TTEC Holdings, Inc.
Form 10-K
March 13, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from to

Commission File Number: 001-11919

TTEC Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	84-1291044 (I.R.S. Employer Identification No.)

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

Registrant’s telephone number, including area code:

(303) 397-8100

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

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

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company Emerging growth company

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

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

As of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, there were 45,694,081 shares of the registrant's common stock outstanding. The aggregate market value of the registrant's voting and non-voting common stock that was held by non-affiliates on such date was $562,964,438 based on the closing sale price of the registrant’s common stock on such date as reported on the NASDAQ Global Select Market.

As of February 28, 2018, there were 45,876,511 shares of the registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the proxy statement for the registrant’s 2018 annual meeting of stockholders.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

DECEMBER 31, 2017 FORM 10-K

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995, relating to our operations, expected financial position, results of operation, and other business matters that are based on our current expectations, assumptions, and projections with respect to the future, and are not a guarantee of performance. In this report, when we use words such as “may,” “believe,” “plan,” “will,” “anticipate,” “estimat “expect,” “intend,” “project,” “would,” “could,” “target,” or similar expressions, or when we discuss our strategy, plans, goals, initiatives, or objectives, we are making forward-looking statements.

We caution you not to rely unduly on any forward-looking statements. Actual results may differ materially from what is expressed in the forward-looking statements, and you should review and consider carefully the risks, uncertainties and other factors that affect our business and may cause such differences as outlined but are not limited to factors discussed in the section of this report entitled “Risk Factors”. Our forward-looking statements speak only as of the date that this report is filed with the United States Securities and Exchange Commission (“SEC”) and we undertake no obligation to update them, except as may be required by applicable laws.

AVAILABILITY OF INFORMATION

TTEC Holdings, Inc.’s principal executive offices are located at 9197 South Peoria Street, Englewood, Colorado 80112. Electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and any amendments to these reports are available free of charge by (i) visiting our website at http://www.ttec.com/investors/sec-filings/ or (ii) sending a written request to Investor Relations at our corporate headquarters or to investor.relations@ttec.com. TTEC’s SEC filings are posted on our corporate website as soon as reasonably practical after we electronically file such materials with, or furnish them to, the SEC. Information on our website is not incorporated by reference into this report.

You may also access any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549 (telephone number 1-800-SEC-0330); or via the SEC’s public website at www.sec.gov.

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PART I

ITEM 1. BUSINESS

Our Business

TTEC Holdings, Inc. ("TTEC", "the Company", "we", "our" or "us") is a global customer experience company that designs, builds and operates omnichannel customer experiences on behalf of some of the world's most innovative brands. We help these large global companies increase revenue and reduce costs by delivering personalized customer experiences across every interaction channel and phase of the customer lifecycle as an end-to-end provider of customer engagement services, technologies, insights and innovations. Since our establishment in 1982, we have helped clients strengthen their customer relationships, brand recognition and loyalty by simplifying and personalizing interactions with their customers. We deliver thought leadership, through innovation in programs that differentiate our clients from their competition.

We are organized into two centers of excellence: TTEC Digital and TTEC Engage.

- TTEC Digital provides digital consultancy for designing and building human centric, tech-enabled, insight-driven customer experience solutions.
- TTEC Engage is the Company's global hub of operational excellence providing clients with turnkey customer acquisition, care, revenue growth, and digital trust and safety services.

TTEC Digital and TTEC Engage come together under our unified offering, HumanifyTM Customer Engagement as a Service, which drives measurable results for clients through delivery of personalized omnichannel interactions that are seamless and relevant. Our offering is supported by 56,000 employees delivering services in 24 countries from 97 customer engagement centers on six continents. Our end-to-end approach differentiates the Company by combining service design, strategic consulting, data analytics, process optimization, system integration, operational excellence, and technology solutions and services. This unified offering is value-oriented, outcome-based, and delivered on a global scale across four business segments, two of which comprise TTEC Engage - Customer Management Services ("CMS") and Customer Growth Services ("CGS"); and two of which comprise TTEC Digital - Customer Technology Services ("CTS") and Customer Strategy Services ("CSS").

Our revenue for fiscal 2017 was $1,477 million, approximately 23% or $336 million of which came from the CGS, CTS and CSS segments, focused on customer-centric strategy, growth or technology-based services with the remainder of our revenue coming from the core customer care services of our CMS segment.

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying and strengthening our core customer care services with consulting, data analytics and insights technologies, and technology-enabled, outcomes-focused services.

We also invest in businesses that enable us to expand our geographic footprint, broaden our product and service capabilities, increase our global client base and industry expertise, and further scale our end-to-end integrated solutions platform. In 2017, we acquired Motif, Inc., a digital trust and safety services company based in India and the Philippines, and Connextions, Inc., a U.S.-based health services company focused on improving the customer relationships for healthcare plan providers and pharmacy benefits managers.

While we have customer relationship experience in almost every industry, we have developed tailored expertise in the automotive, communications, healthcare, financial services, government, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000 and serve approximately 300 clients globally.

Our strong balance sheet, cash flows from operations and access to debt and capital markets have historically provided us the financial flexibility to effectively fund our organic growth, capital expenditures, strategic acquisitions, incremental investments, and capital distributions.

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We continue to return capital to our shareholders via an ongoing stock repurchase program and semi-annual dividends. As of December 31, 2017, our cumulative authorized share repurchase allowance was $762.3 million, of which we have repurchased 46.1 million shares for $735.8 million. Our remaining repurchase allowance is $26.6 million which may be increased at the discretion of our Board of Directors. For the period from January 1, 2018 through February 28, 2018, we did not purchase any additional shares. Our stock repurchase program does not have an expiration date.

Given our cash flow generation and balance sheet strength, we believe cash dividends and early returns to shareholders through share repurchases, in balance with our investments in innovation and strategic acquisitions, align shareholder interests with the needs of the Company. On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TTEC's performance, cash flows from operations, capital needs and liquidity factors. The initial dividend of $0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. Thereafter, the Company has been paying a semi-annual dividend in October and April of each year in amounts ranging between $0.18 and $0.25 per common share. Effective February 28, 2018, the Company's Board of Directors authorized an additional semi-annual dividend of $0.27 per common share, payable on April 12, 2018 to shareholders of record as of March 30, 2018.

Our Market Opportunity

Our end-to-end customer experience approach is designed to drive retention, affinity, growth, and customer protection, all with savings for our clients. Our transition from multichannel to true omnichannel service requires agility and speed and TTEC's integrated approach is growing in strategic relevance because of the following trends:

- Increasing focus on customer engagement to sustain competitive advantage. — The ability to sustain a competitive advantage based on price or product differentiation has significantly narrowed given the speed of technological innovation. As our clients' customers become more connected and widely broadcast their experiences across a variety of social networking channels, the quality of the experience has a profound impact on brand loyalty and business performance. We believe customers are increasingly shaping their attitudes, behaviors and willingness to recommend or stay with a brand on the totality of their experience, including not only the superiority of the product or service but more importantly on the quality of their ongoing service interactions. Given the strong correlation between high customer satisfaction and improved profitability, we believe more companies are increasingly focused on selecting third-party partners, such as TTEC, that can deliver integrated insights-driven strategy, service and technology solutions that increase the lifetime value of each customer relationship versus merely reducing costs.
- Increasing percentage of companies consolidating their customer engagement requirements with a few select partners who can deliver measurable business outcomes by offering an integrated, technology-rich solution. — The proliferation of mobile communication technologies and devices along with customers' increased access to information and heightened expectations are driving the need for companies to implement enabling technologies that ensure customers have the best experience across all devices and channels. These two-way interactions need to be received or delivered seamlessly via the customer channel of choice and include voice, email, chat, SMS text, intelligent self serve, virtual agents and the social network. We believe companies will continue to consolidate to third-party partners, like TTEC, who have demonstrated expertise in increasing brand value by delivering a holistic, integrated customer-centric solution that spans the customer experience from strategy through execution versus the time, expense and often failed returns resulting from linking together a series of point solutions from different providers.

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· Focus on speed-to-market by companies launching new products or entering new geographic locations. — As companies broaden their product offerings and enter new markets, they are looking for partners that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies select us because of our extensive operating track record, established global footprint, financial strength, commitment to innovation, and our ability to quickly scale infrastructure and complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Strategy

We aim to grow our revenue and profitability by focusing on our core customer engagement operational capabilities linking them to higher margin, insights and technology-enabled platforms and managed services to drive a superior customer experience for our clients' customers. To that end we plan to continue:

· Building deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;
· Pursuing new clients who lead their respective industries and who are committed to customer engagement as a differentiator;
· Investing in our sales leadership team at both the segment level to improve collaboration and speed-to-market and consultative sales level to deliver more integrated, strategic, and transformational solutions;
· Executing strategic acquisitions that further complement and expand our integrated solutions;
· Investing in technology-enabled platforms and innovating through technology advancements, broader and globally protected intellectual property, and process optimization, and
· Working within our technology partner ecosystem to deliver best in class solutions with expanding intellectual property through value-add applications, integrations, services and solutions.

Our Integrated Service Offerings, Centers of Excellence and Business Segments

We have two centers of excellence that encompass our four operating and reportable segments.

TTEC Digital houses our professional services and technology platforms. These solutions are critical to enabling and accelerating digital transformation for our clients.

Customer Strategy Services Segment

Through our strategy and operations, analytics, and learning and performance consulting expertise, we help our clients design, build and execute their customer engagement strategies. We help our clients to better understand and predict their customers' behaviors and preferences along with their current and future economic value. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity and to better optimize their investments in customer experience. This insight-based strategy creates a roadmap for transformation. We build customer journey maps to inform service design across automated, human and hybrid interaction and increasingly are developing and implementing strategies around Interactive Virtual Assistants (chat bots). A key component of this segment involves instilling a high-performance culture through management and leadership alignment and process optimization.

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Customer Technology Services Segment

In connection with the design of the customer engagement strategy, our ability to architect, deploy and host or manage the client's customer experience environments becomes a key enabler to achieving and sustaining the client's customer engagement vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer experience environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients. Through our Humanify™ Technology platforms, we also provide data-driven context aware software-as-a-service ("SaaS") based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

TTEC Engage houses our end-to-end managed services operations for customer care, growth and trust and safety services.

Customer Management Services Segment

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, protected, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, email, e-commerce and social media to optimize the customer experience for our clients. In addition, we manage certain client back-office processes to enhance their customer-centric view of relationships and maximize operating efficiencies. We also perform fraud prevention and content moderation services to protect our clients and their customers from malevolent digital activities. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Customer Growth Services Segment

We offer integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver or manage approximately $4 billion in client revenue annually via the discovery, acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and proprietary analytics platform. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications.

Based on our clients' requirements, we provide our services on an integrated cross-business segment and on a discrete basis.

Additional information with respect to our segments and geographic footprint is included in Part II, Item 8. Financial Statements and Supplementary Data, Note 3 to the Consolidated Financial Statements.

Our Competitive Strengths

We believe that our differentiation lies in our integrated unified offering and our holistic approach to customer experience and engagement as an end-to-end provider of customer engagement services, technologies, insights and innovations. Humanify Customer Engagement as a Service includes customer strategy, technology services, customer management, growth and protections services. We also believe that our insight-driven technological solutions, innovative human capital strategies and globally scaled and deployed best practices in operational excellence are key elements to our continued industry leadership.

As the complexity and pace of technological change required to deliver our omnichannel customer engagement increases, the successful execution of our principal corporate strategies depends on our competitive strengths, which are briefly described below:

- Our industry reputation and leadership position reflecting more than three decades of delivering integrated customer engagement solutions to our clients;
- Omnichannel, multi-modal solutions that meet the rapidly changing profile of the customer and their heightened expectations;

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- Scalable technology and human capital infrastructure using globally deployed best practices to ensure a consistent, high-quality service;
- Tailored and optimized customer care delivery through the use of proprietary workforce hiring, award-winning training and development programs, and performance optimization methodology and tools; and
- Commitment to continued investment and innovation that enhances the strategic capabilities of our clients.

Technological Excellence

Our Humanify Technology Platforms are based on secure, private, 100% internet protocol based infrastructure. This architecture enables us to centralize and standardize our worldwide delivery capabilities resulting in improved scalability and quality of delivery for our clients, as well as lower capital, and lower information technology (“IT”) operating costs.

The foundation of this platform is our nine data centers located on five continents. Our data centers provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, business analytic and storage capabilities, enabling seamless operations from any location around the globe. This hub and spoke model enables us to provide our services at competitive cost while increasing scalability, reliability, asset utilization and the diversity of our service offerings. It also provides an effective redundancy for timely responses to system interruptions and outages due to natural disasters and other conditions outside our control. We monitor and manage our data centers 24 x 7, 365 days per year from several strategically located global command centers to ensure the availability of our redundant, fail-over capabilities for each data center.

Importantly, this platform has become the foundation for new, innovative offerings including TTEC’s cloud-based offerings, Humanify @Home for remote omnichannel agents, and our suite of human capital solutions.

Further, our Humanify Technology Platforms leverage reference architectures for multiple scenarios whether we are operating the platforms and the services, implementing customized platforms for clients, or providing advanced managed services, continuous and automated development environments.

Innovative Human Capital Strategies

Our globally located, highly trained employees are a crucial component of the success of our business. We have made significant investments in proprietary technologies, management tools, methodologies and training processes in the areas of talent acquisition, learning services, knowledge management, workforce collaboration and performance optimization. These capabilities are the culmination of more than three decades of experience in managing large, global workforces combined with the latest technology, innovation and strategy in the field of human capital management. This capability has enabled us to deliver a consistent, scalable and flexible workforce that is highly engaged in achieving or exceeding our clients’ business objectives.

Globally Deployed Best Operating Practices

Globally deployed best operating practices assure that we deliver a consistent, scalable, high-quality experience to our clients’ customers from any of our 97 customer engagement centers and work from home associates around the world. Standardized processes include our approach to attracting, screening, hiring, training, scheduling, evaluating, coaching and maximizing associate performance to meet our clients’ needs. We provide real-time reporting and analytics on performance across the globe to ensure consistency of delivery. This information provides valuable insight into what is driving customer inquiries, enabling us to proactively recommend process changes to our clients to optimize their customers’ experience.

Our global operating model includes customer engagement centers in 17 countries on six continents that operate 24 hours a day, 365 days a year. New customer engagement centers are established and existing centers are expanded or scaled down to accommodate anticipated business demands or specific client needs. We have significant capacity in the Philippines, India, Mexico and Brazil to support customer demand and deliver superior cost efficiencies. We continue to explore opportunities in North America, Central Europe and Africa to diversify our client footprint enabling near-shore and off-shore locations that enable our multi-lingual service offerings and provide superior client economics.

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Of the 17 countries from which we provide customer management solutions, 10 provide some services for onshore clients including the U.S., Australia, Brazil, Canada, China, Germany, Ireland, South Africa, Thailand, and the United Kingdom. The total number of workstations in these countries is 19,900, or 45% of our total delivery capacity. The other seven countries provide services, partially or entirely, for offshore clients including Bulgaria, Costa Rica, India, Macedonia, Mexico, Poland, and the Philippines. The total number of workstations in these countries is 24,500 or 55% of our total delivery capacity.

See Item 1A. Risk Factors for a description of the risks associated with our foreign operations.

Clients

We develop long-term relationships with Global 1000 companies in customer intensive industries, whose business complexities and customer focus requires a partner that can quickly and globally scale integrated technology and data-enabled services.

In 2017, our top five and ten clients represented 35% and 49% of total revenue, respectively; and one of our clients, Telstra Corporation Limited, represented 9.0% of our total annual revenue. In several of our operating segments, we enter into long-term relationships which provide us with a more predictable revenue stream. Although most of our contracts can be terminated for convenience by either party, our relationships with our top five clients have ranged from 10 to 21 years including multiple contract renewals for several of these clients. In 2017, we had a 95% client retention rate for the combined Customer Management Services and Customer Growth Services segments.

Certain of our communications clients provide us with telecommunication services through arm’s length negotiated transactions. These clients currently represent approximately 13% of our total annual revenue. Expenditures under these supplier contracts represent less than one percent of our total operating costs.

Competition

We are a global customer experience company that designs, builds and operates omnichannel customer experiences on our clients’ behalf. Our competitors vary by geography and business segment, and range from large multinational corporations to smaller, narrowly-focused enterprises. Across our lines of business, the principal competitive factors include: client relationships, technology and process innovation, integrated solutions, operational performance and efficiencies, pricing, brand recognition and financial strength.

Our strategy in maintaining market leadership is to prudently invest, innovate and provide integrated value-driven services, all centered around customer engagement management. Today, we are executing on a more expansive, holistic strategy by transforming our business into higher-value offerings through organic investments and strategic acquisitions. As we execute, we are differentiating ourselves in the marketplace and entering new markets that introduce us to an expanded competitive landscape.

In our Customer Management Services business, we primarily compete with in-house customer management operations as well as other companies that provide customer care including: Alorica, Convergys, Sykes, and Teleperformance, among others. As we expand our offerings into customer engagement consulting, technology, and growth, we are competing with smaller specialized companies and divisions of multinational companies, including Bain & Company, McKinsey & Company, Accenture, IBM, AT&T, Interactive Intelligence, LiveOps, inContact, Five9, WPP, Publicis Groupe, Dentsu, Sitel, and others.

Employees

Our people are our most valuable asset. As of December 31, 2017, we had 56,000 employees in 24 countries on six continents. Although a percentage of our Customer Management Services segment employees are hired seasonally to address the fourth quarter and first quarter higher business volumes in retail, healthcare and other seasonal industries, most remain employed throughout the year and work at 97 locations and through our @home environment. Approximately 65% of our employees are located outside of the U.S. Approximately 10% of our employees are covered by collective bargaining agreements, most of which are mandated under national labor laws outside of the United States. These agreements are subject to periodic renegotiations and we anticipate that they will be renewed in the ordinary course of business without material impact to our business or in a manner materially different from other companies covered by such industry-wide agreements.

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Research, Innovation, Intellectual Property and Proprietary Technology

We recognize the value of innovation in our business and are committed to developing leading-edge technologies and proprietary solutions. Research and innovation have been a major factor in our success and we believe that they will continue to contribute to our growth in the future. We use our investment in research and development to create, commercialize and deploy innovative business strategies and high-value technology solutions.

We deliver value to our clients through, and our success in part depends on, certain proprietary technologies and methodologies. We leverage U.S. and foreign patent, trade secret, copyright and trademark laws as well as confidentiality, proprietary information non-disclosure agreements, and key staff non-competition agreements to protect our proprietary technology.

As of December 31, 2017 we had 41 patent applications pending in 8 jurisdictions; and own 116 U.S. and non-U.S. patents that we leverage in our operations and as market place differentiation for our service offerings. Our trade name, logos and names of our proprietary solution offerings are protected by their historic use and by trademarks and service marks registered in 27 countries.

ITEM 1A. RISK FACTORS

In addition to the other information presented in this Annual Report on Form 10-K, you should carefully consider the risks and uncertainties discussed in this section when evaluating our business. If any of these risks or uncertainties actually occur, our business, financial condition, and results of operations (including revenue, profitability and cash flows) could be materially adversely affected and the market price of our stock may decline.

Our markets are highly competitive and we might not be able to compete effectively

The markets where we offer our services are highly competitive. Our future performance is largely dependent on our ability to compete successfully in markets we currently serve, while expanding into new, profitable markets. We compete with large multinational service providers; offshore service providers from lower-cost jurisdictions that offer similar services, often at highly competitive prices and more aggressive contract terms; niche solution providers that compete with us in specific geographic markets, industry segments or service areas; companies that rely on new disruptive technologies or delivery models, including artificial intelligence powered solutions; and in-house functions of large companies that use their own resources, rather than outsourcing customer care and customer experience services we provide. Some of our competitors have greater financial or marketing resources than we do and, therefore, may be better able to compete.

Further, the continuing trend of consolidation in the technology sector and among business process outsourcing competitors in various geographies where we have operations may result in new competitors with greater scale, a broader footprint, better technologies, and price efficiencies attractive to our clients. If we are unable to compete successfully and provide our clients with superior service and solutions at competitive prices, we could lose market share and clients to competitors, which would materially adversely affect our business, financial condition, and results of operations.

If we are unsuccessful in implementing our business strategy, our long-term financial prospects could be adversely affected

Our growth strategy is based on continuous diversification of our business beyond contact center customer care outsourcing to an integrated customer experience platform that unites innovative and disruptive technologies, strategic consulting, data analytics, client growth solutions, and customer experience focused system design and integration. These investments in technologies and integrated solution development, however, may not lead to increased revenue and profitability as we may not be successful in deploying our new products and services. If we are not successful in creating value from these investments, the investments could have a negative impact on our operating results and financial condition.

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Cyber-attacks, cyber-fraud, and unauthorized information disclosure could harm our reputation, cause liability, result in service outages and losses, any of which could adversely affect our business and results of operations

Our business involves the use, storage, and transmission of information about our clients, customers of our clients, and our employees. While we take reasonable measures to protect the security of and unauthorized access to our systems and the privacy of personal and proprietary information that we access and store, our security controls over our systems may not prevent the improper access to or disclosure of this information. Such unauthorized access or disclosure could subject us to liability under relevant law and our contracts and could harm our reputation resulting in loss of revenue and loss of business opportunities.

In recent years, there have been an increasing number of high profile security breaches at companies and government agencies, and security experts have warned about the growing risks of hackers and cyber criminals launching a broad range of attacks targeting information technology systems. Our business is dependent on information technology systems. Information security breaches, computer viruses, interruption or loss of business data, DDoS (distributed denial of service) attacks, and other cyber-attacks on any of these systems could disrupt the normal operations of our contact centers, our cloud platform offerings, and our enterprise services, impeding our ability to provide critical services to our clients.

We are experiencing an increase in frequency of cyber-fraud attempts, such as so-called “social engineering” attacks and phishing scams, which typically seek unauthorized money transfers or information disclosure. We actively train our employees to recognize these attacks and have implemented proactive risk mitigation measures to curb them. There are no assurances, however, that these attacks, which are also growing in sophistication, may deceive our employees, resulting in a material loss.

While we have taken reasonable measures to protect our systems and processes from intrusion and cyber-fraud, we cannot be certain that advances in cyber-criminal capabilities, discovery of new system vulnerabilities, and attempts to exploit such vulnerabilities will not compromise or breach the technology protecting our systems and the information that we manage and control, which could result in damage to our systems, our reputation and our profitability.

Our need for consistent improvements in cybersecurity may force us to expend significant additional resources to respond to system disruptions and security breaches, including additional investments in repairing systems damaged by such attacks, reconfiguring and rerouting systems to reduce vulnerabilities, and resolution of legal claims that may arise from data breaches. A significant cyber security breach could materially harm our business, financial condition, and operating results.

The recently enacted General Data Protection Regulation (“GDPR”) in Europe goes into effect in the second quarter of 2018. We are currently working to develop our compliance solutions for GDPR and, once fully implemented these solutions may impose significant incremental costs on our operations in Europe, thus impacting our results of operations.

Our results of operations and ability to grow could be materially adversely affected if we cannot adapt our service offerings to changes in technology

Our success depends on our ability to develop and implement technology, consulting and outsourcing services and solutions that anticipate and respond to rapid and continuous changes in technology. Areas of significant change include artificial intelligence, digital offerings, voice recognition and self-help software solutions, automation, chatbots, and ‘as-a-service’ cloud solutions. Our growth and profitability will depend on our ability to develop and adopt new disruptive technologies that expand our existing offerings to leverage new technological trends and cost efficiencies in our operations.

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We may not be successful in anticipating or responding to new technology developments and our integration of these technologies may not achieve their intended service enhancements or cost reductions. Services and technologies offered by our competitors may make our service offerings obsolete and may reduce or replace some of our offerings. As technology continues to evolve, more tasks currently performed by our agents may be replaced by automation, robotics, artificial intelligence, chatbots and other technological advances, which pose risks our lower-skill, tier one, customer care offerings. These technology innovations could potentially reduce our business volumes and related revenues, unless we are successful in adoption and deployment of technological alternatives that replace our tier one service offerings. Our failure to innovate, maintain technological advantage, or respond effectively and timely to transformational changes in technology could have a material adverse effect on our business, financial condition, and results of operations.

If we are unable to attract and retain talented and experienced executives for key positions in our business, our business and our strategy execution can be adversely impacted

Our business success depends on contributions of senior management and key personnel. Our ability to attract, motivate and retain key senior management staff is conditioned on our ability to pay adequate compensation and incentives. We compete for top senior management candidates with other, often larger, companies that at times have access to greater resources. Our ability to attract qualified individuals for our senior management team is also impacted by our requirement that members of senior management sign non-compete agreements as a condition to joining TTEC. If we are not able to attract and retain talented and experienced executives, we would be unable to compete effectively and our growth may be limited, which could have a material adverse effect on our business, results of operations, and prospects.

A large portion of our revenue is generated from a limited number of clients and the loss of one or more of our clients could adversely affect our business

We rely on strategic, long-term relationships with large, global companies in targeted industries. As a result, we derive a substantial portion of our revenue from relatively few clients. Our five and ten largest clients collectively represented 35% and 49% of our revenue in 2017 while the largest client represented 9.0% of our revenue in 2017.

Although we have multiple engagements with all of our largest clients and all contracts are unlikely to terminate at the same time, the contracts with our five largest clients expire between 2018 and 2023 and there can be no assurance that these contracts will continue to be renewed at all or be renewed on favorable terms. The loss of all or part of a major client’s business could have a material adverse effect on our business, financial condition, and results of operations, if the loss of revenue was not replaced with profitable business from other clients.

We serve clients in industries that have historically experienced a significant level of consolidation. If one of our clients is acquired (including by another of our clients) our business volume and revenue may materially decrease due to the termination or phase out of an existing client contract, volume discounts or other contract concessions which could have an adverse effect on our business, financial condition, and results of operations.

Our delivery model involves geographic concentration exposing us to significant operational risks

Our business model is dependent on our service customer engagement centers and enterprise support functions being located in low cost jurisdictions around the globe. We have on the ground presence in 24 countries, but our customer care and experience management delivery capacity and our back office functions are concentrated in the Philippines, Mexico, India, and Bulgaria and our technology solutions customer engagement centers are concentrated in a few locations in the United States. Natural disasters (floods, winds, and earthquakes), terrorist attacks, pandemics, large-scale utilities outages, telecommunication and transportation disruptions, labor or political unrest, and restriction on repatriation of funds at some of these locations may interrupt or limit our ability to operate or may increase our costs. Our business continuity and disaster recovery plans, while extensive, may not be effective, particularly if catastrophic events occur.

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Our dependence on our customer engagement centers and enterprise services support functions in the Philippines, which is subject to frequent severe weather, natural disasters, and occasional security threats, represents a particular risk. For these and other reasons, our geographic concentration could result in a material adverse effect on our business, financial condition and results of operations. Although we procure business interruption insurance to cover some of these exposures, adequate insurance may not be available on an ongoing basis for a reasonable price.

Our growth of operations could strain our resources and cause our business to suffer

We plan to continue growing our business organically through expansion, sales efforts, and strategic acquisitions, while maintaining tight controls on our expenses and overhead. Lean overhead functions combined with focused growth may place a strain on our management systems, infrastructure and resources, resulting in internal control failures, missed opportunities, and staff attrition which could impact our business and results of operations.

Our profitability could suffer if our cost-management strategies are unsuccessful

Our ability to improve or maintain our profitability is dependent on our ability to engage in continuous management of our costs. Our cost management strategies include optimizing the alignment between the demand for our services and our resource capacity, including contact center utilization; the costs of service delivery; the cost of sales and general and administrative costs as a percentage of revenues, and the use of process automation for standard operating tasks. If we are not effective in managing our operating and administrative costs in response to changes in demand and pricing for our services, or if we are unable to absorb or pass on to our clients the increases in our costs of operations, our results of operations could be materially adversely affected.

Our financial results depend on our capacity utilization and our ability to forecast demand and make timely decisions about staffing levels, investments, and operating expenses

Our ability to meet our strategic growth and profitability objectives depends on how effectively we manage our contact center capacity against the fluctuating and seasonal client demands. Predicting customer demand and making timely staffing level decisions, investments, and other operating expenditure commitments in each of our delivery center locations is key to our successful execution and profitability maximization. We can provide no assurance that we will continue to be able to achieve or maintain desired delivery center capacity utilization, because quarterly variations in client volumes, many of which are outside our control, can have a material adverse effect on our utilization rates. If our utilization rates are below expectations, because of our high fixed costs of operation, our financial conditions and results of operations could be adversely affected.

If we cannot recruit, hire, train, and retain qualified employees to respond to client demands, our business will be adversely affected

Our business is labor intensive and our ability to recruit and train employees with the right skills, at the right price point, and in the time frame required by our client commitments is critical to achieving our growth objective. Demand for qualified personnel with multiple language capabilities and fluency in English may exceed supply. Employees with specific backgrounds and skills may also be required to keep pace with evolving technologies and client demands. While we invest in employee retention, we continue to experience high employee turnover and are continuously recruiting and training replacement staff. Some of our facilities are located in geographies with low unemployment, which makes it costly to hire personnel, and in several jurisdictions, jurisdiction-specific wage regulations are changing rapidly making it difficult to recruit new employees at price points acceptable for our business model. Our inability to attract and retain qualified personnel at costs acceptable under our contracts, our costs associated with attracting, training, and retaining employees, and the challenge of managing the continuously changing and seasonal client demands could have a material adverse effect on our business, financial condition, and results of operations.

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Uncertainty related to cost of labor across various jurisdictions in the United States could adversely affect our results of operating

As a labor intensive business, we sign multi-year client contracts that are priced based on prevailing labor costs in jurisdictions where we deliver services. Yet, our business is confronted with a patchwork of ever changing minimum wage, mandatory time off, and rest and meal break laws at the state and local levels. As these jurisdiction-specific laws change with little notice or grace period for transition, we often have no opportunity to adjust and change how we do business and pass cost increases to our clients. The frequent changes in the law and inconsistencies in laws across different jurisdictions in the United States, may result in higher costs, lower contract profitability, higher turnover, and reduced operational efficiencies, which could in the aggregate have material adverse impact on our results of operations.

Turnover in senior sales staff and the length of time required for newly-hired sales staff to become productive could adversely impact our growth and our results of operations

It can take several months before newly-hired sales staff are productive in selling our service offerings, technology and consulting solutions to prospective clients. The long ramp period impacts the speed at which they can be effective in contributing to our growth. The cost of sales staff recruiting and their base compensation, therefore, cannot be immediately offset by the revenue such staff produce. Further, given the length of the ramp period, sometimes we cannot determine if new sales representatives would succeed until they have been employed for a period of time. If we cannot reliably limit turnover in our sales staff and speed up development of newly-hired sales staff to a productive level, or if we lose productive sales representatives in whom we have heavily invested, our future growth rates and revenue will suffer.

Our sales cycles for new client relationships and new lines of business with existing clients can be long, which results in a long lead time before we receive certain revenues

We often face a long selling cycle to secure contracts with new clients or contracts for new lines of business with existing clients. When we are successful in securing a new engagement, it is generally followed by a long implementation period when clients must give notice to incumbent service providers or transfer in-house operations to us. There may also be a long ramp up period before we commence our services, and for certain contracts we receive no revenue until we start performing the work. If we are not successful in obtaining contractual commitments after the initial prolonged sales cycle or in maintaining the contractual relationship for a period of time necessary to offset new project investment costs and appropriate return on that investment, the investments may have a material adverse effect on our results of operations.

Contract terms typical in our industry can lead to volatility in our revenue and our margins

Many of our contracts have termination for convenience clauses, which could have a material adverse effect on our results of operation. Although many of our contracts can be terminated for convenience, our relationships with our top five clients have ranged from 10 to 21 years with the majority of these clients having completed multiple contract renewals with us. Yet, our contracts do not guarantee a minimum revenue level or profitability, and clients may terminate them or materially reduce customer interaction volumes, which would reduce our earning potential. This could have a material adverse effect on our results of operations and makes it harder to make projections.

Many of our contracts utilize performance pricing that link some of our fees to the attainment of performance criteria, which could increase the variability of our revenue and operating margin. These performance criteria can be complex, and at times they are not entirely within our control. If we fail to satisfy our contract performance metrics, our revenue under the contracts and our operating margin are reduced.

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We may not always offset increased costs with increased fees under long-term contracts. The pricing and other terms of our client contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase and those that allow for such escalations do not always allow increases at rates comparable to increases that we experience due to rising minimum wage costs and related payroll cost increases. If we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

Our contracts seldom address the impacts of currency fluctuation on our costs of delivery. As we continue to leverage our global delivery model, more of our expenses may be incurred in currencies other than those in which we bill for services. An increase in the value of certain currencies, such as U.S. or Australian dollar against the Philippine peso and India rupee, could increase costs for our delivery at offshore sites by increasing our labor and other costs that are denominated in local currencies. Our contractual provisions, cost management efforts, and currency hedging activities may not be able to offset the currency fluctuation impact, resulting in the decrease of the profitability of our contracts.

Our pricing depends on effectiveness of our forecasting of the level of effort. Pricing for our services in our technology and strategic consulting businesses is highly contingent on our ability to accurately forecast the level of effort and cost necessary to deliver our services, which is data dependent and could turn out to be materially inaccurate. The inaccurate level of effort in project estimates could yield lower profit margins or cause projects to become unprofitable, resulting in adverse impacts on our results of operations.

The new U.S. tax reform legislation and uncertainties of related interpretations may adversely affect our results of operations

The United States recently enacted comprehensive tax reform legislation known as the Tax Cuts and Jobs Act (the "2017 Tax Act") that, among other things, reduces the U.S. federal corporate income tax rate from 35% to 21% and implements a territorial tax system, but imposes an alternative “base erosion and anti-abuse tax” (“BEAT”), an incremental tax on global intangible low taxed foreign income (“GILTI”) as well as a one-time mandatory repatriation tax on accumulated foreign earnings on domestic corporations. The comprehensive impact of the BEAT and GILTI on TTEC is not yet clear and will depend on future tax regulatory guidance and actions the Company may take, as a result of the 2017 Tax Act.

There are a number of uncertainties and ambiguities as to the interpretation and application of many of the provisions in the 2017 Tax Act, such as for example, the impact of the BEAT on the deductibility of payments we routinely make to our foreign affiliates for cost of services delivered outside of the United States and sold to clients based in the United States. In the absence of guidance on these issues, we will use what we believe to be reasonable interpretations and assumptions in applying the provisions of the 2017 Tax Act for purposes of determining our income tax liability and results of operations. Future guidance on the interpretations of the 2017 Tax Act that will be provided by the U.S. Department of Treasury or audit positions that may be taken by the Internal Revenue Service that differ from the interpretations and assumptions that we will reasonably make could have a material adverse effect on our overall effective tax rate, results of operations and financial condition.

Uncertainty of tax regulations in countries where we do business may affect our costs of operation

We operate in multiple countries through legal entity structures that optimize our operations and tax positions globally. We make our business decisions regarding entity capitalization and repatriation of capital based on the needs of the business and costs and tax impacts of such decisions. Corporate tax reform, base-erosion efforts and tax transparency continue to be high priorities in many tax jurisdictions where we have business operations. As a result, policies regarding corporate income and other taxes in numerous jurisdictions are under heightened scrutiny. Changes in the tax regulations in the countries where we currently operate could lead to higher taxation levels, higher costs of doing business, and labor uncertainties when employees' take-home pay is impacted by unexpected tax changes.

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We face special risks associated with our business outside of the United States

An important component of our business strategy is service delivery outside of the United States and our continuing international expansion. In 2017 we derived approximately 44% of our revenue from operations outside of the United States. Conducting business abroad is subject to a variety of risks, including:

· currency exchange rate fluctuations, restrictions on currency movement, and impact of international tax laws could adversely affect our results of operations, if we are forced to maintain assets in currencies other than the U.S. dollars, while our financial results are reported in U.S. dollars;
· longer payment cycles and/or difficulties in accounts receivable collections particular to operations outside of the United States could impact our cash flows and results of operations;
· political and economic instability and unexpected changes in regulatory regimes could adversely affect our ability to deliver services overseas and our ability to repatriate cash;
· inconsistent regulations, licensing and legal requirements may increase our cost of operations as we endeavor to comply with multiple, complex laws that differ from one country to another;
· terrorist attacks and civil unrests in some of the regions where we do business (e.g. tension in the Middle East, Latin America, and the Philippines, and terror attacks in Europe), and the resulting need for enhanced security measures may impact our ability to deliver services, threaten the safety of our employees, and increase our costs of operations; and
· special challenges in managing risks inherent in international operations, such as unique and prescriptive labor rules, corrupt business environments, restrictive immigration and export control laws may cause an inadvertent violation of laws that we may not be able to immediately detect or correct.

While we monitor and endeavor to mitigate timely the relevant regulatory, geopolitical, and other risks related to our operations outside of the United States, we cannot assess with certainty what impact such risks are likely to have over time on our business, and we can provide no assurance that we will always be able to mitigate these risks successfully and avoid material impact to our business and results of operations.

Our profitability may be adversely affected if we are unable to expand and maintain our contact centers in countries with stable wage rates and find new “near shore” locations required by our clients.

Our business is labor-intensive and therefore cost of wages, benefits and related taxes constitute a large component of our operating expenses. As a result, expansion of our business is dependent upon our ability to maintain and expand our operations in cost-effective locations, in and outside of the United States. Most of our contact centers are located in jurisdictions subject to minimum wage regulations, which may result in increased wages in the future, thus impacting our profitability.

Our clients often dictate where they wish for us to locate the contact centers that serve their customers and ‘near shore’ jurisdictions located in close proximity to the United States have grown in popularity recently. There is no assurance that we will be able to find and secure locations suitable for contact center operations in ‘near shore’ jurisdictions which meet our cost-effectiveness and security standards. Our inability to expand our operations to such ‘near shore’ locations, however, may impact our ability to secure new and additional business from clients, and may impact our growth and results of operations.

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Restrictions on mobility of people across borders may affect our ability to compete for and provide services to clients

Our business depends on the ability of some of our employees to obtain the necessary visas and entry permits to do business in the countries where our clients and contact centers are located. In recent years, in response to terrorist attacks and global unrest, immigration authorities generally, and those in the United States in particular, have increased the level of scrutiny in granting such visas, and even imposed bans on immigration and commercial travel for citizens of certain countries. If further terrorist attacks occur or global unrest intensifies, we anticipate that these restrictions will further increase. Immigration and business entry rules outside of the United States may also require us to meet certain additional legal requirements as a condition to obtaining or maintaining visas. Furthermore, immigration laws in most countries where we do business are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events unrelated to our operations. If we are unable to obtain the necessary visas for our personnel with need to travel to the United States or for our United States based employees who may need to travel to countries with newly restricted access; if the issuance of such visas is delayed or if the length of such visas is shortened, we may not be able to continue to provide services on a timely and cost-effective basis, receive revenues as early as expected or manage our customer engagement centers efficiently. Any of these developments could have a material adverse effect on our business, results of operations and financial condition.

If the transfer pricing arrangements we have among our subsidiaries are determined to be inappropriate, our tax liability may increase

We have transfer pricing arrangements among our subsidiaries in relation to various aspects of our business, including operations, marketing, sales, and delivery functions. U.S., Australian, Philippines and other transfer pricing regulations in other countries where we operate, require that cross-border transactions between affiliates be on arm’s-length terms. We carefully consider the pricing among our subsidiaries to assure that they are at arm’s-length. If tax authorities were to determine that the transfer prices and terms we have applied are not appropriate, we may incur increased tax liability, including accrued interest and penalties, which would cause material increase in our tax liability, thereby impacting our profitability and cash flows, and potentially resulting in a material adverse effect on our operations, effective tax rate and financial condition.

The recently enacted 2017 Tax Act in the U.S. may impact the transfer pricing arrangements we have with our cross-border affiliates, because of potential impact BEAT (base erosion and anti-abuse tax) may have on such payments. The comprehensive impact of the BEAT on TTEC is not yet clear and will depend on future tax regulatory guidance and actions the Company may take, as a result of the 2017 Tax Act. If the requirements of 2017 Tax Act and requirements of tax regulations in countries where we have subsidiaries do not reconcile, our overall tax liability and penalties resulting from transfer pricing arrangements may impact our profitability, effective tax rate and financial condition.

Our strategy of growing through acquisitions may impact our business in unexpected ways

Our growth strategy involves acquisitions that help us expand our service offerings and diversify our geographic footprint. We continuously evaluate acquisition opportunities, but there are no assurances that we will be able to identify acquisition targets that complement our strategy and are available at valuation levels accretive to our business.

Even if we are successful in acquiring, our acquisitions may subject our business to risks that may impact our results of operation:

- inability to integrate acquired companies effectively and realize anticipated synergies and benefits from the acquisitions;

- diversion of management’s attention to the integration of the acquired businesses at the expense of delivering results for the legacy business;
- inability to appropriately scale critical resources to support the business of the expanded enterprise and other unforeseen challenges of operating the acquired business as part of TTEC’s operations;

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· inability to retain key employees of the acquired businesses and/or inability of such key employees to be effective as part of TTEC operations;
· impact of liabilities of the acquired businesses undiscovered or underestimated as part of the acquisition due diligence;
· failure to realize anticipated growth opportunities from a combined business, because existing and potential clients may be unwilling to consolidate business with a single supplier or to stay with the acquirer post acquisition;
· impacts of cash on hand and debt incurred to finance acquisitions, thus reducing liquidity for other significant strategic objectives; and
· internal controls, disclosure controls, corruption prevention policies, human resources and other key policies and practices of the acquired companies may be inadequate or ineffective.

We have incurred and may in the future incur impairments to goodwill, long-lived assets or strategic investments

As a result of past acquisitions, as of December 31, 2017, we have approximately $206.7 million of goodwill and $92.1 million of intangible assets included on our Consolidated Balance Sheet. We review our goodwill and intangible assets for impairment at least once annually, and more often when events or changes in circumstances indicate the carrying value may not be recoverable. We perform an assessment of qualitative and quantitative 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 the goodwill or intangible asset is less than its carrying amount. In the event that the book value of goodwill or intangible asset is impaired, such impairment would be charged to earnings in the period when such impairment is determined. We have recorded goodwill and intangible impairments in the past, and there can be no assurance that we will not incur impairment charges in the future that could have material adverse effects on our financial condition or results of operations.

Our share price could be adversely affected if we are unable to maintain effective internal controls over financial reporting and we are not able to prevent or timely detect errors or fraud

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As previously disclosed, in prior periods, our management had identified material weaknesses in our internal control over financial reporting and has taken remedial actions that we believe remediate such material weaknesses. Although we improved our control environment in response to the previously identified material weaknesses, there can be no assurances that we will be able to prevent future control deficiencies, including material weaknesses, from occurring.

Any internal and disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, any controls can be circumvented by individuals acting alone or in collusion with others to override controls. If additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements. These misstatements could result in restatements of our consolidated financial statements and cause investors to lose confidence in our reported financial information, which could lead to a decline in our stock price.

Intellectual property infringement by us and by others may adversely impact our ability to innovate and compete

Our solutions could infringe intellectual property of others impacting our ability to deploy them with clients. From time to time, we and members of our supply chain receive assertions that our service offerings or technologies infringe on the patents or other intellectual property rights of third parties. While to date we have been successful in defending such claims and many of these claims are without basis, the claims could require us to cease activities, incur expensive licensing costs, or engage in costly litigation, which could adversely affect our business and results of operation.

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Our intellectual property may not always receive favorable treatment from the United States Patent and Trademark Office, the European Patent Office or similar foreign intellectual property adjudication and registration agencies; and our “patent pending” intellectual property may not receive a patent or may be subject to prior art limitations.

The lack of legal system sophistication in certain countries where we do business or lack of commitment to protection of intellectual property rights, may prevent us from being able to defend our intellectual property and related technology against infringement by others, leading to a material adverse effect on our business, results of operations and financial condition.

Increases in the cost of communication and data services or significant interruptions in such services could adversely affect our business

Our business is significantly dependent on telephone, internet and data service provided by various domestic and foreign communication companies. Any disruption of these services could adversely affect our business. We have taken steps to mitigate our exposure to service disruptions by investing in complex and multi-layered redundancies, and we can transition services among our different contact centers around the world. Despite these efforts, there can be no assurance, however, that the redundancies we have in place would be sufficient to maintain operations without disruption.

Our inability to obtain communication and data services at favorable rates could negatively affect our results of operations. Where possible, we have entered into long-term contracts with various providers to mitigate short term rate increases and fluctuations. There is no obligation, however, for the vendors to renew their contracts with us, or to offer the same or lower rates in the future, and such contracts are subject to termination or modification for various reasons outside of our control. A significant increase in the cost of communication services that is not recoverable through an increase in the price of our services could adversely affect our business.

Defects or errors within software could adversely affect our business.

The third-party software and systems that we use to conduct our business and serve our clients is highly complex and may, from time to time, contain design defects, coding errors or other software errors that may be difficult to detect or correct, and which are outside of our control. Although our commercial agreements may contain provisions designed to limit our exposure to potential claims and liabilities, these provisions may not effectively protect us against claims in all cases and in all jurisdictions. As a result, problems with the software and systems that we use may result in damages to our clients for which we are held responsible, or cause damage to our reputation, adversely affecting our business, results of operations, and financial condition.

Our financial results may be adversely impacted by foreign currency exchange rate risk

Many contracts that we service from customer care contact centers based outside of the United States are typically priced, invoiced, and paid in U.S. and Australian dollars or Euros, while the costs incurred to deliver the services and operate contact centers are incurred in the functional currencies of the applicable operating subsidiary. The fluctuations between the currencies of the contract and operating currencies present foreign currency exchange risks. Furthermore, because our financial statements are denominated in U.S. dollars, but approximately 24% of our revenue is derived from contracts denominated in other currencies, our results of operations could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

While we hedge against the effect of exchange rate fluctuations, we can provide no assurance that we will be able to continue to successfully manage this foreign currency exchange risk and avoid adverse impacts on our business, financial condition, and results of operations.

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Compliance with laws, including unexpected changes to such laws, could adversely affect our results of operations

Our business is subject to extensive regulation by U.S. and foreign national, state and provincial authorities relating to confidential client and customer data, customer communications, telemarketing practices, and licensed healthcare and financial services activities, among other areas. Costs and complexity of compliance with existing and future regulations could adversely affect our profitability. If we fail to comply with regulations relevant to our business, we could be subject to civil or criminal liability, monetary damages and fines. Private lawsuits and enforcement actions by regulatory agencies may materially increase our costs of operations and impact our ability to serve our clients.

As we provide services to clients' customers residing in countries across the world, we are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as import/export controls, communication content requirements, trade restrictions and sanctions, tariffs, taxation, data privacy, labor relations, wages and severance, health care requirements, internal and disclosure control obligations, and immigration. Violations of these regulations could impact our reputation and result in financial liability, criminal prosecution, unfavorable publicity, restrictions on our ability to process information and breach of our contractual commitments.

Adverse changes in laws or regulations that impact our business may negatively affect the sale of our services, slow the growth of our operations, or mandate changes to how we deliver our services, including our ability to use offshore resources. These changes could threaten our ability to continue to serve certain markets.

The current trend to outsource customer care may not continue and the prices that clients are willing to pay for the services may diminish, adversely affecting our business

Our growth depends, in large part, on the willingness of our clients and potential clients to outsource customer care and management services to companies like TTEC. There can be no assurance that the customer care outsourcing trend will continue; and our clients and potential clients may elect to perform in-house customer care and management services that they currently outsource. Reduction in demand for our services and increased competition from other providers and in-house service alternatives would create pricing pressures and excess capacity that could have an adverse effect on our business, financial condition, and results of operations.

Legislation discouraging offshoring of service by U.S. companies or making such offshoring difficult could significantly affect our business

A perceived association between offshore service providers and the loss of jobs in the United States has been a focus of political debate in recent years. As a result, current and prospective clients may be reluctant to hire offshore service providers like TTEC to avoid negative perceptions and regulatory scrutiny. If they seek customer care and management capacity onshore that was previously available to them through outsourcers outside of the United States, they may elect to perform these services in-house as a less expensive alternative to outsourcing the services onshore. Possible tax incentives for U.S. businesses to return offshored, including outsourced and offshored, services to the U.S. could also impact our clients' continuing interest in using our services.

Legislation aimed to expand protections for U.S. based customers from having their personal data accessible outside of the United States could also impact offshore outsourcing opportunities by requiring notice and consent as a condition for sharing personal identifiable information with service providers based outside of the United States. Any material changes in current trends among U.S. based clients to use services outsourced and delivered offshore would materially impact our business and results of operations.

Health epidemics could disrupt our business and adversely affect our financial results

Our contact centers typically seat hundreds of employees in one location. Accordingly, an outbreak of a contagious infection in one or more of the markets in which we do business may result in significant worker absenteeism, lower capacity utilization rates, voluntary or mandatory closure of our customer engagement centers, travel restrictions on our employees, and other disruptions to our business. Any prolonged or widespread health epidemic could severely disrupt our business operations and have a material adverse effect on our business, its financial condition and results of operations.

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The volatility of our stock price may result in loss of investment

Our share price has been and may continue to be subject to substantial fluctuation. We believe that market prices of outsourced customer care management services stock in general have experienced volatility and such volatility will affect our stock price. As we continue to diversify our service offerings to include growth, technology and strategic consulting, our stock price volatility may stabilize or it may be further impacted by stock price fluctuations in these new industries. In addition to fluctuations specific to our industry and service offerings, we believe that various other factors such as general economic conditions, changes or volatility in the financial markets, and changing market condition for our clients could impact the valuation of our stock. The quarterly variations in our financial results, acquisition and divestiture announcements by us or our competitors, strategic partnerships and new service offering, our failure to meet our growth objectives or exceed our targets, and securities analysts' perception about our performance could cause the market price of our shares to fluctuate substantially in the future.

Our Chairman and Chief Executive Officer controls a majority of our stock and has control over all matters requiring action by our stockholders

Kenneth D. Tuchman, our Chairman and Chief Executive Officer, directly and beneficially owns approximately 69% of TTEC's common stock. As a result, Mr. Tuchman could and does exercise significant influence and control over our business practices and strategy, including the direction of our business and our dividend policy, and all matters requiring action by our stockholders, including the election of our entire Board of Directors and our capital structure. Further, a change in control of our company or significant capital transactions could not be effected without Mr. Tuchman's approval, even if such a change in control or other capital transactions could benefit our other stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2017 fiscal year that remain unresolved.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Englewood, Colorado, which consists of approximately 264,000 square feet of owned office space. In addition to our headquarters and the customer engagement centers used by our Customer Management Services and Customer Growth Services segments discussed below, we also maintain sales and consulting offices in several countries around the world which serve our Customer Technology Services and Customer Strategy Services segments.

As of December 31, 2017 we operated 97 customer engagement centers that are classified as follows:

- Multi-Client Center — We lease space for these centers and serve multiple clients in each facility;
- Dedicated Center — We lease space for these centers and dedicate the entire facility to one client; and
-

Managed Center — These facilities are leased or owned by our clients and we staff and manage these sites on behalf of our clients in accordance with facility management contracts.

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As of December 31, 2017, our customer engagement centers were located in the following countries:

	Multi-Client Centers	Dedicated Centers	Managed Centers	Total Number of Delivery Centers
Australia	—	4	—	4
Brazil	2	—	—	2
Bulgaria	2	—	—	2
Canada	8	—	1	9
China	—	—	1	1
Costa Rica	—	1	—	1
Germany	—	—	1	1
India	4	—	—	4
Ireland	1	—	—	1
Macedonia	1	—	—	1
Mexico	3	—	—	3
Philippines	18	3	—	21
Poland	—	—	1	1
South Africa	—	—	2	2
Thailand	—	—	1	1
United Kingdom	—	—	2	2
United States of America	25	7	9	41
Total	64	15	18	97

The leases for our customer engagement centers have remaining terms ranging from one to nine years and generally contain renewal options. We believe that our existing customer engagement centers are suitable and adequate for our current operations, and we have plans to build additional centers to accommodate future business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company has been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. The Company accrues for exposures associated with such legal actions to the extent that losses are deemed both probable and reasonably estimable. To the extent specific reserves have not been made for certain legal proceedings, their ultimate outcome, and consequently, an estimate of possible loss, if any, cannot reasonably be determined at this time.

Based on currently available information and advice received from counsel, the Company believes that the disposition or ultimate resolution of any current legal proceedings, except as otherwise specifically reserved for in its financial statements, will not have a material adverse effect on the Company’s financial position, cash flows or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "TTEC." The following table sets forth the range of the high and low sales prices per share of the common stock for the quarters indicated as reported on the NASDAQ Global Select Market:

	High	Low
Fourth Quarter 2017	$ 43.35	$ 37.85
Third Quarter 2017	$ 42.15	$ 38.60
Second Quarter 2017	$ 42.60	$ 28.85
First Quarter 2017	$ 31.30	$ 29.10
Fourth Quarter 2016	$ 31.75	$ 25.40
Third Quarter 2016	$ 30.24	$ 26.87
Second Quarter 2016	$ 28.29	$ 25.80
First Quarter 2016	$ 28.71	$ 24.49

As of December 31, 2017, we had approximately 282 holders of record of our common stock and during 2017 we declared and paid a $0.22 per share dividend and a $0.25 per share dividend on our common stock. During 2016 we declared and paid an $0.185 per share dividend and a $0.20 per share dividend on our common stock as discussed below.

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TTEC's performance, cash flows, capital needs and liquidity factors. The initial dividend of $0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. Thereafter, the Company has been paying a semi-annual dividend in October and April of each year in amounts ranging between $0.18 and $0.25 per common share. On February 28, 2018, the Board of Directors authorized a $0.27 dividend per common share, payable on April 12, 2018, to shareholders of record as of March 30, 2018. While it is our intention to continue to pay semi-annual dividends in 2018 and beyond, any decision to pay future cash dividends will be made by our Board of Directors. In addition, our credit facility restricts our ability to pay dividends in the event we are in default or do not satisfy certain covenants.

Stock Repurchase Program

We continue to return capital to our shareholders via an ongoing stock repurchase program (originally authorized by the Board of Directors in 2001). As of December 31, 2017, the cumulative authorized repurchase allowance was $762.3 million, of which we have purchased 46.1 million shares for $735.8 million.

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Issuer Purchases of Equity Securities During the Fourth Quarter of 2017

The following table provides information about our repurchases of equity securities during the quarter ended December 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands)
September 30, 2017				$ 26,580
October 1, 2017 - October 31, 2017	—	$ —	—	$ 26,580
November 1, 2017 - November 30, 2017	—	$ —	—	$ 26,580
December 1, 2017 - December 31, 2017	—	$ —	—	$ 26,580
Total	—		—	

In 2018, through February 28, 2018, we purchased no additional shares. The stock repurchase program does not have an expiration date and the Board authorizes additional stock repurchases under the program from time to time.

Stock Performance Graph

The graph depicted below compares the performance of TTEC common stock with the performance of the NASDAQ Composite Index; the Russell 2000 Index; and customized peer group over the period beginning on December 31, 2012 and ending on December 31, 2017. We have chosen a “Peer Group” composed of Convergys Corporation (NYSE: CVG), Sykes Enterprises, Incorporated (NASDAQ: SYKE) and Teleperformance (NYSE Euronext: RCF). We believe that the companies in the Peer Group are relevant to our current business model, market capitalization and position in the overall BPO industry.

The graph assumes that $100 was invested on December 31, 2012 in our common stock and in each comparison index, and that all dividends were reinvested. We declared per share dividends on our common stock of $0.385 during 2016 and $0.47 during 2017. Stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among TTEC Holdings, Inc., The NASDAQ Composite Index,

The Russell 2000 Index, And A Peer Group

	December 31,					
	2012	2013	2014	2015	2016	2017
TTEC Holdings, Inc.	100	134	133	159	176	236
NASDAQ Composite	100	142	162	173	187	242
Russell 2000	100	139	146	139	169	194
Peer Group	100	151	163	204	227	290

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the related notes appearing elsewhere in this Form 10-K (amounts in thousands except per share amounts).

	Year Ended December 31, 2017		2016		2015		2014		2013	
Statement of Operations Data										
Revenue	$ 1,477,365		$ 1,275,258		$ 1,286,755		$ 1,241,781	(11)	$ 1,193,157	(16)
Cost of services	(1,110,068)		(941,592)		(928,247)		(886,492)		(846,631)	
Selling, general and administrative	(182,314)		(175,797)		(194,606)		(198,553)		(193,423)	
Depreciation and amortization	(64,507)		(68,675)		(63,808)		(56,538)		(46,064)	
Other operating expenses	(19,987)	(1)	(36,442)	(5)	(9,914)	(9)	(3,723)	(12)	(5,640)	(17)
Income from operations	100,489		52,752		90,180		96,475		101,399	
Other income (expense)	(11,602)	(2)	(2,454)	(6)	(4,291)		3,984	(13)	(9,330)	(18)
Provision for income taxes	(78,075)	(3)	(12,863)	(7)	(20,004)	(10)	(23,042)	(14)	(20,598)	(19)
Noncontrolling interest	(3,556)		(3,757)		(4,219)		(5,124)		(4,083)	
Net income attributable to TTEC stockholders	$ 7,256		$ 33,678		$ 61,666		$ 72,293		$ 67,388	
Weighted average shares outstanding										
Basic	45,826		47,423		48,370		49,297		51,338	
Diluted	46,382		47,736		49,011		50,102		52,244	
Net income per share attributable to TTEC										

stockholders										
Basic	$ 0.16		$ 0.71		$ 1.27		$ 1.47		$ 1.31	
Diluted	$ 0.16		$ 0.71		$ 1.26		$ 1.44		$ 1.29	
Dividends issued per common share	$ 0.47		$ 0.385		$ 0.36		$ —		$ —	
Balance Sheet Data										
Total assets	$ 1,078,736	(4)	$ 846,304	(8)	$ 843,327		$ 852,475	(15)	$ 842,342	(20)
Total long-term liabilities	$ 514,113	(4)	$ 304,380	(8)	$ 191,473		$ 187,780	(15)	$ 175,564	(20)

(1) Includes $1.2 million expense related to reductions in force, a $2.2 million expense due to facility exit charges, a $3.5 million expense due to write-off of leasehold improvements and other fixed assets in connection with the facilities we exited, $7.8 million expense related to integration charges for the Connextions acquisition, and a $5.3 million impairment charge related to two trade name intangible assets.

(2) Includes a $5.3 million expense related to the finalization of the transition services agreement for Connextions, a net $2.6 million loss related to a held for sale business unit that was sold in December 2017 and a $1.2 million charge to interest expense related to the future purchase of the remaining 30% of the Motif acquisition offset by a $3.2 million benefit related to the release of the currency translation adjustment in equity in connection with the dissolution of a foreign entity.

(3) Includes $62.4 million of expense related to the US 2017 Tax Act, $0.4 million of expense related to the disposition of assets, $1.9 million of benefit related to impairments, $2.2 million of benefit related to stock options, $0.6 million of expense related to changes in valuation allowances, $5.8 million of benefit related to restructuring, $0.6 million of benefit related to return to provision adjustments and $2.1 million of benefit related to changes to a transition service agreement.

(4) The Company spent $116.7 million, net of cash acquired of $6.0 million, in 2017 for the acquisitions of Connextions and Motif. Upon acquisitions of Connextions and Motif, the Company acquired $40.8 million in assets and assumed, $21.1 million in liabilities ($12.1 million in long-term liabilities).

(5) Includes $3.4 million expense related to reductions in force, a $1.0 million expense due to facility exit and other charges, a $1.3 million impairment of fixed assets, a $1.4 million impairment of goodwill, a

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$11.1 million impairment of internally developed software, and a $18.2 million of impairment charges related to several trade name, customer relationship and non-compete intangible assets.

(6) Includes a $5.3 million estimated loss related to two business units which have been classified as assets held for sale offset by a $4.8 million benefit related to fair value adjustments to the contingent consideration based on revised estimates of performance against targets for two of our acquisitions.

(7) Includes $1.7 million of expense related to return to provision adjustments, $1.1 million of expense related to a transfer pricing adjustment for a prior period, $0.5 million of expense related to tax rate changes, $0.5 million of expense related to changes in valuation allowances, $1.5 million of benefit related to restructuring charges, and $9.8 million of benefit related to impairments and assets held for sales.

(8) The Company spent $46.1 million, net of cash acquired of $2.7 million, in 2016 for the acquisition of Atelka. Upon acquisition of Atelka, the Company acquired $25.1 million in assets and assumed $7.7 million in liabilities ($1.4 million in long-term liabilities).

(9) Includes $1.8 million expense related to reductions in force, a $0.4 million expense related to the impairment of property and equipment, and a $7.7 million expense related to the impairment of goodwill.

(10) Includes a $0.7 million benefit related to restructuring charges, $1.2 million net of expense related to changes in valuation allowance and a related release of a deferred tax liability, $1.5 million of expense related to provisions for uncertain tax positions, $2.6 million of benefit related to impairments, $1.3 million of expense related to state net operating losses and credits, and $0.4 million of benefit related to other discrete items.

(11) Includes $30.0 million in revenue generated by Sofica and rogenSi, which were acquired in 2014.

(12) Includes $3.3 million expense related to reductions in force and $0.4 million expense related to the impairment of property and equipment.

(13) Includes a net $6.7 million benefit related to fair value adjustments to the contingent consideration based on revised estimates of performance against targets for four of our acquisitions.

(14) Includes a $1.3 million benefit related to restructuring charges, a $0.4 million benefit related to a valuation allowance for equity compensation, a $1.2 million benefit related to the closing of statute of limitations in Canada, $3.8 million of expense related to future contingent payments, $1.3 million of expense related to the resolution of an audit in the Netherlands, and $0.2 million of expense related to other discrete items.

(15) The Company spent $23.8 million net of cash acquired of $3.5 million in 2014 for the acquisitions of Sofica and rogenSi. Upon the acquisitions of Sofica and rogenSi, the Company acquired $59.5 million in assets and assumed $11.1 million in liabilities ($5.4 million in long-term liabilities). The Company also assumed a purchase price payable of $22.4 million related to these acquisitions. Of the $22.4 million purchase price payable, $13.2 million was included in long-term liabilities.

(16) Includes $51.4 million in revenue generated by WebMetro, which was acquired in 2013, and TSG, which was acquired on December 31, 2012.

(17) Includes $4.1 million expense related to reductions in force, $0.3 million related to facilities exit charges, $0.1 million expense related to the impairment of property and equipment and $1.1 million expense related to the impact of intangible assets.

(18) Includes a $3.7 million charge related to the deconsolidation of a subsidiary and a $1.9 million charge related to a fair value adjustment to the contingent consideration based on revised estimates of performance against targets for three of our acquisitions.

(19) Includes a $1.8 million benefit related to restructuring charges, a $1.5 million benefit related to return to provision adjustments, and $1.8 million of expense related to valuation allowance increases.

(20) The Company spent $8.9 million net of cash acquired of $6.4 million in 2013 for the acquisition of WebMetro. Upon the acquisition of WebMetro, the Company acquired $27.5 million in assets and assumed $9.7 million in liabilities ($0.8 million in long-term liabilities). The Company also assumed a purchase price payable of $2.5 million related to this acquisition. Of the $2.5 million purchase price payable, $1.8 million was included in long-term liabilities.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

TTEC Holdings, Inc. (“TTEC”, “the Company”, “we”, “our” or “us”) is a global customer experience company that designs, builds and operates omnichannel customer experiences on behalf of the world's most innovative brands. We help large global companies increase revenue and reduce costs by delivering personalized customer experiences across every interactional channel and phase of the customer lifecycle as an end-to-end provider of customer engagement services, technologies, insights and innovations. We are organized into two centers of excellence: TTEC Digital and TTEC Engage.

- TTEC Digital is the Company’s digital consultancy that designs and builds human centric, tech-enabled, insight-driven customer experience solutions.
- TTEC Engage is the Company’s global hub of operational excellence providing clients with turnkey customer acquisition, care, revenue growth, and digital trust and safety services.

TTEC Digital and TTEC Engage come together under our unified offering, HumanifyTM Customer Engagement as a Service, which drives measurable results for clients through delivery of personalized omnichannel interactions that are seamless and relevant. Our offering is supported by 56,000 employees delivering services in 24 countries from 97 customer engagement centers on six continents. Our end-to-end approach differentiates the Company by combining service design, strategic consulting, data analytics, process optimization, system integration, operational excellence, and technology solutions and services. This unified offering is value-oriented, outcome-based, and delivered on a global scale across four business segments: two of which comprise TTEC Engage - Customer Management Services (“CMS”) and Customer Growth Services (“CGS”); and two of which comprise TTEC Digital - Customer Technology Services (“CTS”) and Customer Strategy Services (“CSS”).

Our revenue for fiscal 2017 was $1,477 million, approximately 23% or $336 million of which came from the CGS, CTS and CSS segments, focused on customer-centric strategy, growth and technology-based services with the remainder of our revenue coming from the core customer care services of our CMS segment.

Since our establishment in 1982, we have helped clients strengthen their customer relationships, brand recognition and loyalty by simplifying and personalizing interactions with their customers. We deliver thought leadership, through innovation in programs that differentiate our clients from their competition.

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying and strengthening our core customer care services with consulting, data analytics and insights technologies, and technology-enabled, outcomes-focused services.

We also invest in businesses that enable us to expand our geographic footprint, broaden our product and service capabilities, increase our global client base and industry expertise, and further scale our end-to-end integrated solutions platform. In 2017, we acquired Motif, Inc., a digital trust and safety services company based in India and the Philippines, and Connextions, Inc., a U.S.-based health services company focused on improving the customer relationships for healthcare plan providers and pharmacy benefits managers.

We have developed tailored expertise in the automotive, communications, healthcare, financial services, government, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000 and serve approximately 300 clients globally.

Our Integrated Service Offerings, Centers of Excellence and Business Segments

We have two centers of excellence that encompass our four operating and reportable segments.

TTEC Digital houses our professional services and technology platforms. These solutions are critical to enabling and accelerating digital transformation for our clients.

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Customer Strategy Services Segment

Through our strategy and operations, analytics, and learning and performance consulting expertise, we help our clients design, build and execute their customer engagement strategies. We help our clients to better understand and predict their customers' behaviors and preferences along with their current and future economic value. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity and to better optimize their investments in customer experience. This insight-based strategy creates a roadmap for transformation. We build customer journey maps to inform service design across automated, human and hybrid interactions and increasingly are developing and implementing strategies around Interactive Virtual Assistants (chat bots). A key component of this segment involves instilling a high-performance culture through management and leadership alignment and process optimization.

Customer Technology Services Segment

In connection with the design of the customer engagement strategy, our ability to architect, deploy and host or manage the client's customer experience environments becomes a key enabler to achieving and sustaining the client's customer engagement vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer experience environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients. Through our Humanify™ Technology platforms, we also provide data-driven context aware software-as-a-service ("SaaS") based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

TTEC Engage houses our end-to-end managed services operations for customer care, growth and trust and safety services.

Customer Management Services Segment

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, protected, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, email, e-commerce and social media to optimize the customer experience for our clients. In addition, we manage certain client back-office processes to enhance their customer-centric view of relationships and maximize operating efficiencies. We also perform fraud prevention and content moderation services to protect our clients and their customers from malevolent digital activities. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Customer Growth Services Segment

We offer integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver or manage approximately $4 billion in client revenue annually via the discovery, acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and proprietary analytics platform. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications.

Based on our clients' requirements, we provide our services on an integrated cross-business segment and on a discrete basis.

Additional information with respect to our segments and geographic footprint is included in Part II, Item 8. Financial Statements and Supplementary Data, Note 3 to the Consolidated Financial Statements.

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Our 2017 Financial Results

In 2017, our revenue increased 15.8% to $1,477 million over the same period in 2016, including an increase of 0.2% or $3.1 million due to foreign currency fluctuations. The increase in revenue is comprised of an increase from the Atelka, Connextions, and Motif acquisitions and organic growth in the CMS and CTS segments offset by lower revenue due to the sale of the Avaya business unit in the second quarter of 2017. Revenue adjusted for the $3.1 million increase related to foreign exchange increased 15.6% over the prior year.

Our 2017 income from operations increased $47.7 million to $100.5 million or 6.8% of revenue, from $52.8 million or 4.1% of revenue for 2016. The increase is primarily due to the CMS acquisitions, the CMS and CTS revenue growth noted above, and a $12.5 million benefit related to improved foreign exchange trends. These increases were partially offset by a $5.3 million impairment charge related to two trade names, and $14.7 million related to the restructuring and integration of the Connextions acquisition and other overhead restructurings (see Part II. Item 8. Financial Statements and Supplementary Data, Notes 7 and 11 to the Consolidated Financial Statements). Included in 2016 was $18.2 million of impairment charges related to trade name, customer relationship and non-compete intangible assets, $11.1 million of impairment charges related to internally developed software and technology, a $1.4 million impairment of goodwill (see Part II. Item 8. Financial Statements and Supplementary Data, Notes 6 and 7 to the Consolidated Financial Statements), a $1.3 million impairment of fixed assets, and a $3.7 million restructuring charge related to a reorganization of the global sales force and restructuring of a portion of the IT functions. Income from operations in 2017 and 2016 included a total of $20.0 million and $36.4 million of restructuring and integration charges and asset impairments, respectively.

Our offshore customer engagement centers serve clients based in the U.S. and in other countries and span seven countries with 24,500 workstations representing 55% of our global delivery capabilities. Revenue for our CMS and CGS segments that is provided in these offshore locations was $453 million and represented 36% of our revenue for 2017, as compared to $437 million and 41% of our revenue for 2016.

We internally target capacity utilization in our customer engagement centers at 80% to 90% of our available workstations. As of December 31, 2017, the overall capacity utilization in our multi-client centers was 83%. The table below presents workstation data for all of our centers as of December 31, 2017 and 2016. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations.

	December 31, 2017				December 31, 2016			
	Total Production Workstations	In Use	% In Use		Total Production Workstations	In Use	% In Use	
Total centers								
Sites open >1 year	42,033	34,409	82	%	38,506	30,674	80	%
Sites open <1 year	2,404	2,392	100	%	270	270	100	%
Total workstations	44,437	36,801	83	%	38,776	30,944	80	%

While we continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue with our clients, some of our clients have regulatory pressures to bring the services onshore to the United States. In light of these trends, we plan to continue to selectively retain and grow capacity and expand into new offshore markets, while maintaining appropriate capacity in the United States. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increases, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

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Critical Accounting Policies and Estimates

Management's Discussion and Analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. Below is a discussion of the policies that we believe may involve a high degree of judgment and complexity.

Revenue Recognition

We recognize revenue when evidence of an arrangement exists, the delivery of service has occurred, the fee is fixed or determinable and collection is reasonably assured. The BPO inbound and outbound service fees are based on either a per minute, per hour, per full-time employee, per transaction or per call basis. Certain client programs provide for adjustments to monthly billings based upon whether we achieve, exceed or fail certain performance criteria. Adjustments to monthly billings consist of contractual bonuses/penalties, holdbacks and other performance based contingencies. Revenue recognition is limited to the amount that is not contingent upon delivery of future services or meeting other specified performance conditions.

Revenue also consists of services for agent training, program launch, professional consulting, fully-hosted or managed technology and learning innovation. These service offerings may contain multiple element arrangements whereby we determine if those service offerings represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and delivery or performance of the undelivered items is considered probable and substantially within our control. If those deliverables are determined to be separate units of accounting, revenue is recognized as services are provided. If those deliverables are not determined to be separate units of accounting, revenue for the delivered services are bundled into one unit of accounting and recognized over the life of the arrangement or at the time all services and deliverables have been delivered and satisfied. We allocate revenue to each of the deliverables based on a selling price hierarchy of vendor specific objective evidence ("VSOE"), third-party evidence, and then estimated selling price. VSOE is based on the price charged when the deliverable is sold separately. Third-party evidence is based on largely interchangeable competitor services in standalone sales to similarly situated customers. Estimated selling price is based on our best estimate of what the selling prices of deliverables would be if they were sold regularly on a standalone basis. Estimated selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies, service offerings, and customer classifications. Once we allocate revenue to each deliverable, we recognize revenue when all revenue recognition criteria are met.

Periodically, we will make certain expenditures related to acquiring contracts or provide up-front discounts for future services. These expenditures are capitalized as contract acquisition costs and amortized in proportion to the expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these contract acquisition costs is recorded as a reduction to revenue.

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During 2014, new guidance was issued related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance includes cost guidance, whereby all direct and incremental costs to obtain or fulfill a contract will be capitalized and amortized over the corresponding period of benefit, determined on a contract by contract basis. The updated guidance also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers largely on a disaggregated basis. We have evaluated the adoption impact of the updated accounting guidance on our consolidated financial statements and continue to evaluate the impact on disclosures and internal controls. The new guidance will impact: (i) revenue associated with certain taxes, which will be recognized on a net basis versus the current gross treatment; (ii) the timing of revenue recognition associated with upfront fees on certain contracts; and (iii) the timing of recognition related to certain elements of variable consideration. We adopted this updated accounting guidance beginning January 1, 2018 using the modified retrospective method under which we will recognize a cumulative-effect adjustment in the range of $9 million to $12 million.

Income Taxes

Accounting for income taxes requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. When circumstances warrant, we assess the likelihood that our net deferred tax assets will more likely than not be recovered from future projected taxable income.

We continually review the likelihood that deferred tax assets will be realized in future tax periods under the “more-likely-than-not” criteria. In making this judgment, we consider all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance is required.

We follow a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, and settlement of issues under audit.

Interest and penalties relating to income taxes and uncertain tax positions are accrued net of tax in the Provision for income taxes in the accompanying Consolidated Statements of Comprehensive Income (Loss).

In the future, our effective tax rate could be adversely affected by several factors, many of which are outside our control. Our effective tax rate is affected by the proportion of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. Further, we are subject to changing tax laws, regulations and interpretations in multiple jurisdictions in which we operate, as well as the requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations. We estimate our annual effective tax rate each quarter based on a combination of actual and forecasted results of subsequent quarters. Consequently, significant changes in our actual quarterly or forecasted results may impact the effective tax rate for the current or future periods.

Tax Reform

The United States recently enacted comprehensive tax reform legislation known as the Tax Cuts and Jobs Act (the "2017 Tax Act") that, among other things, reduces the U.S. federal corporate income tax rate from 35% to 21% and implements a territorial tax system, but imposes an alternative “base erosion and anti-abuse tax” (“BEAT”), and an incremental tax on global intangible low taxed foreign income (“GILTI”) effective January 1, 2018. In addition, the law imposes a one-time mandatory repatriation tax on accumulated foreign earnings on domestic corporations effective for the 2017 tax year. In response, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available,

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prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act and allows the registrant to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We have recognized the provisional impacts related to the one-time transition tax and revaluation of deferred tax balances and included these estimates in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may materially differ from these provisional amounts, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act. Our selection of an accounting policy with respect to the new GILTI rules will depend in part on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI, and if so, what the impact is expected to be. We have not yet computed a reasonable estimate of the effect of this provision, and therefore, we have not made a policy decision regarding whether to record deferred taxes related to GILTI nor have we made any adjustments related to GILTI tax in our year-end financial statements.

Impairment of Long-Lived Assets

We evaluate the carrying value of property, plant and equipment and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is considered to be impaired when the forecasted undiscounted cash flows of an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates.

Goodwill and Indefinite-Lived Intangible Assets

We evaluate goodwill and indefinite-lived intangible assets for possible impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

We use a two step process to assess the realizability of goodwill. The first step, Step 0, is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. A qualitative assessment also includes analyzing the excess fair value of a reporting unit over its carrying value from impairment assessments performed in previous years. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or if a reporting unit’s fair value has historically been closer to its carrying value, we will proceed to Step 1 testing where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If Step 1 indicates that the carrying value of a reporting unit is in excess of its fair value, we will record an impairment equal to the amount by which a reporting unit’s carrying value exceeds its fair value.

We estimate fair value using discounted cash flows of the reporting units. The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we use financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services, projected labor costs, as well as contract negotiation status. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. We use a discount rate we consider appropriate for the country where the business unit is providing services.

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Similar to goodwill, the Company may first use a qualitative analysis to assess the realizability of its indefinite-lived intangible assets. The qualitative analysis will include a review of changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of an indefinite-lived intangible asset. If a quantitative analysis is completed, an indefinite-lived intangible asset (such as a trade name) is evaluated for possible impairment by comparing the fair value of the asset with its carrying value. Fair value is estimated as the discounted value of future revenues arising from a trade name using a royalty rate that a market participant would pay for use of that trade name. An impairment charge is recorded if the trade name's carrying value exceeds its estimated fair value.

Restructuring and Liability

We routinely assess the profitability and utilization of our customer engagement centers and existing markets. In some cases, we have chosen to close under-performing customer engagement centers and complete reductions in workforce to enhance future profitability. Severance payments that occur from reductions in workforce are in accordance with postemployment plans and/or statutory requirements that are communicated to all employees upon hire date; therefore, we recognize severance liabilities when they are determined to be probable and reasonably estimable. Other liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, rather than upon commitment to a plan.

Derivatives

We enter into foreign exchange forward and option contracts to reduce our exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. We enter into interest rate swaps to reduce our exposure to interest rate fluctuations associated with our variable rate debt. Upon proper qualification, these contracts are accounted for as cash flow hedges under current accounting standards. From time-to-time, we also enter into foreign exchange forward contracts to hedge our net investment in a foreign operation.

All derivative financial instruments are reported in the accompanying Consolidated Balance Sheets at fair value. Changes in fair value of derivative instruments designated as cash flow hedges are recorded in Accumulated other comprehensive income (loss), a component of Stockholders' Equity, to the extent they are deemed effective. Based on the criteria established by current accounting standards, all of our cash flow hedge contracts are deemed to be highly effective. Changes in fair value of any net investment hedge are recorded in cumulative translation adjustment in Accumulated other comprehensive income (loss) in the accompanying Consolidated Balance Sheets offsetting the change in cumulative translation adjustment attributable to the hedged portion of our net investment in the foreign operation. Any realized gains or losses resulting from the foreign currency cash flow hedges are recognized together with the hedged transactions within Revenue. Any realized gains or losses resulting from the interest rate swaps are recognized in Interest expense. Gains and losses from the settlements of our net investment hedges remain in Accumulated other comprehensive income (loss) until partial or complete liquidation of the applicable net investment.

We also enter into fair value derivative contracts to reduce our exposure to foreign currency exchange rate fluctuations associated with changes in asset and liability balances. Changes in the fair value of derivative instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized in Other income (expense), net in the accompanying Consolidated Statements of Comprehensive Income (Loss).

While we expect that our derivative instruments will continue to be highly effective and in compliance with applicable accounting standards, if our hedges did not qualify as highly effective or if we determine that forecasted transactions will not occur, the changes in the fair value of the derivatives used as hedges would be reflected currently in earnings.

Contingencies

We record a liability for pending litigation and claims where losses are both probable and reasonably estimable. Each quarter, management reviews all litigation and claims on a case-by-case basis and assigns probability of loss and range of loss.

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Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally include costs incurred in connection with our customer management services, including direct labor and related taxes and benefits, telecommunications, technology costs, sales and use tax and certain fixed costs associated with the customer engagement centers. In addition, cost of services includes income related to grants we may receive from local or state governments as an incentive to locate customer engagement centers in their jurisdictions which reduce the cost of services for those facilities.

Selling, General and Administrative

Selling, general and administrative expenses primarily include costs associated with administrative services such as sales, marketing, product development, legal, information systems (including core technology and telephony infrastructure) accounting and finance and legal settlements. It also includes outside professional fees (i.e., legal and accounting services), building expense for non-engagement center facilities and other items associated with general business administration.

Restructuring and Integration Charges, Net

Restructuring charges, net primarily include costs incurred in conjunction with reductions in force or decisions to exit facilities, including termination benefits and lease liabilities, net of expected sublease rentals. Integration charges represent the activities related to the re-hiring and retraining of the agents, the consolidation of facilities, the transfer of IT systems and other duplicative expenses incurred as the acquisitions are fully integrated.

Interest Expense

Interest expense includes interest expense, amortization of debt issuance costs associated with our Credit Facility, and the accretion of deferred payments associated with our acquisitions.

Other Income

The main components of other income are miscellaneous income not directly related to our operating activities, such as foreign exchange gains and reductions in our contingent consideration.

Other Expenses

The main components of other expenses are expenditures not directly related to our operating activities, such as foreign exchange losses and increases in our contingent consideration.

RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to December 31, 2016

The tables included in the following sections are presented to facilitate an understanding of Management’s Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the years ended December 31, 2017 and 2016 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Year Ended December 31,			
	2017	2016	$ Change	% Change
Revenue	$ 1,141,760	$ 924,325	$ 217,435	23.5 %
Operating Income	78,206	50,541	27,665	54.7 %
Operating Margin	6.8 %	5.5 %		

The increase in revenue for the Customer Management Services segment was attributable to a $246.0 million net increase in organic and inorganic client programs including the Atelka, Connextions and Motif acquisitions and a $2.3 million increase due to foreign currency fluctuations, offset by program completions of $30.9 million.

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The operating income as a percentage of revenue increased to 6.8% in 2017 as compared to 5.5% in 2016. The operating margin increased due to higher revenue, a $12.1 million benefit due to improved foreign exchange trends, increased capacity utilization, and efficiencies realized from the expense rationalization activities completed during the second half of 2016. This increase was offset by $13.6 million of 2017 planned restructuring and integration charges for the Connextions acquisition related to severance, center closure costs, the hiring, training and licensing of employees in new delivery centers and the integration of the IT systems (see Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements) and an increase of $9.3 million for variable incentive compensation. The increase was also due to the 2016 $11.1 million impairment for internally developed software and technology assets and a $1.4 million impairment of goodwill (see Part II. Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements). Included in the operating income was amortization related to acquired intangibles of $4.6 million and $0.9 million for the years ended December 31, 2017 and 2016, respectively.

Customer Growth Services

	Year Ended December 31, 2017	2016	$ Change	% Change
Revenue	$ 128,698	$ 141,005	$ (12,307)	(8.7) %
Operating Income	7,803	6,969	834	12.0 %
Operating Margin	6.1 %	4.9 %		

The decrease in revenue for the Customer Growth Services segment was due to a $9.0 million increase in client programs and a decrease for program completions of $21.3 million.

The operating income as a percentage of revenue increased to 6.1% in 2017 as compared to 4.9% in 2016. This was attributable to pricing improvements and other profit optimization actions, along with reductions in amortization expense and a reduction in the operating loss for the Digital Marketing unit, which was sold effective December 22, 2017 (see Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements). Included in the operating income was amortization related to acquired intangibles of zero and $1.8 million for the years ended December 31, 2017 and 2016, respectively.

Customer Technology Services

	Year Ended December 31, 2017	2016	$ Change	% Change
Revenue	$ 138,581	$ 141,254	$ (2,673)	(1.9) %
Operating Income	12,047	933	11,114	1,191.2 %
Operating Margin	8.7 %	0.7 %		

The decrease in revenue for the Customer Technology Services segment was driven by an increase in the CISCO offerings offset by a decrease in the Avaya offerings as we wound down and then sold the business unit in the second quarter of 2017.

The operating income as a percentage of revenue increased to 8.7% in 2017 as compared to 0.7% in 2016. This increase is primarily due to a $12.1 million charge recorded in 2016 related to the impairment of customer relationships, trade name, non-compete intangible assets and technology fixed assets due to the lower financial performance of the Avaya business unit offset by the 2017 $3.3 million impairment of a trade name intangible asset (see Part II. Item 8. Financial Statements and Supplementary Data, Note 7 to the Consolidated Financial Statements). Included in the operating income was amortization related to acquired intangibles of $1.1 million and $4.6 million for the years ended December 31, 2017 and 2016, respectively.

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Customer Strategy Services

	Year Ended December 31,						
	2017		2016		$ Change	% Change	
Revenue	$ 68,326		$ 68,674		$ (348)	(0.5)	%
Operating Income	2,433		(5,691)		8,124	142.8	%
Operating Margin	3.6	%	(8.3)	%			

The decrease in revenue for the Customer Strategy Services segment was related to growth in the Content and Collaboration and Service Optimization practices offset by decreases in the Mindset and Sales Transformation and Customer Insights practices across multiple delivery regions.

The operating income as a percentage of revenue was 3.6% in 2017 as compared to an operating loss of (8.3)% in 2016. The increase is primarily related to the 2016 $7.5 million charge for the impairment of two trade name intangibles offset by the 2017 $2.0 million impairment of one trade name intangible asset (see Part II. Item 8. Financial Statements and Supplementary Data, Note 7 to the Consolidated Financial Statements). Included in the operating income was amortization expense related to acquired intangibles of $1.8 million and $2.9 million for the years ended December 31, 2017 and 2016, respectively.

Interest Income (Expense)

Interest income increased to $2.8 million in 2017 from $1.2 million in 2016. Interest expense increased to $13.7 million during 2017 from $7.9 million for the comparable period in 2016, primarily due to larger utilization of the line of credit primarily related to the acquisitions, higher average interest rates, the upsizing of the credit facility completed in October 2017, and a $1.2 million charge related to the future purchase of the remaining 30% of the Motif acquisition.

Other Income (Expense), Net

Included in the year ended December 31, 2017 was a net $2.6 million loss related to a business unit which has been sold effective December 22, 2017 and a $3.2 million gain related to dissolution of a foreign entity and a release of its cumulative translation adjustment (see Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements).

Included in the year ended December 31, 2017 was a $5.3 million expense related to the Connextions acquisition and the finalization of the transition services agreement.

Included in the year ended December 31, 2016 was a total of $5.3 million of estimated losses related to two business units which had been classified as assets held for sale (see Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements).

Included in the year ended December 31, 2016, was a $4.8 million benefit related to fair value adjustments of the contingent consideration based on revised estimates of performance against targets for two of our acquisitions (see Part II, Item 8. Financial Statements and Supplementary Data, Note 9 to the Consolidated Financial Statements).

Income Taxes

The reported effective tax rate for 2017 was 87.8% as compared to 25.6% for 2016. The effective tax rate for 2017 was impacted by earnings in international jurisdictions currently under an income tax holiday, $62.4 million of expense related to the US 2017 Tax Act, $0.6 million of benefit related to provision to return adjustments, a $1.9 million benefit related to impairments, $0.4 million of expense related to the disposition of assets, $0.6 million of expense related to changes in valuation allowances, a $2.2 million benefit related to excess taxes on equity compensation, $5.8 million of benefit related to restructuring charges, and a $2.1 million benefit related to the finalization of a transition service agreement. Without these items our effective tax rate for the year ended December 31, 2017 would have been 24.4%.

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For the year ended December 31, 2016, our effective tax rate was 25.6%. The effective tax rate for 2016 was impacted by earnings in international jurisdictions currently under an income tax holiday, $1.7 million of expense related to return to provision adjustments, $1.1 million of expense related to a transfer pricing adjustment for a prior period, $0.5 million of expense related to tax rate changes, $0.5 million of expense related to changes in valuation allowances, $1.5 million of benefit related to restructuring expenses, and $9.8 million of benefit related to impairments and assets held for sale. Without these items our effective tax rate for the year ended December 31, 2016 would have been 23.3%.

Year Ended December 31, 2016 Compared to 2015

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the years ended December 31, 2016 and 2015 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Year Ended December 31,			
	2016	2015	$ Change	% Change
Revenue	$ 924,325	$ 913,272	$ 11,053	1.2 %
Operating Income	50,541	58,018	(7,477)	(12.9) %
Operating Margin	5.5 %	6.4 %		

The increase in revenue for the Customer Management Services segment was attributable to a $47.0 million net increase in client programs and acquisitions offset by program completions of $18.2 million. Revenue was further impacted by a $17.7 million reduction due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real.

The operating income as a percentage of revenue decreased to 5.5% in 2016 as compared to 6.4% in 2015. The decrease was primarily driven by a $11.1 million impairment for internally developed software and technology assets and a $1.4 million impairment of goodwill (see Part II. Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements) and a shift in business mix to onshore vs. offshore. This was offset by an increase of $4.3 million due to foreign currency fluctuations. Included in the operating income was amortization related to acquired intangibles of $0.9 million and $0.8 million for the years ended December 31, 2016 and 2015, respectively.

Customer Growth Services

	Year Ended December 31,			
	2016	2015	$ Change	% Change
Revenue	$ 141,005	$ 129,021	$ 11,984	9.3 %
Operating Income	6,969	3,077	3,892	126.5 %

Operating Margin	4.9 %	2.4 %

The increase in revenue for the Customer Growth Services segment was due to a $21.9 million increase in client programs offset by program completions of $8.6 million and a $1.3 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 4.9% in 2016 as compared to 2.4% in 2015. This increase was attributable to increased revenue and improvements in the efficiency of the selling, general and administrative expenses and a decrease in amortization. Also included in the 2015 income was a $5.9 million goodwill impairment for the WebMetro reporting unit (see Part II. Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements). Included in the operating income was amortization related to acquired intangibles of $1.8 million and $2.7 million for the years ended December 31, 2016 and 2015, respectively.

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Customer Technology Services

	Year Ended December 31,					
	2016		2015		$ Change	% Change	
Revenue	$ 141,254		$ 157,606		$ (16,352)	(10.4)	%
Operating Income	933		13,339		(12,406)	(93.0)	%
Operating Margin	0.7	%	8.5	%			

The decrease in revenue for the Customer Technology Services segment was driven most significantly by lower volumes in the Avaya platform due to Avaya's product transition and financial challenges. Additionally, CISCO product sales have declined as clients increasingly move to adopt cloud based solutions.

The operating income as a percentage of revenue decreased to 0.7% in 2016 as compared to 8.5% in 2015. Included in the 2016 income was a $12.1 million charge related to the impairment of customer relationships, trade name, non-compete intangible assets and technology fixed assets due to continued lower financial performance of the Avaya business unit (see Part II. Item 8. Financial Statements and Supplementary Data, Note 7 to the Consolidated Financial Statements). This was offset by increases in the profitability of the CISCO platform including Cloud, Managed Service and Consulting services. Included in the operating income was amortization related to acquired intangibles of $4.6 million and $4.2 million for the years ended December 31, 2016 and 2015, respectively.

Customer Strategy Services

	Year Ended December 31,						
	2016		2015		$ Change	% Change	
Revenue	$ 68,674		$ 86,856		$ (18,182)	(20.9)	%
Operating Income	(5,691)		15,746		(21,437)	(136.1)	%
Operating Margin	(8.3)	%	18.1	%			

The decrease in revenue for the Customer Strategy Services segment was primarily related to the decrease in the Middle East consulting business as well as revenue volatility in several other regions and a $1.2 million decrease due to foreign currency fluctuations.

The operating loss as a percentage of revenue was (8.3)% in 2016 as compared to income of 18.1% in 2015. The loss included $7.5 million of charges for the impairment of two trade name intangible assets due to continued lower performance for two business units (see Part II. Item 8. Financial Statements and Supplementary Data, Note 7 to the Consolidated Financial Statements). The operating margin decrease also related to lower revenue which caused an underutilization of the consultants as well as the planned investments in practice areas and geographic expansion. Included in the operating income was amortization expense related to acquired intangibles of $2.9 million and $2.9 million for the years ended December 31, 2016 and 2015, respectively.

Interest Income (Expense)

Interest income increased slightly to $1.2 million in 2016 from $1.1 million in 2015. Interest expense increased to $7.9 million during 2016 from $7.5 million for the comparable period in 2015, primarily due to higher outstanding balances on the line of credit.

Other Income (Expense), Net

Included in the year ended December 31, 2016 was a total of $5.3 million of estimated losses related to two business units which have been classified as assets held for sale (see Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements).

Included in the year ended December 31, 2016, was a $4.8 million benefit related to fair value adjustments of the contingent consideration based on revised estimates of performance against targets for two of our acquisitions (see Part II, Item 8. Financial Statements and Supplementary Data, Note 9 to the Consolidated Financial Statements).

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Included in the year ended December 31, 2015, was a net $26 thousand expense related to fair value adjustments of the contingent consideration based on revised estimates of performance against targets for two of our acquisitions (see Part II, Item 8. Financial Statements and Supplementary Data, Note 9 to the Consolidated Financial Statements).

Income Taxes

The reported effective tax rate for 2016 was 25.6% as compared to 23.3% for 2015. The effective tax rate for 2016 was impacted by earnings in international jurisdictions currently under an income tax holiday, $1.7 million of expense related to return to provision adjustments, $1.1 million of expense related to a transfer pricing adjustment for a prior period, $0.5 million of expense related to tax rate changes, $0.5 million of expense related to changes in valuation allowances, $1.5 million of benefit related to restructuring expenses, and $9.8 million of benefit related to impairments and assets held for sale. Without these items our effective tax rate for the year ended December 31, 2016 would have been 23.3%.

For the year ended December 31, 2015, our effective tax rate was 23.3%. The effective tax rate for 2015 was impacted by earnings in international jurisdictions currently under an income tax holiday, $2.6 million of benefit related to impairments, $0.7 million benefit related to restructuring charges, $1.2 million net of expense related to changes in valuation allowance and a related release of a deferred tax liability, $1.3 million of expense related to state net operating losses and credits, $1.5 million of expense related to provisions for uncertain tax positions, and $0.4 million benefit related to other discrete items. Without these items our effective tax rate for the year ended December 31, 2015 would have been 20.4%.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Credit Facility, dated June 3, 2013 which was amended and restated effective October 30, 2017 (the “Credit Facility”). During the year ended December 31, 2017, we generated positive operating cash flows of $113.2 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

We manage a centralized global treasury function in the United States with a focus on concentrating and safeguarding our global cash and cash equivalents. While the majority of our cash is held outside the U.S., we prefer to hold U.S. Dollars in addition to the local currencies of our foreign subsidiaries. We expect to use our offshore cash to support working capital and growth of our foreign operations. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners and utilization of diversified, high quality investments.

We have global operations that expose us to foreign currency exchange rate fluctuations that may positively or negatively impact our liquidity. We are also exposed to higher interest rates associated with our variable rate debt. To mitigate these risks, we enter into foreign exchange forward and option contracts and interest rate swaps through our cash flow hedging program. Please refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Foreign Currency Risk, for further discussion.

We primarily utilize our Credit Facility to fund working capital, general operations, stock repurchases, dividends, and other strategic activities, such as the acquisitions described in Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements. As of December 31, 2017 and 2016, we had borrowings of $344.0 million and $217.3 million, respectively, under our Credit Facility, and our average daily utilization was $494.7 million and $375.3 million for the years ended December 31, 2017 and 2016, respectively. After consideration for the current level of availability based on the covenant calculations, our remaining borrowing capacity was approximately $350 million as of December 31, 2017. As of December 31, 2017, we were in compliance with all covenants and conditions under our Credit Facility.

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The amount of capital required over the next 12 months will depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. We can provide no assurance that we will be able to raise additional capital with commercially reasonable terms acceptable to us.

The following discussion highlights our cash flow activities during the years ended December 31, 2017, 2016, and 2015.

Cash and Cash Equivalents

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled $74.4 million and $55.3 million as of December 31, 2017 and 2016, respectively. We diversify the holdings of such cash and cash equivalents considering the financial condition and stability of the counterparty institutions.

We reinvest our cash flows to grow our client base, expand our infrastructure, for investment in research and development, for strategic acquisitions, for the purchase of our outstanding stock and to pay dividends.

Cash Flows from Operating Activities

For the years 2017, 2016 and 2015 we reported net cash flows provided by operating activities of $113.2 million, $111.8 million and $138.0 million, respectively. The increase of $1.3 million from 2016 to 2017 was primarily due to a $110.6 million decrease in payments made for operating expenses offset by a $51.4 million decrease in cash collected from accounts receivable and an $19.2 million decrease in prepaid assets. The decrease of $26.2 million from 2015 to 2016 was primarily due to a $12.0 million increase in cash collected from accounts receivable, a $5.3 million increase in prepaid assets, offset by $34.3 million increase in payments made for operating expenses.

Cash Flows from Investing Activities

For the years 2017, 2016 and 2015, we reported net cash flows used in investing activities of $169.0 million, $100.4 million and $77.2 million, respectively. The net increase in cash used in investing activities from 2016 to 2017 was primarily due to increased spending on acquisitions of $69.9 million. The net increase in cash used in investing activities from 2015 to 2016 was primarily due to increased spending on acquisitions of $44.7 million offset by a decrease in spending on investments of $5.8 million and a decrease of $15.8 million due to lower capital expenditures.

Cash Flows from Financing Activities

For the years 2017, 2016 and 2015, we reported net cash flows provided by (used in) financing activities of $71.6 million, $(1.6) million and $(57.1) million, respectively. The change in net cash flows from 2016 to 2017 was primarily due to a $9.4 million increase in borrowing on the Credit Facility, a decrease in the contingent consideration and hold-back payments of $8.1 million, offset by a $56.4 million decrease in purchases of our outstanding common stock and a $4.1 million payment to purchase a non-controlling interest. The change in net cash flows from 2015 to 2016 was primarily due to a $117.3 million increase in borrowing on the Credit Facility, a decrease in the contingent consideration and hold-back payments of $2.4 million, offset by a $57.5 million increase in purchases of our outstanding common stock, a $4.1 million payment to purchase a non-controlling interest, and $1.9 million paid for debt issuance costs.

Free Cash Flow

Free cash flow (see “Presentation of Non-GAAP Measurements” below for the definition of free cash flow) was $61.2 million, $61.0 million and $71.4 million for the years 2017, 2016 and 2015, respectively. The increase from 2016 to 2017 was primarily due to the increase in cash flows provided by operating activities. The decrease from 2015 to 2016 was primarily due to the decrease in cash flows provided by operating activities offset by a decrease in spend for capital expenditures.

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Presentation of Non-GAAP Measurements

Free Cash Flow

Free cash flow is a non-GAAP liquidity measurement. We believe that free cash flow is useful to our investors because it measures, during a given period, the amount of cash generated that is available for debt obligations and investments other than purchases of property, plant and equipment. Free cash flow is not a measure determined by GAAP and should not be considered a substitute for “income from operations,” “net income,” “net cash provided by operating activities,” or any other measure determined in accordance with GAAP. We believe this non-GAAP liquidity measure is useful, in addition to the most directly comparable GAAP measure of “net cash provided by operating activities,” because free cash flow includes investments in operational assets. Free cash flow does not represent residual cash available for discretionary expenditures, since it includes cash required for debt service. Free cash flow also includes cash that may be necessary for acquisitions, investments and other needs that may arise.

The following table reconciles net cash provided by operating activities to free cash flow for our consolidated results (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	$ 113,152	$ 111,830	$ 137,998
Less: Purchases of property, plant and equipment	51,958	50,832	66,595
Free cash flow	$ 61,194	$ 60,998	$ 71,403

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of December 31, 2017 are summarized as follows (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility(1)	$ 10,154	$ 20,308	$ 345,692	$ —	$ 376,154
Equipment financing arrangements	3,588	5,376	1,570	—	10,534
Contingent consideration	399	—	—	—	399
Purchase obligations	10,333	6,977	681	—	17,991
Operating lease commitments	44,299	61,314	38,139	30,984	174,736
Transition tax related to US 2017 Tax Act	—	2,900	9,400	35,600	47,900
Other debt	2,988	31,232	425	—	34,645
Total	$ 71,761	$ 128,107	$ 395,907	$ 66,584	$ 662,359

(1) Includes estimated interest payments based on the weighted-average interest rate, unused commitment fees, current interest rate swap arrangements, and outstanding debt as of December 31, 2017.

- Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.
- Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.
- The contractual obligation table excludes our liabilities of $5.1 million related to uncertain tax positions because we cannot reliably estimate the timing of future cash payments. See Part II, Item 8. Financial Statements and Supplementary Data, Note 10 to the Consolidated Financial Statements for further discussion.

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Our outstanding debt is primarily associated with the use of funds under our Credit Agreement to fund working capital, repurchase our common stock, pay dividends and for other cash flow needs across our global operations.

Purchase Obligations

Occasionally we contract with certain of our communications clients to provide us with telecommunication services. These clients currently represent approximately 13% of our total annual revenue. We believe these contracts are negotiated on an arm's-length basis and may be negotiated at different times and with different legal entities.

Future Capital Requirements

We expect total capital expenditures in 2018 to be approximately 3.8% of 2018 revenue. Approximately 70% of these expected capital expenditures are to support growth in our business and 30% relate to the maintenance of existing assets. The anticipated level of 2018 capital expenditures is primarily driven by new client contracts and the corresponding requirements for additional customer engagement center capacity as well as enhancements to our technological infrastructure.

We may consider restructurings, dispositions, mergers, acquisitions and other similar transactions. Such transactions could include the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures or the incurrence, assumption, or refinancing of indebtedness and could be material to the consolidated financial condition and consolidated results of our operations. Our capital expenditures requirements could also increase materially in the event of an acquisition or joint ventures. In addition, as of December 31, 2017, we were authorized to purchase an additional $26.6 million of common stock under our stock repurchase program (see Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities). Our stock repurchase program does not have an expiration date.

The launch of large client contracts may result in short-term negative working capital because of the time period between incurring the costs for training and launching the program and the beginning of the accounts receivable collection process. As a result, periodically we may generate negative cash flows from operating activities.

Debt Instruments and Related Covenants

On February 11, 2016, we entered into a First Amendment to our June 3, 2013 Amended and Restated Credit Agreement and Amended and Restated Security Agreement (collectively the "Credit Agreement") for a senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders led by Wells Fargo Bank, National Association, as agent, swing line and fronting lender.

On October 30, 2017, the Company entered into a Third Amendment to the Credit Agreement and exercised the Credit Facility's accordion feature to increase the total commitment under the Credit Facility to $1.2 billion. All other material terms of the Credit Agreement remained unchanged.

The Credit Agreement provides for a secured revolving credit facility that matures on February 11, 2021 with a maximum aggregate commitment of $1.2 billion. At our discretion, direct borrowing options under the Credit Agreement include (i) Eurodollar loans with one, two, three, and six month terms, (ii) overnight base rate loans, and (iii) alternate currency loans. The Credit Agreement also provides for a foreign subsidiary borrowing capacity sub-limit for loans or letters of credit of up to 50% of the total commitment amount, in both U.S. dollars and certain foreign currencies.

We primarily utilize our Credit Facility to fund working capital, general operations, stock repurchases, dividends, acquisitions, and other strategic activities.

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo's prime rate, (ii) one half of 1% in excess of the federal funds effective rate, or (iii) 1.25% in excess of the one month London Interbank Offered Rate ("LIBOR"), plus in each case a margin of 0% to 0.75% based on our net leverage ratio. Eurodollar loans bear interest at LIBOR plus a margin of 1.0% to 1.75% based on our net leverage ratio. Alternate currency loans bear interest at rates applicable to their respective currencies.

Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans.

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The Credit Facility commitment fees are payable to the lenders in an amount equal to the unused portion of the Credit Facility at a rate of 0.125% to 0.250% per annum based on our net leverage ratio.

Indebtedness under the Credit Agreement is guaranteed by certain of our domestic subsidiaries and is secured by security interests (subject to permitted liens) in the U.S. accounts receivable and cash of our Company and certain of its domestic subsidiaries. The indebtedness may also be secured by tangible assets of our Company and its domestic subsidiaries, if borrowings by foreign subsidiaries exceed $100.0 million and the total net leverage ratio is greater than 3.00 to 1.00. We also pledged 65% of the voting stock and all of the non-voting stock, if any, of certain of our material foreign subsidiaries.

The Credit Agreement contains customary affirmative, negative, and financial covenants. These covenants include, but are not limited to, the following, in each case subject to exceptions set forth in the Credit Agreement: incurring additional indebtedness or, guaranteeing of indebtedness; creating, incurring, assuming or permitting to exist liens on property and assets; making loans and investments and entering into certain types of mergers, consolidations and acquisitions; making capital distributions or paying, redeeming or repurchasing subordinated debt; entering into certain affiliate transactions; and entering into agreements that would restrict the ability of the Company's subsidiaries to pay dividends and make distributions.

In addition, the Company is obligated to maintain a maximum net leverage ratio of 3.25 to 1.00, and a minimum interest coverage ratio of 2.50 to 1.00.

The Credit Facility also contains certain customary information and reporting requirements, and events of default, including without limitation events of default based on payment obligations, material inaccuracies of representations and warranties, covenant defaults, cross defaults to certain other debt, certain ERISA events, changes in control, monetary judgments, and insolvency proceedings. Upon the occurrence of an event of default, the lenders may accelerate the maturity of all amounts outstanding under the Credit Facility.

As of December 31, 2017 and 2016, we had borrowings of $344.0 million and $217.3 million, respectively, under the Credit Facility. During 2017, 2016 and 2015, borrowings accrued interest at an average rate of approximately 2.2%, 1.5%, and 1.2% per annum, respectively, excluding unused commitment fees. Our daily average borrowings during 2017, 2016 and 2015 were $494.7 million, $375.3 million and $319.6 million, respectively. As of December 31, 2017, and 2016, based on the current level of availability based on the covenant calculations, the remaining borrowing capacity was approximately $350 million and $370 million, respectively.

Client Concentration

During 2017, one of our clients represented 9.0% of our total annual revenue. Our five largest clients accounted for 35%, 35% and 35% of our annual revenue for the years ended December 31, 2017, 2016 and 2015, respectively. We have long-term relationships with our top five clients, ranging from 10 to 21 years, with the majority of these clients having completed multiple contract renewals with us. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis and varies greatly based upon specific contract terms. In addition, clients may adjust business volumes served by us based on their business requirements. We believe the risk of this concentration is mitigated, in part, by the long-term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, we believe this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

The contracts with our five largest clients expire between 2018 and 2023. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients, but there can be no assurance that future contracts will be renewed or, if renewed, will be on terms as favorable as the existing contracts.

Cybersecurity

We have made and continue to make significant financial investments in technologies and processes to mitigate cyber risks. We have a number of complex information systems used for a variety of functions ranging from services we deliver to our customers to how we support our operations. We depend on the proper functioning of these information systems. Like any information system, they are susceptible to cyber-attack. Any cyber-attack could impact the availability, reliability, speed, accuracy, or other proper functioning of these systems or result in confidential data being compromised which could have a significant impact on our reputation, results of operations, and financial condition. Our information systems are protected through physical and technological safeguards as well as backup systems considered appropriate by management. We also provide employee awareness training about phishing, malware, social engineering, and other cyber risks. Further, we have cybersecurity specific risk management steering committee that meets periodically to fully coordinate all enterprise level cybersecurity issues, and our Board of Directors and executive leadership team are updated at least quarterly on progress and status of our cybersecurity priorities. We must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address, and mitigate the risk of unauthorized access, distributed denial of service attacks, malware attacks, computer viruses, cyber fraud, and other events intended to disrupt information systems, wrongfully obtain valuable information, or cause other types of malicious events that result in harm to our business. Investment in cybersecurity is not expected to decrease in the foreseeable future, and there can be no assurance that a sophisticated cyber-attack can be detected or thwarted.

Recently Issued Accounting Pronouncements

We discuss the potential impact of recent accounting pronouncements in Part II, Item 8. Financial Statements and Supplementary Data, Note 1 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, consolidated results of operations, or consolidated cash flows due to adverse changes in financial and commodity market prices and rates. Market risk also includes credit and non-performance risk by counterparties to our various financial instruments. We are exposed to market risks due to changes in interest rates and foreign currency exchange rates (as measured against the U.S. dollar); as well as credit risk associated with potential non-performance of our counterparty banks. These exposures are directly related to our normal operating and funding activities. We enter into derivative instruments to manage and reduce the impact of currency exchange rate changes, primarily between the U.S. dollar/Philippine peso, the U.S. dollar/Mexican peso, and the Australian dollar/Philippine peso. We enter into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. To mitigate against credit and non-performance risk, it is our policy to only enter into derivative contracts and other financial instruments with investment grade counterparty financial institutions and, correspondingly, our derivative valuations reflect the creditworthiness of our counterparties. As of the date of this report, we have not experienced, nor do we anticipate, any issue related to derivative counterparty defaults.

Interest Rate Risk

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of December 31, 2017, we had $344.0 million of outstanding borrowings under the Credit Agreement. Based upon average daily outstanding borrowings during the years ended December 31, 2017 and 2016, interest accrued at a rate of approximately 2.2% and 1.5% per annum, respectively. If the Prime Rate or LIBOR increased by 100 basis points, there would be $1.0 million of additional interest expense per $100.0 million of outstanding borrowing under the Credit Agreement.

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The Company’s interest rate swap arrangement expired as of May 31, 2017 and no additional swaps have been entered into. As of December 31, 2016 the outstanding interest rate swap was as follows:

December 31, 2016	Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement	Contract Maturity