

TTEC Holdings, Inc.  
Form 10-K  
March 06, 2019  
Table of Contents

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, 2018

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  | 84-1291044                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>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:

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer   Accelerated filer   Non-accelerated filer   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, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, there were 46,033,516 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 \$485,565,838 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, 2019, there were 46,209,122 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 2019 annual meeting of stockholders.

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

DECEMBER 31, 2018 FORM 10-K

TABLE OF CONTENTS

|   | Page No. |
|---|----------|
| <u>CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS</u>   | ii       |
| <u>AVAILABILITY OF INFORMATION</u>  | ii       |
| <u>PART I</u>   |          |
| <u>Item 1. Business</u>   | 1        |
| <u>Item 1A. Risk Factors</u>  | 7        |
| <u>Item 1B. Unresolved Staff Comments</u>   | 17       |
| <u>Item 2. Properties</u>   | 17       |
| <u>Item 3. Legal Proceedings</u>  | 18       |
| <u>Item 4. Mine Safety Disclosures</u>  | 18       |
| <u>PART II.</u>   |          |
| <u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 19       |
| <u>Item 6. Selected Financial Data</u>  | 22       |
| <u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 24       |
| <u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>  | 43       |
| <u>Item 8. Financial Statements and Supplementary Data</u>  | 45       |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 45       |
| <u>Item 9A. Controls and Procedures</u>   | 45       |

|  |   |     |
|--|---|-----|
| <u>Item 9B.</u>  | <u>Other Information</u>  | 46  |
| <u>PART III</u>  |   |     |
| <u>Item 10.</u>  | <u>Directors, Executive Officers and Corporate Governance</u>   | 46  |
| <u>Item 11.</u>  | <u>Executive Compensation</u>   | 47  |
| <u>Item 12.</u>  | <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 47  |
| <u>Item 13.</u>  | <u>Certain Relationships and Related Transactions, and Director Independence</u>                      | 47  |
| <u>Item 14.</u>  | <u>Principal Accountants Fees and Services</u>  | 47  |
| <u>PART IV</u>   |   |     |
| <u>Item 15.</u>  | <u>Exhibits and Financial Statement Schedules</u>   | 47  |
| <u>Item 16.</u>  | <u>Form 10-K Summary</u>  | 50  |
| <u>SIGNATURES</u>  |   | 51  |
| <u>INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF TTEC HOLDINGS, INC.</u> |   | F-1 |

Table of Contents

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,” “estimate,” “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”. Specifically, we would like for you to focus on risks related to our strategy execution, our ability to innovate and introduce technologies that are sufficiently disruptive to allow us to maintain and grow our market share, cybersecurity risks and risks inherent to our equity structure. 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](mailto: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](http://www.sec.gov).

Table of Contents

PART I

ITEM 1.

BUSINESS

Our Business

TTEC Holdings, Inc. (“TTEC”, “the Company”, “we”, “our” or “us”) is a leading global customer experience technology and services company focused on the design, implementation and delivery of transformative solutions for many of the world’s most iconic and disruptive brands. We help 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. We are organized into two centers of excellence: TTEC Digital and TTEC Engage.

- TTEC Digital designs and builds human centric, tech-enabled, insight-driven customer experience solutions.
- TTEC Engage is the Company’s global delivery center of excellence that operates turnkey customer acquisition, care, revenue growth, digital fraud prevention and detection, and content moderation services.

TTEC Digital and TTEC Engage come together under our unified offering, Humanify™ Customer Engagement as a Service, which drives measurable results for clients through the delivery of personalized omnichannel interactions that are seamless and relevant. Our business is supported by 52,400 employees delivering services in 23 countries from 85 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 all four of our business segments, two of which comprise TTEC Digital - Customer Strategy Services (“CSS”) and Customer Technology Services (“CTS”); and two of which comprise TTEC Engage – Customer Growth Services (“CGS”) and Customer Management Services (“CMS”).

Our revenue for fiscal 2018 was \$1.509 billion, approximately 84% or \$1.270 billion of which came from our TTEC Engage center of excellence and \$239 million, or 16%, came from our TTEC Digital center of excellence.

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 2018, we acquired Strategic Communications Services, a system integrator for multichannel contact center platforms based in the United Kingdom. In 2017, we acquired Motif, Inc., a digital fraud prevention and detection and content moderation services company based in India and the Philippines, and Connexions, Inc., a U.S.-based health services company focused on improving 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.

1

---



## Table of Contents

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.

We continue to return capital to our shareholders via semi-annual dividends and a stock repurchase program, as directed by the Board of Directors from time to time. As of December 31, 2018, 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 from time to time by our Board of Directors, in its discretion. For the period from January 1, 2019 through February 28, 2019, we have not purchased 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. In 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 Company paid the initial dividend in 2015 and has continued to pay a semi-annual dividend in October and April of each year in amounts ranging between \$0.18 and \$0.28 per common share. On February 21, 2019, the Company's Board of Directors authorized a semi-annual dividend of \$0.30 per common share, payable on April 18, 2019 to shareholders of record as of March 28, 2019.

## 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 share their experiences across a variety of social networking channels, the quality of the experience has a greater 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.



## Table of Contents

- 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 continually strive to:

- Build deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;
- Pursue new clients who lead their respective industries and who are committed to customer engagement as a differentiator;
- Invest 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;
- Execute strategic acquisitions that further complement and expand our integrated solutions;
- Invest in technology-enabled platforms and innovating through technology advancements, broader and globally protected intellectual property, and process optimization, and
- Work 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.

## Table of Contents

### 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 Platform, 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, revenue growth, digital fraud prevention and detection, and content moderation services.

### 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.

### 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.

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;

4

---

## Table of Contents

- 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, cost effective infrastructure – leveraging private/public 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 these platforms are our regionally-based, globally synched data centers located on five continents. Our data centers provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, business analytics 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 (e.g. Humanify Operations/Insights Platform), 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. We also provide clients with highly secure/compliant solutions with respect to regional (e.g. GDPR) and/or specific industry standards (e.g. PCI, HIPAA, etc.).

### 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 85 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.

5

---

## Table of Contents

Our global operating model includes customer engagement centers in 15 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 U.S., 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.

Of the 15 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 19,275, or 45% of our total delivery capacity. The other five countries from which we provide customer management solutions, partially or entirely provide services for offshore clients including Bulgaria, India, Mexico, Poland, and the Philippines. The total number of workstations in these countries is 23,725 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 2018, our top five and ten clients represented 35% and 49% of total revenue, respectively; and one of our clients, who is in the healthcare industry, represented 10.2% of our total annual revenue. In several of our operating segments, we enter into long-term relationships that 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 12 to 22 years including multiple contract renewals for several of these clients. In 2018, we had a 90% 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 12% of our total annual revenue. Expenditures under these supplier contracts represent less than one percent of our total operating costs.

### Competition

We are a leading global customer experience technology and services company focused on the design, implementation and delivery of transformative solutions for many of the world's most iconic and disruptive brands. 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, Sitel, Sykes, Synnex 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, and others.

6

---

## Table of Contents

### Employees

Our people are our most valuable asset. As of December 31, 2018, we had 52,400 employees in 23 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 85 locations and through our @home environment.

Approximately 66% 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.

### 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, 2018 we had 2 patent applications pending in 8 jurisdictions; and own 82 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 29 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 and adversely affected and the market price of our stock could 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 utilize new, potentially 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, or price efficiencies that may be 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.

7

---

## Table of Contents

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. If we are not successful in creating value from these investments, there could be a negative impact on our operating results and financial condition.

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

Our growth and profitability will depend on our ability to develop and adopt new technologies that expand our existing offerings by leveraging new technological trends and cost efficiencies in our operations, while meeting rapidly evolving client expectations. As technology evolves, more tasks currently performed by our agents may be replaced by automation, robotics, artificial intelligence, chatbots and other technological advances, which puts our lower-skill, tier one, customer care offerings at risk. These technology innovations could potentially reduce our business volumes and related revenues, unless we are successful in adapting and deploying them profitably.

We may not be successful in anticipating or responding to our client expectations and interests in adopting evolving technology solutions, and their integration in our offerings may not achieve the intended enhancements or cost reductions. Services and technologies offered by our competitors may make our service offerings not competitive or even obsolete, and may negatively impact our clients' interest in our 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.

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 or 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 not 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.

8

---

## Table of Contents

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.

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 2018 while the largest client represented 10.2% of our revenue in 2018.

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 2020 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.

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 timeframe 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.

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, in the United States, 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.

9

---

## Table of Contents

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

Our business model is dependent on our customer engagement centers and enterprise support functions being located in low cost jurisdictions around the globe. We have on the ground presence in 23 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 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.

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.

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 could also 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.

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 engagement 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.

10

---

Table of Contents

Uncertainty and inconsistency in privacy and data protection laws that impact our business and high cost of compliance with such laws may impact our ability to deliver services and our results of operations

Recently, there has been a significant increase in data protection and privacy laws and enforcement in many jurisdictions where we and our clients do business. Some of these laws are complex and at times they impose conflicting regulatory requirements. For example, the recently enacted General Data Protection Regulation (GDPR) expands the European Union's authority to oversee data protection for controllers and processors of personally identifiable information collected in Europe; while the State of California in the U.S. imposed similar regulations with a different reach. Failure to comply with all relevant privacy and data protection laws may result in legal claims, significant fines, sanctions, or penalties, or may make it difficult for us to secure business. Compliance with these evolving regulations may require significant investment which would impact our results of operations.

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 customer engagement 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.

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 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

Our contracts do not have guaranteed revenue levels. Most of our contracts require clients to provide monthly forecasts of volumes, but no guaranteed or minimum volume levels. Such forecasts vary from month to month, which can impact our staff utilizations, our cost structure, and our profitability.

Many of our contracts have termination for convenience clauses with short notice periods, 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 12 to 22 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.

## Table of Contents

We may not always offset increased costs with increased fees under long-term contracts. The pricing and other terms of our client contracts, particularly on 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 but these judgments could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase. Moreover, those that do 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 and to the extent we do not 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 could be materially impacted.

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

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 sufficient to offset the currency fluctuation impact, resulting in the decrease of the profitability of our contracts.

Increases in income tax rates, changes in income tax laws or disagreements with tax authorities could adversely affect our business, financial condition or results of operations

We are subject to income taxes in the United States and in certain foreign jurisdictions in which we operate. Increases in income tax rates or other changes in income tax laws in any particular jurisdiction could reduce our after-tax income from such jurisdictions and could adversely affect our business, financial condition or results of operations. Our operations outside the United States generate a significant portion of our income and many of the other countries in which we have significant operations, have recently made or are actively considering changes to existing tax laws. For example, in December 2017, the Tax Cuts and Jobs Act (“2017 Tax Act”) was signed into law in the United States. While our accounting for the recorded impact of the 2017 Tax Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the Internal Revenue Service (“IRS”) could impact our recorded amounts in future periods.

Additional changes in the U.S. tax regime or in how U.S. multinational corporations are taxed on foreign earnings, including changes in how existing tax laws are interpreted or enforced, could adversely affect our business, financial condition or results of operations.

There are no assurances that we will be able to implement effective contracting structures that are necessary to optimize our tax position under the 2017 Tax Act. If we are unable to implement cost effective contracting structure, our effective tax rate and our results of operations would be impacted.

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 2018 we derived approximately 43% of our revenue from operations outside of the United

States. Conducting business abroad is subject to a variety of risks, including:

- 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;
- uncertainty of tax regulations in countries where we do business may affect our costs of operation;

12

---

Table of Contents

- 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;
- 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;
- the withdrawal of the UK from the European Union (known as “Brexit”) created substantial uncertainty about the political and economic relationship between the UK and the EU, and the UK’s other trading partners which could, depending on future trade term negotiations, impact our European operations;
- 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 U.S. dollars, while our financial results are reported in U.S. dollars; and
- terrorist attacks or civil unrests in some of the regions where we do business (e.g. the Middle East, Latin America, the Philippines, and 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.

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 adverse impact on our business and results of operations.

Our profitability may be adversely affected if we are unable to expand and maintain our delivery 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 customer engagement 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 delivery centers that serve their customers, such as “near shore” jurisdictions located in close proximity to the United States, that have grown in popularity recently. There is no assurance that we will be able to find and secure locations suitable for delivery 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 could adversely affect our growth and results of operations.

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 customer engagement centers around the world. Despite these efforts, there can be no assurance, that the redundancies we have in place would be sufficient to maintain operations without disruption.



## Table of Contents

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 may be 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 in software utilized in our service offerings could adversely affect our business.

The third-party software and systems that we use to conduct our business and serve our clients are 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 contain provisions designed to limit our exposure to potential claims and liabilities, these provisions may not always effectively protect us against claims in all jurisdictions. As a result, problems with software and systems that we use may result in damages to our clients for which we are held responsible, causing damage to our reputation, adversely affecting our business, our results of operations, and financial condition.

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, these restrictions are likely to further increase. 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 or from the United States in a timely manner, 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., Australia, Mexico, 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.

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 making acquisitions, the acquired businesses may subject our business to risks that may impact our results of operation; including:

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

14

---

Table of Contents

- 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;
- 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, 2018, we have approximately \$204.6 million of goodwill and \$80.9 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.

If we are unable to attract and retain talented and experienced executives for key positions in our business, our business and our strategy execution could 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.

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.



Table of Contents

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 an effective legal system 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.

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

Many contracts that we service from customer engagement 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 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 23% 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 at various levels 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.

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 instead of 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 customer engagement centers typically seat hundreds of employees in one location. Accordingly, an outbreak of a contagious infection in one or more of the locations 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.

## Table of Contents

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 for securities of companies that provide outsourced customer care management services have experienced volatility in recent years and such volatility may affect our stock price as well. 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 68% 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 affected 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 2018 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, 2018 we operated 85 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.



Table of Contents

As of December 31, 2018, our customer engagement centers were located in the following countries:

|                          | Multi-Client<br>Centers | Dedicated<br>Centers | Managed<br>Centers | Total<br>Number of<br>Delivery<br>Centers |
|--------------------------|-------------------------|----------------------|--------------------|---|
| Australia                | —                       | 3                    | —                  | 3   |
| Brazil                   | 2                       | —                    | —                  | 2   |
| Bulgaria                 | 2                       | —                    | —                  | 2   |
| Canada                   | 7                       | —                    | 1                  | 8   |
| China                    | —                       | —                    | 1                  | 1   |
| Germany                  | —                       | —                    | 1                  | 1   |
| India                    | 2                       | —                    | —                  | 2   |
| Ireland                  | 1                       | —                    | —                  | 1   |
| Mexico                   | 3                       | —                    | —                  | 3   |
| Philippines              | 17                      | 2                    | —                  | 19  |
| Poland                   | —                       | —                    | 1                  | 1   |
| South Africa             | —                       | —                    | 1                  | 1   |
| Thailand                 | —                       | —                    | 1                  | 1   |
| United Kingdom           | —                       | —                    | 2                  | 2   |
| United States of America | 23                      | 6                    | 9                  | 38  |
| Total                    | 57                      | 11                   | 17                 | 85  |

The leases for our customer engagement centers have remaining terms ranging from one to 15 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.

18

---

Table of Contents

## 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 2018 | \$ 29.66 | \$ 23.79 |
| Third Quarter 2018  | \$ 36.20 | \$ 23.95 |
| Second Quarter 2018 | \$ 37.40 | \$ 30.20 |
| First Quarter 2018  | \$ 41.80 | \$ 30.70 |
| 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 |

As of December 31, 2018, we had 265 holders of record of our common stock and during 2018 we declared and paid a \$0.27 per share dividend and a \$0.28 per share dividend on our common stock. During 2017 we declared and paid a \$0.22 per share dividend and a \$0.25 per share dividend on our common stock as discussed below.

In 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 Company paid the initial dividend in 2015 and has continued to pay a semi-annual dividend in October and April of each year in amounts ranging between \$0.18 and \$0.28 per common share. On February 21, 2019, the Board of Directors authorized a \$0.30 dividend per common share, payable on April 18, 2019, to shareholders of record as of March 28, 2019. While it is our intention to continue to pay semi-annual dividends in 2019 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, 2018, the cumulative authorized repurchase allowance was \$762.3 million, of which we have purchased 46.1 million shares for \$735.8 million.



Table of Contents

## Issuer Purchases of Equity Securities During the Fourth Quarter of 2018

The following table provides information about our repurchases of equity securities during the quarter ended December 31, 2018:

| 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, 2018                   |                                  |                              |  | \$ 26,580   |
| October 1, 2018 - October 31, 2018   | —                                | \$ —                         | —  | \$ 26,580   |
| November 1, 2018 - November 30, 2018 | —                                | \$ —                         | —  | \$ 26,580   |
| December 1, 2018 - December 31, 2018 | —                                | \$ —                         | —  | \$ 26,580   |
| Total                                | —                                |                              | —  |   |

From January 1, 2019 through February 28, 2019, we have not purchased any 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, 2018. We have chosen a “Peer Group” composed of 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 Business Process Outsourcing (“BPO”) industry.

The graph assumes that \$100 was invested on December 31, 2013 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 \$0.47 during 2017 and \$0.55 during 2018. 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

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|                     | December 31, |        |        |        |        |        |
|---------------------|--------------|--------|--------|--------|--------|--------|
|                     | 2013         | 2014   | 2015   | 2016   | 2017   | 2018   |
| TTEC Holdings, Inc. | \$ 100       | \$ 99  | \$ 118 | \$ 131 | \$ 175 | \$ 127 |
| NASDAQ Composite    | \$ 100       | \$ 115 | \$ 123 | \$ 133 | \$ 172 | \$ 166 |
| Russell 2000        | \$ 100       | \$ 105 | \$ 100 | \$ 122 | \$ 139 | \$ 124 |
| Peer Group          | \$ 100       | \$ 113 | \$ 142 | \$ 164 | \$ 226 | \$ 245 |

20

---

Table of Contents

21

---

Table of Contents

## 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, |              |              |              |              |     |     |      |      |      |
|--|-------------------------|--------------|--------------|--------------|--------------|-----|-----|------|------|------|
|  | 2018                    | 2017         | 2016         | 2015         | 2014         |     |     |      |      |      |
| Statement of Operations Data                 |                         |              |              |              |              |     |     |      |      |      |
| Revenue                                      | \$ 1,509,171            | \$ 1,477,365 | \$ 1,275,258 | \$ 1,286,755 | \$ 1,241,781 |     |     |      |      |      |
| Cost of services                             | (1,157,927)             | (1,110,068)  | (941,592)    | (928,247)    | (886,492)    |     |     |      |      |      |
| Selling, general and administrative          | (182,428)               | (182,314)    | (175,797)    | (194,606)    | (198,553)    |     |     |      |      |      |
| Depreciation and amortization                | (69,179)                | (64,507)     | (68,675)     | (63,808)     | (56,538)     |     |     |      |      |      |
| Other operating expenses                     | (7,583)                 | (19,987)     | (36,442)     | (9,914)      | (3,723)      | (1) | (4) | (8)  | (12) | (14) |
| Income from operations                       | 92,054                  | 100,489      | 52,752       | 90,180       | 96,475       |     |     |      |      |      |
| Other income (expense)                       | (35,816)                | (11,602)     | (2,454)      | (4,291)      | 3,984        | (2) | (5) | (9)  |      | (15) |
| Provision for income taxes                   | (16,483)                | (78,075)     | (12,863)     | (20,004)     | (23,042)     | (3) | (6) | (10) | (13) | (16) |
| Noncontrolling interest                      | (3,938)                 | (3,556)      | (3,757)      | (4,219)      | (5,124)      |     |     |      |      |      |
| Net income attributable to TTEC stockholders | \$ 35,817               | \$ 7,256     | \$ 33,678    | \$ 61,666    | \$ 72,293    |     |     |      |      |      |
| Weighted average shares outstanding          |                         |              |              |              |              |     |     |      |      |      |
| Basic  | 46,064                  | 45,826       | 47,423       | 48,370       | 49,297       |     |     |      |      |      |
| Diluted                                      | 46,385                  | 46,382       | 47,736       | 49,011       | 50,102       |     |     |      |      |      |
| Net income per share attributable to         |                         |              |              |              |              |     |     |      |      |      |

|               |              |              |          |            |         |            |
|---------------|--------------|--------------|----------|------------|---------|------------|
| TTEC          |              |              |          |            |         |            |
| stockholders  |              |              |          |            |         |            |
| Basic         | \$ 0.78      | \$ 0.16      | \$ 0.71  | \$ 1.27    | \$ 1.47 |            |
| Diluted       | \$ 0.77      | \$ 0.16      | \$ 0.71  | \$ 1.26    | \$ 1.44 |            |
| Dividends     |              |              |          |            |         |            |
| issued per    |              |              |          |            |         |            |
| common share  | \$ 0.55      | \$ 0.47      | \$ 0.385 | \$ 0.36    | \$ —    |            |
| Balance Sheet |              |              |          |            |         |            |
| Data          |              |              |          |            |         |            |
| Total assets  | \$ 1,054,508 | \$ 1,078,736 | (7)      | \$ 846,304 | (11)    | \$ 843,327 |
| Total         |              |              |          |            |         | \$ 852,475 |
| long-term     |              |              |          |            |         | (17)       |
| liabilities   | \$ 466,241   | \$ 514,113   | (7)      | \$ 304,380 | (11)    | \$ 191,473 |
|               |              |              |          |            |         | \$ 187,780 |
|               |              |              |          |            |         | (17)       |

- 
- (1) Includes \$0.8 million related to reductions in force, a \$5.3 million expense due to facility exit charges and a termination fee for a technology vendor contract, a \$1.1 million expense related to the impairment of property and equipment and a \$0.3 million impairment charge related to internally developed software.
- (2) Includes a \$15.6 million impairment of the full value of an equity investment and a related bridge loan, a \$9.9 million charge related to the future purchase of the remaining 30% of the Motif acquisition, a \$1.6 million net loss related to a business unit which was classified as assets held for sale and subsequently reclassified to assets held and used as of December 31, 2018, a \$2.0 million gain related to royalty payments in connection with the sale of a business unit, a \$0.7 million gain related to the bargain purchase of an acquisition closed in March 2018, and a \$0.3 million benefit related to a fair value adjustment of the contingent consideration based on revised estimates of performance against targets for one or our acquisitions.
- (3) Includes a \$4.2 million benefit related to the impairment of an equity investment, a \$3.4 million benefit related to return to provision adjustments, \$0.5 million of expense related to the disposition of assets, a \$0.7 million benefit related to stock options, \$1.6 million of expense related to changes in tax contingent liabilities, \$1.5 million of expense related to changes in valuation allowance, a \$2.1 million benefit related to restructuring, and a \$0.5 million benefit related to other items.
- (4) 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 Connexions acquisition, and a \$5.3 million impairment charge related to two trade name intangible assets.



Table of Contents

- (5) Includes a \$5.3 million expense related to the finalization of the transition services agreement for Connexions, 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.
- (6) 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.
- (7) The Company spent \$116.7 million, net of cash acquired of \$6.0 million, in 2017 for the acquisitions of Connexions and Motif. Upon acquisitions of Connexions and Motif, the Company acquired \$40.8 million in assets and assumed \$21.1 million in liabilities (\$12.1 million in long-term liabilities).
- (8) 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, an \$11.1 million impairment of internally developed software, and \$18.2 million of impairment charges related to several trade name, customer relationship and non-compete intangible assets.
- (9) 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.
- (10) 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 benefits related to impairments and loss on assets held for sales.
- (11) 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).
- (12) 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.
- (13) 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.
- (14) Includes \$3.3 million expense related to reductions in force and \$0.4 million expense related to the impairment of property and equipment.
- (15) 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.
- (16) 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.
- (17) 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).



Table of Contents

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 leading global customer experience technology and services company focused on the design, implementation and delivery of transformative solutions for many of the world's most iconic and disruptive brands. We help 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. We are organized into two centers of excellence: TTEC Digital and TTEC Engage.

- TTEC Digital designs and builds human centric, tech-enabled, insight-driven customer experience solutions.
- TTEC Engage is the Company's global delivery center of excellence that operates turnkey customer acquisition, care, revenue growth, digital fraud prevention and detection, and content moderation services.

TTEC Digital and TTEC Engage come together under our unified offering, Humanify™ Customer Engagement as a Service, which drives measurable results for clients through the delivery of personalized omnichannel interactions that are seamless and relevant. Our offering is supported by 52,400 employees delivering services in 23 countries from 85 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 Digital - Customer Strategy Services ("CSS") and Customer Technology Services ("CTS"); and two of which comprise TTEC Engage - Customer Growth Services ("CGS") and Customer Management Services ("CMS").

Our revenue for fiscal 2018 was \$1.509 billion, approximately 84% or \$1.270 billion of which came from our TTEC Engage center of excellence and \$239 million, or 16%, came from our TTEC Digital center of excellence.

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 2018, we acquired Strategic Communications Services, a system integrator for multichannel contact center platforms based in the United Kingdom. In 2017, we acquired Motif, Inc., a digital fraud prevention and detection and content moderation services company based in India and the Philippines, and Connexions, Inc., a U.S.-based health services company focused on improving 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.

24

---

## Table of Contents

### 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 Platform, 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, revenue growth, digital fraud prevention and detection, and content moderation services.

### 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.

### 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.

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.

Table of Contents

## Our 2018 Financial Results

In 2018, our revenue increased 2.2% to \$1,509 million over the same period in 2017, including a decrease of 0.5% or \$8.0 million due to foreign currency fluctuations. The increase in revenue is primarily related to a \$31.6 million revenue increase for CTS and a \$12.6 million revenue increase for CGS offset by a \$12.7 million net revenue decrease for CMS, which includes a \$7.5 million decrease related to foreign exchange fluctuations offset by a \$9.0 million net increase related to the adoption of ASC 606 for revenue.

Our 2018 income from operations decreased \$8.4 million to \$92.1 million or 6.1% of revenue, from \$100.5 million or 6.8% of revenue for 2017. The change in operating income is attributable to a number of different factors across the segments. The decline in income from operations relates exclusively to CMS, with all other segments experiencing improvement year over year. CMS's income from operations declined on increases in labor costs related to wage and healthcare benefits within our U.S. business. This increased cost is tied to macroeconomic factors including a lower unemployment rate and rising wages. Additionally, an increase in business ramps associated with a higher volume of new business signings during the second and third quarters led to a spike in launch costs in the second half of 2018. Launch costs are incurred in transitioning new business from our clients to TTEC and historically are not specifically compensated for by our clients.

The CTS operating income expanded significantly with a 121% improvement over the prior year primarily on the growth of its higher margin recurring cloud business and its system integration business which provides services pre and post buildout of each client cloud platform, the write-off of a trade name in the prior year, and large second half of the year product sales. The CSS operating income improved 164% due primarily to the write-off of a trade name in the prior year and the rationalization of certain practice areas as they were integrated. The CGS operating income increased due to new business adds during the year.

Income from operations in 2018 and 2017 included a total of \$7.6 million and \$20.0 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 five countries with 23,725 workstations representing 55% of our global delivery capabilities. Revenue for our CMS and CGS segments provided in these offshore locations was \$438 million and represented 35% of our 2018 revenue, as compared to \$450 million and 35% of our 2017 revenue.

As of December 31, 2018, the overall capacity utilization in our centers was 80%. The table below presents workstation data for all of our centers as of December 31, 2018 and 2017. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations.

|                    | December 31, 2018                   |        |             | December 31, 2017                   |        |             |
|--------------------|-------------------------------------|--------|-------------|-------------------------------------|--------|-------------|
|                    | Total<br>Production<br>Workstations | In Use | % In<br>Use | Total<br>Production<br>Workstations | In Use | % In<br>Use |
| Total centers      |                                     |        |             |                                     |        |             |
| Sites open >1 year | 42,687                              | 34,017 | 80 %        | 42,033                              | 34,409 | 82 %        |
| Sites open <1 year | 309                                 | 231    | 75 %        | 2,404                               | 2,392  | 100 %       |
| Total workstations | 42,996                              | 34,248 | 80 %        | 44,437                              | 36,801 | 83 %        |

We continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue. On the other hand, some of our clients may be subject to regulatory pressures to bring more services onshore to the United States. In light of these trends, we plan to continue to selectively retain and grow capacity in 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.



## Table of Contents

### 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 – 2018 Revenue

The Company recognizes revenue from contracts and programs when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Performance obligation is the unit of accounting for revenue recognition under the provisions of ASC Topic 606, "Revenue from Contracts with Customers" and all related amendments ("ASC 606"). A contract's transaction price is allocated to each distinct performance obligation in recognizing revenue.

The BPO inbound and outbound service fees are based on either a per minute, per hour, per FTE, per transaction or per call basis, which represents the majority of our contracts. These contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For example, services for the training of the Company's agents (which are separately billable to the customer) are a separate promise in our BPO contracts, but they are not distinct from the primary service obligations to transfer services to the customers. The performance of the customer service by the agents is highly dependent on the initial, growth, and seasonal training services provided to the agents during the life of a program. The training itself is not considered to have value to the customer on a standalone basis, and therefore, training on a standalone basis cannot be considered a separate unit of accounting. The Company therefore defers revenue from certain training services that are rendered mainly upon commencement of a new client contract or program, including seasonal programs. Revenue is also deferred when there is significant growth training in an existing program. Accordingly, recognition of initial, growth, and seasonal training revenues and associated costs (consisting primarily of labor and related expenses) are deferred and amortized over the period of economic benefit. With the exception of training which is typically billed upfront and deferred, the remainder of revenue is invoiced on a monthly or quarterly basis as services are performed and does not create a contract asset or liability.

In addition to revenue from BPO services, revenue also consists of fees from services for program launch, professional consulting, fully-hosted or managed technology and learning innovation services. The contracts containing these service offerings may contain multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Company forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service. The Company forecasts its expected cost based on historical data, current prevailing wages, other direct and indirect costs incurred in recently completed contracts, market conditions, and client specific other cost considerations. For these services, the point at which the transfer of control occurs determines when revenue is

recognized in a specific reporting period. Where there are product sales, the attribution of revenue is made when FOB-destination delivery occurs (control transfers), which is the standard shipment terms, and therefore at a point in time. Where services are rendered to a customer, the attribution is aligned with the progress of work and is recognized over time (i.e. based on measuring the progress toward complete satisfaction of a performance obligation using an output method or an

27

---

Table of Contents

input method). Where output method is used, revenue is recognized on the basis of direct measurements of the value to the customer of the goods or services transferred relative to the remaining goods or services promised under the contract. The majority of the Company's services are recognized over time using the input method in which revenue is recognized on the basis of efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to satisfy the performance obligation. The measures used provide faithful depiction of the transfer of goods or services to the customers. For example, revenue is recognized on certain consulting contracts based on labor hours expended as a measurement of progress where the consulting work involves input of consultants' time. The progress is measured based on the hours expended over total number of estimated hours included in the contract multiplied by the total contract consideration. The contract consideration can be a fixed price or an hourly rate, and in either case, the use of labor hours expended as an input measure provides a faithful depiction of the transfer of services to the customers. Deferred revenues for these services represent amounts collected from, or invoiced to, customers in excess of revenues recognized. This results primarily from i) receipt of license fees that are deferred due to one or more of the revenue recognition criteria not being met, and ii) the billing of annual customer support agreements, annual managed service agreements, and billings for other professional services that have not yet been performed by the Company. The Company records amounts billed and received, but not earned, as deferred revenue. These amounts are recorded in Deferred revenue or Other long-term liabilities, as applicable, in the accompanying Consolidated Balance Sheets based on the period over which the Company expects to render services. Costs directly associated with revenue deferred, consisting primarily of labor and related expenses, are also deferred and recognized in proportion to the expected future revenue from the contract.

Variable consideration exists in contracts for certain client programs that provide for adjustments to monthly billings based upon whether the Company achieves, exceeds or fails certain performance criteria. Adjustments to monthly billings consist of contractual bonuses/penalties, holdbacks and other performance based conditions. Variable consideration is estimated at contract inception at its most likely value and updated at the end of each reporting period as additional performance data becomes available. Revenue related to such variable consideration is recognized only to the extent that a significant reversal of any incremental revenue is not considered probable.

Contract modifications are routine in the performance of the customer contracts. Contracts are often modified to account for customer mandated changes in the contract specifications or requirements, including service level changes. In most instances, contract modifications relate to goods or services that are incremental and distinctly identifiable, and, therefore, are accounted for prospectively.

Direct and incremental costs to obtain or fulfill a contract are capitalized, and the capitalized costs are amortized over the corresponding period of benefit, determined on a contract by contract basis. The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a customer contract that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of payment of commissions to sales personnel and are incurred when customer contracts are signed. The deferred sales commission amounts are amortized based on the expected period of economic benefit and are classified as current or non-current based on the timing of when they are expected to be recognized as an expense. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained. Sales commissions are paid for obtaining new clients only and are not paid for contract renewals or contract modifications. Capitalized costs of obtaining contracts are periodically reviewed for impairment.

## Table of Contents

In certain cases, the Company negotiates an upfront payment to a customer in conjunction with the execution of a contract. Such upfront payments are critical to acquisition of new business and are often used as an incentive to negotiate favorable rates from the clients and are accounted for as upfront discounts for future services. Such payments are either made in cash at the time of execution of a contract or are netted against the Company's service invoices. Payments to customers are capitalized as contract acquisition costs and are 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. Such payments are considered a reduction of the selling prices of the Company's products or services, and therefore, are accounted for as a reduction of revenue when amortized. Such capitalized contract acquisition costs are periodically reviewed for impairment taking into consideration ongoing future cash flows expected from the contract and estimated remaining useful life of the contract.

Some of the Company's service contracts are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less. Also in alignment with ASC 606-10-50-14, the Company does not disclose the value of unsatisfied performance obligations for contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed. Additionally, the Company's standard payment terms are less than one year. Given the foregoing, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. Pursuant to the Company's election of the practical expedient under ASC 606-10-32-2A, sales, value add, and other taxes that are collected from customers concurrent with revenue-producing activities, which the Company has an obligation to remit to the governmental authorities, are excluded from revenue.

### Revenue Recognition – 2017 and prior years

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.

## Table of Contents

### 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 post-1986 foreign earnings on domestic corporations effective for the 2017 tax year. As of December 31, 2018, we have completed our accounting for the tax effects of the 2017 Tax Act and no material adjustment was recorded to the 2017 estimate.

While our accounting for the recorded impact of the 2017 Tax Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the Internal Revenue Service (“IRS”) could impact our recorded amounts in future periods.

The Company’s selection of an accounting policy with respect to both the new GILTI and BEAT rules is to compute the related taxes in the period the entity becomes subject to either. A reasonable estimate of the effects of these provisions has been included in the 2018 annual 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.

30

---

## Table of Contents

### 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.

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 made 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, (i.e. lease termination penalties), 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.

31

---

## Table of Contents

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 as 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.

### 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. 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.

Table of Contents

## 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, 2018 Compared to December 31, 2017

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, 2018 and 2017 (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, |              | \$ Change   | % Change |   |
|------------------|-------------------------|--------------|-------------|----------|---|
|                  | 2018                    | 2017         |             |          |   |
| Revenue          | \$ 1,129,048            | \$ 1,141,760 | \$ (12,712) | (1.1)    | % |
| Operating Income | 49,161                  | 78,206       | (29,045)    | (37.1)   | % |
| Operating Margin | 4.4                     | % 6.8        |             |          | % |

The decrease in revenue for the Customer Management Services segment was attributable to a \$101.5 million net increase in organic and inorganic client programs including the Connexions and Motif acquisitions, a \$9.0 million increase related to the adoption of ASC 606 for revenue recognition, offset by a \$7.5 million decrease due to foreign currency fluctuations and by program completions of \$115.7 million.

The operating income as a percentage of revenue decreased to 4.4% in 2018 as compared to 6.8% in 2017. The operating margin declined primarily due to an increase in U.S. related labor costs and increased launch costs associated with the higher new business volumes and a \$3.6 million increase in amortization related to acquisitions. Investments in strategy, rebranding, product development, marketing programs and incremental sales resources also negatively affected operating income as similar expenses were not as high during 2017. These were offset by the acquisitions, a \$4.4 million increase related to the adoption of ASC 606 and a \$5.8 million positive benefit due to foreign currency fluctuations. Included in the operating income was amortization related to acquired intangibles of \$8.2 million and \$4.6 million for the years ended December 31, 2018 and 2017, respectively.

## Customer Growth Services

|                  | Year Ended December 31, |            | \$ Change | % Change |   |
|------------------|-------------------------|------------|-----------|----------|---|
|                  | 2018                    | 2017       |           |          |   |
| Revenue          | \$ 141,324              | \$ 128,698 | \$ 12,626 | 9.8      | % |
| Operating Income | 9,839                   | 7,803      | 2,036     | 26.1     | % |
| Operating Margin | 7.0                     | % 6.1      |           |          | % |

The increase in revenue for the Customer Growth Services segment was due to several client adds in 2018 leading to a \$21.4 million increase in client programs offset by program completions of \$8.8 million.

The operating income as a percentage of revenue increased to 7.0% in 2018 as compared to 6.1% in 2017. This was attributable to the increased revenue as noted above offset by a \$1.7 million cease use lease expense for a center that was exited as of March 31, 2018.

Table of Contents

## Customer Technology Services

|                  | Year Ended December 31, |            | \$ Change | % Change |   |
|------------------|-------------------------|------------|-----------|----------|---|
|                  | 2018                    | 2017       |           |          |   |
| Revenue          | \$ 170,214              | \$ 138,581 | \$ 31,633 | 22.8     | % |
| Operating Income | 26,634                  | 12,047     | 14,587    | 121.1    | % |
| Operating Margin | 15.6                    | % 8.7      |           |          | % |

The increase in revenue for the Customer Technology Services segment was driven by significant increases in the cloud platform and the systems integration practice as well as large product sales during 2018, offset by decreases in the Avaya offerings as we wound down and then sold a business unit in the second quarter of 2017.

The operating income as a percentage of revenue increased to 15.6% in 2018 as compared to 8.7% in 2017. This increase is primarily due to significant growth in the segment's higher margin recurring cloud platform and the systems integration practice and consolidation and modernization of the information technology functions of the Company. In addition, 2017 included a \$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 \$1.3 million and \$1.1 million for the years ended December 31, 2018 and 2017, respectively.

## Customer Strategy Services

|                  | Year Ended December 31, |           | \$ Change | % Change |   |
|------------------|-------------------------|-----------|-----------|----------|---|
|                  | 2018                    | 2017      |           |          |   |
| Revenue          | \$ 68,585               | \$ 68,326 | \$ 259    | 0.4      | % |
| Operating Income | 6,420                   | 2,433     | 3,987     | 163.9    | % |
| Operating Margin | 9.4                     | % 3.6     |           |          | % |

The revenue for the Customer Strategy Services segment remained flat year over year.

The operating income as a percentage of revenue increased to 9.4% in 2018 as compared to 3.6% in 2017. The increase is primarily related to the 2018 rationalization of certain practice areas as they were integrated together and a \$2.0 million impairment of a trade name intangible asset recorded in 2017 (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 \$1.3 million and \$1.8 million for the years ended December 31, 2018 and 2017, respectively.

## Interest Income (Expense)

Interest income increased to \$4.5 million in 2018 from \$2.8 million in 2017 primarily due to increased cash balances. Interest expense increased to \$28.7 million during 2018 from \$13.7 million during 2017, primarily due to

larger utilization of the line of credit related to acquisitions, higher interest rates, the upsizing of the credit facility completed in October 2017, and a \$9.9 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, 2018 was a \$15.6 million impairment of the full value of an equity investment and a related bridge loan, a net \$1.6 million loss related to a business unit which was classified as assets held for sale but was reclassified to assets held and used at December 31, 2018, a \$2.0 million gain related to royalty payments in connection with the sale of a business unit, a \$0.7 million gain related to the bargain purchase for the Percepta acquisition closed on March 31, 2018, and a \$0.3 million benefit related to a fair value adjustment of the contingent consideration based on revised estimates of performance against targets for one of our acquisitions.

Table of Contents

Included in the year ended December 31, 2017 was a net \$2.6 million loss related to a business unit which was sold effective December 22, 2017, a \$5.3 million expense related to the Connexions acquisition and the finalization of the transition services agreement offset by a \$3.2 million gain related to dissolution of a foreign entity and a release of its cumulative translation adjustment.

For further information on the above items, see Part II. Item 8. Financial Statements, Note 2 to the Consolidated Financial Statements.

## Income Taxes

The reported effective tax rate for 2018 was 29.3% as compared to 87.8% for 2017. The effective tax rate for 2018 was impacted by earnings in international jurisdictions currently under an income tax holiday, \$1.6 million of expense related to changes in tax contingent liabilities, a \$3.4 million benefit related to provision to return adjustments, a \$4.2 million benefit related to the impairment of an equity investment, \$0.5 million of expense related to the disposition of assets, \$1.5 million of expense related to changes in valuation allowances, a \$0.7 million benefit related to excess taxes on equity compensation, a \$2.1 million benefit related to restructuring charges, and \$0.5 million of other benefits. Without these items our effective tax rate for the year ended December 31, 2018 would have been 25.6%.

For the year ended December 31, 2017, our effective tax rate was 87.8%. 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, a \$5.8 million benefit related to restructuring charges, and a \$2.1 million benefit related to the finalization of a transition service. Without these items our effective tax rate for the year ended December 31, 2017 would have been 24.4%.

## Year Ended December 31, 2017 Compared to 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, |            | \$ Change  | % Change |   |
|------------------|-------------------------|------------|------------|----------|---|
|                  | 2017                    | 2016       |            |          |   |
| 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, Connexions and Motif acquisitions and a \$2.3 million increase due to foreign currency fluctuations, offset by program completions of \$30.9 million.



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 Connexions 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.

Table of Contents

## 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 was 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.

## Customer Strategy Services

|                  | Year Ended December 31, |           | \$ Change | % Change |   |
|------------------|-------------------------|-----------|-----------|----------|---|
|                  | 2017                    | 2016      |           |          |   |
| 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.

## Table of Contents

### 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 was 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 Connexions 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, a \$5.8 million 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%.

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 benefit related to restructuring expenses, and a \$9.8 million 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%.

### 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. During the year ended December 31, 2018, we generated positive operating cash flows of \$168.3 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.

## Table of Contents

In October 2018 and December 2018, the Company paid dividends from its foreign operations to its U.S. parent in the amount of \$280 million and \$30 million, respectively, which were used to pay down portions of the Credit Facility.

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 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, 2018 and 2017, we had borrowings of \$282.0 million and \$344.0 million, respectively, under our Credit Facility, and our average daily utilization was \$514.7 million and \$494.7 million for the years ended December 31, 2018 and 2017, respectively. After consideration for the current level of availability based on the covenant calculations, our remaining borrowing capacity was approximately \$360.0 million as of December 31, 2018. As of December 31, 2018, we were in compliance with all covenants and conditions under our Credit Facility.

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, 2018, 2017, and 2016.

### 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 \$78.2 million and \$74.4 million as of December 31, 2018 and 2017, 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 2018, 2017 and 2016 we reported net cash flows provided by operating activities of \$168.3 million, \$113.2 million and \$111.8 million, respectively. The increase of \$55.2 million from 2017 to 2018 was primarily due to an \$89.3 million increase in cash collected from accounts receivable and an increase in net cash income from operations of \$37.9 million offset by a \$53.6 million decrease in deferred revenue and other liabilities and a \$11.2 million decrease in prepaid assets. 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, a decrease in net cash income from operations of \$38.6 million, and an \$19.2 million decrease in prepaid assets.

### Cash Flows from Investing Activities

For the years 2018, 2017 and 2016, we reported net cash flows used in investing activities of \$47.6 million, \$169.0 million and \$100.4 million, respectively. The net decrease in cash used in investing activities from 2017 to 2018 was primarily due to decreased spending on acquisitions of \$113.6 million and a decrease in purchases of fixed assets of \$8.5 million. 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.

Table of Contents

## Cash Flows from Financing Activities

For the years 2018, 2017 and 2016, we reported net cash flows (used in) provided by financing activities of \$(102.1) million, \$71.6 million and \$(1.6) million, respectively. The change in net cash flows from 2017 to 2018 was primarily due to a \$188.7 million decrease in borrowing on the Credit Facility, offset by a \$18.3 million decrease in purchases of our outstanding common stock. 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.

## Free Cash Flow

Free cash flow (see “Presentation of Non-GAAP Measurements” below for the definition of free cash flow) was \$124.9 million, \$61.2 million and \$61.0 million for the years 2018, 2017 and 2016, respectively. The increase from 2017 to 2018 was primarily due to the increase in cash flows provided by operating activities. The increase from 2016 to 2017 was primarily due to the increase in cash flows provided by operating activities.

## 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, |            |            |
|--|-------------------------|------------|------------|
|  | 2018                    | 2017       | 2016       |
| Net cash provided by operating activities        | \$ 168,345              | \$ 113,152 | \$ 111,830 |
| Less: Purchases of property, plant and equipment | 43,450                  | 51,958     | 50,832     |
| Free cash flow                                   | \$ 124,895              | \$ 61,194  | \$ 60,998  |



Table of Contents

## Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of December 31, 2018 are summarized as follows (in thousands):

|   | Less than<br>1 Year | 1 to 3<br>Years | 3 to 5<br>Years | Over 5<br>Years | Total      |
|---|---------------------|-----------------|-----------------|-----------------|------------|
| Credit Facility(1)                        | \$ 11,641           | \$ 295,581      | \$ —            | \$ —            | \$ 307,222 |
| Equipment financing arrangements          | 8,035               | 8,922           | 1,648           | —               | 18,605     |
| Contingent consideration                  | —                   | 2,553           | —               | —               | 2,553      |
| Purchase obligations                      | 14,446              | 7,970           | 1,064           | —               | 23,480     |
| Operating lease commitments               | 47,379              | 66,723          | 43,810          | 25,362          | 183,274    |
| Transition tax related to US 2017 Tax Act | 3,300               | 6,700           | 14,600          | 9,318           | 33,918     |
| Other debt                                | 2,336               | 39,293          | 17              | —               | 41,646     |
| Total                                     | \$ 87,137           | \$ 427,742      | \$ 61,139       | \$ 34,680       | \$ 610,698 |

(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, 2018.

- 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 \$6.2 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.

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 12% 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 2019 to be between \$60 and \$65 million. Approximately 65% of these expected capital expenditures are to support growth in our business and 35% relate to the maintenance of existing assets. The anticipated level of 2019 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, 2018, 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.

## Table of Contents

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, we may sometimes generate negative cash flows from operating activities.

### Debt Instruments and Related Covenants

On October 30, 2017, we entered into a Third 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. The Company 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.

On February 14, 2019, we entered into a Fourth Amendment to our Amended and Restated Credit Agreement and Amended and Restated Security Agreement originally dated as of June 3, 2013 (collectively the “Credit Agreement”) for a senior secured revolving credit facility with a syndicate of lenders led by Wells Fargo Bank, National Association, as agent, swing line and fronting lender (the “Credit Facility”). The amended Credit Agreement provides for a secured revolving Credit Facility that matures on February 14, 2024.

Other than the extension of the Credit Facility’s maturity date and a few material terms outlined below, the material terms of the Credit Facility, including pricing and collateral, are substantially the same as those previously disclosed as part of our Annual Report on Form 10-K for the period ended December 31, 2015 (“2016 Credit Facility”).

The maximum commitment under the Credit Facility is \$900.0 million, with an accordion feature of up to \$1.2 billion in the aggregate, if certain conditions are satisfied. The Credit Facility commitment fees are payable to the lenders in an amount equal to the unused portion of the Credit Facility multiplied by 0.150% per annum from the Credit Facility inception date until a compliance certificate is provided by us in connection with our quarterly financial statements for the quarter ended March 31, 2019, and thereafter as previously disclosed and as determined by reference to our net leverage ratio. The Credit Agreement contains customary affirmative, negative, and financial covenants, which remained unchanged from the 2016 Credit Facility, except that we are now obligated to maintain a maximum net leverage ratio of 3.50 to 1.00, and a minimum Interest Coverage Ratio of 2.50 to 1.00. The Credit Agreement permits accounts receivable factoring up to the greater of \$75 million or 25 percent of the average book value of all accounts receivable over the most recent twelve month period.

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.

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.

## Table of Contents

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, 2018 and 2017, we had borrowings of \$282.0 million and \$344.0 million, respectively, under the Credit Facility. During 2018, 2017 and 2016, borrowings accrued interest at an average rate of approximately 3.1%, 2.2%, and 1.5% per annum, respectively, excluding unused commitment fees. Our daily average borrowings during 2018, 2017 and 2016 were \$514.7 million, \$494.7 million and \$375.3 million, respectively. As of December 31, 2018, and 2017, based on the current level of availability based on the covenant calculations, the remaining borrowing capacity was approximately \$360.0 million and \$350.0 million, respectively.

## Client Concentration

During 2018, one of our clients represented 10.2% of our total annual revenue. Our five largest clients accounted for 35% of our annual revenue for each of the three years ended December 31, 2018, 2017 and 2016, respectively. We have long-term relationships with our top five clients, ranging from 12 to 22 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 2020 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 formed a cybersecurity specific risk management steering committee that meets periodically to fully coordinate all enterprise level cybersecurity issues. Our Board of Directors and executive leadership team are updated at least quarterly on progress and status of our cybersecurity priorities. We 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. Our investment in cybersecurity is not expected to decrease in the foreseeable future, and despite our on-going efforts to improve our

cybersecurity, there can be no assurance that a sophisticated cyber-attack could 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.

42

---

Table of Contents

## 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 have previously 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, 2018, we had \$282.0 million of outstanding borrowings under the Credit Agreement. Based upon average daily outstanding borrowings during the years ended December 31, 2018 and 2017, interest accrued at a rate of approximately 3.1% and 2.2% 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.

The Company's interest rate swap arrangement expired as of May 31, 2017 and no additional swaps have been entered into since that time.

## Foreign Currency Risk

Our subsidiaries in the Philippines, Mexico, India, Bulgaria and Poland use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. For the years ended December 31, 2018, 2017 and 2016, revenue associated with this foreign exchange risk was 23%, 26% and 32% of our consolidated revenue, respectively.

The following summarizes relative (weakening) strengthening of local currencies that are relevant to our business:

|                                 | Year Ended December 31, |   |       |   |       |   |
|---------------------------------|-------------------------|---|-------|---|-------|---|
|                                 | 2018                    |   | 2017  |   | 2016  |   |
| Canadian Dollar vs. U.S. Dollar | (8.6)                   | % | 6.6   | % | 3.1   | % |
| Philippine Peso vs. U.S. Dollar | (5.1)                   | % | (0.8) | % | (5.9) | % |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|                                       |        |   |       |   |        |   |
|---------------------------------------|--------|---|-------|---|--------|---|
| Mexican Peso vs. U.S. Dollar          | 0.2    | % | 5.0   | % | (19.5) | % |
| Australian Dollar vs. U.S. Dollar     | (10.7) | % | 7.7   | % | (1.3)  | % |
| Euro vs. U.S. Dollar                  | (4.7)  | % | 12.1  | % | (3.6)  | % |
| Philippine Peso vs. Australian Dollar | 5.0    | % | (9.2) | % | (4.5)  | % |



Table of Contents

In order to mitigate the risk of these non-functional foreign currencies weakening against the functional currencies of the servicing subsidiaries, which thereby decreases the economic benefit of performing work in these countries, we may hedge a portion, though not 100%, of the projected foreign currency exposure related to client programs served from these foreign countries through our cash flow hedging program. While our hedging strategy can protect us from adverse changes in foreign currency rates in the short term, an overall weakening of the non-functional revenue foreign currencies would adversely impact margins in the segments of the servicing subsidiary over the long term.

## Cash Flow Hedging Program

To reduce our exposure to foreign currency exchange rate fluctuations associated with forecasted revenue in non-functional currencies, we purchase forward and/or option contracts to acquire the functional currency of the foreign subsidiary at a fixed exchange rate at specific dates in the future. We have designated and account for these derivative instruments as cash flow hedges for forecasted revenue in non-functional currencies.

While we have implemented certain strategies to mitigate risks related to the impact of fluctuations in currency exchange rates, we cannot ensure that we will not recognize gains or losses from international transactions, as this is part of transacting business in an international environment. Not every exposure is or can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts for which actual results may differ from the original estimate. Failure to successfully hedge or anticipate currency risks properly could adversely affect our consolidated operating results.

Our cash flow hedging instruments as of December 31, 2018 and 2017 are summarized as follows (in thousands). All hedging instruments are forward contracts, except as noted.

|                         | Local<br>Currency<br>Notional<br>Amount | U.S. Dollar<br>Notional<br>Amount | % Maturing<br>in the next<br>12 months | Contracts<br>Maturing<br>Through |
|-------------------------|---|-----------------------------------|--|----------------------------------|
| As of December 31, 2018 |   |                                   |  |                                  |
| Philippine Peso         | 6,710,000                               | 130,957 (1)                       | 60.7 %                                 | December 2021                    |
| Mexican Peso            | 1,091,500                               | 57,708                            | 53.0 %                                 | December 2021                    |
|                         |   | \$ 188,665                        |  |                                  |

|                         | Local<br>Currency<br>Notional<br>Amount | U.S. Dollar<br>Notional<br>Amount |
|-------------------------|---|-----------------------------------|
| As of December 31, 2017 |   |                                   |
| Philippine Peso         | 10,685,000                              | 219,917 (1)                       |
| Mexican Peso            | 1,609,000                               | 93,589                            |
|                         |   | \$ 313,506                        |

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on December 31, 2018 and December 31, 2017.

The fair value of our cash flow hedges at December 31, 2018 was a liability (in thousands):

|                 | December 31,<br>2018 | Maturing in<br>the<br>Next 12<br>Months |
|-----------------|----------------------|---|
| Philippine Peso | (5,856)              | (3,570)                                 |
| Mexican Peso    | (5,460)              | (4,477)                                 |
|                 | \$ (11,316)          | \$ (8,047)                              |

Our cash flow hedges are valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The fair value liability of our cash flow hedges decreased by \$14.9 million from December 31, 2017 to December 31, 2018. The decrease in fair value liability from December 31, 2017 largely reflects a reduction in the total notional value of outstanding cash flow hedges and an increase in average hedge exchange rates.

Table of Contents

We recorded net losses of \$17.5 million, \$22.8 million, and \$28.0 million for settled cash flow hedge contracts for the years ended December 31, 2018, 2017, and 2016, respectively. These losses were reflected in Revenue in the accompanying Consolidated Statements of Comprehensive Income (Loss). If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding increases or decreases in our underlying exposures.

Other than the transactions hedged as discussed above and in Part II. Item 8. Financial Statements and Supplementary Data, Note 8 to the Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in their respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the years ended 2018 and 2017, approximately 23% and 24%, respectively, of revenue was derived from contracts denominated in currencies other than the U.S. Dollar. Our results from operations and revenue could be adversely affected if the U.S. Dollar strengthens significantly against foreign currencies.

Fair Value of Debt and Equity Securities

We did not have any investments in marketable debt or equity securities as of December 31, 2018 or 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are located beginning on page F-1 of this report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

This Form 10-K includes the certifications of our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”) required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). See Exhibits 31.1 and 31.2. This Item 9A includes information concerning the controls and control evaluations referred to in those certifications.

## Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the CEO and CFO, of the effectiveness of our disclosure controls and procedures, as of December 31, 2018, the end of the period covered by this Form 10-K. Based on this evaluation, our CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level.

## Inherent Limitations of Internal Controls

Our management, including the CEO and CFO, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal controls are met. Further, the design of internal controls must

## Table of Contents

consider the benefits of controls relative to their costs. Inherent limitations within internal controls include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. Over time, control may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. While the objective of the design of any system of controls is to provide reasonable assurance of the effectiveness of controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Thus, even effective internal control over financial reporting can only provide reasonable assurance of achieving their objectives. Therefore, because of the inherent limitations in cost effective internal controls, misstatements due to error or fraud may occur and may not be prevented or detected.

### Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures which (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, (c) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the Board of Directors, and (d) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

In connection with the preparation of this Annual Report on Form 10-K, our management, under the supervision and with the participation of our CEO and CFO, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018 based on the framework established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). As a result of that evaluation, our management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018, the end of the period covered by this Form 10-K.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

### Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in our 2019 Definitive Proxy Statement on Schedule 14A, which will be filed no later than 120 days after December 31, 2018 (the “2019 Proxy Statement”) regarding our executive officers under the heading “Information Regarding Executive Officers” is incorporated herein by reference. We have both a Code of Ethical Conduct for Executive and Financial Managers and a Code of Conduct. The Code of Ethical Conduct for

46

---

Table of Contents

Executive and Financial Officers applies to our Chief Executive Officer, Chief Financial Officer, presidents of our business segments, Controller, Treasurer, the General Counsel, Chief Audit executive, senior financial officers of each operating segment and other persons performing similar functions. The Code of Conduct applies to all directors, officers, employees and members of our supply chain (as applicable). Both the Code of Ethical Conduct for Executive and Financial Officers and the Code of Conduct are posted on our website at [www.ttec.com](http://www.ttec.com) on the Corporate Governance page. We will post on our website any amendments to or waivers of the Code of Ethical Conduct for Executive and Financial Officers and our Code of Conduct, in accordance with applicable laws and regulations.

There have been no material changes to the procedures by which stockholders may recommend nominees to the board of directors. The remaining information called for by this Item 10 is incorporated by reference herein from our 2019 Proxy Statement.

**ITEM 11. EXECUTIVE COMPENSATION**

The information in our 2019 Proxy Statement is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information regarding these matters is included in Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. Also the information in our 2019 Proxy Statement is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information in our 2019 Proxy Statement is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES**

The information in our 2019 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)The following documents are filed as part of this report:

1. Consolidated Financial Statements.

The Index to Consolidated Financial Statements is set forth on page F-1 of this report.

2. Financial Statement Schedules.

All schedules for TTEC have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information is included in the respective Consolidated Financial Statements or notes thereto.

3. Exhibits.

47

---



Table of Contents

EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
| 3.01**      | <u>Restated Certificate of Incorporation of TeleTech Holdings, Inc. filed with the State of Delaware on August 1, 1996 (incorporated by reference to Exhibit 3.1 to TeleTech’s Amendment No. 2 to Form S-1 Registration Statement (Registration No. 333-04097) filed on July 5, 1996)</u> |
| 3.03**      | <u>Certificate of Amendment of Restated Certificate of Incorporation of TTEC Holdings, Inc. (reflecting name change) with an effective date of January 1, 2018 (incorporated by reference as Exhibit 3.03 to Form 8-K filed on January 9, 2018)</u>                                       |
| 3.04**      | <u>Amended and Restated Bylaws of TTEC Holdings, Inc. (reflecting name change) (incorporated by reference as Exhibit 3.04 to Form 8-K filed on January 9, 2018)</u>   |
| 10.06**     | <u>TeleTech Holdings, Inc. 2010 Equity Incentive Plan (incorporated by reference as Appendix A to TeleTech’s Definitive Proxy Statement, filed April 12, 2010)</u>  |
| 10.27**     | <u>Form of Global Restricted Stock Unit Agreement (Operating Committee Member) (incorporated by reference to Exhibit 10.1 to TeleTech’s Quarterly Report on Form 10-Q filed on May 1, 2013)</u>   |
| 10.28**     | <u>Form of Global Restricted Stock Unit Agreement (Non-Operating Committee Member) (incorporated by reference as Exhibit 10.2 to TeleTech’s Quarterly Report on Form 10-Q filed on May 1, 2013)</u>   |
| 10.29**     | <u>Form of TeleTech Holdings, Inc. Restricted Stock Unit Award Agreement (non-executive employees) effective July 1, 2014 (incorporated by reference as Exhibit 10.29 to TeleTech’s Annual Report on Form 10-K for the year ended December 31, 2014)</u>                                  |
| 10.30**     | <u>Form of TeleTech Holdings, Inc. Restricted Stock Unit Award Agreement (Directors and Executive Committee Members) effective July 1, 2014 (incorporated by reference as Exhibit 10.30 to TeleTech’s Annual Report on Form 10-K for the year ended December 31, 2014)</u>                |
| 10.32*      | <u>Independent Director Compensation Arrangements (effective January 1, 2019)</u>   |
| 10.33**     | <u>Form of Indemnification Agreement with Directors (incorporated by reference as Exhibit 10.1 to TeleTech’s Current Report on Form 8-K filed on February 22, 2010)</u>   |
| 10.40**     | <u>Employment Agreement between Kenneth D. Tuchman and TeleTech dated October 15, 2001 (incorporated by reference as Exhibit 10.68 to TeleTech’s Annual Report on Form 10-K for the year ended December 31, 2001)</u>   |
| 10.41**     | <u>Amendment to Employment Agreement between Kenneth D. Tuchman and TeleTech dated December 31, 2008 (incorporated by reference as Exhibit 10.17 to TeleTech’s Annual Report on Form 10-K for the year ended December 31, 2008)</u>   |
| 10.60**     |   |

Amended and Restated Executive Employment Agreement between Regina M. Paolillo and TTEC Services Corporation effective May 1, 2018 (incorporated by reference as Exhibit 10.60 to TTEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018)

10.82\*\* Amended and Restated Executive Employment Agreement between Judi A. Hand and TTEC Services Corporation effective May 1, 2018 (incorporated by reference as Exhibit 10.82 to TTEC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018)

48

---

Table of Contents

| Exhibit No. | Description   |
|-------------|---|
| 10.83**     | <u>Amended and Restated Executive Employment Agreement between Martin F. DeGhetto and TTEC Services Corporation effective May 1, 2018 (incorporated by reference as Exhibit 10.83 to TTEC’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018)</u>   |
| 10.84*      | <u>Restated Executive Employment Agreement between Steven C. Pollema and TTEC Digital LLC, effective January 1, 2019</u>  |
| 10.85*      | <u>Amended and Restated Executive Employment Agreement between Anthony Y. Tsai and TTEC Services Corporation effective January 1, 2019</u>  |
| 10.86*      | <u>Amended and Restated Executive Employment Agreement between Margaret B. McLean and TTEC Services Corporation effective December 12, 2018</u>   |
| 10.87**     | <u>Summary of employment arrangements between David M. Anderson and TTEC Services Corporation effective as of April 16, 2018. While Mr. Anderson joined TTEC in April 2018, he only recently has been appointed as an Executive Officer whose compensation is subject to disclosure (incorporated by referent as Exhibit 10.87 to TTEC’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018)</u>                                  |
| 10.90**     | <u>First Amendment to Amended and Restated Credit Agreement and First Amendment to Amended and Restated Security Agreement for the senior secured revolving credit facility with a syndicate of lenders led by Wells Fargo Bank, National Association, as agent, swing line and fronting lender (incorporated by reference to Exhibit 10.90 to TeleTech’s Form 8-K filed on February 16, 2016)</u>  |
| 10.94**     | <u>Fourth Amendment to Amended and Restated Credit Agreement and Restated Security Agreement for a senior secured revolving credit facility with a syndicate of lenders led by Wells Fargo Bank, National Association, as agent, swing line and fronting lender (incorporated by reference as Exhibit 10.32 to TTEC’s Form 8-K filed on February 26, 2019)</u>  |
| 10.95**     | <u>Share Purchase Agreement between TeleTech Europe BV and TeleTech Canada and Kilmer Capital Fund II L.P., 8169306 Canada Inc. Bank of Montreal, doing business as BMO Capital Partners, and certain management shareholders of November 9, 2016 (incorporated by reference as Exhibit 10.2 to TeleTech’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016)</u>  |
| 10.96**     | <u>Purchase Agreement dated as of April 3, 2017 by and among OptumHealth Holdings, LLC, Connexions, Inc., and TeleTech Healthcare Solutions, Inc. (incorporated by reference as Exhibit 10.96 to TeleTech’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)</u>   |
| 10.97**     | <u>Stock Purchase Agreement of November 8, 2017 by and among TeleTech Services Corporation, Motif, Inc. (“Motif”), Kaushal Mehta and Parul Mehta (referred to collectively as the “Founders”), the shareholders of Motif (other than Founders, referred to as “Sellers”), and Outforce LLC (the Seller’s Agent) (incorporated by reference as Exhibit 10.97 to TeleTech’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)</u> |

10.98\*\* Share Purchase Agreement of November 8, 2017 by and among TeleTech Services Corporation, the Founders, the Anishi Mehta Irrevocable Trust, the Ishan Mehta Irrevocable Trust, Anishi Mehta and Ishan Mehta (incorporated by reference as Exhibit 10.98 to TeleTech's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)

49

---

Table of Contents

| Exhibit No. | Description  |
|-------------|--|
| 21.1*       | <u>List of subsidiaries</u>  |
| 23.1*       | <u>Consent of Independent Registered Public Accounting Firm</u>  |
| 24.1*       | <u>Power of Attorney</u>   |
| 31.1*       | <u>Rule 13a-14(a) Certification of CEO of TTEC</u>   |
| 31.2*       | <u>Rule 13a-14(a) Certification of CFO of TTEC</u>   |
| 32.1*       | <u>Written Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u> |
| 32.2*       | <u>Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u> |
| 101.INS***  | XBRL Instance Document   |
| 101.SCH***  | XBRL Taxonomy Extension Schema Document  |
| 101.CAL***  | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.LAB***  | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE***  | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF***  | XBRL Taxonomy Extension Definition Linkbase Document   |

---

\* Filed or furnished herewith.

\*\* Identifies exhibit that consists of or includes a management contract or compensatory plan or arrangement.

\*\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017, (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016, (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, and (v) Notes to Consolidated Financial Statements.

ITEM 16. FORM 10-K SUMMARY

None

50

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized on March 6, 2019.

TTEC HOLDINGS, INC.

By: /s/ KENNETH D. TUCHMAN  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 6, 2019, by the following persons on behalf of the registrant and in the capacities indicated:

| Signature                                    | Title  |
|--|--|
| /s/ KENNETH D. TUCHMAN<br>Kenneth D. Tuchman | PRINCIPAL EXECUTIVE OFFICER<br>Chief Executive Officer and Chairman of the Board |
| /s/ REGINA M. PAOLILLO<br>Regina M. Paolillo | PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER<br>Chief Financial Officer            |
| *<br>Steven J. Anenen                        | DIRECTOR   |
| *<br>Tracy L. Bahl                           | DIRECTOR   |
| *<br>Gregory A. Conley                       | DIRECTOR   |
| *<br>Robert N. Frerichs                      | DIRECTOR   |
| *<br>Marc L. Holtzman                        | DIRECTOR   |
| *<br>Ekta Singh-Bushell                      | DIRECTOR   |

\* By /s/ Regina M. Paolillo under Power of Attorney as attached hereto as Exhibit 24.1

51

---



Table of Contents

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS OF TTEC HOLDINGS, INC.

|  | Page No. |
|--|----------|
| <u>Report of Independent Registered Public Accounting Firm</u>   | F-2      |
| <u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>  | F-4      |
| <u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, 2017 and 2016</u> | F-5      |
| <u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016</u>        | F-6      |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016</u>                  | F-7      |
| <u>Notes to the Consolidated Financial Statements</u>  | F-8      |

F-1

---

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of TTEC Holdings, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of TTEC Holdings, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income (loss), of stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and

testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

F-2

---

Table of Contents

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/PricewaterhouseCoopers LLP

Denver, Colorado

March 6, 2019

We have served as the Company's auditor since 2007.

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

|   | December 31,<br>2018 | December 31,<br>2017 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                               |                      |                      |
| Current assets                              |                      |                      |
| Cash and cash equivalents                   | \$ 78,237            | \$ 74,437            |
| Accounts receivable, net                    | 350,962              | 391,902              |
| Prepays and other current assets            | 88,487               | 63,971               |
| Income tax receivable                       | 8,791                | 11,099               |
| Total current assets                        | 526,477              | 541,409              |
| Long-term assets                            |                      |                      |
| Property, plant and equipment, net          | 161,523              | 163,346              |
| Goodwill                                    | 204,633              | 209,727              |
| Deferred tax assets, net                    | 15,523               | 12,012               |
| Other intangible assets, net                | 80,911               | 93,085               |
| Other long-term assets                      | 65,441               | 59,157               |
| Total long-term assets                      | 528,031              | 537,327              |
| Total assets                                | \$ 1,054,508         | \$ 1,078,736         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                      |                      |
| Current liabilities                         |                      |                      |
| Accounts payable                            | \$ 59,447            | \$ 46,442            |
| Accrued employee compensation and benefits  | 83,437               | 84,830               |
| Other accrued expenses                      | 15,963               | 19,047               |
| Income tax payable                          | 12,325               | 7,497                |
| Deferred revenue                            | 44,926               | 21,650               |
| Other current liabilities                   | 19,320               | 22,312               |
| Total current liabilities                   | 235,418              | 201,778              |
| Long-term liabilities                       |                      |                      |
| Line of credit                              | 282,000              | 344,000              |
| Deferred tax liabilities, net               | 10,371               | 11,285               |
| Non-current income tax payable              | 30,754               | 47,871               |
| Deferred rent                               | 16,584               | 15,714               |
| Other long-term liabilities                 | 126,532              | 95,243               |
| Total long-term liabilities                 | 466,241              | 514,113              |
| Total liabilities                           | 701,659              | 715,891              |

Commitments and contingencies (Note 14)

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|   |              |              |
|---|--------------|--------------|
| Stockholders' equity  |              |              |
| Preferred stock; \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of December 31, 2018 and December 31, 2017                                  | —            | —            |
| Common stock; \$0.01 par value; 150,000,000 shares authorized; 46,194,717 and 45,861,959 shares outstanding as of December 31, 2018 and December 31, 2017, respectively | 462          | 459          |
| Additional paid-in capital  | 353,932      | 351,725      |
| Treasury stock at cost: 35,857,536 and 36,190,294 shares as of December 31, 2018 and December 31, 2017, respectively  | (610,177)    | (615,677)    |
| Accumulated other comprehensive income (loss)   | (124,596)    | (102,304)    |
| Retained earnings   | 725,551      | 721,664      |
| Noncontrolling interest   | 7,677        | 6,978        |
| Total stockholders' equity  | 352,849      | 362,845      |
| Total liabilities and stockholders' equity  | \$ 1,054,508 | \$ 1,078,736 |

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

F-4

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

|  | Year Ended December 31, |              |              |
|--|-------------------------|--------------|--------------|
|  | 2018                    | 2017         | 2016         |
| Revenue  | \$ 1,509,171            | \$ 1,477,365 | \$ 1,275,258 |
| Operating expenses   |                         |              |              |
| Cost of services (exclusive of depreciation and amortization presented separately below) | 1,157,927               | 1,110,068    | 941,592      |
| Selling, general and administrative  | 182,428                 | 182,314      | 175,797      |
| Depreciation and amortization  | 69,179                  | 64,507       | 68,675       |
| Restructuring and integration charges, net   | 6,131                   | 14,665       | 4,392        |
| Impairment losses  | 1,452                   | 5,322        | 32,050       |
| Total operating expenses   | 1,417,117               | 1,376,876    | 1,222,506    |
| Income from operations   | 92,054                  | 100,489      | 52,752       |
| Other income (expense)   |                         |              |              |
| Interest income  | 4,476                   | 2,841        | 1,234        |
| Interest expense   | (28,674)                | (13,734)     | (7,943)      |
| Other income (expense), net  | (11,618)                | 1,869        | 6,855        |
| Loss on asset held for sale  | —                       | (2,578)      | (2,600)      |
| Total other income (expense)   | (35,816)                | (11,602)     | (2,454)      |
| Income before income taxes   | 56,238                  | 88,887       | 50,298       |
| Provision for income taxes   | (16,483)                | (78,075)     | (12,863)     |
| Net income   | 39,755                  | 10,812       | 37,435       |
| Net income attributable to noncontrolling interest                                       | (3,938)                 | (3,556)      | (3,757)      |
| Net income attributable to TTEC stockholders   | \$ 35,817               | \$ 7,256     | \$ 33,678    |
| Other comprehensive income (loss)  |                         |              |              |
| Net income   | \$ 39,755               | \$ 10,812    | \$ 37,435    |
| Foreign currency translation adjustments   | (30,382)                | 8,285        | (21,055)     |
| Derivative valuation, gross  | 11,526                  | 27,931       | (7,838)      |
| Derivative valuation, tax effect   | (4,058)                 | (11,284)     | 2,330        |
| Other, net of tax  | 308                     | 105          | 721          |
| Total other comprehensive income (loss)  | (22,606)                | 25,037       | (25,842)     |
| Total comprehensive income (loss)  | 17,149                  | 35,849       | 11,593       |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|  |           |           |          |
|--|-----------|-----------|----------|
| Less: Comprehensive income attributable to noncontrolling interest | (3,624)   | (3,933)   | (3,514)  |
| Comprehensive income (loss) attributable to TTEC stockholders      | \$ 13,525 | \$ 31,916 | \$ 8,079 |
| Weighted average shares outstanding                                |           |           |          |
| Basic  | 46,064    | 45,826    | 47,423   |
| Diluted  | 46,385    | 46,382    | 47,736   |
| Net income per share attributable to TTEC stockholders             |           |           |          |
| Basic  | \$ 0.78   | \$ 0.16   | \$ 0.71  |
| Diluted  | \$ 0.77   | \$ 0.16   | \$ 0.71  |

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

F-5

---



Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

(Amounts in thousands)

Stockholders' Equity of the Company

| Preferred Stock<br>Shares | Amount | Common Stock<br>Shares | Amount | Treasury<br>Stock | Additional<br>Paid-in Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Noncontrolling<br>interest | Total |
|---------------------------|--------|------------------------|--------|-------------------|-------------------------------|--|----------------------|----------------------------|-------|
| —                         | \$ —   | 48,481                 | \$ 485 | \$ (533,744)      | \$ 347,251                    | \$ (101,365)   | \$ 720,989           | \$ 7,201                   | \$ —  |
| —                         | —      | —                      | —      | —                 | —                             | —  | 33,678               | 3,757                      | —     |
| —                         | —      | —                      | —      | —                 | —                             | —  | (18,262)             | —                          | —     |
| —                         | —      | —                      | —      | —                 | —                             | —  | —                    | (3,825)                    | —     |
| —                         | —      | —                      | —      | —                 | —                             | —  | (466)                | —                          | —     |
| —                         | —      | —                      | —      | —                 | —                             | (20,812)   | —                    | (243)                      | —     |
| —                         | —      | —                      | —      | —                 | —                             | (5,508)  | —                    | —                          | —     |
| —                         | —      | 297                    | 3      | 4,681             | (8,614)                       | —  | —                    | —                          | —     |
| —                         | —      | 29                     | —      | 458               | (82)                          | —  | —                    | —                          | —     |
| —                         | —      | —                      | —      | —                 | 557                           | —  | —                    | —                          | —     |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|             |   |      |         |        |              |            |              |            |          |    |
|-------------|---|------|---------|--------|--------------|------------|--------------|------------|----------|----|
|             | — | —    | —       | —      | —            | 9,627      | —            | —          | 81       |    |
| ck          | — | —    | (2,693) | (26)   | (74,657)     | —          | —            | —          | —        |    |
|             | — | —    | —       | —      | —            | —          | 721          | —          | 10       |    |
| f<br>l,     | — | \$ — | 46,114  | \$ 462 | \$ (603,262) | \$ 348,739 | \$ (126,964) | \$ 735,939 | \$ 6,981 | \$ |
|             | — | —    | —       | —      | —            | —          | —            | 7,256      | 3,556    |    |
| re)         | — | —    | —       | —      | —            | —          | —            | (21,531)   | —        |    |
| o<br>ng     | — | —    | —       | —      | —            | —          | —            | —          | (3,645)  |    |
|             | — | —    | —       | —      | —            | —          | 7,908        | —          | 377      |    |
| t           | — | —    | —       | —      | —            | —          | 16,647       | —          | —        |    |
| ck          | — | —    | 298     | 3      | 4,913        | (10,313)   | —            | —          | —        |    |
| s<br>l<br>n | — | —    | 60      | —      | 994          | 1,156      | —            | —          | —        |    |
|             | — | —    | —       | —      | —            | 12,143     | —            | —          | (291)    |    |
| ck          | — | —    | (610)   | (6)    | (18,322)     | —          | —            | —          | —        |    |
|             | — | —    | —       | —      | —            | —          | 105          | —          | —        |    |
| f<br>l,     | — | \$ — | 45,862  | \$ 459 | \$ (615,677) | \$ 351,725 | \$ (102,304) | \$ 721,664 | \$ 6,978 | \$ |
|             | — | —    | —       | —      | —            | —          | —            | (6,584)    | —        |    |
|             | — | —    | —       | —      | —            | —          | —            | 35,817     | 3,938    |    |
|             | — | —    | —       | —      | —            | —          | —            | (25,346)   | —        |    |

re)  
o  
ng  
t  
ck  
s  
l  
n  
ck  
f  
l,  
\$

|   |    |     |        |       |         |          |           |    |         |    |           |    |         |    |       |    |
|---|----|-----|--------|-------|---------|----------|-----------|----|---------|----|-----------|----|---------|----|-------|----|
| — | —  | —   | —      | —     | —       | —        | —         | —  | (2,925) |    |           |    |         |    |       |    |
| — | —  | —   | —      | —     | —       | (30,068) | —         | —  | (314)   |    |           |    |         |    |       |    |
| — | —  | —   | —      | —     | —       | 7,468    | —         | —  | —       |    |           |    |         |    |       |    |
| — | —  | 318 | 3      | 5,252 | (9,898) | —        | —         | —  | —       |    |           |    |         |    |       |    |
| — | —  | 15  | —      | 248   | (40)    | —        | —         | —  | —       |    |           |    |         |    |       |    |
| — | —  | —   | —      | —     | 12,145  | —        | —         | —  | —       |    |           |    |         |    |       |    |
| — | —  | —   | —      | —     | —       | —        | —         | —  | —       |    |           |    |         |    |       |    |
| — | —  | —   | —      | —     | —       | 308      | —         | —  | —       |    |           |    |         |    |       |    |
| — | \$ | —   | 46,195 | \$    | 462     | \$       | (610,177) | \$ | 353,932 | \$ | (124,596) | \$ | 725,551 | \$ | 7,677 | \$ |

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

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Amounts in thousands)

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2018                    | 2017      | 2016      |
| Cash flows from operating activities  |                         |           |           |
| Net income  | \$ 39,755               | \$ 10,812 | \$ 37,435 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |           |
| Depreciation and amortization   | 69,179                  | 64,507    | 68,675    |
| Amortization of contract acquisition costs  | 3,015                   | 1,678     | 659       |
| Amortization of debt issuance costs   | 992                     | 745       | 753       |
| Imputed interest expense and fair value adjustments to contingent consideration   | 10,217                  | 51        | (4,523)   |
| Provision for doubtful accounts   | 3,679                   | 458       | 1,164     |
| (Gain) loss on disposal of assets   | 111                     | 3,694     | (44)      |
| Gain on sale of businesses and dissolution of entity                              | —                       | (908)     | —         |
| Impairment losses   | 1,452                   | 5,322     | 32,050    |
| Impairment on equity investment   | 15,632                  | —         | —         |
| Gain (adjustment) on bargain purchase of a business                               | (685)                   | —         | —         |
| Non-cash loss on assets held for sale reclassified to held and used               | 1,616                   | —         | 2,700     |
| Non-cash loss on held for sale assets   | —                       | —         | 2,600     |
| Deferred income taxes   | (7,975)                 | 16,777    | (1,583)   |
| Excess tax benefit from equity-based awards                                       | (635)                   | (2,192)   | (601)     |
| Equity-based compensation expense   | 12,145                  | 11,852    | 9,773     |
| (Gain) loss on foreign currency derivatives                                       | 1,524                   | (681)     | 1,710     |
| Changes in assets and liabilities, net of acquisitions:                           |                         |           |           |
| Accounts receivable   | 29,985                  | (59,284)  | (7,858)   |
| Prepays and other assets  | (30,438)                | (19,266)  | (92)      |
| Accounts payable and accrued expenses   | 11,713                  | 18,968    | (19,141)  |
| Deferred revenue and other liabilities  | 7,063                   | 60,619    | (11,847)  |
| Net cash provided by operating activities   | 168,345                 | 113,152   | 111,830   |
| Cash flows from investing activities  |                         |           |           |
| Proceeds from sale of long-lived assets   | 34                      | 39        | 114       |
| Purchases of property, plant and equipment, net of acquisitions                   | (43,450)                | (51,958)  | (50,832)  |
| Proceeds from sale of business  | —                       | 636       | —         |
| Investments in non-marketable equity investments                                  | (2,119)                 | (1,384)   | (3,179)   |
| Acquisitions, net of cash acquired of \$4,530, \$5,997, and \$2,655, respectively | (2,027)                 | (116,320) | (46,460)  |
| Net cash used in investing activities   | (47,562)                | (168,987) | (100,357) |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|   |             |             |             |
|---|-------------|-------------|-------------|
| Cash flows from financing activities  |             |             |             |
| Proceeds from line of credit  | 2,162,400   | 2,293,587   | 2,093,500   |
| Payments on line of credit  | (2,224,400) | (2,166,887) | (1,976,200) |
| Payments on other debt  | (5,989)     | (6,041)     | (3,222)     |
| Payments of contingent consideration and hold-back payments to acquisitions | (1,349)     | (1,409)     | (9,467)     |
| Dividends paid to shareholders  | (25,346)    | (21,531)    | (18,262)    |
| Payments to noncontrolling interest   | (2,925)     | (3,645)     | (4,317)     |
| Purchase of mandatorily redeemable noncontrolling interest                  | —           | —           | (4,105)     |
| Proceeds from exercise of stock options                                     | 208         | 2,150       | 371         |
| Tax payments related to issuance of restricted stock units                  | (4,643)     | (5,397)     | (3,933)     |
| Excess tax benefit from equity-based awards                                 | —           | —           | 601         |
| Payments of debt issuance costs   | (35)        | (918)       | (1,888)     |
| Purchase of treasury stock  | —           | (18,328)    | (74,683)    |
| Net cash provided by (used in) financing activities                         | (102,079)   | 71,581      | (1,605)     |
| Effect of exchange rate changes on cash and cash equivalents                |             |             |             |
|   | (14,904)    | 3,427       | (14,908)    |
| Increase (decrease) in cash and cash equivalents                            | 3,800       | 19,173      | (5,040)     |
| Cash and cash equivalents, beginning of period                              | 74,437      | 55,264      | 60,304      |
| Cash and cash equivalents, end of period                                    | \$ 78,237   | \$ 74,437   | \$ 55,264   |
| Supplemental disclosures  |             |             |             |
| Cash paid for interest  | \$ 17,456   | \$ 11,727   | \$ 6,976    |
| Cash paid for income taxes  | \$ 39,984   | \$ 18,813   | \$ 19,741   |
| Non-cash investing and financing activities                                 |             |             |             |
| Acquisition of long-lived assets through capital leases                     | \$ 15,018   | \$ 9,836    | 584         |
| Acquisition of equipment through increase in accounts payable, net          | \$ 339      | \$ 97       | \$ (681)    |

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

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

TTEC Holdings, Inc. (“TTEC”, “the Company”) is a leading global customer experience technology and services company focused on the design, implementation and delivery of transformative solutions for many of the world’s most iconic and disruptive brands. The Company helps 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. TTEC’s 52,400 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries via operations in the U.S., Australia, Belgium, Brazil, Bulgaria, Canada, China, Costa Rica, Germany, Hong Kong, India, Ireland, Lebanon, Mexico, New Zealand, the Philippines, Poland, Singapore, South Africa, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

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

- TTEC Digital designs and builds human centric, tech-enabled, insight-driven customer experience solutions.
- TTEC Engage is the Company’s global delivery center of excellence that provides turnkey customer acquisition, care, revenue growth, digital fraud prevention and detection, and content moderation services.

TTEC Digital and TTEC Engage come together under our unified offering, Humanify™ Customer Engagement as a Service, which drives measurable results for clients through delivery of personalized omnichannel interactions that are seamless and relevant. This unified offering is value-oriented, outcome-based, and delivered on a global scale across four business segments: two of which comprise TTEC Digital - Customer Strategy Services (“CSS”) and Customer Technology Services (“CTS”); and two of which comprise TTEC Engage – Customer Growth Services (“CGS”) and Customer Management Services (“CMS”).

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TTEC, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, and its 100% interest in Motif, Inc. (see Note 2). All intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2018, one business unit in the CSS segment classified as assets and liabilities held for sale as of September 30, 2016, was reclassified as held and used as of December 31, 2018 and 2017. The assets and liabilities of the business unit are no longer separately identified as held for sale as of December 31, 2018 and 2017 (see Note 2).

During the three months ended March 31, 2016, the Company recorded an additional tax expense of \$1.1 million that should have been recorded in prior periods related to operations by an entity outside its country of incorporation. The total amount of \$1.1 million should have been recorded as additional expense in the amount of \$180 thousand in 2011, \$123 thousand in 2012, \$137 thousand in 2013, \$358 thousand in 2014 and \$301 thousand in 2015.

The Company has evaluated the impact of this adjustment and concluded that it was not material to the previously issued or current period Consolidated Financial Statements.



## Table of Contents

### TTEC HOLDINGS, INC. AND SUBSIDIARIES

#### Notes to the Consolidated Financial Statements

##### Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including the valuation allowance for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts, contingent consideration, and valuation of goodwill, long-lived and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ materially from these estimates under different assumptions or conditions.

##### Concentration of Credit Risk

The Company is exposed to credit risk in the normal course of business, primarily related to accounts receivable and derivative instruments. Historically, the losses related to credit risk have been immaterial. The Company regularly monitors its credit risk to mitigate the possibility of current and future exposures resulting in a loss. The Company evaluates the creditworthiness of its clients prior to entering into an agreement to provide services and as necessary through the life of the client relationship. The Company does not believe it is exposed to more than a nominal amount of credit risk in its derivative hedging activities, as the Company diversifies its activities across seven investment-grade financial institutions.

##### Fair Value of Financial Instruments

Fair values of cash equivalents, accounts receivable and payable and debt approximate the carrying amounts because of their short-term nature.

##### Cash and Cash Equivalents

The Company considers all cash and highly liquid short-term investments with an original maturity of 90 days or less to be cash equivalents. The Company manages a centralized global treasury function in the United States with a focus on concentrating and safeguarding its global cash and cash equivalents. While the majority of the Company’s cash is held outside the U.S., the Company prefers to hold U.S. Dollars in addition to the local currencies of the foreign subsidiaries. The Company believes that it has effectively mitigated and managed its risk relating to its global cash through its cash management practices, banking partners, and utilization of diversified, high quality investments. However, the Company can provide no assurances that it will not sustain losses.

##### Accounts Receivable

An allowance for doubtful accounts is determined based on the aging of the Company’s accounts receivable, historical experience, client financial condition, and management judgment. The Company writes off accounts receivable against the allowance when the Company determines a balance is uncollectible.

##### Derivatives



The Company enters into foreign exchange forward and option contracts to reduce its exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. The Company also enters into interest rate derivatives which consist of interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. The Company formally documents at the inception of the hedge all relationships between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedging activities.

F-9

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

All derivative financial instruments are reported at fair value and recorded in Prepaids and other current assets, Other long-term assets, Other current liabilities, and Other long-term liabilities in the accompanying Consolidated Balance Sheets as applicable for each period end. 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. Ineffectiveness is measured based on the change in fair value of the forward contracts and the fair value of the hypothetical derivatives with terms that match the critical terms of the risk being hedged. Based on the criteria established by current accounting standards, the Company's cash flow hedge contracts are deemed to be highly effective. Any realized gains or losses resulting from the foreign currency cash flow hedges are recognized together with the hedged transaction within Revenue. Any realized gains or losses from the interest rate swaps are recognized in Interest expense. Gains and losses from the settlements of the Company's net investment hedges remain in Accumulated other comprehensive income (loss) until partial or complete liquidation of the applicable net investment.

The Company also enters into fair value derivative contracts that hedge against foreign currency exchange gains and losses primarily associated with short-term payables and receivables. 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).

## Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. Maintenance, repairs and minor renewals are expensed as incurred.

Depreciation and amortization are computed on the straight-line method based on the following estimated useful lives:

|                                 |  |
|---------------------------------|--|
| Building                        | 30 years   |
| Computer equipment and software | 3 to 7 years   |
| Telephone equipment             | 4 to 7 years   |
| Furniture and fixtures          | 5 years  |
| Leasehold improvements          | Lesser of economic useful life (typically 10 years) or original lease term |
| Other                           | 3 to 7 years   |

The Company evaluates the carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amounts 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 forecasted future cash flows.

## Software Development Costs

The Company capitalizes costs incurred to acquire or develop software for internal use. Capitalized software development costs are amortized using the straight-line method over the estimated useful life equal to the lesser of the license term or 4 or 7 years depending on the software type. The amortization expense is recorded in Depreciation and amortization in the accompanying Consolidated Statements of Comprehensive Income (Loss).

F-10

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Goodwill

The Company evaluates goodwill for possible impairment at least annually on December 1, and whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company uses 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, the Company analyzes 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, the Company will proceed to Step 1 testing where the Company calculates the fair value of a reporting unit. If Step 1 indicates that the carrying value of a reporting unit is in excess of its fair value, the Company will record an impairment equal to the amount by which a reporting unit's carrying value exceeds its fair value.

Other Intangible Assets

The Company has other intangible assets that include customer relationships (definite-lived), trade names (definite-lived) and non-compete agreements (definite-lived). Definite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from 3 to 12 years. The Company evaluates the carrying value of its definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A definite-lived intangible asset is considered to be impaired when the forecasted undiscounted cash flows of its asset group are estimated to be less than its carrying value.

The Company evaluates 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. 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 (i.e. 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.

Self Insurance Liabilities

The Company self-insures for certain levels of workers' compensation, employee health, property, cyber risks, and general liability insurance. The Company records estimated liabilities for these insurance lines based upon analyses of historical claims experience. The most significant assumption the Company makes in estimating these liabilities is that future claims experience will emerge in a similar pattern with historical claims experience. The liabilities related to workers' compensation and employee health insurance are included in Accrued employee compensation and benefits in

the accompanying Consolidated Balance Sheets. The liability for other general liability insurance is included in Other accrued expenses in the accompanying Consolidated Balance Sheets.

F-11

---

## Table of Contents

### TTEC HOLDINGS, INC. AND SUBSIDIARIES

#### Notes to the Consolidated Financial Statements

##### Restructuring Liabilities

The Company routinely assesses the profitability and utilization of its customer engagement centers and existing markets. In some cases, the Company has 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 the Company's postemployment plans and/or statutory requirements that are communicated to all employees upon hire date; therefore, severance liabilities are recognized 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.

##### Asset Retirement Obligations

Asset retirement obligations relate to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets.

The Company records all asset retirement obligations at estimated fair value. The Company's asset retirement obligations primarily relate to clauses in its customer engagement center operating leases which require the Company to return the leased premises to its original condition. The associated asset retirement obligations are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability, reported within Other long-term liabilities, is accreted through charges to operating expenses. If the asset retirement obligation is settled for an amount other than the carrying amount of the liability, the Company recognizes a gain or loss on settlement in operating expenses.

##### 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 enacted tax rates in effect for the year in which the differences are expected to reverse. Gross deferred tax assets may then be reduced by a valuation allowance for amounts that do not satisfy the realization criteria established by current accounting standards.

The Company accounts for uncertain tax positions using 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. The Company evaluates 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. The Company recognizes interest and penalties related to uncertain tax positions as a part of the Provision for income taxes in the accompanying Consolidated Statements of Comprehensive Income (Loss).

No changes in indefinite reinvestment assertion were made during 2018. The Company has completed its analysis in regard to the full tax impact related to prior changes in indefinite reinvestment reassertion and any related taxes have been recorded. No additional income taxes have been provided for any remaining outside basis difference inherent in our foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations. Determination

of any unrecognized deferred tax liability related to the outside basis difference in investments in foreign subsidiaries is not practicable due to the inherent complexity of the multi-national tax environment in which we operate.

F-12

---

## Table of Contents

### TTEC HOLDINGS, INC. AND SUBSIDIARIES

#### Notes to the Consolidated Financial Statements

##### 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 post-1986 foreign earnings on domestic corporations effective for the 2017 tax year. As of December 31, 2018, the Company has completed the accounting for the tax effects of the 2017 Tax Act and no material adjustment was recorded to the 2017 estimate.

While the Company's accounting for the recorded impact of the 2017 Tax Act is deemed to be complete, these amounts are based on prevailing regulations and current information, and any additional guidance issued by the Internal Revenue Service ("IRS") could impact the Company's recorded amounts in future periods.

The Company's selection of an accounting policy with respect to both the new GILTI and BEAT rules is to compute the related taxes in the period the entity becomes subject to either. A reasonable estimate of the effects of these provisions has been included in the 2018 annual financial statements.

##### Revenue Recognition

###### 2018 Revenue

The Company recognizes revenue from contracts and programs when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Performance obligation is the unit of accounting for revenue recognition under the provisions of ASC Topic 606, "Revenue from Contracts with Customers" and all related amendments ("ASC 606"). A contract's transaction price is allocated to each distinct performance obligation in recognizing revenue.

The Business Process Outsourcing ("BPO") inbound and outbound service fees are based on either a per minute, per hour, per FTE, per transaction or per call basis, which represents the majority of our contracts. These contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For example, services for the training of the Company's agents (which are separately billable to the customer) are a separate promise in the BPO contracts, but they are not distinct from the primary service obligations to transfer services to the customers. The performance of the customer service by the agents is highly dependent on the initial, growth, and seasonal training services provided to the agents during the life of a program. The training itself is not considered to have value to the customer on a standalone basis, and therefore, training on a standalone basis cannot be considered a separate unit of accounting. The Company therefore defers revenue from certain training services that are rendered mainly upon commencement of a new client contract or program, including seasonal programs. Revenue is also deferred when there is significant growth training in an existing program. Accordingly, recognition of initial, growth, and seasonal training revenues and associated costs (consisting primarily of labor and related expenses) are deferred and amortized over the period of economic benefit. With the exception of training which is typically billed upfront and deferred, the remainder of revenue is invoiced on a monthly or quarterly basis as services are performed and does not create a contract asset or



liability.

In addition to revenue from BPO services, revenue also consists of fees from services for program launch, professional consulting, fully-hosted or managed technology and learning innovation services. The contracts containing these service offerings may contain multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the contract's transaction price to each performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which the Company forecasts its expected costs of satisfying a performance obligation and then adds an appropriate margin for that distinct good or service. The Company forecasts its expected cost based on historical data, current prevailing wages, other direct and indirect costs incurred in recently completed contracts,

F-13

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

market conditions, and client specific other cost considerations. For these services, the point at which the transfer of control occurs determines when revenue is recognized in a specific reporting period. Where there are product sales, the attribution of revenue is made when FOB-destination delivery occurs (control transfers), which is the standard shipment terms, and therefore at a point in time. Where services are rendered to a customer, the attribution is aligned with the progress of work and is recognized over time (i.e. based on measuring the progress toward complete satisfaction of a performance obligation using an output method or an input method). Where output method is used, revenue is recognized on the basis of direct measurements of the value to the customer of the goods or services transferred relative to the remaining goods or services promised under the contract. The majority of the Company's services are recognized over time using the input method in which revenue is recognized on the basis of efforts or inputs toward satisfying a performance obligation (for example, resources consumed, labor hours expended, costs incurred, or time elapsed) relative to the total expected inputs to satisfy the performance obligation. The measures used provide faithful depiction of the transfer of goods or services to the customers. For example, revenue is recognized on certain consulting contracts based on labor hours expended as a measurement of progress where the consulting work involves input of consultants' time. The progress is measured based on the hours expended over total number of estimated hours included in the contract multiplied by the total contract consideration. The contract consideration can be a fixed price or an hourly rate, and in either case, the use of labor hours expended as an input measure provides a faithful depiction of the transfer of services to the customers. Deferred revenues for these services represent amounts collected from, or invoiced to, customers in excess of revenues recognized. This results primarily from i) receipt of license fees that are deferred due to one or more of the revenue recognition criteria not being met, and ii) the billing of annual customer support agreements, annual managed service agreements, and billings for other professional services that have not yet been performed by the Company. The Company records amounts billed and received, but not earned, as deferred revenue. These amounts are recorded in either Deferred revenue or Other long-term liabilities, as applicable, in the accompanying Consolidated Balance Sheets based on the period over which the Company expects to render services. Costs directly associated with revenue deferred, consisting primarily of labor and related expenses, are also deferred and recognized in proportion to the expected future revenue from the contract.

Variable consideration exists in contracts for certain client programs that provide for adjustments to monthly billings based upon whether the Company achieves, exceeds or fails certain performance criteria. Adjustments to monthly billings consist of contractual bonuses/penalties, holdbacks and other performance based conditions. Variable consideration is estimated at contract inception at its most likely value and updated at the end of each reporting period as additional performance data becomes available. Revenue related to such variable consideration is recognized only to the extent that a significant reversal of any incremental revenue is not considered probable.

Contract modifications are routine in the performance of the customer contracts. Contracts are often modified to account for customer mandated changes in the contract specifications or requirements, including service level changes. In most instances, contract modifications relate to goods or services that are incremental and distinctly identifiable, and, therefore, are accounted for prospectively.

**Incremental Costs to Obtain a Contract**

Direct and incremental costs to obtain or fulfill a contract are capitalized, and the capitalized costs are amortized over the corresponding period of benefit, determined on a contract by contract basis. The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a customer contract that it would not have incurred if the contract had not been obtained. Contract acquisition costs consist primarily of payment of commissions

to sales personnel and are incurred when customer contracts are signed. The deferred sales commission amounts are amortized based on the expected period of economic benefit and are classified as current or non-current based on the timing of when they are expected to be recognized as an expense. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained. Sales commissions are paid for obtaining new clients only and are not paid for contract renewals or contract modifications. Capitalized costs of obtaining contracts

F-14

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

are periodically reviewed for impairment. As of December 31, 2018, the Company has a deferred asset of \$8.2 million related to the sales commissions.

In certain cases, the Company negotiates an upfront payment to a customer in conjunction with the execution of a contract. Such upfront payments are critical to acquisition of new business and are often used as an incentive to negotiate favorable rates from the clients and are accounted for as upfront discounts for future services. Such payments are either made in cash at the time of execution of a contract or are netted against the Company's service invoices. Payments to customers are capitalized as contract acquisition costs and are 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. Such payments are considered a reduction of the selling prices of the Company's products or services, and therefore, are accounted for as a reduction of revenue when amortized. Such capitalized contract acquisition costs are periodically reviewed for impairment taking into consideration ongoing future cash flows expected from the contract and estimated remaining useful life of the contract.

Practical Expedients and Exemptions

Some of the Company's service contracts are short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC 606-10-50-14 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less. Also in alignment with ASC 606-10-50-14, the Company does not disclose the value of unsatisfied performance obligations for contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed. Additionally, the Company's standard payment terms are less than one year. Given the foregoing, the Company has elected the practical expedient under ASC 606-10-32-18 to not assess whether a contract has a significant financing component. Pursuant to the Company's election of the practical expedient under ASC 606-10-32-2A, sales, value add, and other taxes that are collected from customers concurrent with revenue-producing activities, which the Company has an obligation to remit to the governmental authorities, are excluded from revenue.

2017 and Prior Revenue

The Company recognizes 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 the Company achieves, exceeds or fails 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 the Company determines 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 the Company's 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. The Company allocates 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 its 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

F-15

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

offerings, and customer classifications. Once the Company allocates revenue to each deliverable, it recognizes revenue when all revenue recognition criteria are met.

Periodically, the Company 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.

## Rent Expense

The Company has negotiated certain rent holidays, landlord/tenant incentives and escalations in the base price of rent payments over the initial term of its operating leases. The initial term could include the “build-out” period of leases, where no rent payments are typically due. The Company recognizes rent holidays and rent escalations on a straight-line basis to rent expense over the lease term. The landlord/tenant incentives are recorded as an increase to deferred rent liabilities and amortized on a straight line basis to rent expense over the initial lease term.

## Equity-Based Compensation Expense

Equity-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value net of an estimated forfeiture rate on a straight-line basis over the requisite service period of the award, which is typically the vesting term of the share-based payment award. The Company estimates the forfeiture rate annually based on its historical experience of forfeited awards.

## Foreign Currency Translation

The assets and liabilities of the Company’s foreign subsidiaries, whose functional currency is not the U.S. Dollar, are translated at the exchange rates in effect on the last day of the period and income and expenses are translated using the monthly average exchange rates in effect for the period in which the items occur. Foreign currency translation gains and losses are recorded in Accumulated other comprehensive income (loss) within Stockholders’ Equity. Foreign currency transaction gains and losses are included in Other income (expense), net in the accompanying Consolidated Statements of Comprehensive Income (Loss).

## Recently Adopted Accounting Pronouncements

On January 1, 2018, the Company adopted ASC 606, using the modified retrospective method. The adoption of ASC 606 resulted in the deferral of certain fees that had already been recognized in prior periods. The Company recorded a net reduction to opening retained earnings of \$10.0 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC 606, summarized as follows (in thousands):

|               | December 31, | Adjustments<br>Due to | January 1, |
|---------------|--------------|-----------------------|------------|
|               | 2017         | ASU<br>2014-09        | 2018       |
| Balance Sheet |              |                       |            |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

Assets

|                                  |           |           |           |
|----------------------------------|-----------|-----------|-----------|
| Prepays and other current assets | \$ 63,971 | \$ 10,797 | \$ 74,768 |
| Deferred tax assets              | 12,012    | 4,006     | 16,018    |

Liabilities

|                  |           |           |           |
|------------------|-----------|-----------|-----------|
| Deferred revenue | \$ 21,650 | \$ 24,785 | \$ 46,435 |
|------------------|-----------|-----------|-----------|

Equity

|                   |            |            |            |
|-------------------|------------|------------|------------|
| Retained earnings | \$ 721,664 | \$ (9,982) | \$ 711,682 |
|-------------------|------------|------------|------------|

The ASC 606 adjustments pertain to the timing of revenue recognition associated with upfront training fees on certain contracts. Revenues and associated costs for reporting periods beginning after January 1, 2018 are recognized and presented in compliance with the provisions of ASC 606. Consistent with the modified retrospective method of adoption, the Company has not adjusted prior period amounts which continue to be reported in accordance with the Company's historic revenue accounting policy and principles.

F-16

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Company's consolidated income statement and balance sheet was as follows (in thousands):

|                                    | Year Ended December 31, 2018 |   |                                       |
|------------------------------------|------------------------------|---|---------------------------------------|
|                                    | As reported                  | Balances<br>Without<br>Adoption of<br>ASC 606 | Effect of<br>Change<br>Higher/(Lower) |
| Statements of Comprehensive Income |                              |   |                                       |
| Revenue                            | \$ 1,509,171                 | \$ 1,500,171                                  | \$ 9,000                              |
| Cost of services                   | 1,157,927                    | 1,153,299                                     | 4,628                                 |
| Provision for income taxes         | 16,483                       | 15,215  | 1,268                                 |
| Net income                         | \$ 39,755                    | \$ 36,651                                     | \$ 3,104                              |

|                                  | As of December 31, 2018 |   |                                       |
|----------------------------------|-------------------------|---|---------------------------------------|
|                                  | As reported             | Balances<br>Without<br>Adoption of<br>ASC 606 | Effect of<br>Change<br>Higher/(Lower) |
| Balance Sheet                    |                         |   |                                       |
| Assets                           |                         |   |                                       |
| Prepays and other current assets | \$ 88,487               | \$ 82,319                                     | \$ 6,168                              |
| Deferred tax assets              | 15,523                  | 12,708  | 2,815                                 |
| Liabilities                      |                         |   |                                       |
| Deferred revenue                 | \$ 44,926               | \$ 29,140                                     | \$ 15,786                             |
| Equity                           |                         |   |                                       |
| Retained earnings                | \$ 725,551              | \$ 732,354                                    | \$ (6,803)                            |

## Other Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases", which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases and making targeted changes to lessor accounting. The ASU also requires new disclosures regarding the amounts, timing, and uncertainty of cash flows arising from leases. The ASU is effective for interim and annual periods beginning on or after December 15, 2018 and early adoption is permitted. The Company assigned a project manager, completed the assessment phase, has selected a software solution and other tracking methods, loaded and validated all data into the tool, and has finalized its implementation approach.



The Company has evaluated the adoption impact of the accounting guidance on its Consolidated Financial Statements. The new guidance will primarily impact the balance sheet by establishing a right to use asset and corresponding lease liability in our consolidated balance sheet for those leases that were previously classified as operating leases.

The new leasing standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company has elected the following in its transition and implementation approach:

1. As a result of the targeted improvements issued in July 2018, the Company has elected the effective date as the date of initial application (i.e. January 1, 2019). The election allows the Company to recognize the effects of the implementation of ASC 842 as a cumulative effect adjustment to the opening balance of retained earnings (or other components of equity or net assets, as appropriate), in the period of adoption. There is no restatement of comparative periods under this approach.

F-17

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. The Company has elected the package of practical expedients that allows the Company not to reassess (a) whether any expired or existing contracts are leases or contain leases, (b) the lease classification for any expired or existing leases, and (c) initial direct costs.
3. The Company will not use hindsight during transition in determining the lease term and assessing impairment of the entity's right-of-use assets.
4. The Company will elect to not separate non-lease components from the lease components for certain asset classes, while separating in other asset classes.
5. The Company will not apply the recognition requirements in ASC 842 for leases with a term of 12 months or less. The Company is in the process of implementing procedures with our new lease accounting system and finalizing related internal controls to meet the requirements of ASU 2016-02. The Company does expect ASU 2016-02 to have a material impact on our consolidated balance sheet, as we expect to record significant right-of-use assets and corresponding lease liabilities. However, the Company does not expect the adoption of ASU 2016-02 to have a material impact on our consolidated statement of comprehensive income or cash flows. The Company will be in a position to report under this new standard in the first quarter of 2019.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows". ASU 2016-15 is intended to reduce diversity in practice regarding how certain cash transactions are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning on or after December 15, 2017. The Company has adopted the new guidance effective January 1, 2018 and this adoption did not have a material impact on its cash flow or related disclosures.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". ASU 2017-12 amends and simplifies existing guidance for derivatives and hedges including aligning accounting with companies' risk management strategies and increasing disclosure transparency regarding both the scope and results of hedging programs. The changes include designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The ASU is effective for interim and annual periods beginning after December 15, 2018 and early adoption is permitted. The Company has assessed the impact on the consolidated statements and related disclosures and notes there will be no material impacts when adopted on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". ASU 2018-02 allows companies the option to reclassify stranded tax effects from Accumulated other comprehensive income (loss) (AOCI) to retained earnings resulting from the newly enacted corporate tax rate in the Tax Cuts and Jobs Act. If adopted, the ASU is effective in years beginning after December 15, 2018, and early adoption is permitted. The Company early adopted the new standard effective January 1, 2018 and the adoption did not have a material impact on its financial position.

(2)ACQUISITIONS AND DIVESTITURES

### Strategic Communications Services

On April 30, 2018, the Company acquired all of the outstanding equity securities of Strategic Communications Services, Ltd (“SCS”). SCS provides services as a system integrator for multichannel contact center platforms, including CISCO. The Company offers in-house, managed and outsourced network, information, communications and contact center services to leading brands throughout Europe. This business has been integrated into the Company’s CTS segment.

Total cash paid at acquisition was £4.4 million (\$6.1 million USD) (inclusive of \$4.5 million related to cash balances). The purchase price was subject to customary representations and warranties, indemnities, and a net working capital adjustment. The agreement includes potential earn-out payments over the next three years with a maximum value of £3.0 million (\$4.1 million USD) contingent on EBITDA performance over the next three years. The Company finalized the working capital adjustment for an additional \$210 thousand during the third quarter of 2018 which was paid in October 2018.

F-18

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The fair value of the contingent consideration has been measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.7% and expected future value of payments of \$2.9 million. The \$2.9 million of expected future payments was calculated using probability weighted EBITDA assessment with the highest probability associated with SCS achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was \$2.7 million. During the fourth quarter of 2018, a \$0.3 million net benefit was recorded related to a fair value adjustment of the estimated contingent consideration based on revised actuals and estimates of EBITDA performance for 2018, 2019 and 2020. The benefit was included in Other Income (Expense) in the Consolidated Statements of Comprehensive Income (Loss). As of December 31, 2018, the fair value of the contingent consideration was \$2.4 million, of which zero and \$2.4 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

|  | Preliminary<br>Estimate of<br>Acquisition Date<br>Fair Value |
|--|--|
| Cash                                       | \$ 4,530   |
| Accounts receivable, net                   | 985  |
| Prepaid expenses                           | 39   |
| Customer relationships                     | 3,619  |
| Goodwill                                   | 1,231  |
|  | \$ 10,404  |
| Accounts payable                           | \$ 216   |
| Accrued employee compensation and benefits | 27   |
| Accrued expenses                           | 21   |
| Deferred tax liabilities                   | 629  |
|  | \$ 893   |
| Total purchase price                       | \$ 9,511   |

The estimates of fair value of identifiable assets acquired and liabilities assumed are preliminary, pending finalization of a valuation and tax returns, thus are subject to revisions that may result in adjustments to the values presented above.

The SCS customer relationships have been estimated based on the initial valuation and will be amortized over an estimated useful life of 10 years. The goodwill recognized from the SCS acquisition is estimated to be attributable, but not limited to, the acquired workforce and expected synergies with CTS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and intangibles and operating results of SCS are reported within the CTS segment from the date of acquisition.

Berkshire Hathaway Specialty Concierge

On March 31, 2018, the Company, through its subsidiary Percepta, acquired certain assets from Berkshire Hathaway Specialty Concierge, LLC (“BH”) related to a customer engagement center and the related customer contracts. This acquisition is being accounted for as a business combination. These assets will be integrated into the Company’s CMS segment.

The total cash paid was \$1. In connection with the purchase, Percepta assumed the lease for the customer engagement center and entered into a transitional services agreement with BH to facilitate the transfer of the employees and business. Fair values were assigned to each purchased asset including \$257 thousand for customer relationships, \$330 thousand as a lease subsidy and \$98 thousand for fixed assets. Based on the \$1 purchase price, a gain on purchase of \$685 thousand was recorded in the quarter ended March 31, 2018 and was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

F-19

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## Motif

On November 8, 2017, the Company agreed to acquire all of the outstanding shares in Motif, Inc., a California corporation (“Motif”). Motif is a digital fraud prevention and detection, and content moderation services company serving eCommerce marketplaces, online retailers, travel agencies and financial services companies. Motif provides omni-channel community moderation services via voice, email and chat from delivery centers in India and the Philippines via approximately 2,700 employees. Motif has been integrated into the CMS segment.

The acquisition will be implemented through two separate transactions. In November 2017, the Company completed the acquisition of 70% of all outstanding shares in Motif from private equity and certain individual investors for \$46.8 million, subject to customary representations and warranties, and working capital adjustments. The Company also agreed to purchase the remaining 30% interest in Motif from Motif’s founders (“Founders’ Shares”) no later than May 2020 (“30% buyout period”). The Company agreed to pay for the Founders’ Shares at a purchase price to be determined on Motif’s fiscal year 2020’s adjusted normalized EBITDA, \$5.0 million in cash, and 30% of the excess cash present in the business at the time of the buyout; or if the buyout occurs prior to May 2020, based on the trailing twelve months EBITDA, calculated from the most recently completed full monthly period ending prior to the date of the buyout triggering event, \$5.0 million in cash, and 30% of the excess cash in the business at that point. In connection with this mandatory buyout, the Company has recorded a \$37.8 million liability as of December 31, 2018 which is included in Other long-term liabilities in the Consolidated Balance Sheet. As a part of the transition, the Motif founders agreed to continue to stay as executives in the acquired business, at least through the 30% buyout period, and not to compete with the Company with respect to the acquired business.

The following summarizes the fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date. (in thousands):

|  | Acquisition Date<br>Fair Value |
|--|--------------------------------|
| Cash                                       | \$ 5,997                       |
| Accounts receivable, net                   | 5,187                          |
| Prepaid expenses                           | 1,248                          |
| Other current assets                       | 670                            |
| Property, plant and equipment              | 2,182                          |
| Income tax receivable                      | 1,691                          |
| Customer relationships                     | 37,200                         |
| Goodwill                                   | 39,147                         |
|  | \$ 93,322                      |
| Accounts payable                           | \$ 2,789                       |
| Accrued employee compensation and benefits | 5,249                          |
| Accrued expenses                           | 104                            |
| Deferred tax liability                     | 11,402                         |
| Other                                      | 340                            |
|  | \$ 19,884                      |

Total purchase price \$ 73,438

In the fourth quarter of 2018, the Company finalized its valuation of Motif for the acquisition date assets acquired and liabilities assumed and determined that no material adjustments to any of the balances were required.

The Motif customer relationships are being amortized over a useful life of 11 years. The goodwill recognized from the Motif acquisition is attributable, but not limited to, the acquired workforce and expected synergies with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and intangibles, and operating results of Motif are reported within the CMS segment from the date of acquisition.

F-20

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## Connexions

On April 3, 2017, the Company acquired all of the outstanding shares of Connexions, Inc., a health care customer service provider company, from OptumHealth Holdings, LLC. Connexions has been integrated into the health care vertical of the CMS segment of the Company. Connexions employed approximately 2,000 at several centers in the U.S.

The total cash paid at acquisition was \$80 million. The purchase price is subject to customary representations and warranties, indemnities, and net working capital adjustment. In connection with the acquisition, the Company and OptumHealth (directly and through affiliates) also entered into long-term technology and customer services agreements, and into transition services agreements to facilitate the transfer of the business. The Company subsequently paid an additional \$1.8 million for the working capital adjustment, which was paid during the third quarter of 2017. Additionally, fair value adjustments related to the transition services agreements reduced the purchase price by \$4.1 million resulting in a net purchase price of \$77.7 million.

The following summarizes the fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

|  | Acquisition Date<br>Fair Value |
|--|--------------------------------|
| Cash                                       | \$ —                           |
| Accounts receivable, net                   | 15,959                         |
| Prepaid expenses                           | 241                            |
| Other current assets                       | 51                             |
| Property, plant and equipment              | 7,594                          |
| Customer relationships                     | 35,000                         |
| Goodwill                                   | 35,272                         |
|  | \$ 94,117                      |
| Accounts payable                           | \$ 1                           |
| Accrued employee compensation and benefits | 346                            |
| Accrued expenses                           | 386                            |
| Deferred tax liabilities                   | 15,273                         |
| Deferred revenue                           | 399                            |
|  | \$ 16,405                      |
| Total purchase price                       | \$ 77,712                      |

In the fourth quarter of 2017, the Company finalized its valuation of Connexions for the acquisition date assets acquired and liabilities assumed and determined that no material adjustments to any of the balances were required.

The Connexions customer relationships are being amortized over a useful life of 12 years. The goodwill recognized from the Connexions acquisition is attributable, but not limited to, the acquired work force and expected synergies



with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and the operating results of Connexions are reported within the CMS segment from the date of acquisition.

#### Financial Impact of Acquired Businesses

The acquired businesses purchased in 2018 and 2017 noted above contributed revenues of \$190.1 million and \$100.3 million, and a net income (loss) of \$5.0 million and \$(4.2) million, inclusive of \$6.5 million and \$2.6 million of acquired intangible amortization, to the Company for the years ended December 31, 2018 and 2017, respectively.

F-21

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The unaudited proforma financial results for the twelve months ended 2018 and 2017 combines the consolidated results of the Company, SCS, BH, Motif, and Connexions assuming the acquisitions had been completed on January 1, 2017. The reported revenue and net income of \$1,477.4 million and \$7.3 million would have been \$1,560.1 million and \$13.6 million for the twelve months ended December 31, 2017, respectively, on an unaudited proforma basis.

For 2018, the reported revenue and net income of \$1,509.2 million and \$35.8 million would have been \$1,513.2 million and \$36.3 million for the year ended December 31, 2018, respectively, on an unaudited proforma basis.

The unaudited pro forma consolidated results are not to be considered indicative of the results if these acquisitions occurred in the periods mentioned above, or indicative of future operations or results. Additionally, the pro forma consolidated results do not reflect any anticipated synergies expected as a result of the acquisition.

Assets and Liabilities Held for Sale

During the third quarter of 2016, the Company determined that one business unit from the CGS segment and one business unit from the CSS segment would be divested from the Company's operations. These business units met the criteria to be classified as held for sale. The Company took into consideration the discounted cash flow models, management input based on early discussions with brokers and potential buyers, and third-party evidence from similar transactions to complete the fair value analysis as there had not been a selling price determined at this point for either unit. For the two business units in CGS and CSS losses of \$2.6 million and \$2.7 million, respectively, were recorded as of December 31, 2016 in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss).

For the business unit in CGS, based on further discussion and initial offers, management determined that the estimated selling price assumed should be revised and an additional \$3.2 million loss was recorded as of June 30, 2017 and included in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss). Effective December 22, 2017, the business unit was sold to The Search Agency ("TSA") for an up-front payment of \$245 thousand and future contingent earnout on the one year anniversary of the closing date. During the fourth quarter of 2017, a net \$0.6 million gain was recorded in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss).

For the business unit in CSS, based on further discussions and the offer at that time, management determined that the estimated selling price assumed should be revised and an additional \$2.0 million loss was recorded during the quarter ended June 30, 2018 and included in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss).

As of December 31, 2018, management determined that the business unit in CSS should be reclassified from assets held for sale to assets held and used. At this point, a fair value assessment of this specific balance sheet was completed and a \$0.4 million gain was recorded during the quarter ended December 31, 2018. This gain in addition to the \$2.0 million loss recorded earlier in 2018 were reclassified to Other Income (Expense), net in the Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2018. The assets and liabilities of the business are no longer separately identified as held for sale on the Consolidated Balance Sheets as of December 31, 2018 and 2017 and the estimated loss on sale recorded during 2016 has been reclassified to Other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss).



Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments

CaféX

In the first quarter of 2015, the Company invested \$9.0 million in CaféX Communications, Inc. (“CaféX”) through the purchase of a portion of its outstanding Series B Preferred Stock of CaféX. CaféX is a provider of omni-channel web-based real time communication (WebRTC) solutions that enhance mobile applications and websites with in-app video communication and screen share technology to increase customer satisfaction and enterprise efficiency. At December 31, 2015, the Company owned 17.2% of the total equity of CaféX. During the fourth quarter of 2016, the Company invested an additional \$4.3 million to purchase a portion of the Series C Preferred Stock of CaféX; of which \$3.2 million was paid in the fourth quarter of 2016 and \$1.1 million was paid in the first quarter of 2017. At December 31, 2018, the Company owns 17.2% of the total equity of CaféX. The investment is accounted for under the cost method of accounting. The Company evaluates its investments for possible other-than-temporary impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

During the first quarter of 2018, the Company provided a \$2.1 million bridge loan which accrues interest at a rate of 12% per year until maturity or conversion, which will be no later than June 30, 2020. Based on subsequent events, the Company believes that the loan could convert into Series D preferred stock.

As of March 31, 2018, the Company evaluated the investment in CaféX for impairment due to a large anticipated sale of IP not being completed as planned during the first quarter, a shift in the strategy of the company, an ongoing default by CaféX of its loan agreement with its bank, and a lack of potential additional funding options as of March 31, 2018. Based on this evaluation, the Company determined that the fair value of its investment was zero and thus the investment was impaired as of March 31, 2018. The Company recorded a \$15.6 million write-off of the equity investment and the bridge loan which was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

Divestitures

Technology Solutions Group (“TSG”)

Effective June 30, 2017, the Company sold the Technology Solutions Group (“TSG”) to SKC Communication Products, LLC (“SKC”) for an upfront payment of \$250 thousand and future contingent royalty payments over the next 3 years. TSG had been included in the CTS segment. During the second quarter of 2017, a \$30 thousand gain, which included the write-off of \$0.7 million of goodwill, was recorded and included in the Consolidated Statements of Comprehensive Income (Loss). During the third quarter of 2017, a \$141 thousand gain was recorded as a result of TSG delivering to SKC working capital in excess of the target set forth in the stock purchase agreement, and the gain was included in the Consolidated Statements of Comprehensive Income (Loss). In the aggregate, TTEC received \$0.3 million and \$2.0 million for the fourth quarter and year ended December 31, 2018, respectively, related to quarterly royalty payments which were included in Other Income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

TeleTech Spain Holdings SL

In the third quarter of 2017, the Company dissolved TeleTech Spain Holdings SL, a fully owned foreign subsidiary domiciled in Spain. Upon complete liquidation, \$3.2 million attributable to the accumulated translation adjustment component of equity has been removed from Accumulated other comprehensive income (loss) and recognized as part of the gain on liquidation. The \$3.2 million gain was included in Other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2017.

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (3)SEGMENT INFORMATION

The Company reports the following four segments:

- the CMS segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
- the CGS segment provides technology-enabled sales and marketing solutions that support revenue generation across the customer lifecycle, including sales advisory, search engine optimization, digital demand generation, lead qualification, and acquisition sales, growth and retention services;
- the CTS segment includes system design consulting, customer experience technology product, implementation and integration consulting services, and management of clients' cloud and on-premise solutions; and
- the CSS segment provides professional services in customer experience strategy and operations, insights, system and operational process optimization, and culture development and knowledge management.

The Company allocates to each segment its portion of corporate operating expenses. All intercompany transactions between the reported segments for the periods presented have been eliminated.

The following tables present certain financial data by segment (in thousands):

## Year Ended December 31, 2018

|                              | Gross<br>Revenue | Intersegment<br>Sales | Net<br>Revenue | Depreciation<br>&<br>Amortization | Income<br>(Loss)<br>from<br>Operations |
|------------------------------|------------------|-----------------------|----------------|-----------------------------------|--|
| Customer Management Services | \$ 1,129,048     | \$ —                  | \$ 1,129,048   | \$ 57,864                         | \$ 49,161                              |
| Customer Growth Services     | 141,324          | —                     | 141,324        | 2,501                             | 9,839                                  |
| Customer Technology Services | 170,559          | (345)                 | 170,214        | 7,002                             | 26,634                                 |
| Customer Strategy Services   | 68,585           | —                     | 68,585         | 1,812                             | 6,420                                  |
| Total                        | \$ 1,509,516     | \$ (345)              | \$ 1,509,171   | \$ 69,179                         | \$ 92,054                              |

## Year Ended December 31, 2017

|  | Gross<br>Revenue | Intersegment<br>Sales | Net<br>Revenue | Depreciation<br>&<br>Amortization | Income<br>(Loss) from<br>Operations |
|--|------------------|-----------------------|----------------|-----------------------------------|-------------------------------------|
|  | \$ 1,141,779     | \$ (19)               | \$ 1,141,760   | \$ 52,193                         | \$ 78,206                           |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

Customer Management  
Services

|                              |              |          |              |           |            |
|------------------------------|--------------|----------|--------------|-----------|------------|
| Customer Growth Services     | 128,698      | —        | 128,698      | 2,959     | 7,803      |
| Customer Technology Services | 138,918      | (337)    | 138,581      | 7,092     | 12,047     |
| Customer Strategy Services   | 68,326       | —        | 68,326       | 2,263     | 2,433      |
| Total                        | \$ 1,477,721 | \$ (356) | \$ 1,477,365 | \$ 64,507 | \$ 100,489 |

Year Ended December 31, 2016

|                                 | Gross<br>Revenue | Intersegment<br>Sales | Net<br>Revenue | Depreciation<br>&<br>Amortization | Income<br>(Loss) from<br>Operations |
|---------------------------------|------------------|-----------------------|----------------|-----------------------------------|-------------------------------------|
| Customer Management<br>Services | \$ 924,654       | \$ (329)              | \$ 924,325     | \$ 48,770                         | \$ 50,541                           |
| Customer Growth Services        | 141,005          | —                     | 141,005        | 5,905                             | 6,969                               |
| Customer Technology Services    | 141,865          | (611)                 | 141,254        | 10,645                            | 933                                 |
| Customer Strategy Services      | 68,674           | —                     | 68,674         | 3,355                             | (5,691)                             |
| Total                           | \$ 1,276,198     | \$ (940)              | \$ 1,275,258   | \$ 68,675                         | \$ 52,752                           |

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

|                              | For the Year Ended December 31, |           |           |
|------------------------------|---------------------------------|-----------|-----------|
|                              | 2018                            | 2017      | 2016      |
| Capital Expenditures         |                                 |           |           |
| Customer Management Services | \$ 38,617                       | \$ 48,069 | \$ 40,321 |
| Customer Growth Services     | —                               | 871       | 4,185     |
| Customer Technology Services | 3,957                           | 2,308     | 5,217     |
| Customer Strategy Services   | 876                             | 710       | 1,109     |
| Total                        | \$ 43,450                       | \$ 51,958 | \$ 50,832 |

|                              | December 31, |              |            |
|------------------------------|--------------|--------------|------------|
|                              | 2018         | 2017         | 2016       |
| Total Assets                 |              |              |            |
| Customer Management Services | \$ 788,550   | \$ 869,594   | \$ 585,679 |
| Customer Growth Services     | 42,981       | 41,036       | 71,540     |
| Customer Technology Services | 162,222      | 100,351      | 115,537    |
| Customer Strategy Services   | 60,755       | 67,755       | 73,548     |
| Total                        | \$ 1,054,508 | \$ 1,078,736 | \$ 846,304 |

|                              | December 31, |            |            |
|------------------------------|--------------|------------|------------|
|                              | 2018         | 2017       | 2016       |
| Goodwill                     |              |            |            |
| Customer Management Services | \$ 114,036   | \$ 119,497 | \$ 42,589  |
| Customer Growth Services     | 24,439       | 24,439     | 24,439     |
| Customer Technology Services | 41,979       | 40,839     | 41,500     |
| Customer Strategy Services   | 24,179       | 24,952     | 24,153     |
| Total                        | \$ 204,633   | \$ 209,727 | \$ 132,681 |



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The following tables present certain financial data based upon the geographic location where the services are provided (in thousands):

|                                      | As of and for the<br>Year Ended December 31, |              |              |
|--------------------------------------|--|--------------|--------------|
|                                      | 2018   | 2017         | 2016         |
| Revenue                              |  |              |              |
| United States                        | \$ 862,026                                   | \$ 820,597   | \$ 693,023   |
| Philippines                          | 351,829                                      | 353,122      | 351,853      |
| Latin America                        | 109,104                                      | 130,082      | 122,347      |
| Europe / Middle East / Africa        | 67,163                                       | 62,597       | 65,866       |
| Canada                               | 61,071                                       | 74,252       | 13,950       |
| Asia Pacific / India                 | 57,978                                       | 36,715       | 28,219       |
| Total                                | \$ 1,509,171                                 | \$ 1,477,365 | \$ 1,275,258 |
| Property, plant and equipment, gross |  |              |              |
| United States                        | \$ 508,202                                   | \$ 490,110   | \$ 441,222   |
| Philippines                          | 130,176                                      | 137,683      | 133,214      |
| Latin America                        | 44,065                                       | 51,451       | 50,605       |
| Europe / Middle East / Africa        | 10,499                                       | 10,280       | 8,805        |
| Canada                               | 15,193                                       | 15,912       | 19,988       |
| Asia Pacific / India                 | 19,874                                       | 24,592       | 23,484       |
| Total                                | \$ 728,009                                   | \$ 730,028   | \$ 677,318   |
| Other long-term assets               |  |              |              |
| United States                        | \$ 56,459                                    | \$ 46,029    | \$ 36,442    |
| Philippines                          | 5,188  | 7,753        | 8,194        |
| Latin America                        | 1,329  | 1,475        | 1,161        |
| Europe / Middle East / Africa        | 544  | (750)        | 1,099        |
| Canada                               | 241  | 324          | 514          |
| Asia Pacific / India                 | 1,680  | 4,326        | 110          |
| Total                                | \$ 65,441                                    | \$ 59,157    | \$ 47,520    |

## (4) ACCOUNTS RECEIVABLE AND SIGNIFICANT CLIENTS

Accounts receivable, net in the accompanying Consolidated Balance Sheets consists of the following (in thousands):

|                                       | December 31, |            |
|---------------------------------------|--------------|------------|
|                                       | 2018         | 2017       |
| Accounts receivable                   | \$ 355,107   | \$ 392,823 |
| Less: Allowance for doubtful accounts | (4,145)      | (921)      |
| Accounts receivable, net              | \$ 350,962   | \$ 391,902 |

Activity in the Company's Allowance for doubtful accounts consists of the following (in thousands):

|                                       | December 31, |        |          |
|---------------------------------------|--------------|--------|----------|
|                                       | 2018         | 2017   | 2016     |
| Balance, beginning of year            | \$ 921       | \$ 662 | \$ 2,176 |
| Provision for doubtful accounts       | 3,679        | 458    | 1,164    |
| Uncollectible receivables written-off | (429)        | (180)  | (2,670)  |
| Effect of foreign currency and other  | (26)         | (19)   | (8)      |
| Balance, end of year                  | \$ 4,145     | \$ 921 | \$ 662   |

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

On October 15, 2018, Sears Holding Corporation (“Sears”) announced that it had filed a petition for bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York. As of December 31, 2018, TTEC had approximately \$2.7 million in pre-petition accounts receivables outstanding related to Sears and during the fourth quarter of 2018 a \$2.7 million allowance for uncollectible accounts was recorded and included in Selling, general and administrative expenses in the Consolidated Statements of Comprehensive Income (Loss). TTEC continues to provide services to Sears and has received assurances that the cost of its post-petition services will be covered by funds that Sears has available to satisfy its obligations to its current service providers through debtor in possession financing.

## Significant Clients

The Company had one client that contributed in excess of 10% of total revenue for the year ended December 31, 2018. This client operates in the healthcare industry and is included in the CMS segment. The Company had a different client that contributed 10% of total revenue in the year ended 2016. This client operates in the communications industry and is included in the CMS segment. The revenue from these clients as a percentage of total revenue was as follows:

|                           | Year Ended December 31, |   |      |   |      |   |
|---------------------------|-------------------------|---|------|---|------|---|
|                           | 2018                    |   | 2017 |   | 2016 |   |
| Healthcare client         | 10                      | % | 7    | % | 4    | % |
| Telecommunications client | 7                       | % | 9    | % | 10   | % |

Accounts receivable from these clients was as follows (in thousands):

|                           | Year Ended December 31, |           |           |
|---------------------------|-------------------------|-----------|-----------|
|                           | 2018                    | 2017      | 2016      |
| Healthcare client         | \$ 49,245               | \$ 56,802 | \$ 22,414 |
| Telecommunications client | \$ 19,329               | \$ 27,111 | \$ 28,080 |

The loss of one or more of its significant clients could have a material adverse effect on the Company’s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company’s credit risk with its clients, management performs periodic credit evaluations, maintains allowances for uncollectible accounts and may require pre-payment for services from certain clients. Based on currently available information, management does not believe significant credit risk exists as of December 31, 2018.

Accounts Receivable Factoring Agreement

On March 5, 2019, the Company entered into an Uncommitted Receivables Purchase Agreement with a third-party bank (“Bank”), whereby from time-to-time the Company may elect to sell U.S. accounts receivables of certain clients at a discount to the bank for cash on a limited recourse basis. The maximum amount of receivables sold by the Company and purchased by the Bank at any given time shall not exceed \$75 million. The discount on the accounts receivable sold will be recorded within Other expense, net in the Consolidated Statements of Comprehensive Income (Loss).

F-27

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (5)PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2018         | 2017       |
| Land and buildings                              | \$ 33,286    | \$ 38,858  |
| Computer equipment and software                 | 411,653      | 390,944    |
| Telephone equipment                             | 45,351       | 46,521     |
| Furniture and fixtures                          | 74,538       | 76,860     |
| Leasehold improvements                          | 161,960      | 176,467    |
| Motor vehicles                                  | 90           | 158        |
| Construction-in-progress and other              | 1,131        | 220        |
| Property, plant and equipment, gross            | 728,009      | 730,028    |
| Less: Accumulated depreciation and amortization | (566,486)    | (566,682)  |
| Property, plant and equipment, net              | \$ 161,523   | \$ 163,346 |

Depreciation and amortization expense for property, plant and equipment was \$58.4 million, \$57.0 million and \$59.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Included in the computer equipment and software is internally developed software of \$11.2 million net and \$8.5 million net as of December 31, 2018 and 2017, respectively.

## (6)GOODWILL

Goodwill consisted of the following (in thousands):

| December 31,<br>2017 | Acquisitions /<br>Adjustments | Impairments | Effect of<br>Foreign<br>Currency | December 31,<br>2018 |
|----------------------|-------------------------------|-------------|----------------------------------|----------------------|
| \$ 119,497           | \$ (125)                      | \$ —        | \$ (5,336)                       | \$ 114,036           |

Customer Management  
Services

|                              |            |          |      |            |            |
|------------------------------|------------|----------|------|------------|------------|
| Customer Growth Services     | 24,439     | —        | —    | —          | 24,439     |
| Customer Technology Services | 40,839     | 1,232    | —    | (92)       | 41,979     |
| Customer Strategy Services   | 24,952     | —        | —    | (773)      | 24,179     |
| Total                        | \$ 209,727 | \$ 1,107 | \$ — | \$ (6,201) | \$ 204,633 |

|                                 | December 31,<br>2016 | Acquisitions /<br>Adjustments | Impairments | Effect of<br>Foreign<br>Currency | December 31,<br>2017 |
|---------------------------------|----------------------|-------------------------------|-------------|----------------------------------|----------------------|
| Customer Management<br>Services | \$ 42,589            | \$ 73,934                     | \$ —        | \$ 2,974                         | \$ 119,497           |
| Customer Growth Services        | 24,439               | —                             | —           | —                                | 24,439               |
| Customer Technology Services    | 41,500               | (661)                         | —           | —                                | 40,839               |
| Customer Strategy Services      | 24,153               | —                             | —           | 799                              | 24,952               |
| Total                           | \$ 132,681           | \$ 73,273                     | \$ —        | \$ 3,773                         | \$ 209,727           |

## Impairment

The Company has four reporting units with goodwill and performs a goodwill impairment test on at least an annual basis. The Company conducts its annual goodwill impairment test during the fourth quarter, or more frequently, if indicators of impairment exist.

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the annual goodwill impairment analysis, the Company elected to perform a Step 1 evaluation for all of its reporting units, which includes comparing a reporting unit's estimated fair value to its carrying value. The determination of fair value requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term growth rates for the businesses, the useful lives over which the cash flows will occur and determination of appropriate discount rates (based in part on the Company's weighted average cost of capital). Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. As of December 1, 2018, the date of the annual impairment testing, the Company concluded that for all four of the reporting units the fair values were in excess of their respective carrying values and the goodwill for those reporting units was not impaired.

The process of evaluating the fair value of the reporting units is highly subjective and requires significant judgment and estimates as the reporting units operate in a number of markets and geographical regions. The Company used a market approach and an income approach to determine our best estimates of fair value which incorporated the following significant assumptions:

- Revenue projections, including revenue growth during the forecast periods ranging from (23.9)% to 32.2%;
  - EBITDA margin projections held relatively flat over the forecast periods ranging from 10.5% to 20.0%;
  - Estimated income tax rates of 26.0% to 27.6%;
    - Estimated capital expenditures ranging from \$0.8 million to \$47.5 million; and
  - Discount rates ranging from 10% to 14.5% based on various inputs, including the risks associated with the specific reporting units, the country of operations as well as their revenue growth and EBITDA margin assumptions.
- CMS - Humanify reporting unit

As of December 1, 2016, the calculated fair value for the Humanify reporting unit was below the carrying value which necessitated an impairment analysis. The Company tested all of the assets of the reporting unit for impairment.

Definite-lived long-lived assets consisted of internally developed software and purchased IP. Based on a decision to change the strategy of this business unit in December 2016 which will not use these assets on a go forward basis, the Company has determined that there is no value associated with these assets and recorded a \$10.8 million impairment in the three months ended December 31, 2016, which was included in Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

For the goodwill impairment analysis, the Company calculated the fair value of the Humanify reporting unit and compared that to the updated carrying value and determined that the fair value was not in excess of its carrying value. Key assumptions used in the fair value calculation for goodwill impairment testing include, but are not limited to, revenue growth of approximately \$300 thousand to \$1 million per year through 2027, a perpetual growth rate of 3%, a discount rate of 16.75%, and negative EBITDA through 2020 growing to a 15.6% EBITDA for the terminal year. Estimated future cash flows under the income approach were based on the Company's internal business plan adjusted as appropriate for the Company's view of market participant assumptions.

The fair value of the Humanify reporting unit was determined to be zero. Upon completing this assessment, the Company determined that the implied fair value of goodwill was below the carrying value and the entire goodwill balance of \$1.4 million was impaired and expensed in the three months ended December 31, 2016 which is included in Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

F-29

---



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (7) OTHER INTANGIBLE ASSETS

Other intangible assets which are included in Other long-term assets in the accompanying Consolidated Balance Sheets consisted of the following (in thousands):

|  | December 31,<br>2017 | Amortization | Impairments | Acquisitions<br>and<br>Adjustments | Effect of<br>Foreign<br>Currency | December 31,<br>2018 |
|--|----------------------|--------------|-------------|------------------------------------|----------------------------------|----------------------|
| Customer relationships,<br>gross                         | \$ 127,431           | \$ —         | \$ —        | \$ 1,956                           | \$ (5,860)                       | \$ 123,527           |
| Customer relationships -<br>accumulated<br>amortization  | (35,217)             | (10,546)     | —           | 1,203                              | 1,337                            | (43,223)             |
| Other intangible assets,<br>gross                        | 4,784                | —            | —           | —                                  | (209)                            | 4,575                |
| Other intangible assets -<br>accumulated<br>amortization | (3,913)              | (212)        | —           | —                                  | 157                              | (3,968)              |
| Other intangible assets,<br>net                          | \$ 93,085            | \$ (10,758)  | \$ —        | \$ 3,159                           | \$ (4,575)                       | \$ 80,911            |

|  | December 31,<br>2016 | Amortization | Impairments | Acquisitions<br>and<br>Adjustments | Effect of<br>Foreign<br>Currency | December 31,<br>2017 |
|--|----------------------|--------------|-------------|------------------------------------|----------------------------------|----------------------|
| Customer<br>relationships, gross                           | \$ 53,402            | \$ —         | \$ (6,120)  | \$ 78,320                          | \$ 1,829                         | \$ 127,431           |
| Customer<br>relationships -<br>accumulated<br>amortization | (27,810)             | (7,213)      | 3,230       | (3,230)                            | (194)                            | (35,217)             |
| Other intangible<br>assets, gross                          | 4,589                | —            | (3,701)     | 3,852                              | 44                               | 4,784                |
| Other intangible<br>assets - accumulated<br>amortization   | (3,978)              | (254)        | 2,930       | (2,929)                            | 318                              | (3,913)              |
|  | 5,665                | —            | (5,322)     | —                                  | (343)                            | —                    |

Trade name -  
indefinite life  
Other intangible  
assets, net

|           |            |            |           |          |           |
|-----------|------------|------------|-----------|----------|-----------|
| \$ 31,868 | \$ (7,467) | \$ (8,983) | \$ 76,013 | \$ 1,654 | \$ 93,085 |
|-----------|------------|------------|-----------|----------|-----------|

The acquisitions and adjustments recorded during 2018 relate to the purchase of SCS (see Note 2 for further information) and the fair value of the CSS-PRG balance sheet (see below).

The acquisitions and adjustments recorded during 2017 relate to the purchase of Connexions and Motif (see Note 2 for further information) and the impairment of intangible assets during the fourth quarter of 2017 (see below).

#### CTS - eLoyalty

During the fourth quarter of 2017 in connection with the rebranding of the consolidated company, management determined that it would no longer be using the name of eLoyalty and would be transitioning to TTEC Digital. Based on this change in branding strategy, an evaluation of the indefinite-lived trade name was completed and it was determined that the fair value of the asset was zero. The Company recorded an impairment expense of \$3.3 million in the three months ended December 31, 2017 which was included in Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

#### CSS - PRG

During the fourth quarter of 2017 in connection with the rebranding of the consolidated company and the full integration of the CSS segment, management determined that it will no longer be using the name of PRG and would be transitioning all CSS entities to TTEC Consulting. Based on this change in branding strategy, an evaluation of the indefinite-lived trade name was completed and it was determined that the fair value of the asset was zero. The Company recorded impairment expense of \$2.0 million in the three months ended December 31, 2017 which was included in Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

As of December 31, 2018, in connection with reclassifying a business unit from assets held for sale to assets held and used, a fair value assessment was completed and it was determined that due to continuing estimated losses, the fair value of the customer relationship balance was zero. The Company recorded a \$0.7 million fair value adjustment during the fourth quarter of 2018 which was included in Other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss).

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Customer relationships are being amortized over the remaining weighted average useful life of 8.2 years and other intangible assets are being amortized over the remaining weighted average useful life of 4.6 years. Amortization expense related to intangible assets was \$10.8 million, \$7.5 million and \$9.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Expected future amortization of other intangible assets as of December 31, 2018 is as follows (in thousands):

|            |           |
|------------|-----------|
| 2019       | \$ 10,557 |
| 2020       | 9,341     |
| 2021       | 8,840     |
| 2022       | 8,156     |
| 2023       | 7,619     |
| Thereafter | 36,398    |
| Total      | \$ 80,911 |

## (8) DERIVATIVES

## Cash Flow Hedges

The Company enters into foreign exchange related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company's exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company's policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of December 31, 2018, the Company had not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016 (in thousands and net of tax):

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | 2018                    | 2017        | 2016        |
| Aggregate unrealized net gain/(loss) at beginning of period | \$ (15,746)             | \$ (32,393) | \$ (26,885) |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|  |            |             |             |
|--|------------|-------------|-------------|
| Add: Net gain/(loss) from change in fair value of cash flow hedges   | 20,278     | 31,053      | 11,242      |
| Less: Net (gain)/loss reclassified to earnings from effective hedges | (12,810)   | (14,406)    | (16,750)    |
| Aggregate unrealized net gain/(loss) at end of period                | \$ (8,278) | \$ (15,746) | \$ (32,393) |

The Company's foreign exchange cash flow hedging instruments as of December 31, 2018 and 2017 are summarized as follows (in thousands). All hedging instruments are forward contracts.

|                         | Local<br>Currency<br>Notional<br>Amount | U.S. Dollar<br>Notional<br>Amount | % Maturing<br>in the next<br>12 months | Contracts<br>Maturing<br>Through |
|-------------------------|---|-----------------------------------|--|----------------------------------|
| As of December 31, 2018 |   |                                   |  |                                  |
| Philippine Peso         | 6,710,000                               | 130,957 (1)                       | 60.7 %                                 | December 2021                    |
| Mexican Peso            | 1,091,500                               | 57,708                            | 53.0 %                                 | December 2021                    |
|                         |   | \$ 188,665                        |  |                                  |

F-31

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

|                         | Local<br>Currency<br>Notional<br>Amount | U.S. Dollar<br>Notional<br>Amount |
|-------------------------|---|-----------------------------------|
| As of December 31, 2017 |   |                                   |
| Philippine Peso         | 10,685,000                              | 219,917 (1)                       |
| Mexican Peso            | 1,609,000                               | 93,589                            |
|                         |   | \$ 313,506                        |

---

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on December 31, 2018 and December 31, 2017.

## Fair Value Hedges

The Company enters into foreign exchange forward contracts to economically hedge against foreign currency exchange gains and losses on certain receivables and payables of the Company's foreign operations. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in earnings in Other income (expense), net. As of December 31, 2018 and 2017, the total notional amount of the Company's forward contracts used as fair value hedges was \$70.4 million and \$176.2 million, respectively.

## Derivative Valuation and Settlements

The Company's derivatives as of December 31, 2018 and 2017 were as follows (in thousands):

| Designation:   | December 31, 2018   |                               | Not Designated<br>as Hedging<br>Instruments<br>Foreign<br>Exchange<br>Fair Value |
|--|---|-------------------------------|--|
|  | Designated<br>as Hedging<br>Instruments<br>Foreign<br>Exchange<br>Cash Flow | Interest<br>Rate<br>Cash Flow |  |
| Derivative contract type:  |   |                               |  |
| Derivative classification:   |   |                               |  |
| Fair value and location of derivative in the Consolidated Balance Sheet: |   |                               |  |
| Prepays and other current assets   | \$ 814  | \$ —                          | \$ 60  |
| Other long-term assets   | 215   | —                             | —  |
| Other current liabilities  | (8,861)   | —                             | (104)  |
| Other long-term liabilities  | (3,484)   | —                             | —  |
| Total fair value of derivatives, net                                     | \$ (11,316)   | \$ —                          | \$ (44)  |

| Designation:   | December 31, 2017                       |                               | Not Designated<br>as Hedging<br>Instruments |
|--|---|-------------------------------|---|
|  | Designated<br>as Hedging<br>Instruments | Interest<br>Rate<br>Cash Flow |   |
| Derivative contract type:  | Foreign<br>Exchange<br>Cash Flow        | Interest<br>Rate<br>Cash Flow | Foreign<br>Exchange<br>Fair Value           |
| Derivative classification:   |   |                               |   |
| Fair value and location of derivative in the Consolidated Balance Sheet: |   |                               |   |
| Prepays and other current assets   | \$ 220                                  | \$ —                          | \$ 1,603                                    |
| Other long-term assets   | 393                                     | —                             | —   |
| Other current liabilities  | (15,603)                                | —                             | (133)                                       |
| Other long-term liabilities  | (11,266)                                | —                             | —   |
| Total fair value of derivatives, net                                     | \$ (26,256)                             | \$ —                          | \$ 1,470                                    |

F-32

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The effect of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017 were as follows (in thousands):

| Designation:   | Year Ended December 31,           |               |                                   |               |
|--|-----------------------------------|---------------|-----------------------------------|---------------|
|  | 2018                              |               | 2017                              |               |
|  | Designated as Hedging Instruments |               | Designated as Hedging Instruments |               |
| Derivative contract type:  | Foreign Exchange                  | Interest Rate | Foreign Exchange                  | Interest Rate |
| Derivative classification:   | Cash Flow                         | Cash Flow     | Cash Flow                         | Cash Flow     |
| Amount of gain or (loss) recognized in Other comprehensive income (loss) - effective portion, net of tax   | \$ (12,810)                       | \$ —          | \$ (14,336)                       | \$ (70)       |
| Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion: |                                   |               |                                   |               |
| Revenue  | \$ (17,548)                       | \$ —          | \$ (22,792)                       | \$ —          |
| Interest expense   | —                                 | —             | —                                 | (115)         |

| Designation:   | Year Ended December 31,               |                          |                                       |                          |
|--|---------------------------------------|--------------------------|---------------------------------------|--------------------------|
|  | 2018                                  |                          | 2017                                  |                          |
|  | Not Designated as Hedging Instruments |                          | Not Designated as Hedging Instruments |                          |
| Derivative contract type:  | Foreign Exchange Forward              | Foreign Exchange Forward | Foreign Exchange Forward              | Foreign Exchange Forward |
| Derivative classification:   | Contract Fair Value                   | Contract Fair Value      | Contract Fair Value                   | Contract Fair Value      |
| Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss): |                                       |                          |                                       |                          |
| Cost of services   | \$ —                                  | \$ —                     | \$ —                                  | \$ —                     |
| Other income (expense), net  | —                                     | (7,436)                  | —                                     | 1,350                    |

(9) FAIR VALUE

The authoritative guidance for fair value measurements establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that the Company maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

1 —

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following presents information as of December 31, 2018 and 2017 of the Company's assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

Accounts Receivable and Payable - The amounts recorded in the accompanying balance sheets approximate fair value because of their short-term nature.

F-33

---



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Investments – The Company measures investments, including cost and equity method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include market observable inputs and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. As of December 31, 2018, the investment in CaféX Communications, Inc., which consists of the Company’s total \$15.6 million investment was fully impaired to zero (see Note 2).

Debt - The Company’s debt consists primarily of the Company’s Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company’s leverage ratio calculation (as defined in the Credit Agreement). As of December 31, 2018 and 2017, the Company had \$282.0 million and \$344.0 million, respectively, of borrowings outstanding under the Credit Agreement. During 2018 and 2017, borrowings accrued interest at an average rate of 3.1% and 2.2% per annum, respectively, excluding unused commitment fees. The amounts recorded in the accompanying Balance Sheets approximate fair value due to the variable nature of the debt based on level 2 inputs.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of December 31, 2018, credit risk did not materially change the fair value of the Company’s derivative contracts.

The following is a summary of the Company’s fair value measurements for its net derivative assets (liabilities) as of December 31, 2018 and 2017 (in thousands):

As of December 31, 2018

|  | Fair Value Measurements Using                   |   |   | At Fair Value |
|--|---|---|---|---------------|
|  | Quoted Prices for Identifiable Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |               |
| Cash flow hedges                       | \$ —  | \$ (11,316)                             | \$ —                                      | \$ (11,316)   |
| Fair value hedges                      | —   | (44)                                    | —   | (44)          |
| Total net derivative asset (liability) | \$ —  | \$ (11,360)                             | \$ —                                      | \$ (11,360)   |

As of December 31, 2017

|  | Fair Value Measurements Using   |  |  | At Fair Value |
|--|---|--|--|---------------|
|  | Quoted Prices<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |               |
| Cash flow hedges                       | \$ —  | \$ (26,256)                                      | \$ —   | \$ (26,256)   |
| Fair value hedges                      | —   | 1,470  | —  | 1,470         |
| Total net derivative asset (liability) | \$ —  | \$ (24,786)                                      | \$ —   | \$ (24,786)   |

F-34

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The following is a summary of the Company's fair value measurements as of December 31, 2018 and 2017 (in thousands):

As of December 31, 2018

|                                      | Fair Value Measurements Using   |   |  |
|--------------------------------------|---|---|--|
|                                      | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>                        |   |   |  |
| Derivative instruments, net          | \$ —  | \$ —  | \$ —   |
| Total assets                         | \$ —  | \$ —  | \$ —   |
| <b>Liabilities</b>                   |   |   |  |
| Deferred compensation plan liability | \$ —  | \$ (14,836)                                   | \$ —   |
| Derivative instruments, net          | —   | (11,360)                                      | —  |
| Contingent consideration             | —   | —   | (2,363)  |
| Total liabilities                    | \$ —  | \$ (26,196)                                   | \$ (2,363)   |

As of December 31, 2017

|                                      | Fair Value Measurements Using   |   |  |
|--------------------------------------|---|---|--|
|                                      | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>                        |   |   |  |
| Derivative instruments, net          | \$ —  | \$ —  | \$ —   |
| Total assets                         | \$ —  | \$ —  | \$ —   |
| <b>Liabilities</b>                   |   |   |  |
| Deferred compensation plan liability | \$ —  | \$ (13,219)                                   | \$ —   |
| Derivative instruments, net          | —   | (24,786)                                      | —  |
| Contingent consideration             | —   | —   | (399)  |
| Total liabilities                    | \$ —  | \$ (38,005)                                   | \$ (399)   |

Deferred Compensation Plan - The Company maintains a non-qualified deferred compensation plan structured as a Rabbi trust for certain eligible employees. Participants in the deferred compensation plan select from a menu of phantom investment options for their deferral dollars offered by the Company each year, which are based upon changes in value of complementary, defined market investments. The deferred compensation liability represents the combined values of market investments against which participant accounts are tracked.

Contingent Consideration — The Company recorded contingent consideration related to the acquisition of SCS. This contingent payable was recognized at fair value using a discounted cash flow approach and a discount rate of 4.7%. The measurements were based on significant inputs not observable in the market. The Company recorded interest expense each period using the effective interest method until the future value of these contingent payables reached their expected future value. Interest expense related to all recorded contingent payables is included in Interest expense in the Consolidated Statements of Comprehensive Income (Loss).

The Company recorded contingent consideration related to a revenue servicing agreement with Welltok in the fourth quarter of 2016, in which a maximum of \$1.25 million would be paid over eight quarters based on the dollar value of revenue earned by the Company. The contingent payable was recognized at fair value of \$1.25 million as of December 31, 2016. Payments totaling \$851 thousand were completed during 2017 and the final payment of \$399 thousand was made during the first quarter of 2018.

F-35

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

A rollforward of the activity in the Company's fair value of the contingent consideration is as follows (in thousands):

|         | December 31,<br>2017 | Acquisitions | Payments | Imputed<br>Interest /<br>Adjustments | December 31,<br>2018 |
|---------|----------------------|--------------|----------|--------------------------------------|----------------------|
| Welltok | \$ 399               | \$ —         | \$ (399) | \$ —                                 | \$ —                 |
| SCS     | —                    | 2,731        | —        | (368)                                | 2,363                |
| Total   | \$ 399               | \$ 2,731     | \$ (399) | \$ (368)                             | \$ 2,363             |

|         | December 31,<br>2016 | Acquisitions | Payments   | Imputed<br>Interest /<br>Adjustments | December 31,<br>2017 |
|---------|----------------------|--------------|------------|--------------------------------------|----------------------|
| Welltok | \$ 1,250             | \$ —         | \$ (851)   | \$ —                                 | \$ 399               |
| Atelka  | 558                  | —            | (582)      | 24                                   | —                    |
| Total   | \$ 1,808             | \$ —         | \$ (1,433) | \$ 24                                | \$ 399               |

## (10) INCOME TAXES

The sources of pre-tax operating income are as follows (in thousands):

|          | Year Ended December 31, |           |            |
|----------|-------------------------|-----------|------------|
|          | 2018                    | 2017      | 2016       |
| Domestic | \$ (13,926)             | \$ 10,909 | \$ (6,216) |
| Foreign  | 70,164                  | 77,978    | 56,514     |
| Total    | \$ 56,238               | \$ 88,887 | \$ 50,298  |

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 post-1986 foreign earnings on domestic corporations

effective for the 2017 tax year. As of December 31, 2018, the Company has completed its analysis of the impacts of the 2017 Tax Act within the measurement period in accordance with SAB 118, and no material adjustment was recorded to the 2017 estimate.

The significant components of this expense include (i) the remeasurement of net deferred tax assets at the lower enacted U.S. federal corporate tax rate, (ii) the deemed repatriation tax on unremitted non-U.S. earnings and profits that were previously tax deferred and (iii) other miscellaneous tax impacts.

While the Company's accounting for the recorded impact of the 2017 Tax Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the Internal Revenue Service ("IRS") could impact the Company's recorded amounts in future periods.

The Company's selection of an accounting policy with respect to both the new GILTI and BEAT rules is to compute the related taxes in the period the entity becomes subject to either. A reasonable estimate of the effects of these provisions has been included in the 2018 annual financial statements.

No changes in indefinite reinvestment assertion were made during the year. The Company has completed its analysis in regard to the full tax impact related to prior changes in indefinite reinvestment reassertion and any related taxes have been recorded. No additional income taxes have been provided for any remaining outside basis difference inherent in the Company's foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations. Determination of any unrecognized deferred tax liability related to the outside basis difference in investments in foreign subsidiaries is not practicable due to the inherent complexity of the multi-national tax environment in which the Company operates.

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The components of the Company's Provision for (benefit from) income taxes are as follows (in thousands):

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2018                    | 2017      | 2016      |
| Current provision for (benefit from)            |                         |           |           |
| Federal   | \$ 2,771                | \$ 48,556 | \$ (373)  |
| State   | 2,754                   | 99        | 372       |
| Foreign   | 18,933                  | 12,643    | 14,447    |
| Total current provision for (benefit from)      | 24,458                  | 61,298    | 14,446    |
| Deferred provision for (benefit from)           |                         |           |           |
| Federal   | (943)                   | 14,441    | (2,390)   |
| State   | (138)                   | 707       | 103       |
| Foreign   | (6,894)                 | 1,629     | 704       |
| Total deferred provision for (benefit from)     | (7,975)                 | 16,777    | (1,583)   |
| Total provision for (benefit from) income taxes | \$ 16,483               | \$ 78,075 | \$ 12,863 |

The following reconciles the Company's effective tax rate to the federal statutory rate (in thousands):

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2018                    | 2017      | 2016      |
| Income tax per U.S. federal statutory rate (21%, 35%, 35%)     | \$ 11,810               | \$ 31,110 | \$ 17,605 |
| State income taxes, net of federal deduction                   | 2,003                   | 460       | (158)     |
| Change in valuation allowances                                 | 2,191                   | (924)     | (129)     |
| Foreign income taxes at different rates than the U.S.          | (3,758)                 | (14,417)  | (10,206)  |
| Foreign withholding taxes                                      | 785                     | 323       | 590       |
| Losses in international markets without tax benefits           | (68)                    | 1,098     | 2,474     |
| Nondeductible compensation under Section 162(m)                | 615                     | 647       | 104       |
| Liabilities for uncertain tax positions                        | 1,105                   | 1,607     | (133)     |
| Permanent difference related to foreign exchange gains         | 136                     | 142       | 388       |
| (Income) losses of foreign branch operations                   | 475                     | (824)     | (635)     |
| Non-taxable earnings of noncontrolling interest                | (594)                   | (1,030)   | (1,128)   |
| Foreign dividend less foreign tax credits                      | (1,748)                 | (4,798)   | (4,646)   |
| Decrease (increase) to deferred tax asset - change in tax rate | (1,944)                 | 1,101     | 443       |
| State income tax credits                                       | 19                      | 207       | 100       |
| Foreign earnings taxed currently in U.S.                       | 3,976                   | 3,143     | 3,673     |
| Taxes related to prior year filings                            | (1,659)                 | (865)     | 2,554     |
| Taxes related to acquisition accounting                        | 2,110                   | —         | —         |
| Transition tax   | —                       | 61,569    | —         |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|                                   |           |           |           |
|-----------------------------------|-----------|-----------|-----------|
| Other                             | 1,029     | (474)     | 1,967     |
| Income tax per effective tax rate | \$ 16,483 | \$ 78,075 | \$ 12,863 |

F-37

---



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The Company's deferred income tax assets and liabilities are summarized as follows (in thousands):

|   | Year Ended December 31, |          |
|---|-------------------------|----------|
|   | 2018                    | 2017     |
| Deferred tax assets, gross  |                         |          |
| Accrued workers compensation, deferred compensation and employee benefits | \$ 8,724                | \$ 8,597 |
| Allowance for doubtful accounts, insurance and other accruals             | 3,301                   | 2,197    |
| Amortization of deferred rent liabilities                                 | 2,614                   | 2,352    |
| Net operating losses  | 18,475                  | 17,887   |
| Equity compensation   | 1,348                   | 1,481    |
| Customer acquisition and deferred revenue accruals                        | 13,894                  | 7,026    |
| Federal and state tax credits, net  | 549                     | 50       |
| Unrealized losses on derivatives  | 2,035                   | 3,137    |
| Impairment of equity investment   | 4,221                   | —        |
| Other   | 1,001                   | 1,557    |
| Total deferred tax assets, gross  | 56,162                  | 44,284   |
| Valuation allowances  | (10,867)                | (9,526)  |
| Total deferred tax assets, net  | 45,295                  | 34,758   |
| Deferred tax liabilities  |                         |          |
| Depreciation and amortization   | (15,547)                | (12,850) |
| Contract acquisition costs  | (8,519)                 | (5,331)  |
| Intangible assets   | (15,890)                | (15,405) |
| Other   | (187)                   | (446)    |
| Total deferred tax liabilities  | (40,143)                | (34,032) |
| Net deferred tax assets   | \$ 5,152                | \$ 726   |

Quarterly, the Company assesses the likelihood by jurisdiction that its net deferred tax assets will be recovered. Based on the weight of all available evidence, both positive and negative, the Company records a valuation allowance against deferred tax assets when it is more-likely-than-not that a future tax benefit will not be realized.

As of December 31, 2018 the Company had approximately \$3.0 million of net deferred tax assets in the U.S. and \$2.2 million of net deferred tax assets related to certain international locations whose recoverability is dependent upon their future profitability. As of December 31, 2018 the deferred tax valuation allowance was \$10.9 million and related primarily to tax losses in foreign jurisdictions which do not meet the "more-likely-than-not" standard under current accounting guidance.

When there is a change in judgment concerning the recovery of deferred tax assets in future periods, a valuation allowance is recorded into earnings during the quarter in which the change in judgment occurred. In 2018, the Company made adjustments to its deferred tax assets and corresponding valuation allowances. The net change to the valuation allowance consisted of the following: a \$1.6 million increase related to capital loss carry forwards and other credit carry forwards not expected to be utilized, a \$1.4 million increase in valuation allowance in the United

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

Kingdom, Ireland, Canada, Luxembourg, Turkey and Australia for deferred tax assets that do not meet the “more-likely-than-not” standard, and a \$1.6 million release of valuation allowance in Argentina, New Zealand, Belgium, and the United States and various other jurisdictions related to the utilization or write-off of deferred tax assets.

Activity in the Company’s valuation allowance accounts consists of the following (in thousands):

|   | Year Ended December 31, |          |           |
|---|-------------------------|----------|-----------|
|   | 2018                    | 2017     | 2016      |
| Beginning balance                         | \$ 9,526                | \$ 9,949 | \$ 10,139 |
| Additions of deferred income tax expense  | 2,913                   | 2,044    | 1,914     |
| Reductions of deferred income tax expense | (1,572)                 | (2,467)  | (2,104)   |
| Ending balance                            | \$ 10,867               | \$ 9,526 | \$ 9,949  |

F-38

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of December 31, 2018, after consideration of all tax loss and tax credit carry back opportunities, the Company had tax affected tax loss carry forwards worldwide expiring as follows (in thousands):

|               |           |
|---------------|-----------|
| 2019          | \$ 86     |
| 2020          | 146       |
| 2021          | 91        |
| 2022          | —         |
| After 2022    | 12,361    |
| No expiration | 5,791     |
| Total         | \$ 18,475 |

The Company has been granted “Tax Holidays” as an incentive to attract foreign investment by the governments of the Philippines and Costa Rica. Generally, a Tax Holiday is an agreement between the Company and a foreign government under which the Company receives certain tax benefits in that country, such as exemption from taxation on profits derived from export-related activities. In the Philippines, the Company has been granted multiple agreements, with an initial period of four years and additional periods for varying years, expiring at various times between 2019 and 2020. The aggregate benefit to income tax expense for the years ended December 31, 2018, 2017 and 2016 was approximately \$8.2 million, \$11.9 million and \$12.4 million, respectively, which had a favorable impact on diluted net income per share of \$0.18, \$0.26 and \$0.27, respectively.

## Accounting for Uncertainty in Income Taxes

In accordance with ASC 740, the Company has recorded a reserve for uncertain tax positions. The total amount of interest and penalties recognized in the accompanying Consolidated Balance Sheets and Consolidated Statements of Comprehensive Income (Loss) as of December 31, 2018, 2017 and 2016 was approximately \$1.4 million, \$1.8 million and \$693 thousand, respectively.

The Company had a reserve for uncertain tax benefits, on a net basis, of \$4.8 million and \$3.3 million for the years ended December 31, 2018 and 2017, respectively. The liability for uncertain tax positions was decreased by \$2.1 million during 2018 for the release of uncertain tax positions related to the closing of statutes of limitations and increased by \$3.6 million relating to new positions.

The tabular reconciliation of the reserve for uncertain tax benefits on a gross basis without interest for the three years ended December 31, 2018 is presented below (in thousands):

|  |          |
|--|----------|
| Balance as of December 31, 2015          | \$ 2,709 |
| Additions for current year tax positions | 826      |
| Reductions in prior year tax positions   | (1,153)  |

Edgar Filing: TTEC Holdings, Inc. - Form 10-K

|  |          |
|--|----------|
| Balance as of December 31, 2016          | 2,382    |
| Additions for current year tax positions | 916      |
| Reductions in prior year tax positions   | —        |
| Balance as of December 31, 2017          | 3,298    |
| Additions for current year tax positions | 3,600    |
| Reductions in prior year tax positions   | (2,114)  |
| Balance as of December 31, 2018          | \$ 4,784 |

At December 31, 2018, the amount of uncertain tax benefits including interest, that, if recognized, would reduce tax expense was \$6.2 million. Within the next 12 months, it is expected that the amount of unrecognized tax benefits may be reduced by \$2.5 million as a result of the expiration of various statutes of limitation or other confirmations of tax positions.

In accordance with ASC 740, during the second quarter of 2018, \$1.1 million of liability was released due to the closing of statutes of limitations. During the third quarter of 2018, \$2.0 million of liability was released due to the closing of statutes of limitations and changes calculated as allowed under SAB 118 related to the 2017 Tax Act. During the fourth quarter of 2018, the Company recorded liabilities of \$3.6 million related to new uncertain tax positions.

F-39

---

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

During the second quarter of 2016, \$0.3 million of liability was released due to the closing of a statute of limitations.

During the third quarter of 2016, \$0.8 million of liability was released due to the favorable outcome of communications with a revenue authority related to site compliance for locations with tax advantaged status.

During the third quarter of 2016, \$0.5 million of liability was released due to the closing of a statute of limitations.

The Company and its domestic and foreign subsidiaries (including Percepta LLC and its domestic and foreign subsidiaries) file income tax returns as required in the U.S. federal jurisdiction and various state and foreign jurisdictions. The following table presents the major tax jurisdictions and tax years that are open as of December 31, 2018 and subject to examination by the respective tax authorities:

| Tax Jurisdiction | Tax Year Ended  |
|------------------|-----------------|
| United States    | 2015 to present |
| Australia        | 2014 to present |
| Brazil           | 2013 to present |
| Canada           | 2010 to present |
| Mexico           | 2013 to present |
| Philippines      | 2015 to present |

The Company's U.S. income tax returns filed for the tax years ending December 31, 2015 to present, remain open tax years. The Company has been notified of the intent to audit, or is currently under audit of, income taxes for Canada for tax years 2009 and 2010, the Philippines for tax year 2015, Belgium for tax years 2016 and 2017, the state of New York for tax years 2015 through 2017, and the state of Minnesota in the United States for tax years 2014 through 2016. The Company received a report of initial deficiency tax findings from the Philippines Bureau of Internal Revenue ("BIR") related to the 2015 tax year. The Company does not agree with the amount in question and is working closely with the BIR to clarify and resolve the outstanding discrepancies. Although the outcome of examinations by taxing authorities are always uncertain, it is the opinion of management that the resolution of these audits will not have a material effect on the Company's Consolidated Financial Statements.

(11) RESTRUCTURING CHARGES, INTEGRATION CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the years ended December 31, 2018, 2017 and 2016, the Company continued restructuring activities primarily associated with reductions in the Company's capacity, workforce and related management in all of its segments to better align the capacity and workforce with current business needs.

During 2017, several restructuring activities were completed related to the purchase of Connexions (see Note 2) including the closure of two delivery centers that came with the acquisition. During 2017, a net \$0.4 million severance accrual was recorded in relation to these closures. In conjunction with closing these two delivery centers, a \$0.6 million termination fee and a \$1.4 million net lease liability and applicable expenses were recorded as of December 31, 2017. These net charges were included in the Consolidated Statements of Comprehensive Income (Loss) during the year ended December 31, 2017. During 2018, in connection with one of these delivery centers, an early termination option was exercised and a \$1.9 million fee was expensed and recorded in Restructuring, net in the Consolidated Statements of Comprehensive Income (Loss).

During 2018, TTEC determined it would close several other delivery centers and a net \$1.1 million and \$1.8 million in the CMS and CGS segments, respectively, were expensed related to early termination fees and cease use lease accruals. These expenses are included in the Restructuring and integration charges, net in the Consolidated Statements of Comprehensive Income (Loss) as of December 31, 2018.

F-40

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

A summary of the expenses recorded for restructuring and included in Restructuring and integration charges, net in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016, respectively, is as follows (in thousands):

|                              | Year Ended December 31, |          |          |
|------------------------------|-------------------------|----------|----------|
|                              | 2018                    | 2017     | 2016     |
| Reduction in force           |                         |          |          |
| Customer Management Services | \$ 694                  | \$ 1,012 | \$ 2,837 |
| Customer Growth Services     | —                       | —        | 147      |
| Customer Technology Services | —                       | 94       | 324      |
| Customer Strategy Services   | 133                     | 55       | 92       |
| Total                        | \$ 827                  | \$ 1,161 | \$ 3,400 |

|                                 | Year Ended December 31, |          |        |
|---------------------------------|-------------------------|----------|--------|
|                                 | 2018                    | 2017     | 2016   |
| Facility exit and other charges |                         |          |        |
| Customer Management Services    | \$ 3,550                | \$ 2,050 | \$ 959 |
| Customer Growth Services        | 1,754                   | —        | —      |
| Customer Technology Services    | —                       | 84       | 33     |
| Customer Strategy Services      | —                       | 85       | —      |
| Total                           | \$ 5,304                | \$ 2,219 | \$ 992 |

A rollforward of the activity in the Company's restructuring accruals for the years ended December 31, 2018 and 2017, respectively, is as follows (in thousands):

|                                 | Reduction<br>in Force | Facility<br>Exit and<br>Other<br>Charges | Total    |
|---------------------------------|-----------------------|--|----------|
| Balance as of December 31, 2016 | \$ 1,468              | \$ 98                                    | \$ 1,566 |
| Expense                         | 1,316                 | 2,219                                    | 3,535    |
| Payments                        | (1,892)               | (908)                                    | (2,800)  |
| Changes due to foreign currency | (43)                  | —  | (43)     |
| Changes in estimates            | (155)                 | —  | (155)    |
| Balance as of December 31, 2017 | 694                   | 1,409                                    | 2,103    |

|                                 |        |          |          |
|---------------------------------|--------|----------|----------|
| Expense                         | 1,021  | 5,303    | 6,324    |
| Payments                        | (937)  | (3,480)  | (4,417)  |
| Changes due to foreign currency | (169)  | (6)      | (175)    |
| Changes in estimates            | (193)  | —        | (193)    |
| Balance as of December 31, 2018 | \$ 416 | \$ 3,226 | \$ 3,642 |

The remaining restructuring accruals are expected to be paid or extinguished during 2019 and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

#### Integration Charges

During the third and fourth quarters of 2017, as a result of the Connexions acquisition, certain integration activities were completed and \$5.6 million and \$3.9 million of additional expenses were incurred and paid, respectively. These integration activities included the hiring, training and licensing of a group of employees at new delivery centers as one of the acquired centers was closed during the third quarter of 2017 and one of the acquired centers was closed during the fourth quarter of 2017. In connection with these center closures, leasehold improvements of \$3.5 million were written off as a related integration expense. The Company has also incurred significant expenses related to the integration of the IT systems and has paid duplicative software costs and facilities expenses for several areas during the transition period.



Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain customer engagement centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of its asset group are estimated to be less than the asset group's carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During 2018, 2017 and 2016, the Company recognized impairment losses related to leasehold improvement assets of \$1.1 million, zero and zero, respectively, in its CMS segment.

(12)INDEBTEDNESS

Credit Facility

On October 30, 2017, the Company entered into a Third Amendment to the 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. 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.

On February 14, 2019, the Company entered into a Fourth Amendment to its Amended and Restated Credit Agreement and Amended and Restated Security Agreement originally dated as of June 3, 2013 (collectively the "Credit Agreement") for a senior secured revolving credit facility with a syndicate of lenders led by Wells Fargo Bank, National Association, as agent, swing line and fronting lender (the "Credit Facility"). The amended Credit Agreement provides for a secured revolving Credit Facility that matures on February 14, 2024.

Other than the extension of the Credit Facility's maturity date and a few material terms outlined below, the material terms of the Credit Facility, including pricing and collateral, are substantially the same as those previously disclosed as part of the Company's Annual Report on Form 10-K for the period ended December 31, 2015 ("2016 Credit Facility").

The maximum commitment under the Credit Facility is \$900.0 million, with an accordion feature of up to \$1.2 billion in the aggregate, if certain conditions are satisfied. The Credit Facility commitment fees are payable to the lenders in an amount equal to the unused portion of the Credit Facility multiplied by 0.150% per annum from the Credit Facility inception date until a compliance certificate is provided by the Company in connection with its quarterly financial statements for the quarter ended March 31, 2019, and thereafter as previously disclosed and as determined by reference to the Company's net leverage ratio. The Credit Agreement contains customary affirmative, negative, and financial covenants, which remained unchanged from the 2016 Credit Facility, except that the Company is now obligated to maintain a maximum net leverage ratio of 3.50 to 1.00, and a minimum Interest Coverage Ratio of 2.50 to 1.00. The Credit Agreement permits accounts receivable factoring up to the greater of \$75 million or 25 percent of the average book value of all accounts receivable over the most recent twelve month period.

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, and (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 the Company's net leverage ratio. Eurodollar loans bear interest at LIBOR plus a margin of 1.0% to 1.75% based on the Company's 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.

F-42

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases, dividends, and other strategic activities, such as the acquisitions described in Note 2. As of December 31, 2018, and 2017, the Company had borrowings of \$282.0 million and \$344.0 million, respectively, under its Credit Agreement, and its average daily utilization was \$514.7 million and \$494.7 million for the years ended December 31, 2018 and 2017, respectively. Based on the current level of availability based on the covenant calculations, the Company's remaining borrowing capacity was approximately \$360.0 million as of December 31, 2018. As of December 31, 2018, the Company was in compliance with all covenants and conditions under its Credit Agreement.

## (13) DEFERRED REVENUE AND COSTS

Deferred revenue in the accompanying Consolidated Balance Sheets consist of the following (in thousands):

|                              | December 31, |           |
|------------------------------|--------------|-----------|
|                              | 2018         | 2017      |
| Deferred Revenue - Current   | \$ 44,926    | \$ 21,650 |
| Deferred Revenue - Long-term | 33,247       | 9,632     |
| Total Deferred Revenue       | \$ 78,173    | \$ 31,282 |

Deferred costs in the accompanying Consolidated Balance Sheets consist of the following (in thousands):

|                            | December 31, |           |
|----------------------------|--------------|-----------|
|                            | 2018         | 2017      |
| Deferred Costs - Current   | \$ 23,539    | \$ 13,649 |
| Deferred Costs - Long-term | 34,042       | 9,654     |
| Total Deferred Costs       | \$ 57,581    | \$ 23,303 |

Activity in the Company's Deferred revenue accounts consists of the following (in thousands):

|                                 |           |
|---------------------------------|-----------|
| Balance as of December 31, 2017 | \$ 31,282 |
| Additions                       | 155,096   |

|                                 |           |
|---------------------------------|-----------|
| Amortization                    | (108,205) |
| Balance as of December 31, 2018 | \$ 78,173 |

(14)COMMITMENTS AND CONTINGENCIES

Letters of Credit

As of December 31, 2018, outstanding letters of credit under the Credit Agreement totaled \$3.1 million and primarily guaranteed workers' compensation and other insurance related obligations. As of December 31, 2018, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled \$0.6 million.

Guarantees

Indebtedness under the Credit Agreement is guaranteed by certain of the Company's present and future domestic subsidiaries.

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.

F-43

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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.

## (15) LEASES

The Company has various operating leases primarily for customer engagement centers, equipment, and office space, which generally contain renewal options. Rent expense under operating leases was approximately \$43.7 million, \$46.3 million and \$39.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

In 2008, the Company sub-leased one of its customer engagement centers to a third party for the remaining term of the original lease. The sub-lease began on January 1, 2009 and rental income is recognized on a straight-line basis over the term of the sub-lease through 2021. In 2017, the Company sub-leased one of its office spaces for the remaining term of the original lease. The sub-lease began on November 6, 2017 and ends May 31, 2021.

The future minimum rental payments and receipts required under non-cancelable operating leases as of December 31, 2018 are as follows (in thousands):

|            | Operating<br>Leases | Sub-Lease<br>Income |
|------------|---------------------|---------------------|
| 2019       | \$ 47,379           | \$ (2,624)          |
| 2020       | 36,045              | (2,631)             |
| 2021       | 30,678              | (276)               |
| 2022       | 26,584              | —                   |
| 2023       | 17,226              | —                   |
| Thereafter | 25,362              | —                   |
| Total      | \$ 183,274          | \$ (5,531)          |

The Company records operating lease expense on a straight-line basis over the life of the lease as described in Note 1. The deferred lease liability as of December 31, 2018 and 2017 was \$16.6 million and \$15.7 million, respectively.

## Asset Retirement Obligations

The Company records asset retirement obligations ("ARO") for several of its customer engagement center leases. Capitalized costs related to ARO's are included in Other long-term assets in the accompanying Consolidated Balance Sheets while the ARO liability is included in Other long-term liabilities in the accompanying Consolidated Balance Sheets. Following is a summary of the amounts recorded (in thousands):

|                     | Balance at<br>December 31,<br>2017 | Additions and<br>Modifications | Accretion | Settlements | Balance at<br>December 31,<br>2018 |
|---------------------|------------------------------------|--------------------------------|-----------|-------------|------------------------------------|
| ARO liability total | \$ 1,938                           | \$ 1,153                       | \$ 14     | \$ (623)    | \$ 2,482                           |

|                     | Balance at<br>December 31,<br>2016 | Additions and<br>Modifications | Accretion | Settlements | Balance at<br>December 31,<br>2017 |
|---------------------|------------------------------------|--------------------------------|-----------|-------------|------------------------------------|
| ARO liability total | \$ 1,861                           | \$ 317                         | \$ 7      | \$ (247)    | \$ 1,938                           |

Increases to ARO result from a new lease agreement or modifications on an ARO from a preexisting lease agreement. Modifications to ARO liabilities and accumulated accretion occur when lease agreements are amended or when assumptions change, such as the rate of inflation. Modifications are accounted for prospectively as changes in estimates. Settlements occur when leased premises are vacated and the actual

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

cost of restoration is paid. Differences between the actual costs of restoration and the balance recorded as ARO liabilities are recognized as gains or losses in the accompanying Consolidated Statements of Comprehensive Income (Loss).

## (16) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in the accumulated balance for each component of Other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (in thousands):

|  | Foreign<br>Currency<br>Translation<br>Adjustment | Derivative<br>Valuation, Net<br>of Tax | Other, Net<br>of Tax | Totals       |
|--|--|--|----------------------|--------------|
| Accumulated other comprehensive income (loss)<br>at December 31, 2015      | \$ (71,196)                                      | \$ (26,885)                            | \$ (3,284)           | \$ (101,365) |
| Other comprehensive income (loss) before<br>reclassifications              | (20,812)   | 11,242                                 | 1,902                | (7,668)      |
| Amounts reclassified from accumulated other<br>comprehensive income (loss) | —  | (16,750)                               | (1,181)              | (17,931)     |
| Net current period other comprehensive<br>(income) loss                    | (20,812)   | (5,508)                                | 721                  | (25,599)     |
| Accumulated other comprehensive income (loss)<br>at December 31, 2016      | \$ (92,008)                                      | \$ (32,393)                            | \$ (2,563)           | \$ (126,964) |
| Accumulated other comprehensive income (loss)<br>at December 31, 2016      | \$ (92,008)                                      | \$ (32,393)                            | \$ (2,563)           | \$ (126,964) |
| Other comprehensive income (loss) before<br>reclassifications              | 7,908  | 31,053                                 | 575                  | 39,536       |
|  | —  | (14,406)                               | (470)                | (14,876)     |

|   |              |             |            |              |
|---|--------------|-------------|------------|--------------|
| Amounts reclassified from accumulated other comprehensive income (loss) |              |             |            |              |
| Net current period other comprehensive income (loss)                    | 7,908        | 16,647      | 105        | 24,660       |
| Accumulated other comprehensive income (loss) at December 31, 2017      | \$ (84,100)  | \$ (15,746) | \$ (2,458) | \$ (102,304) |
| Accumulated other comprehensive income (loss) at December 31, 2017      | \$ (84,100)  | \$ (15,746) | \$ (2,458) | \$ (102,304) |
| Other comprehensive income (loss) before reclassifications              | (30,068)     | 20,278      | 712        | (9,078)      |
| Amounts reclassified from accumulated other comprehensive income (loss) | —            | (12,810)    | (404)      | (13,214)     |
| Net current period other comprehensive income (loss)                    | (30,068)     | 7,468       | 308        | (22,292)     |
| Accumulated other comprehensive income (loss) at December 31, 2018      | \$ (114,168) | \$ (8,278)  | \$ (2,150) | \$ (124,596) |

F-45



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The following table presents the classification and amount of the reclassifications from Accumulated other comprehensive income (loss) to the Statement of Comprehensive Income (Loss) (in thousands):

|  | For the Year Ended December 31, |             |             | Statement of                                  |
|--|---------------------------------|-------------|-------------|---|
|  | 2018                            | 2017        | 2016        | Comprehensive Income<br>(Loss) Classification |
| <b>Derivative valuation</b>                            |                                 |             |             |   |
| Loss on foreign currency forward<br>exchange contracts | \$ (17,548)                     | \$ (22,792) | \$ (28,025) | Revenue                                       |
| Loss on interest rate swaps                            | —                               | (115)       | (534)       | Interest expense                              |
| Tax effect   | 4,738                           | 8,501       | 11,809      | Provision for income taxes                    |
|  | \$ (12,810)                     | \$ (14,406) | \$ (16,750) | Net income (loss)                             |
| <b>Other</b>   |                                 |             |             |   |
| Actuarial loss on defined benefit plan                 | \$ (446)                        | \$ (522)    | \$ (1,310)  | Cost of services                              |
| Tax effect   | 42                              | 52          | 129         | Provision for income taxes                    |
|  | \$ (404)                        | \$ (470)    | \$ (1,181)  | Net income (loss)                             |

## (17) NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted shares for the periods indicated (in thousands):

|  | Year Ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2018                    | 2017   | 2016   |
| Shares used in basic earnings per share calculation    | 46,064                  | 45,826 | 47,423 |
| Effect of dilutive securities:                         |                         |        |        |
| Stock options  | 6                       | 10     | 10     |
| Restricted stock units                                 | 314                     | 536    | 286    |
| Performance-based restricted stock units               | 1                       | 10     | 17     |
| Total effects of dilutive securities                   | 321                     | 556    | 313    |
| Shares used in dilutive earnings per share calculation | 46,385                  | 46,382 | 47,736 |

For the years ended December 31, 2018, 2017 and 2016, there were zero, zero and 60 thousand options to purchase shares of common stock or performance-based restricted stock that were outstanding but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the years ended December 31, 2018, 2017 and 2016, restricted stock units of 212 thousand, 21 thousand, and 71 thousand, respectively, were outstanding but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

#### (18)EMPLOYEE COMPENSATION PLANS

##### Employee Benefit Plan

The Company currently has a 401(k) profit-sharing plan that allows participation by U.S. employees who have completed six months of service, as defined, and are 21 years of age or older. Participants may defer up to 75% of their gross pay, up to a maximum limit determined by U.S. federal law. Participants are also eligible for a matching contribution. The Company may from time to time, at its discretion, make a “matching contribution” based on the amount and rate of the elective deferrals. The Company determines how much, if any, it will contribute for each dollar of elective deferrals. Participants vest in matching contributions over a three-year period. Company matching contributions to the 401(k) plan(s) totaled \$5.2 million, \$5.7 million and \$5.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Table of Contents

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Equity Compensation Plans

In May 2010, the Company adopted the TeleTech Holdings, Inc. 2010 Equity Incentive Plan (the “2010 Plan”). An aggregate of 4.0 million shares of common stock has been reserved for issuance under the 2010 Plan, which permits the award of incentive stock options, non-qualified stock options, stock appreciation rights, shares of restricted common stock and RSUs. The 2010 Plan also provides for annual equity-based compensation grants to members of the Company’s Board of Directors. Options granted to employees generally vest over four to five years and have a contractual life of ten years. Options issued to Directors vest over one year and have a contractual life of ten years. As of December 31, 2018, a total of 4.0 million shares were authorized and 1.0 million shares were available for issuance under the 2010 Plan.

For the years ended December 31, 2018, 2017, and 2016, the Company recorded total equity-based compensation expense under all equity-based arrangements (stock options and RSUs) of \$12.1 million, \$11.9 million and \$9.8 million, respectively. For 2018, 2017 and 2016, of the total compensation expense, \$4.7 million, \$4.1 million and \$3.1 million was recognized in Cost of services and \$7.4 million, \$7.8 million and \$6.7 million, was recognized in Selling, general and administrative in the Consolidated Statements of Comprehensive Income (Loss), respectively. For the years ended December 31, 2018, 2017, and 2016, the Company recognized a tax benefit under all equity-based arrangements (stock options and RSUs) of \$3.7 million, \$6.8 million and \$5.0 million, respectively.

Restricted Stock Units

2016, 2017 and 2018 RSU Awards: The Company granted RSUs in 2016, 2017 and 2018 to new and existing employees that vest over four or five years. The Company also granted RSUs in 2016, 2017 and 2018 to members of the Board of Directors that vest over one year.

During 2015, the Company granted performance-based RSUs to an executive the amount of which is determinable based on a reporting segment of the Company achieving incremental operating income for each year from 2015-2017. During 2015 and 2016, based on operating income performance for reporting segment of the Company, approximately \$0.4 million and \$0.1 million of RSUs were earned. These RSUs were granted in March 2016 and March 2017, respectively, and will vest 12 months from the grant date. During 2017, the Company cancelled the 2017 performance grant.

Summary of RSUs: Settlement of the RSUs shall be made in shares of the Company’s common stock by delivery of one share of common stock for each RSU then being settled. The Company calculates the fair value for RSUs based on the closing price of the Company’s stock on the date of grant and records compensation expense over the vesting period using a straight-line method. The Company factors an estimated forfeiture rate in calculating compensation expense on RSUs and adjusts for actual forfeitures upon the vesting of each tranche of RSUs. The Company also factors in the present value of the estimated dividend payments that will have accrued as these RSUs are vesting.

The weighted average grant-date fair value of RSUs, including performance-based RSUs, granted during the years ended December 31, 2018, 2017, and 2016 was \$35.15, \$29.56, and \$26.60, respectively. The total intrinsic value and fair value of RSUs vested during the years ended December 31, 2018, 2017, and 2016 was \$12.5 million, \$10.6 million, and \$10.8 million, respectively.



Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

A summary of the status of the Company's non-vested RSUs and performance-based RSUs and activity for the year ended December 31, 2018 is as follows:

|                                  | Shares    | Weighted<br>Average<br>Grant Date<br>Fair Value |
|----------------------------------|-----------|---|
| Unvested as of December 31, 2017 | 1,290,427 | \$ 27.87  |
| Granted                          | 482,398   | \$ 35.15  |
| Vested                           | (458,444) | \$ 27.35  |
| Cancellations/expirations        | (172,943) | \$ 30.38  |
| Unvested as of December 31, 2018 | 1,141,438 | \$ 30.78  |

All RSUs vested during the year ended December 31, 2018 were issued out of treasury stock. As of December 31, 2018, there was approximately \$23.1 million of total unrecognized compensation expense and approximately \$32.6 million in total intrinsic value related to non-vested RSU grants. The unrecognized compensation expense will be recognized over the remaining weighted-average vesting period of 1.4 years using the straight-line method.

## Stock Options

There were no stock options granted during 2018, 2017 or 2016. The total intrinsic value of options exercised during the years ended December 31, 2018, 2017 and 2016 was \$156 thousand, \$194 thousand and \$400 thousand, respectively. The total fair value of stock options vested during the years ended December 31, 2018, 2017 and 2016 was zero, respectively.

Cash received from option exercises under the Plans for the years ended December 31, 2018, 2017 and 2016 was \$0.2 million, \$2.1 million and \$0.4 million, respectively. The recognized tax benefit from option exercises for the years ended December 31, 2018, 2017 and 2016 was \$0.0 million, \$0.0 million and \$0.2 million, respectively. Shares issued for options exercised during the year ended December 31, 2018 were issued out of treasury stock.

## (19) STOCK REPURCHASE PROGRAM

## Stock Repurchase Program

The Company has a stock repurchase program, which was initially authorized by the Company's Board of Directors in November 2001. As of December 31, 2018, the cumulative authorized repurchase allowance was \$762.3 million. During the year ended December 31, 2018, the Company purchased no additional shares. Since inception of the program, the Company has purchased 46.1 million shares for \$735.8 million. As of December 31, 2018, the remaining allowance under the program was approximately \$26.6 million. For the period from January 1, 2019 through February 28, 2019, the Company did not purchase additional shares. The stock repurchase program does not have an expiration date.

#### (20)RELATED PARTY TRANSACTIONS

The Company entered into an agreement under which Avion, LLC ("Avion") and Airmax LLC ("Airmax") provide certain aviation flight services as requested by the Company. Such services include the use of an aircraft and flight crew. Kenneth D. Tuchman, Chairman and Chief Executive Officer of the Company, has a direct 100% beneficial ownership interest in Avion and Airmax. During 2018, 2017 and 2016, the Company expensed \$1.1 million, \$1.1 million and \$1.0 million, respectively, to Avion and Airmax for services provided to the Company. There was \$122 thousand in payments due and outstanding to Avion and Airmax as of December 31, 2018.

F-48

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

During 2014, the Company entered into a vendor contract with Convercent Inc. to provide learning management and web and telephony based global helpline solutions. This contract was renewed, after an arms-length market pricing review, in the fourth quarter of 2016. The majority owner of Convercent is a company which is owned and controlled by Kenneth D. Tuchman, Chairman and Chief Executive Officer of the Company. During 2018, 2017 and 2016, the Company expensed \$60 thousand, \$70 thousand and \$100 thousand, respectively, to Convercent.

During 2015, the Company entered into a contract to purchase software from CaféX, which is a company that TTEC holds a 17.2% equity investment in. During 2018, 2017 and 2016, the Company purchased \$44 thousand, \$72 thousand and \$405 thousand, respectively, of software from CaféX. See Note 2 for further information regarding this investment.

During 2017, in connection with the Motif acquisition, the Company became a party to a real estate lease for a building that is owned by one of the Motif Founders. The lease expires in 2019 and has future payments of approximately \$8 thousand.

Ms. Regina M. Paolillo, Chief Financial and Administrative Officer of the Company, is a member of the board of directors of Welltok, Inc., a consumer health SaaS company, and partner of the Company in Welltok TTEC Communications joint venture. During the years ended December 31, 2018 and 2017, the Company recorded revenue of \$5.7 million and \$5.5 million, respectively, in connection with work performed through the joint venture.

## (21) OTHER FINANCIAL INFORMATION

Self-insurance liabilities of the Company which are included in Accrued employee compensation and benefits and Other accrued expenses in the accompanying Consolidated Balance Sheets were as follows (in thousands):

|                                      | December 31, |          |
|--------------------------------------|--------------|----------|
|                                      | 2018         | 2017     |
| Employee health and dental insurance | \$ 3,987     | \$ 5,312 |
| Workers compensation                 | 1,802        | 1,631    |
| Total self-insurance liabilities     | \$ 5,789     | \$ 6,943 |





Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## (22) QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present certain quarterly financial data for the year ended December 31, 2018 (in thousands except per share amounts).

|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Revenue  | \$ 375,249       | \$ 349,853        | \$ 364,936       | \$ 419,133        |
| Cost of services                                       | 283,370          | 274,260           | 286,925          | 313,372           |
| Selling, general and administrative                    | 47,045           | 44,245            | 43,321           | 47,817            |
| Depreciation and amortization                          | 17,924           | 16,811            | 17,317           | 17,127            |
| Restructuring and integration charges, net             | 849              | 1,034             | 2,716            | 1,532             |
| Impairment losses                                      | 1,120            | —                 | —                | 332               |
| Income from operations                                 | 24,941           | 13,503            | 14,657           | 38,953            |
| Other income (expense)                                 | (16,907)         | (6,553)           | (6,020)          | (6,336)           |
| Provision for income taxes                             | (2,102)          | (653)             | (1,893)          | (11,835)          |
| Non-controlling interest                               | (1,341)          | (779)             | (1,369)          | (449)             |
| Net income attributable to TTEC stockholders           | \$ 4,591         | \$ 5,518          | \$ 5,375         | \$ 20,333         |
| Weighted average shares outstanding                    |                  |                   |                  |                   |
| Basic  | 45,871           | 46,016            | 46,172           | 46,193            |
| Diluted  | 46,452           | 46,401            | 46,316           | 46,390            |
| Net income per share attributable to TTEC stockholders |                  |                   |                  |                   |
| Basic  | \$ 0.10          | \$ 0.12           | \$ 0.12          | \$ 0.44           |
| Diluted  | \$ 0.10          | \$ 0.12           | \$ 0.12          | \$ 0.44           |

Included in Other income (expense) in the first quarter is a \$15.6 million expense related to the impairment of the full value of an equity investment and related bridge loan. Also included is a \$0.7 million gain on the purchase of an acquisition.

Included in Other income (expense) in the second quarter and fourth quarter was a \$2.0 million loss and a \$0.4 million gain, respectively, related to a business unit which was classified as assets held for sale but subsequently reclassified to assets held and used.

Included in Other Income (expense) for each of the quarters is an interest expense charge related to the future purchase for the remaining 30% of the Motif acquisition - \$1.9 million, \$3.1 million, \$3.0 million and \$1.9 million in the first, second, third and fourth quarters, respectively.

Included in the Provision for Income Taxes is a \$3.6 million expense in the fourth quarter, a \$1.1 million benefit in the third quarter, a \$1.0 million benefit in the second quarter related to changes in tax contingent liabilities, a \$3.0 million benefit in the fourth quarter, a \$0.2 million expense in the third quarter, a \$0.5 million benefit in the second quarter related to return to provision adjustments, a \$4.2 million benefit in the first quarter related to impairment of an equity investment, a \$0.2 million expense in the first quarter, \$0.1 million of expense in the second quarter, \$0.1 million of expense in the third quarter and \$0.1 million of expense in the fourth quarter related to the disposition of assets, a \$1.5 million expense in the fourth quarter related to changes in valuation allowances, a \$0.1 million benefit in the first quarter, a \$0.2 million benefit in the second quarter and a \$0.4 million benefit in the third quarter related to excess taxes on equity compensation, a \$0.5 million benefit in the fourth quarter, a \$0.7 million benefit in the third quarter, a \$0.2 million benefit in the second quarter, a \$0.6 million benefit in the first quarter related to restructuring charges, a \$0.9 million benefit in the fourth quarter, \$0.1 million of expense in the third quarter and a \$0.2 million expense in the first quarter of other items. Without these items our effective tax rate for the year ended December 31, 2018 would have been 25.6%.

F-50

---

Table of Contents

## TTEC HOLDINGS, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

The following tables present certain quarterly financial data for the year ended December 31, 2017 (in thousands except per share amounts).

|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Revenue  | \$ 338,277       | \$ 353,429        | \$ 359,036       | \$ 426,623        |
| Cost of services                                       | 253,898          | 268,004           | 275,548          | 312,618           |
| Selling, general and administrative                    | 43,220           | 43,985            | 45,167           | 49,942            |
| Depreciation and amortization                          | 14,500           | 16,258            | 16,515           | 17,234            |
| Restructuring and integration charges, net             | 169              | 3,593             | 6,006            | 4,897             |
| Impairment losses                                      | —                | —                 | —                | 5,322             |
| Income from operations                                 | 26,490           | 21,589            | 15,800           | 36,610            |
| Other income (expense)                                 | (932)            | (4,198)           | 1,846            | (8,318)           |
| Provision for income taxes                             | (5,391)          | (1,597)           | (2,071)          | (69,016)          |
| Non-controlling interest                               | (922)            | (1,100)           | (806)            | (728)             |
| Net income (loss) attributable to TTEC stockholders    | \$ 19,245        | \$ 14,694         | \$ 14,769        | \$ (41,452)       |
| Weighted average shares outstanding                    |                  |                   |                  |                   |
| Basic  | 45,950           | 45,662            | 45,838           | 45,856            |
| Diluted  | 46,315           | 46,150            | 46,367           | 46,461            |
| Net income per share attributable to TTEC stockholders |                  |                   |                  |                   |
| Basic  | \$ 0.42          | \$ 0.32           | \$ 0.32          | \$ (0.90)         |
| Diluted  | \$ 0.42          | \$ 0.32           | \$ 0.32          | \$ (0.89)         |

Included in Other income (expense) in the second quarter is a \$3.2 million expense related to additional estimated loss on one of the units being reported as Assets Held for Sale. In the fourth quarter, we sold this unit and a net \$0.6 million gain was recorded.

Included in Other income (expense) in the third quarter, was a \$3.2 million gain related to dissolution of a foreign entity and a release of its cumulative translation adjustment.

Included in Other income (expense) in the fourth quarter is a \$5.25 million expense related to finalization of the transition services agreement for the Connexions acquisition, and a \$1.2 million interest charge related to the future purchase for the remaining 30% of the Motif acquisition.

Included in the Provision for Income Taxes is \$62.4 million of expense in the fourth quarter related to the US 2017 Tax Act, \$0.4 million of expense in the fourth quarter, \$1.3 million of expense in the third quarter and \$1.3 million of benefit in the second quarter related to the disposition of assets, \$1.9 million of benefit in the fourth quarter related to

impairments, a \$1.9 million benefit in the fourth quarter, and a \$2.4 million benefit in the third quarter and a \$1.5 million benefit in the second quarter related to restructuring charges. Also included is \$0.6 million of expense in the fourth quarter related to changes in valuation allowances. Additionally, \$0.3 million of benefit was recorded in the fourth quarter, \$0.2 million of expense was recorded in the third quarter, \$0.7 million of benefit recorded in the second quarter, and \$0.3 million of expense was recorded in the first quarter related to return to provision adjustments. Also included in the fourth quarter was \$2.1 million of benefit related to transition service agreement. Finally, a \$0.2 million benefit was recorded in the fourth quarter, a \$1.0 million benefit was recorded in the third quarter, a \$0.7 million benefit was recorded in the second quarter and a \$0.3 million benefit was recorded in the first quarter related to stock options.

F-51

---