available-for-sale investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, whether we intend to sell the security and whether it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is generally recorded to income and a new cost basis in the investment is established.

Table of Contents

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is determined by evaluating the relative credit-worthiness of each customer, historical collections experience and other information, including the aging of the receivables. We evaluate the collectibility of our accounts receivable on an on-going basis and write-off accounts when they are deemed to be uncollectible.

Unbilled Accounts Receivable. Unbilled accounts receivable represent revenues on contracts to be billed, in subsequent periods, as per the terms of the related contracts.

Short-term Financial Assets and Liabilities. Cash and cash equivalents, trade receivables, accounts payable and other accrued liabilities are short-term in nature and, accordingly, their carrying values approximate fair value.

Property and Equipment. Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the improvement. Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized. Deposits paid towards acquisition of long-lived assets and the cost of assets not put in use before the balance sheet date are disclosed under the caption capital work-in-progress in Note 4.

Internal Use Software. Costs for software developed or obtained for internal use are capitalized, including the salaries and benefits of employees that are directly involved in the installation of such software. The capitalized costs are amortized on a straight-line basis over the lesser of three years or the software s useful life. Costs associated with preliminary project stage activities, training, maintenance and all other post-implementation stage activities are expensed as incurred.

Goodwill. We allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values including goodwill and identifiable intangible assets. We do not amortize goodwill, but instead test goodwill at the reporting unit level for impairment at least annually or as circumstances warrant. If an impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. We do not have any indefinite-lived intangible assets.

Long-Lived Assets and Intangibles. We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We recognize an impairment loss when the sum of undiscounted expected future cash flows is less than the carrying amount of such assets. The impairment loss would equal the amount by which the carrying amount of the asset exceeds the fair value of the asset. Other intangibles consist primarily of customer relationships and developed technology, which are being amortized on a straight-line basis over their estimated useful lives.

Stock Repurchase Program. Our existing stock repurchase program approved by our Board of Directors in December 2010 and subsequently amended during 2011 allows for the repurchase of $600,000 of our outstanding shares of Class A common stock. This stock repurchase program expires on June 30, 2012. We completed stock repurchases of 5,606,528 shares for $380,646, inclusive of fees and expenses, under this program. Under a stock repurchase program which expired in December 2009, we were authorized to repurchase up to $50,000, excluding fees and expenses, of our Class A common stock. We completed stock repurchases of 650,000 shares for $12,439, inclusive of fees and expenses, under this program. Additional stock repurchases were made in connection with our stock-based compensation plans, whereby Company shares were tendered by employees for payment of applicable statutory tax withholdings. During 2011, 2010, and 2009 such repurchases totaled 504,164, 292,576 and 114,642 shares, respectively at an aggregate cost of $35,365, $17,136 and $3,820 respectively. At the time of repurchase, shares are returned to the status of authorized and unissued shares. We account for the repurchases as constructively retired and record such repurchases as a reduction of Class A common stock and additional paid-in capital.

Table of Contents

Revenue Recognition. Our contracts are entered into on either a time-and-materials or fixed-price basis. Revenues related to time-and-material contracts are recognized as the service is performed. Revenues related to fixed-price contracts that provide for highly complex information technology application development services are recognized as the service is performed using the percentage of completion method of accounting, under which the total value of revenue is recognized on the basis of the percentage that each contract s total labor cost to date bears to the total expected labor costs (cost to cost method). Revenues related to fixed-price contracts that provide solely for application maintenance services are recognized on a straight-line basis unless revenues are earned and obligations are fulfilled in a different pattern. Revenues related to fixed-price contracts that do not provide for highly complex information technology development services are recognized as services are performed on a proportional performance basis based upon the level of effort. Expenses are recorded as incurred over the contract period.

Revenues related to business process outsourcing, or BPO, contracts entered into on a time-and-material basis are recognized as the services are performed. Revenues from fixed-price BPO contracts are recognized on a straight-line basis, unless revenues are earned and obligations are fulfilled in a different pattern. Revenues from transaction-priced contracts are recognized as transactions are processed. Amounts billable for transition or set-up activities are deferred and recognized as revenue evenly over the period services are provided. Costs related to delivering BPO services are expensed as incurred with the exception of certain transition costs related to the set-up of processes, personnel and systems, which are deferred during the transition period and expensed evenly over the period of service. The deferred costs are specific internal costs or external costs directly related to transition or set-up activities necessary to enable the BPO services. Generally, deferred amounts are protected in the event of early termination of the contract and are monitored regularly for impairment. Impairment losses are recorded when projected undiscounted operating cash flows of the related contract are not sufficient to recover the carrying amount of the deferred assets. Deferred transition revenues and costs as of December 31, 2011 and 2010 were immaterial.

Contingent or incentive revenues are recognized when the contingency is satisfied and we conclude the amounts are earned. Volume discounts are recorded as a reduction of revenue over the contract period as services are provided.

For contracts with multiple deliverables, we evaluate at the inception of each new contract all deliverables in an arrangement to determine whether they represent separate units of accounting. For arrangements with multiple units of accounting, primarily fixed-price contracts that provide both application maintenance and application development services and certain application maintenance contracts, arrangement consideration is allocated among the units of accounting, where separable, based on their relative selling price. Relative selling price is determined based on vendor-specific objective evidence, if it exists. Otherwise, third-party evidence of selling price is used, when it is available, and in circumstances when neither vendor-specific objective evidence nor third-party evidence of selling price is available, management s best estimate of selling price is used. Revenue is recognized for each unit of accounting based on our revenue recognition policy described above.

Fixed-price contracts are cancelable subject to a specified notice period. All services provided by us through the date of cancellation are due and payable under the contract terms. We issue invoices related to fixed-price contracts based upon achievement of milestones during a project or other contractual terms. Differences between the timing of billings, based upon contract milestones or other contractual terms, and the recognition of revenue are recognized as either unbilled receivables or deferred revenue. Estimates of certain fixed-price contracts are subject to adjustment as a project progresses to reflect changes in expected completion costs or efforts. 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. Warranty provisions generally exist under such contracts for a period of up to ninety days past contract completion and costs related to such provisions are accrued at the time the related revenues are recorded.

For all services, revenue is earned when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including the price is fixed or determinable, services have been

rendered and collectability is reasonably assured. Revenues related to services performed without a signed agreement or work order are not recognized until there is evidence of an arrangement, such as when agreements or work orders are signed or payment is received; however, the cost related to the performance of such work is recognized in the period the services are rendered.

We account for reimbursement of out-of-pocket expenses as revenues. Subcontractor costs are included in cost of services as they are incurred.

Stock-Based Compensation. Stock-based compensation expense for awards of equity instruments to employees and non-employee directors is determined based on the grant-date fair value of those awards. We recognize these compensation costs net of an estimated forfeiture rate over the requisite service period of the award. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Foreign Currency. The assets and liabilities of our foreign subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars from local currencies at current exchange rates and revenues and expenses are translated from local currencies at average monthly exchange rates. The resulting translation adjustments are recorded in accumulated other comprehensive income (loss) on the accompanying consolidated statements of financial position. The U.S. dollar is the functional currency for certain foreign subsidiaries who conduct business predominantly in U.S. dollars. For these foreign subsidiaries, non-monetary assets and liabilities are remeasured at historical exchange rates, while monetary assets and liabilities are remeasured at current exchange rates. Foreign currency exchange gains or losses from remeasurement are included in income. Net foreign currency exchange (losses) gains included in our results of operations, inclusive of our undesignated foreign currency hedges, were ($8,779), ($9,868), and $1,672, for the years ended December 31, 2011, 2010 and 2009, respectively.

Derivative Financial Instruments. Derivative financial instruments are accounted for in accordance with the authoritative guidance which requires that each derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value as of the reporting date. Our derivative financial instruments consist of foreign exchange forward contracts. For derivative financial instruments to qualify for hedge accounting, the following criteria must be met: (1) the hedging instrument must be designated as a hedge; (2) the hedged exposure must be specifically identifiable and expose us to risk; and (3) it is expected that a change in fair value of the derivative financial instrument and an opposite change in the fair value of the hedged exposure will have a high degree of correlation. The authoritative guidance also requires that changes in our derivatives fair values be recognized in income unless specific hedge accounting and documentation criteria are met (i.e., the instruments are accounted for as hedges). For items which hedge accounting is applied, we record the effective portion of our derivative financial instruments that are designated as cash flow hedges in accumulated other comprehensive income (loss) in the accompanying consolidated statements of financial position. Any ineffectiveness or excluded portion of a designated cash flow hedge is recognized in income.

Use of Estimates. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the recoverability of tangible and intangible assets, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period. On an on-going basis, management reevaluates these estimates. The most significant estimates relate to the recognition of revenue and profits based on the percentage of completion method of accounting for certain fixed-bid contracts, the allowance for doubtful accounts, income taxes and related deferred income tax assets and liabilities, valuation of investments, goodwill and other long-lived assets, assumptions used in determining the fair value of stock-based compensation awards and derivative financial instruments, contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The actual amounts may vary from the estimates used in the preparation of the accompanying consolidated financial statements.

Risks and Uncertainties. The majority of our development and delivery centers and employees are located in India. As a result, we may be subject to certain risks associated with international operations, including risks associated with foreign currency exchange rate fluctuations and risks associated with the application and imposition of protective legislation and regulations relating to import and export or otherwise resulting from foreign policy or the variability of foreign economic or political conditions. Additional risks associated with international operations include difficulties in enforcing intellectual property rights, the burdens of complying with a wide variety of foreign laws, potential geo-political and other risks associated with terrorist activities and local or cross border conflicts and potentially adverse tax consequences, tariffs, quotas and other barriers.

Concentration of Credit Risk. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents, time deposits, investments in securities, derivative financial instruments and trade accounts receivable. We maintain our cash and cash equivalents and investments with high credit quality financial institutions, invest in investment-grade debt securities and limit the amount of credit exposure to any one commercial issuer. Trade accounts receivable is dispersed across many customers operating in different industries; therefore, concentration of credit risk is limited.

Income Taxes. We provide for income taxes utilizing the asset and liability method of accounting. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each balance sheet date, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. If it is determined that it is more likely than not that future tax benefits associated with a deferred income tax asset will not be realized, a valuation allowance is provided. The effect on deferred income tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. Tax benefits earned on exercise of employee stock options in excess of compensation charged to income are credited to additional paid-in capital. Our provision for income taxes also includes the impact of provisions established for uncertain income tax positions, as well as the related interest.

Earnings Per Share, or EPS. Basic EPS excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS includes all potential dilutive common stock in the weighted average shares outstanding. For purposes of computing diluted earnings per share for the years ended December 31, 2011, 2010 and 2009, respectively, 7,074,000, 8,356,000, and 7,811,000 shares were assumed to have been outstanding related to common share equivalents. We exclude options with exercise prices that are greater than the average market price from the calculation of diluted EPS because their effect would be anti-dilutive. We excluded 12,500 shares in 2011, zero shares in 2010, and 3,839,000 shares in 2009 from our diluted EPS calculation. Also, in accordance with the authoritative guidance, we excluded from the calculation of diluted EPS options to purchase an additional 38,600 shares in 2011, 16,500 shares in 2010, and 228,000 shares in 2009, whose combined exercise price, unamortized fair value and excess tax benefits were greater in each of those periods than the average market price of our common stock because their effect would be anti-dilutive. We include performance stock unit awards in the dilutive potential common shares when they become contingently issuable per the authoritative guidance and exclude the awards when they are not contingently issuable.

Accounting Changes and New Accounting Standards.

In December 2010, the Financial Accounting Standards Board, or FASB, issued new guidance clarifying certain disclosure requirements related to business combinations that are material on an individual or aggregate basis. Specifically, the guidance states that, if comparative financial statements are presented, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year occurred as of the beginning of the comparable prior annual reporting period only. Additionally, the new standard expands the supplemental pro forma disclosures required by the authoritative guidance to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination in the reported pro forma revenue and earnings. We adopted the new

guidance effective January 1, 2011. Our adoption of this standard did not have a material effect on our financial condition or consolidated results of operations. However, it may result in additional disclosures in the event that we enter into a business combination that is material either on an individual or aggregate basis.

In June 2011, the FASB issued new guidance, which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate consecutive statements, thus eliminating the option of presenting the components of comprehensive income as part of the statement of changes in stockholders equity. In addition, the new guidance requires that the reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the face of the financial statements. In December 2011, the FASB deferred the new requirements related to the presentation of reclassification adjustments. The requirement to present comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements has not been deferred and will be effective on a retrospective basis for periods beginning on or after January 1, 2012. The adoption of this standard affects financial statement presentation only and will have no effect on our financial condition or consolidated results of operations.

In September 2011, the FASB issued new guidance related to goodwill impairment testing. This standard allows, but does not require, an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The new standard gives an entity the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. This new standard will be effective for periods beginning on or after January 1, 2012 and will not have a material effect on our financial condition or consolidated results of operations.

In December 2011, the FASB issued guidance requiring enhanced disclosures related to the nature of an entity s rights to offset and any related arrangements associated with its financial instruments and derivative instruments. The new guidance requires the disclosure of the gross amounts subject to rights of set-off, amounts offset in accordance with the accounting standards followed and the related net exposure. The new guidance will be effective for periods beginning on or after January 1, 2013. The adoption of this standard affects financial statement disclosures only and will have no effect on our financial condition or consolidated results of operations.

2. Acquisitions

During 2011, we completed two business combinations for total consideration, including stock, of approximately $91,000 (net of cash acquired). These transactions strengthen our business process and analytics solution offerings and enhance our retail SAP capabilities.

During 2010, we completed three business combinations for total consideration, including stock, of approximately $46,000 (net of cash acquired). These transactions expand our business process outsourcing expertise within our logistic services, strengthen our business transformation and program management capabilities and expand our testing services within Europe. As of December 31, 2010, we accrued additional consideration of approximately $6,500 that was contingent on the achievement of certain financial and operating targets during the earn-out period by a company which we previously acquired.

Table of Contents

During 2009, we completed four business combinations for an aggregate consideration of approximately $97,300 (net of cash acquired). In December 2009, we acquired the stock of UBS India Service Centre Private Limited (UBS ISC) for cash consideration of approximately $62,800, net of acquired cash. As part of this transaction, we acquired multi-year service agreements, an assembled workforce, land, equipment and other assets. The acquisition expands our business and knowledge process outsourcing capabilities in the financial services industry. In the third quarter of 2009, we entered into a transaction with Invensys pursuant to which we acquired a multi-year service agreement, an assembled workforce and certain other assets. Under the current authoritative business combination guidelines, this transaction qualified as business combination. This transaction, with no initial cash consideration, expands our business process outsourcing expertise within engineering services. The remaining two acquisitions were completed to strengthen our retail and infrastructure management capabilities.

We made an allocation of the purchase price to the tangible and intangible assets and liabilities acquired, including tax deductible goodwill and non-tax deductible goodwill as described in the table below:

	2011	2010	2009
Total initial consideration, net of cash acquired(1)	$ 91,000	$ 46,000	$ 97,300
Purchase price allocated to:			
Tax deductible goodwill	21,367		2,200
Non-deductible goodwill	44,713	22,600	36,600
Intangible assets	19,400	25,700	37,300
Weighted average life of intangible assets	8.2 years	8.6 years	6.3 years

(1) Includes stock consideration in 2011 and 2010.

The acquisitions in 2011, 2010, and 2009 were included in our consolidated financial statements as of the date which they were acquired and were not material to our operations, financial position or cash flows. For additional details of our goodwill and intangible assets see Note 5.

Note 3 Investments

Investments were as follows as of December 31:

	2011	2010
Available-for-sale securities:		
U.S. Treasury and agency debt securities	$ 464,938	$ 340,384
Corporate and other debt securities	202,705	122,909
Asset-backed securities	100,894	33,154
Municipal debt securities	43,889	41,655
Foreign government debt securities	10,500	7,926
Total available-for-sale securities	822,926	546,028
Time deposits	298,432	139,391
Total investments	$ 1,121,358	$ 685,419

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, debt securities issued by supranational institutions and asset-backed securities, including those backed by auto loans, credit card receivables, mortgage loans 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 carrying value of the time deposits approximated fair value as of December 31, 2011 and 2010.

F-13

Table of Contents

Available-for-Sale Securities

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

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	$ 463,318	$ 1,742	$ (122)	$ 464,938
Corporate and other debt securities	202,284	902	(481)	202,705
Asset-backed securities	101,068	100	(274)	100,894
Municipal debt securities	43,873	101	(85)	43,889
Foreign government debt securities	10,397	105	(2)	10,500
Total available-for-sale investment securities	$ 820,940	$ 2,950	$ (964)	$ 822,926

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency debt securities	$ 339,982	$ 994	$ (592)	$ 340,384
Corporate and other debt securities	122,137	835	(63)	122,909
Asset-backed securities	33,258	33	(137)	33,154
Municipal debt securities	41,802	2	(149)	41,655
Foreign government debt securities	7,844	83	(1)	7,926
Total available-for-sale investment securities	$ 545,023	$ 1,947	$ (942)	$ 546,028

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, 2011:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency debt securities	$ 122,124	$ (122)	$	$	$ 122,124	$ (122)
Corporate and other debt securities	75,076	(481)			75,076	(481)
Asset-backed securities	58,503	(241)	2,292	(33)	60,795	(274)
Municipal debt securities	5,149	(17)	1,732	(68)	6,881	(85)
Foreign government debt securities	1,507	(2)			1,507	(2)
Total	$ 262,359	$ (863)	$ 4,024	$ (101)	$ 266,383	$ (964)

The fair value and related unrealized losses of available-for-sale investment securities in a continuous unrealized loss position for a period of less than 12 months were as follows as of December 31, 2010:

	Fair Value	Unrealized Losses
U.S. Treasury and agency debt securities	$ 200,772	$ (592)

Corporate and other debt securities	16,518	(63)
Asset-backed securities	17,791	(137)
Municipal debt securities	25,598	(149)
Foreign government debt securities	1,203	(1)
Total	$ 261,882	$ (942)

Table of Contents

As of December 31, 2010, we did not have any investments in available-for-sale securities that had been in an unrealized loss position for 12 months or longer.

The unrealized losses for the above securities as of December 31, 2011 and 2010 are primarily attributable to changes in interest rates. As of December 31, 2011, we do not consider any of the investments to be other-than-temporarily impaired.

The gross unrealized gains and losses in the above tables were recorded, net of tax, in accumulated other comprehensive income (loss).

The contractual maturities of available-for-sale investment securities as of December 31, 2011 are set forth in the following table:

	Amortized Cost	Fair Value
Due within one year	$ 95,885	$ 95,971
Due after one year through five years	619,689	621,815
Due after ten years	4,298	4,246
Asset-backed securities	101,068	100,894
Total available-for-sale investment securities	$ 820,940	$ 822,926

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 for the years ended December 31:

	2011	2010
Proceeds from sales of available-for-sale investment securities	$ 652,992	$ 195,693
Gross gains	$ 3,102	$ 778
Gross losses	(785)	(124)
Net gains on sales of available-for-sale investment securities	$ 2,317	$ 654

During 2009, 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 immaterial.

Table of Contents

4. Property and Equipment, net

Property and equipment were as follows as of December 31:

	Estimated Useful Life (Years)	2011	2010
Buildings	30	$ 321,280	$ 289,260
Computer equipment and purchased software	3	291,883	227,189
Furniture and equipment	5 9	186,983	152,289
Land		16,042	16,042
Leasehold land		39,186	33,653
Capital work-in-progress		211,140	95,496
Leasehold improvements	Shorter of the lease term or the life of leased asset	147,026	108,991
Sub-total		1,213,540	922,920
Accumulated depreciation and amortization		(455,506)	(352,472)
Property and equipment, net		$ 758,034	$ 570,448

Depreciation and amortization expense related to property and equipment was $107,257, 93,190, and $79,126 for the years ended December 31, 2011, 2010, and 2009, respectively.

In India, leasehold land is leased by us from the government of India with lease terms ranging up to 99 years. Lease payments are made at the inception of the lease agreement and amortized over the lease term. Amortization expense of leasehold land is immaterial for the periods presented and is included in depreciation and amortization expense in our accompanying consolidated statements of operations.

5. Goodwill and Intangible Assets, net

Changes in goodwill were as follows for the years ended December 31:

	2011	2010
Balance, beginning of year	$ 223,963	$ 192,372
Acquisitions and adjustments	66,080	29,120
Cumulative translation adjustments	(1,271)	2,471
Balance, end of year	$ 288,772	$ 223,963

In 2011 and 2010, the increase in goodwill was primarily related to the 2011 and 2010 acquisitions, respectively. No impairment losses were recognized during the three years ended December 31, 2011.

Goodwill has been allocated to our reportable segments as follows as of December 31:

	2011	2010
Financial Services	$ 126,550	$ 82,365
Healthcare	70,977	71,302
Manufacturing/Retail/Logistics	48,057	26,946
Other	43,188	43,350

Total goodwill	$ 288,772	$ 223,963

F-16

Components of intangible assets were as follows as of December 31:

	2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 134,285	$ (50,698)	$ 83,587
Developed technology	4,158	(1,275)	2,883
Other	13,216	(2,070)	11,146
Total intangible assets	$ 151,659	$ (54,043)	$ 97,616

	2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 117,299	$ (36,683)	$ 80,616
Developed technology	3,129	(601)	2,528
Other	2,679	(687)	1,992
Total intangible assets	$ 123,107	$ (37,971)	$ 85,136

All of the intangible assets have finite lives and as such are subject to amortization. The weighted average life of intangible assets was 8.7 years for customer relationships, 5.8 years for developed technology, and 8.5 years for other intangibles. Amortization of intangible assets totaled $16,918 for 2011, $16,982 for 2010, and $10,245 for 2009. During 2011 and 2010, amortization expense of $6,774 and $6,297, respectively, relating to customer relationship intangible assets was recorded as a reduction of revenues. These intangible assets are attributed to direct revenue contracts with sellers of acquired businesses.

Estimated amortization expense related to our existing intangible assets for the next five years are as follows:

Year	Amount
2012	$ 18,777
2013	17,374
2014	16,630
2015	11,776
2016	11,436

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows as of December 31:

	2011	2010
Compensation and benefits	$ 632,649	$ 533,067
Income taxes	27,676	14,999
Professional fees	32,861	34,121
Travel and entertainment	18,215	16,531
Customer volume incentives	104,989	85,180
Derivative financial instruments	126,731	7,504
Deferred income taxes	73	1,134
Other	88,593	78,227

Total accrued expenses and other current liabilities	$ 1,031,787	$ 770,763

Table of Contents

7. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows as of December 31:

	2011	2010
Foreign currency translation adjustments	$ (3,561)	$ 4,278
Unrealized (losses) gains on cash flow hedges, net of taxes	(323,039)	30,723
Unrealized gains on available-for-sale securities, net of taxes	1,206	597
Total accumulated other comprehensive income (loss)	$ (325,394)	$ 35,598

8. Employee Benefits

We contribute to defined contribution plans in the United States and Europe, including a 401(k) savings and supplemental retirement plans in the United States. Total expenses for company contributions to these plans were $19,453, $13,447, and $10,015 for the years ended December 31, 2011, 2010, and 2009, respectively.

We maintain employee benefit plans that cover substantially all India-based employees. The employees provident fund, pension and family pension plans are statutory defined contribution retirement benefit plans. Under the plans, employees contribute up to 12% of their base compensation, which is matched by an equal contribution by the Company. For these plans, we recognized a contribution expense of $49,200, $35,049, and $20,729 for the years ended December 31, 2011, 2010, and 2009, respectively.

We also maintain a gratuity plan in India that is a statutory post-employment benefit plan providing defined lump sum benefits. We make annual contributions to an employees gratuity fund established with a government-owned insurance corporation to fund a portion of the estimated obligation. Accordingly, our liability for the gratuity plan reflects the undiscounted benefit obligation payable as of the balance sheet date which was based upon the employees salary and years of service. As of December 31, 2011 and 2010, the amount accrued under the gratuity plan was $39,916 and $25,350, which is net of fund assets of $40,744 and $36,132, respectively. Expense recognized by us was $29,703, $16,949, and $8,918 for the years ended December 31, 2011, 2010, and 2009, respectively.

9. Income Taxes

Income before provision for income taxes shown below is based on the geographic location to which such income is attributed for years ended December 31:

	2011	2010	2009
United States	$ 344,143	$ 220,234	$ 151,711
Foreign	825,006	658,346	485,240
Income before provision for income taxes	$ 1,169,149	$ 878,580	$ 636,951

The provision for income taxes consists of the following components for the years ended December 31:

	2011	2010	2009
Current:			
Federal and state	$ 120,441	$ 110,713	$ 101,170
Foreign	173,689	86,236	59,539
Total current	294,130	196,949	160,709

Deferred:			
Federal and state	26,549	(12,597)	(35,315)
Foreign	(35,148)	(39,312)	(23,406)
Total deferred	(8,599)	(51,909)	(58,721)
Total provision for income taxes	$ 285,531	$ 145,040	$ 101,988

Table of Contents

The reconciliation between our effective income tax rate and the U.S. federal statutory rate is as follows:

	2011	%	2010	%	2009	%
Tax expense, at U.S. federal statutory rate	$ 409,202	35.0	$ 307,503	35.0	$ 222,933	35.0
State and local income taxes, net of federal benefit	20,373	1.7	13,699	1.6	8,648	1.4
Non-taxable income for Indian tax purposes	(125,708)	(10.8)	(166,800)	(19.0)	(127,800)	(20.0)
Rate differential on foreign earnings	(26,030)	(2.2)	(17,733)	(2.0)	(9,338)	(1.5)
Other	7,694	0.7	8,371	0.9	7,545	1.1
Total provision for income taxes	$ 285,531	24.4	$ 145,040	16.5	$ 101,988	16.0

The significant components of deferred income tax assets and liabilities recorded on the consolidated statements of financial position as of December 31:

	2011	2010
Deferred income tax assets:		
Net operating losses	$ 9,742	$ 9,663
Revenue recognition	33,083	37,526
Compensation and benefits	60,358	38,480
Stock-based compensation	30,366	24,780
Minimum alternative tax (MAT) and other credits	120,843	100,468
Foreign exchange forward contracts	50,194	1,311
Depreciation and amortization	859	4,304
Other	4,829	24,982
	310,274	241,514
Less valuation allowance	(10,365)	(10,684)
Deferred income tax assets, net	299,909	230,830
Deferred income tax liabilities:		
Undistributed Indian earnings	5,689	6,096
Intangible assets	24,398	24,842
Deferred income tax liabilities	30,087	30,938
Net deferred income tax assets	$ 269,822	$ 199,892

At December 31, 2011, we had foreign net operating loss carryforwards of approximately $36,400. We have recorded a full valuation allowance on most of the foreign net operating loss carryforwards. As of December 31, 2011 and 2010, deferred income tax assets related to the MAT were approximately $112,200 and $98,600, respectively. The calculation of the MAT includes all profits realized by our Indian subsidiaries and any MAT paid in a taxable year is creditable against future Indian corporate income tax within a 10-year expiration period, subject to certain limitations. Our existing MAT assets expire between March 2018 and March 2022 and we expect to fully utilize them within the applicable 10-year expiration periods.

Our Indian subsidiaries, collectively referred to as Cognizant India, are primarily export-oriented and are eligible for certain income tax holiday benefits granted by the government of India for export activities. These benefits for export activities conducted within Software Technology Parks, or STPs, expired on March 31, 2011. The income of our STPs is now subject to corporate income tax at the current rate of 32.4%. The expiration of the income tax holiday for STPs is the primary driver of the significant increase in our effective income tax rate for 2011. We have constructed most of our newer Indian development centers in areas designated as Special Economic Zones, or SEZs. Development centers operating in SEZs are entitled to certain income tax incentives for export activities for periods up to 15 years. For the years ended December 31,

2011, 2010, and 2009, the

Table of Contents

effect of the income tax holidays for our STPs and SEZs was to reduce the overall income tax provision and increase net income by approximately $125,708, $166,800, and $127,800, respectively, and increase diluted EPS by $0.41, $0.54, and $0.42, respectively.

During the first quarter of 2002, we made a strategic decision to pursue an international strategy that includes expanded infrastructure investments in India and geographic expansion in Europe and Asia. We do not intend to repatriate our foreign earnings for all periods (except with respect to Indian earnings generated prior to 2002) as such earnings are deemed to be permanently reinvested outside the United States. As of December 31, 2011, the amount of unrepatriated Indian earnings and total foreign earnings (including unrepatriated Indian earnings) upon which no incremental U.S. taxes have been recorded is approximately $2,660,500 and $2,906,000, respectively. If such earnings are repatriated in the future, or are no longer deemed to be indefinitely reinvested, we will accrue the applicable amount of taxes associated with such earnings. Due to the various methods by which such earnings could be repatriated in the future, it is not currently practicable to determine the amount of applicable taxes that would result from such repatriation.

Due to the geographical scope of our operations, we are subject to tax examinations in various jurisdictions. Accordingly, we may record incremental tax expense, based upon the more-likely-than-not standard, for any uncertain tax positions. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain.

Changes in unrecognized tax benefits were as follows for the years ended December 31:

	2011	2010
Balance, beginning of year	$ 22,950	$ 10,553
Additions based on tax positions related to the current year	16,897	2,677
Additions for tax positions of prior years	7,559	10,135
Additions for tax positions of acquired subsidiaries	16,056	
Reductions for tax positions due to lapse of statutes of limitations	(4,190)	(597)
Settlements	(1,591)	
Foreign currency exchange movement	(1,155)	182
Balance, end of year	$ 56,526	$ 22,950

At December 31, 2011, the entire balance of unrecognized tax benefits would affect the effective tax rate, if recognized. While the Company believes uncertain tax positions may be settled within the next twelve months, it is difficult to estimate the income tax impact of these potential resolutions at this time. We recognize accrued interest and penalties associated with uncertain tax positions as part of our provision for income taxes. The total amount of accrued interest and penalties at December 31, 2011 and 2010 was approximately $10,884 and $6,766, respectively, and relates to U.S. and foreign tax matters. The amount of interest and penalties expensed in 2011, 2010, and 2009 were immaterial.

We file a U.S. federal consolidated income tax return. The U.S. federal statute of limitations remains open for the years 2008 and onward. The statute of limitations for state audits varies by state. Years still under examination by foreign tax authorities are years 2001 and forward.

Table of Contents

10. Fair Value Measurements

We measure our cash equivalents, investments and foreign exchange forward contracts at fair value. The authoritative guidance defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 128,004	$	$	$ 128,004
Time deposits		13,283		13,283
Commercial paper		11,626		11,626
Total cash equivalents	128,004	24,909		152,913
Investments:				
Time deposits		298,432		298,432
Available-for-sale securities:				
U.S. Treasury and agency debt securities	326,659	138,279		464,938
Corporate and other debt securities		202,705		202,705
Asset-backed debt securities		100,894		100,894
Municipal debt securities		43,889		43,889
Foreign government debt securities		10,500		10,500
Total available-for-sale securities	326,659	496,267		822,926
Total investments	326,659	794,699		1,121,358
Derivative financial instruments foreign exchange forward contracts:				
Other current assets		30,935		30,935
Accrued expenses and other current liabilities		(126,731)		(126,731)
Other noncurrent liabilities		(259,104)		(259,104)

Total	$ 454,663	$ 464,708	$	$ 919,371

Table of Contents

The following table summarizes our financial assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 421,424	$	$	$ 421,424
Time deposits		67,703		67,703
Total cash equivalents	421,424	67,703		489,127
Investments:				
Time deposits		139,391		139,391
Available-for-sale securities:				
U.S. Treasury and agency debt securities	268,114	72,270		340,384
Corporate and other debt securities		122,909		122,909
Asset-backed debt securities		33,154		33,154
Municipal debt securities		41,655		41,655
Foreign government debt securities		7,926		7,926
Total available-for-sale securities	268,114	277,914		546,028
Total investments	268,114	417,305		685,419
Derivative financial instruments foreign exchange forward contracts:				
Other current assets		30,983		30,983
Accrued expenses and other current liabilities		(7,504)		(7,504)
Other noncurrent assets		8,144		8,144
Other noncurrent liabilities		(6,601)		(6,601)
Total	$ 689,538	$ 510,030	$	$ 1,199,568

We measure the fair value of money market funds and U.S. Treasury securities based on quoted prices in active markets for identical assets. The fair value of commercial paper, U.S. government agency securities, municipal debt securities, U.S. and international corporate bonds and foreign government debt securities is measured based on relevant trade data, dealer quotes, or model driven valuations using significant inputs derived from or corroborated by observable market data, such as yield curves and credit spreads. We measure the fair value of our asset-backed securities using model driven valuations based on dealer quotes, available trade information, spread data, current market assumptions on prepayment speeds and defaults and historical data on deal collateral performance.

We estimate the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model calculates the difference between the current market forward price and the contracted forward price for each foreign exchange contract and applies the difference in the rates to each outstanding contract. The market forward rates included a discount and credit risk factor. The amounts were aggregated by type of contract and maturity.

During the years ended December 31, 2011 and 2010, there were no transfers among Level 1, Level 2, or Level 3 financial assets and liabilities.

11. Derivative Financial Instruments

In the normal course of business, we use foreign exchange forward contracts to manage foreign currency exchange rate risk. The estimated fair value of the foreign exchange forward contracts considers the following items: discount rate, timing and amount of cash flow and counterparty credit risk. Derivatives may give rise to

credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. We have limited our credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which we do business.

The following table provides information on the location and fair values of derivative financial instruments included in our consolidated statements of financial position as of December 31:

Designation of Derivatives	Location on Statement of Financial Position	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Cash Flow Hedges Designated as hedging instruments					
Foreign exchange forward contracts	Other current assets	$	$	$ 30,983	$
	Other noncurrent assets			8,144	
	Accrued expenses and other current liabilities		126,536		187
	Other noncurrent liabilities		259,104		6,601
	Total		385,640	39,127	6,788
Other Derivatives Not designated as hedging instruments					
Foreign exchange forward contracts	Other current assets	30,935			
	Accrued expenses and other current liabilities		195		7,317
	Total	30,935	195		7,317
Total		$ 30,935	$ 385,835	$ 39,127	$ 14,105

Cash Flow Hedges

We have entered into a series of foreign exchange forward contracts that are designated as cash flow hedges of Indian rupee denominated payments in India. These contracts are intended to partially offset the impact of movement of exchange rates on future operating costs and are scheduled to mature each month during 2012, 2013, 2014, and 2015. Under these contracts, we purchase Indian rupees and sell U.S. dollars. The changes in fair value of these contracts are initially reported in the caption accumulated other comprehensive income (loss) on our accompanying consolidated statements of financial position and are subsequently reclassified to earnings in the same period the hedge contract matures. The notional value of our outstanding contracts by year of maturity and the net unrealized (loss) gain included in accumulated other comprehensive income (loss) for such contracts were as follows as of December 31:

	2011	2010
2011	$	$ 780,000
2012	1,193,500	780,000
2013	1,080,000	600,000
2014	810,000	
2015	420,000	
Total notional value of contracts outstanding	$ 3,503,500	$ 2,160,000

Net unrealized (loss) gain included in accumulated other comprehensive income (loss), net of taxes	$ (323,039)	$ 30,723

Table of Contents

Upon settlement or maturity of the cash flow hedge contracts we record the related gain or loss, based on our designation at the commencement of the contract, to cost of revenues and selling, general and administrative expenses. The following table provides information on the location and amounts of pre-tax gains (losses) on our cash flow hedges for the years ended December 31:

	Increase (decrease) in Derivative Gains (Losses) Recognized in Accumulated Other Comprehensive Income (Loss) (effective portion)		Location of Net Derivative Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	Net Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (effective portion)	
	2011	2010		2011	2010
Cash Flow Hedges Designated as hedging instruments					
Foreign exchange forward contracts	$ (399,205)	$ 54,919	Cost of revenues	$ 15,294	$ 34,974
			Selling, general and administrative expenses	3,480	6,588
Total	$ (399,205)	$ 54,919		$ 18,774	$ 41,562

Other Derivatives

We use foreign exchange forward contracts, which have not been designated as hedges, to hedge balance sheet exposure to certain monetary assets and liabilities denominated in currencies other than the functional currency of our foreign subsidiaries. We entered into a series of foreign exchange forward contracts scheduled to mature in 2012 which are primarily to purchase U.S. dollars and sell Indian rupees. Realized gains or losses and changes in the estimated fair value of these derivative financial instruments are recorded in Other, net in our consolidated statements of operations.

Additional information related to our outstanding contracts is as follows as of December 31:

	2011	2010
Notional value of contracts outstanding	$ 234,239	$ 234,021

The following table provides information on the location and amounts of realized and unrealized pre-tax gains (losses) on our other derivative financial instruments for years ended December 31, 2011 and 2010.

	Location of Net Gains / (Losses) on Derivative Instruments	Amount of Net Gains (Losses) on Derivative Instruments	
		2011	2010
Other Derivatives Not designated as hedging instruments			
Foreign exchange forward contracts	Other, net	$ 23,621	$ (21,088)

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

12. Stock-Based Compensation Plans

On June 5, 2009, our stockholders approved the adoption of the Cognizant Technology Solutions Corporation 2009 Incentive Compensation Plan (the 2009 Incentive Plan), under which 24,000,000 shares of our Class A

common stock were reserved for issuance. The 2009 Incentive Plan is the successor plan to our Amended and Restated 1999 Incentive Compensation Plan which terminated on April 13, 2009 in accordance with its terms (the 1999 Incentive Plan), our Amended and Restated Non-Employee Directors Stock Option Plan (the Director Plan) and our Amended and Restated Key Employees Stock Option Plan (the Key Employee Plan) which terminated in July 2009 (collectively, the Predecessor Plans). The 2009 Incentive Plan will not affect any options or stock issuances outstanding under the Predecessor Plans. No further awards will be made under the Predecessor Plans. As of December 31, 2011, we have 16,902,502 shares available for grant under the 2009 Incentive Plan.

Stock options granted to employees under our plans have a life ranging from seven to ten years, vest proportionally over four years, unless specified otherwise, and have an exercise price equal to the fair market value of the common stock on the date of grant. Grants to non-employee directors vest proportionally over two years. Stock-based compensation expense relating to stock options is recognized on a straight-line basis over the requisite service period.

Restricted stock units vest proportionately in quarterly or annual installments over three years. Stock-based compensation expense relating to restricted stock units is recognized on a straight-line basis over the requisite service period.

We granted performance stock units that cliff vest after three years, principally to executive officers, and performance stock units that vest over periods ranging from one to three years to employees, including the executive officers. The vesting of performance stock units is contingent on both meeting revenue performance targets and continued service. Stock-based compensation costs for performance stock units that cliff vest are recognized on a straight-line basis and awards that vest proportionally are recognized on a graded-vesting basis over the vesting period based on the most probable outcome of the performance conditions. If the minimum performance targets are not met, no compensation cost is recognized and any recognized compensation cost is reversed.

The Company s 2004 Employee Stock Purchase Plan (the Purchase Plan), as amended in 2010, provides for the issuance of up to 9,000,000 shares of Class A common stock to eligible employees. The Purchase Plan provides for eligible employees to purchase whole shares of Class A common stock at a price of 90% of the lesser of: (a) the fair market value of a share of Class A common stock on the first date of the purchase period or (b) the fair market value of a share of Class A common stock on the last date of the purchase period. Stock-based compensation expense for the Purchase Plan is recognized over the vesting period of three months on a straight-line basis. As of December 31, 2011, we had 2,895,310 shares available for future grants and issuances under the Purchase Plan.

The allocation of total stock-based compensation expense between cost of revenues and selling, general and administrative expenses as well as the related income tax benefit were as follows for the three years ended December 31:

	2011	2010	2009
Cost of revenues	$ 15,257	$ 13,147	$ 14,889
Selling, general and administrative expenses	74,975	43,837	29,927
Total stock-based compensation expense	$ 90,232	$ 56,984	$ 44,816
Income tax benefit	$ 21,510	$ 13,453	$ 9,881

Effective April 1, 2007, the Indian government enacted a fringe benefit tax, or FBT, on the intrinsic value of stock options and awards as of the vesting date that is payable by us at the time of exercise or distribution for employees subject to FBT. We elected to recover this cost from the employee and withhold the FBT from the employee s stock option or award proceeds at the time of exercise or distribution before remitting the tax to the

Indian government. Because we were the primary obligor of this tax obligation, we recorded the FBT as an operating expense and the recovery from the employee was recorded in additional paid-in capital as proceeds from stock issuance. During the third quarter of 2009, the Indian government repealed the FBT retroactive to April 1, 2009. Stock-based FBT expense was as follows for the years ended December, 31:

	2011	2010	2009
Stock-based FBT expense	$	$	$ 945

We estimate the fair value of each stock option granted using the Black-Scholes option-pricing model. For the years ended December 31, 2011, 2010 and 2009, expected volatility was calculated using implied market volatilities. In addition, the expected term, which represents the period of time, measured from the grant date, that vested options are expected to be outstanding, was derived by incorporating exercise and post-vest termination assumptions, based on historical data, in a Monte Carlo simulation model. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant. We have not paid any dividends. Forfeiture assumptions used in amortizing stock-based compensation expense are based on an analysis of historical data.

The fair values of option grants, including the Purchase Plan, were estimated at the date of grant during the years ended December 31, 2011, 2010, and 2009 based upon the following assumptions and were as follows:

	2011	2010	2009
Dividend yield	0%	0%	0%
Weighted average volatility factor:			
Stock options	31.87%	39.98%	45.98%
Purchase Plan	34.66%	33.35%	56.63%
Weighted average expected life (in years):			
Stock options	3.54	3.53	4.18
Purchase Plan	0.25	0.25	0.25
Weighted average risk-free interest rate:			
Stock options	1.06%	1.55%	2.48%
Purchase Plan	0.05%	0.13%	0.14%
Weighted average grant date fair value:			
Stock options	$ 18.85	$ 15.35	$ 10.49
Purchase Plan	$ 12.21	$ 8.75	$ 5.04

During the year ended December 31, 2011, we issued 732,555 shares of Class A common stock under the Purchase Plan with a total vested fair value of approximately $8,944.

A summary of the activity for stock options granted under our stock-based compensation plans as of December 31, 2011 and changes during the year then ended is presented below:

	Number of Options	Weighted Average Exercise Price (in dollars)	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2011	12,867,658	$ 21.23		
Granted	70,000	75.36		
Exercised	(2,400,039)	14.55		
Cancelled	(33,683)	34.70		
Expired	(5,275)	34.22		
Outstanding at December 31, 2011	10,498,661	$ 23.06	3.75	$ 433,805

Vested and expected to vest at December 31, 2011	10,459,245	$ 23.01	3.74	$ 432,643
Exercisable at December 31, 2011	10,039,536	$ 22.54	3.62	$ 419,348

F-26

Table of Contents

As of December 31, 2011, $4,012 of total remaining unrecognized stock-based compensation cost related to stock options is expected to be recognized over the weighted-average remaining requisite service period of 0.78 years. The total intrinsic value of options exercised was $136,182, $270,349, and $142,676 for the years ended December 31, 2011, 2010, and 2009, respectively.

The fair value of performance stock units and restricted stock units is determined based on the number of stock units granted and the quoted price of our stock at date of grant.

A summary of the activity for performance stock units granted under our stock-based compensation plans as of December 31, 2011 and changes during the year then ended is presented below. The presentation reflects the number of performance stock units at the maximum performance milestones.

	Number of Units	Weighted Average Grant Date Fair Value (in dollars)
Unvested at January 1, 2011	1,104,987	$ 44.15
Granted	1,294,375	67.51
Vested	(492,499)	27.50
Forfeited	(15,476)	48.32
Reduction due to the achievement of lower than maximum performance milestones	(62,459)	60.88
Unvested at December 31, 2011	1,828,928	$ 64.56

As of December 31, 2011, $64,002 of total remaining unrecognized stock-based compensation cost related to performance stock units is expected to be recognized over the weighted-average remaining requisite service period of 2.29 years.

A summary of the activity for restricted stock units granted under our stock-based compensation plans as of December 31, 2011 and changes during the year then ended is presented below:

	Number of Units	Weighted Average Grant Date Fair Value (in dollars)
Unvested at January 1, 2011	1,394,027	$ 41.78
Granted	1,735,730	72.06
Vested	(888,013)	40.11
Forfeited	(81,153)	60.75
Unvested at December 31, 2011	2,160,591	$ 66.08

As of December 31, 2011, $107,685 of total remaining unrecognized stock-based compensation cost related to restricted stock units is expected to be recognized over the weighted-average remaining requisite service period of 2.29 years.

Table of Contents

13. Commitments and Contingencies

We lease office space and equipment under operating leases, which expire at various dates through the year 2023. Certain leases contain renewal provisions and generally require us to pay utilities, insurance, taxes, and other operating expenses. Future minimum rental payments under non-cancelable operating leases as of December 31, 2011 are as follows:

2012	$ 104,985
2013	98,398
2014	86,896
2015	77,539
2016	61,026
Thereafter	81,248
Total minimum lease payments	$ 510,092

Rental expense totaled $122,035, $94,863, and $75,170 for years ended December 31, 2011, 2010, and 2009, respectively.

Our current India real estate development program includes planned construction of an additional 10.5 million square feet of new space between 2011 and the end of 2015. The expanded program includes the expenditure of over $700,000 during this period on land acquisition, facilities construction and furnishings to build new company-owned state-of-the-art IT development and delivery centers in regions primarily designated as SEZs located in India. As of December 31, 2011, we had outstanding fixed capital commitments of $240,134 related to our India development center expansion program.

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the outcome of such claims and legal actions, if decided adversely, is not expected to have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, many of our engagements involve projects that are critical to the operations of our customers business and provide benefits that are difficult to quantify. Any failure in a customer s systems or our failure to meet our contractual obligations to our clients, including any breach involving a customer s confidential information or sensitive data, or our obligations under applicable laws or regulations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our liability for damages arising from negligent acts, errors, mistakes, or omissions in rendering our services, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances or will otherwise protect us from liability for damages. Although we have general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage or changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations and financial condition.

In the normal course of business and in conjunction with certain client engagements, we have entered into contractual arrangements through which we may be obligated to indemnify clients or other parties with whom we conduct business with respect to certain matters. These arrangements can include provisions whereby we agree to hold the indemnified party and certain of their affiliated entities harmless with respect to third-party claims related to such matters as our breach of certain representations or covenants, or out of our intellectual property infringement, our gross negligence or willful misconduct or certain other claims made against certain parties. Payments by us under any of these arrangements are generally conditioned on the client making a claim and providing us with full control over the defense and settlement of such claim. It is not possible to determine the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Historically, we have not made payments under these indemnification

agreements so they have not had any impact on our operating results, financial position, or cash flows. However, if events arise requiring us to make payment for indemnification claims under our indemnification obligations in contracts we have entered, such payments could have material impact on our operating results, financial position, and cash flows.

14. Segment Information

Our reportable segments are: Financial Services, which includes customers providing banking/transaction processing, capital markets and insurance services; Healthcare, which includes healthcare providers and payers as well as life sciences customers; Manufacturing/Retail/Logistics, which includes manufacturers, retailers, travel and other hospitality customers, as well as customers providing logistics services; and Other, which is an aggregation of industry segments which, individually, are less than 10% of consolidated revenues and segment operating profit. The Other reportable segment includes our information, media and entertainment services, communications and high technology operating segments. Our sales managers, account executives, account managers and project teams are aligned in accordance with the specific industries they serve.

Our chief operating decision maker evaluates the Company s performance and allocates resources based on segment revenues and operating profit. Segment operating profit is defined as income from operations before unallocated costs. Generally, operating expenses for each operating segment have similar characteristics and are subject to the same factors, pressures and challenges. However, the economic environment and its effects on industries served by our operating segments may affect revenue and operating expenses to differing degrees. Expenses included in segment operating profit consist principally of direct selling and delivery costs as well as a per seat charge for use of the development and delivery centers. Certain selling, general and administrative expenses, excess or shortfall of incentive compensation for delivery personnel as compared to target, a portion of depreciation and amortization, stock-based compensation expense and the related stock-based Indian fringe benefit tax, and the impact of the settlements of our cash flow hedges are not allocated to individual segments in internal management reports used by the chief operating decision maker. Accordingly, such expenses are excluded from segment operating profit and are separately disclosed as unallocated and adjusted only against our total income from operations. Additionally, management has determined that it is not practical to allocate identifiable assets, by segment, since such assets are used interchangeably among the segments.

Revenues from external customers and segment operating profit, before unallocated expenses, for the Financial Services, Healthcare, Manufacturing/Retail/Logistics, and Other reportable segments were as follows for the years ended December 31:

	2011	2010	2009
Revenues:			
Financial Services	$ 2,518,422	$ 1,944,450	$ 1,406,629
Healthcare	1,622,157	1,177,113	860,427
Manufacturing/Retail/Logistics	1,197,472	849,643	564,917
Other	783,105	621,183	446,690
Total revenues	$ 6,121,156	$ 4,592,389	$ 3,278,663

	2011	2010	2009
Segment Operating Profit:			
Financial Services	$ 872,267	$ 668,595	$ 503,689
Healthcare	625,052	436,879	331,007
Manufacturing/Retail/Logistics	440,416	283,676	184,636
Other	254,145	208,306	147,246
Total segment operating profit	2,191,880	1,597,456	1,166,578
Less unallocated costs[1]	1,055,412	735,604	548,088
Income from operations	$ 1,136,468	$ 861,852	$ 618,490

Table of Contents

(1) Includes $90,232, $56,984, and $44,816 of stock-based compensation expense for the years ended December 31, 2011, 2010, and 2009, respectively, and $945 of stock-based Indian fringe benefit tax expense for the years ended December 31, 2009.

Geographic Area Information

Revenue and long-lived assets, by geographic area, are as follows:

	North America[2]	Europe[3]	Other[5][6]	Total
2011				
Revenues[1]	$ 4,802,958	$ 1,097,475	$ 220,723	$ 6,121,156
Long-lived assets[4]	27,387	5,232	725,415	758,034
2010				
Revenues[1]	$ 3,582,719	$ 855,575	$ 154,095	$ 4,592,389
Long-lived assets[4]	12,198	3,687	554,563	570,448
2009				
Revenues[1]	$ 2,594,210	$ 606,804	$ 77,649	$ 3,278,663
Long-lived assets[4]	9,042	3,145	469,329	481,516

(1) Revenues are attributed to regions based upon customer location.
(2) Substantially all relates to operations in the United States.
(3) Includes revenue from operations in the United Kingdom of $698,853, $559,297, and $353,471 in 2011, 2010, and 2009, respectively.
(4) Long-lived assets include property and equipment net of accumulated depreciation and amortization.
(5) Includes our operations in Asia Pacific, Middle East and Latin America.
(6) Substantially all of these long-lived assets relate to operations in India.

15. Quarterly Financial Data (Unaudited)

Summarized quarterly results for the two years ended December 31, 2011 are as follows:

	Three Months Ended				
2011	**March 31**	**June 30**	**September 30**	**December 31**	**Full Year**
Revenues	$ 1,371,253	$ 1,485,242	$ 1,600,954	$ 1,663,707	$ 6,121,156
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	782,176	860,871	924,886	970,689	3,538,622
Selling, general and administrative expenses	296,330	326,718	353,161	352,456	1,328,665
Depreciation and amortization expense	27,382	27,695	29,905	32,419	117,401
Income from operations	265,365	269,958	293,002	308,143	1,136,468
Net income	208,327	208,045	227,119	240,127	883,618
Basic EPS	$ 0.69	$ 0.68	$ 0.75	$ 0.79	$ 2.91
Diluted EPS	$ 0.67	$ 0.67	$ 0.73	$ 0.78	$ 2.85

F-30

Table of Contents

	Three Months Ended				
2010	March 31	June 30	September 30	December 31	Full Year
Revenues	$ 959,720	$ 1,105,154	$ 1,216,913	$ 1,310,602	$ 4,592,389
Cost of revenues (exclusive of depreciation and amortization expense shown separately below)	555,904	641,019	699,623	758,023	2,654,569
Selling, general and administrative expenses	194,993	234,547	262,632	279,921	972,093
Depreciation and amortization expense	25,806	23,673	26,359	28,037	103,875
Income from operations	183,017	205,915	228,299	244,621	861,852
Net income	151,500	172,175	203,699	206,166	733,540
Basic EPS	$ 0.51	$ 0.57	$ 0.68	$ 0.68	$ 2.44
Diluted EPS	$ 0.49	$ 0.56	$ 0.66	$ 0.66	$ 2.37

Table of Contents

Cognizant Technology Solutions Corporation

Valuation and Qualifying Accounts

For the Years Ended December 31, 2011, 2010, and 2009

(Dollars in Thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Other	Balance at End of Period
Accounts receivable allowance for doubtful accounts:					
2011	$ 20,991	$ 4,516	$	$ 849	$ 24,658
2010	$ 16,465	$ 5,950	$	$ 1,424	$ 20,991
2009	13,441	3,347		323	16,465
Warranty accrual:					
2011	$ 9,094	$ 14,078	$	$ 10,881	$ 12,291
2010	$ 6,575	$ 10,384	$	$ 7,865	$ 9,094
2009	5,669	7,588		6,682	6,575
Valuation allowance deferred income tax assets:					
2011	$ 10,684	$ 470	$	$ 789	$ 10,365
2010	$ 10,230	$ 1,362	$	$ 908	$ 10,684
2009	7,883	2,362		15	10,230

F-32