TTEC Holdings, Inc.
Form 10-Q
May 10, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 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 incorporation or organization)	(I.R.S. Employer Identification No.)

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

Registrant's telephone number, including area code: (303) 397-8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 (Do not check if a smaller reporting	Smaller reporting company Emerging growth company

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 April 30, 2018, there were 46,006,719 shares of the registrant's common stock outstanding.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2018 FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TTEC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

(unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 81,594	$ 74,437
Accounts receivable, net	344,249	385,751
Prepaids and other current assets	71,840	63,668
Deferred tax assets, net	—	—
Income tax receivable	12,569	11,099
Assets held for sale	7,412	7,835
Total current assets	517,664	542,790
Long-term assets		
Property, plant and equipment, net	157,215	163,297
Goodwill	205,632	206,694
Deferred tax assets, net	16,476	12,012
Other intangible assets, net	88,707	92,086
Other long-term assets	49,168	61,857
Total long-term assets	517,198	535,946
Total assets	$ 1,034,862	$ 1,078,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 39,472	$ 46,029
Accrued employee compensation and benefits	85,004	83,997
Other accrued expenses	29,442	18,993
Income tax payable	18,318	7,497
Deferred revenue	28,675	21,628
Other current liabilities	22,535	22,312
Liabilities held for sale	1,481	1,322
Total current liabilities	224,927	201,778

Long-term liabilities		
Line of credit	302,500	344,000
Deferred tax liabilities, net	11,458	11,285
Non-current income tax payable	38,956	47,871
Deferred rent	14,677	15,714
Other long-term liabilities	97,121	95,243
Total long-term liabilities	464,712	514,113
Total liabilities	689,639	715,891
Commitments and contingencies (Note 10)		
Stockholders’ equity		
Preferred stock; $0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of March 31, 2018 and December 31, 2017	—	—
Common stock; $0.01 par value; 150,000,000 shares authorized; 45,979,290 and 45,861,959 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	460	459
Additional paid-in capital	351,672	351,725
Treasury stock at cost: 36,072,963 and 36,190,294 shares as of March 31, 2018 and December 31, 2017, respectively	(613,738)	(615,677)
Accumulated other comprehensive income (loss)	(107,903)	(102,304)
Retained earnings	707,257	721,664
Noncontrolling interest	7,475	6,978
Total stockholders’ equity	345,223	362,845
Total liabilities and stockholders’ equity	$ 1,034,862	$ 1,078,736

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

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2018	2017
Revenue	$ 375,249	$ 338,277
Operating expenses		
Cost of services (exclusive of depreciation and amortization presented separately below)	283,370	253,898
Selling, general and administrative	47,045	43,220
Depreciation and amortization	17,924	14,500
Restructuring and integration charges, net	849	169
Impairment losses	1,120	—
Total operating expenses	350,308	311,787
Income from operations	24,941	26,490
Other income (expense)		
Interest income	1,068	426
Interest expense	(6,459)	(2,318)
Other income (expense), net	(11,516)	960
Total other income (expense)	(16,907)	(932)
Income before income taxes	8,034	25,558
Provision for income taxes	(2,102)	(5,391)
Net income	5,932	20,167
Net income attributable to noncontrolling interest	(1,341)	(922)
Net income attributable to TTEC stockholders	$ 4,591	$ 19,245
Other comprehensive income (loss)		
Net income	$ 5,932	$ 20,167
Foreign currency translation adjustments	(5,599)	6,228
Derivative valuation, gross	1,235	13,975
Derivative valuation, tax effect	(1,242)	(5,791)
Other, net of tax	108	129
Total other comprehensive income (loss)	(5,498)	14,541

Total comprehensive income (loss)	434	34,708
Less: Comprehensive income attributable to noncontrolling interest	(1,442)	(1,014)
Comprehensive (loss) income attributable to TTEC stockholders	$ (1,008)	$ 33,694
Weighted average shares outstanding		
Basic	45,871	45,950
Diluted	46,452	46,315
Net income per share attributable to TTEC stockholders		
Basic	$ 0.10	$ 0.42
Diluted	$ 0.10	$ 0.42
Dividends declared per share outstanding	$ 0.27	$ 0.22

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

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

(Amounts in thousands)

(Unaudited)

	Stockholders' Equity of the Company									
	Preferred Stock		Common Stock		Treasury	Additional	Accumulated Other Comprehensive	Retained	Noncontrolling	
	Shares	Amount	Shares	Amount	Stock	Paid-in Capital	Income (Loss)	Earnings	interest	Tot
of 31,	—	$ —	45,862	$ 459	$ (615,677)	$ 351,725	$ (102,304)	$ 721,664	$ 6,978	$
e										
	—	—	—	—	—	—	—	(6,584)	—	
e to rs	—	—	—	—	—	—	—	4,591	1,341	
are)	—	—	—	—	—	—	—	(12,414)	—	
to ing	—	—	—	—	—	—	—	—	(945)	
s s net	—	—	—	—	—	—	(5,700)	—	101	
	—	—	—	—	—	—	(7)	—	—	
tock .	—	—	117	1	1,939	(3,662)	—	—	—	
ns ed on	—	—	—	—	—	—	—	—	—	
	—	—	—	—	—	3,609	—	—	—	

of ock	—		—	—		—		—		—		—		—		—	
of	—		—	—		—		—		—		108		—		—	
of	—	$	—	45,979	$	460	$	(613,738)	$	351,672	$	(107,903)	$	707,257	$	7,475	$

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

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	$ 5,932	$ 20,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,924	14,500
Amortization of contract acquisition costs	362	406
Amortization of debt issuance costs	247	171
Imputed interest expense and fair value adjustments to contingent consideration	2,011	20
Provision for doubtful accounts	124	61
(Gain) loss on disposal of assets	18	23
Impairment losses	1,120	—
Impairment on equity investment	15,632	—
Gain (adjustment) on bargain purchase of a business	(685)	—
Deferred income taxes	(972)	(918)
Excess tax benefit from equity-based awards	(227)	(284)
Equity-based compensation expense	3,609	2,041
(Gain) loss on foreign currency derivatives	725	(1,205)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	41,197	28,610
Prepaids and other assets	2,337	(7,187)
Accounts payable and accrued expenses	2,720	10,456
Deferred revenue and other liabilities	(24,687)	8,071
Net cash provided by operating activities	67,387	74,932
Cash flows from investing activities		
Proceeds from sale of long-lived assets	4	13
Purchases of property, plant and equipment, net of acquisitions	(7,508)	(12,035)
Payments for contract acquisition costs	—	(1,021)
Investments in non-marketable equity investments	(2,119)	(1,153)
Acquisitions, net of cash acquired of zero and zero, respectively	(460)	—
Net cash used in investing activities	(10,083)	(14,196)
Cash flows from financing activities		
Proceeds from line of credit	630,800	536,900
Payments on line of credit	(672,300)	(572,200)

Payments on other debt	(1,563)	(1,215)
Payments of contingent consideration and hold-back payments to acquisitions	(399)	—
Dividends paid to shareholders	—	—
Payments to noncontrolling interest	(945)	(945)
Proceeds from exercise of stock options	—	—
Tax payments related to issuance of restricted stock units	(1,722)	(687)
Payments of debt issuance costs	—	—
Purchase of treasury stock	—	(11,658)
Net cash used in financing activities	(46,129)	(49,805)
Effect of exchange rate changes on cash and cash equivalents	(4,018)	280
Increase in cash and cash equivalents	7,157	11,211
Cash and cash equivalents, beginning of period	74,437	55,264
Cash and cash equivalents, end of period	$ 81,594	$ 66,475
Supplemental disclosures		
Cash paid for interest	$ 4,201	$ 2,127
Cash paid for income taxes	$ 4,143	$ 450
Non-cash investing and financing activities		
Acquisition of long-lived assets through capital leases	$ 4,048	$ 534
Acquisition of equipment through increase in accounts payable, net	$ (372)	$ 1,361
Contract acquisition costs credited to accounts receivable	$ —	$ —
Dividend declared but not paid	$ 12,414	$ 10,069

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

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1)OVERVIEW AND BASIS OF PRESENTATION

Summary of Business

TTEC Holdings, Inc. (“TTEC”, “the Company”) (formerly known as TeleTech Holdings, Inc. until the name was changed in January 2018) is a global customer experience company that designs, builds and operates omnichannel customer experiences on behalf of some of the world's most innovative brands. 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 50,500 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, Macedonia, Mexico, New Zealand, the Philippines, Poland, Singapore, South Africa, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

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.

The unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (“GAAP”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to state fairly the consolidated financial position of the Company and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

These unaudited Consolidated Financial Statements should be read in conjunction with the Company’s audited Consolidated Financial Statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with 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.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”. ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. While ASU-2014-09 was originally effective for fiscal years and interim periods within those years beginning after December 15, 2016, in August 2015, the FASB issued ASU 2015-14, “Deferral of Effective Date”, deferring the effective date by one year, to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. In June 2017, FASB issued ASU 2017-10, “Service Concession Arrangements”, which will be adopted along with the ASU 2014-09 guidance.

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers (“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, 2017	Adjustments Due to ASU 2014-09	January 1, 2018
Balance Sheet			
Assets			
Prepaids and other current assets	$ 63,668	$ 10,797	$ 74,465
Deferred tax assets	12,012	4,006	16,018
Liabilities			
Deferred revenue	$ 21,628	24,785	46,413
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.

TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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):

	As of March 31, 2018		
	As reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Statements of Comprehensive Income			
Revenue	$ 375,249	$ 362,748	$ 12,501
Cost of services	283,370	277,179	6,191
Provision for income taxes	2,102	335	1,767
Net income	$ 5,932	$ 1,389	$ 4,543

	As of March 31, 2018		
	As reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
Assets			
Prepaids and other current assets	$ 71,840	$ 67,234	$ 4,606
Deferred tax assets	16,476	14,229	2,247
Liabilities			
Deferred revenue	$ 28,675	$ 16,389	$ 12,286
Equity			
Retained earnings	$ 707,257	$ 712,690	$ (5,433)

In connection with the adoption of ASC 606, certain of the Company's revenue and related polices have been modified; all policies relevant to ASC 606 have been included below.

Revenue Recognition

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 606. A contract’s transaction price is allocated to each distinct performance obligation in recognizing revenue.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 make up 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 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 do 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, direct and indirect other 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 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 is 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 as a component of Other long-term liabilities in the accompanying Consolidated Balance Sheets based on the period over which the Company expects to render services. Costs

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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 are periodically reviewed for impairment.

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.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Practical Expedients and Exemptions

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. 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. 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.

Other 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 new leases 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 assigned a project manager, is currently selecting an external consultant to assist through the project, is evaluating software solutions and other tracking methods, is assessing the impact on the consolidated financial statements and related disclosures, and determining the implementation approach.

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 is currently assessing the impact on the consolidated financial statements and related disclosures.

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.

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TTEC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(2)ACQUISITIONS AND DIVESTITURES

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 Customer Management Services ("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).

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 trust and safety 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 will be integrated into the Customer Management Services ("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 based 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 $29.8 million liability as of March 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, as part of the Company's CMS segment, and not to compete with the Company with respect to the acquired business.

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

	Preliminary Estimate of Acquisition Date 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	39,272
	$ 93,447
Accounts payable	$ 2,914
Accrued employee compensation and benefits	5,249
Accrued expenses	104
Deferred tax liability	11,402
Other	340
	$ 20,009
Total purchase price	$ 73,438

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 Motif customer relationships have been estimated based on the initial valuation and are amortized over an estimated useful life of 11 years. The goodwill recognized from the Motif acquisition is estimated to be 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.

Connextions

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

U.S.

The total cash paid at acquisition was $80 million. The purchase price was 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 was required to pay 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.

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

	Acquisition Date 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 Connextions for the acquisition date assets acquired and liabilities assumed and determined that no material adjustments to any of the balances were required.

The Connextions customer relationships will be amortized over a useful life of 12 years. The goodwill recognized from the Connextions 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 Connextions are reported within the CMS segment from the date of acquisition.

Financial Impact of Acquired Businesses

2018 Acquisition

The acquired business purchased in the first three months of 2018 was not material to the Company's consolidated financial position or results of operations. The pro forma impact of the 2018 acquisition on the consolidated results of operations of the Company for the first three months of 2018 and 2017 as though the acquisitions occurred on January 1 was also not material.

2017 Acquisitions

The acquired businesses purchased in 2017 did not contribute any revenue and net income to the Company for the three months ended March 31, 2017.

The unaudited proforma financial results for the three months ended March 31, 2017 combines the consolidated results of the Company and its 2017 acquisitions assuming they had been completed on January 1, 2017. The reported revenue and net income of $338.3 million and $19.2 million would have been $384.0 million and $19.0 million for the three months ended March 31, 2017 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.

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Assets and Liabilities Held for Sale

During the third quarter of 2016, the Company determined that one business unit from the Customer Growth Services (“CGS”) segment and one business unit from the Customer Strategy Services (“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 had engaged a broker for both business units and was working with potential buyers for both business units. 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). No adjustments have been made for the CSS business unit as this continues to be reflective of the fair value at March 31, 2018.

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 in 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).

The following table presents information related to the major components of assets and liabilities that were classified as held for sale in the Consolidated Balance Sheet as of March 31, 2018.

	As of March 31, 2018
Cash	$ —
Accounts receivable, net	5,834
Other assets	230
Property, plant and equipment	58
Customer relationships	957
Goodwill	3,033
Allowance for reduction of assets held for sale	(2,700)
Total assets	$ 7,412
Accounts payable	$ 495
Accrued employee compensation and benefits	931
Accrued expenses	44
Other	11
Total liabilities	$ 1,481

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Investments

CaféX

In the first quarter of 2015, the Company invested $9.0 million in CafeX Communications, Inc. (“CaféX”) through the purchase of a portion of the 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.
TTEC anticipated deploying the CaféX technology as part of the TTEC customer experience offerings within the CMS business segment and as part of its Humanify platform. 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; $3.2 million was paid in the fourth quarter of 2016 and $1.1 million was paid in the first quarter of 2017. At March 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 to CaféX $2.1 million in the form of a bridge loan which accrues interest at a rate of 12% until maturity or conversion, which will be no later than June 30, 2020. Based on certain events, 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, the loan balance with the external bank is now in default, and the lack of potential additional funding options as of March 31, 2018. It was determined that the fair value of the investment was zero and thus the investment should be 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 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). During the fourth quarter of 2017 and first quarter of 2018, TTEC received $259 thousand and $794 thousand, respectively, related to royalty payments which were included in Other Income (expense) in the Consolidated Statements of Comprehensive Income (Loss) in the respective periods.

TTEC Spain Holdings SL

In the third quarter of 2017, the Company dissolved TTEC 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 is included in Other income (expense), net in the Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2017.

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Subsequent Event

On April 30, 2018, the Company agreed to acquire all of the outstanding shares in Strategic Communications Services, Ltd ("SCS"). SCS provides services as a system integrator for omnichannel 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.

Total cash paid at acquisition was £4.4 million ($6.2 million USD) (inclusive of £3.3 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 ($4.2 million USD) contingent on EBITDA performance over the next three years.

(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):

Three Months Ended March 31, 2018

			Depreciation	Income

	Gross Revenue	Intersegment Sales	Net Revenue	& Amortization	from Operations
Customer Management Services	$ 292,641	$ —	$ 292,641	$ 15,177	$ 18,215
Customer Growth Services	32,540	—	32,540	595	1,380
Customer Technology Services	35,208	—	35,208	1,630	4,844
Customer Strategy Services	14,860	—	14,860	522	502
Total	$ 375,249	$ —	$ 375,249	$ 17,924	$ 24,941

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Three Months Ended March 31, 2017

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income from Operations
Customer Management Services	$ 252,098	(19)	$ 252,079	$ 11,242	$ 20,596
Customer Growth Services	33,658	—	33,658	778	2,410
Customer Technology Services	35,850	(157)	35,693	1,812	3,057
Customer Strategy Services	16,847	—	16,847	668	427
Total	$ 338,453	$ (176)	$ 338,277	$ 14,500	$ 26,490

	Three Months Ended March 31, 2018	2017
Capital Expenditures		
Customer Management Services	$ 7,353	$ 8,579
Customer Growth Services	—	120
Customer Technology Services	31	3,200
Customer Strategy Services	124	136
Total	$ 7,508	$ 12,035

	March 31, 2018	December 31, 2017
Total Assets		
Customer Management Services	$ 824,472	$ 869,594
Customer Growth Services	46,092	41,036
Customer Technology Services	101,379	100,351
Customer Strategy Services	62,919	67,755
Total	$ 1,034,862	$ 1,078,736

	March 31, 2018	December 31, 2017
Goodwill		
Customer Management Services	$ 118,336	$ 119,497

Customer Growth Services	24,439	24,439
Customer Technology Services	40,839	40,839
Customer Strategy Services	22,018	21,919
Total	$ 205,632	$ 206,694

The following table presents revenue based upon the geographic location where the services are provided (in thousands):

	Three Months Ended March 31,	
	2018	2017
Revenue		
United States	$ 209,848	$ 178,432
Philippines	89,205	85,575
Latin America	30,498	33,117
Europe / Middle East / Africa	15,971	15,410
Asia Pacific / India	13,437	7,111
Canada	16,290	18,632
Total	$ 375,249	$ 338,277

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(4)SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client and no clients that contributed in excess of 10% of total revenue for the three months ended March 31, 2018 and 2017, respectively. This client operates in the healthcare industry and is included in the CMS segment. This client contributed 11.3% and 2.9% of total revenue for the three months ended March 31, 2018 and 2017, respectively. The Company does have other clients with revenue exceeding $100 million annually and the loss of one or more of these clients could have a material adverse effect on the Company's business, operating results, or financial condition.

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 existed as of March 31, 2018.

(5)GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2017	Acquisitions / Adjustments	Impairments	Effect of Foreign Currency	March 31, 2018
Customer Management Services	$ 119,497	$ —	—	(1,161)	$ 118,336
Customer Growth Services	24,439	—	—	—	24,439
Customer Technology Services	40,839	—	—	—	40,839
Customer Strategy Services	21,919	—	—	99	22,018
Total	$ 206,694	$ —	$ —	$ (1,062)	$ 205,632

The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended March 31, 2018, the Company assessed whether any such indicators of impairment existed and concluded there were none.

(6)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 March 31, 2018, the Company has 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 three months ended March 31, 2018 and 2017 (in thousands and net of tax):

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	Three Months Ended March 31, 2018	2017
Aggregate unrealized net gain/(loss) at beginning of period	$ (15,746)	$ (32,393)
Add: Net gain/(loss) from change in fair value of cash flow hedges	3,886	12,320
Less: Net (gain)/loss reclassified to earnings from effective hedges	(3,893)	(4,136)
Aggregate unrealized net gain/(loss) at end of period	$ (15,753)	$ (24,209)

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

As of March 31, 2018	Local Currency Notional Amount	U.S. Dollar Notional Amount		% Maturing in the next 12 months		Contracts Maturing Through
Philippine Peso	8,990,000	183,228	(1)	57.6	%	August 2021
Mexican Peso	1,444,000	82,952		45.3	%	May 2021
		$ 266,180				

As of December 31, 2017	Local Currency Notional Amount	U.S. Dollar Notional Amount	
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 March 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 March 31, 2018 and December 31, 2017 the total notional amounts of the Company's forward contracts used as fair value hedges were $180.3 million and $176.2 million, respectively.

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Derivative Valuation and Settlements

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

	March 31, 2018	
Designation:	Designated as Hedging Instruments	Not Designated as Hedging Instruments
Derivative contract type:	Foreign Exchange	Foreign Exchange
Derivative classification:	Cash Flow	Fair Value
Fair value and location of derivative in the Consolidated Balance Sheet:		
Prepaids and other current assets	$ 69	$ 1,000
Other long-term assets	760	—
Other current liabilities	(14,937)	(223)
Other long-term liabilities	(7,500)	—
Total fair value of derivatives, net	$ (21,608)	$ 777

	December 31, 2017	
Designation:	Designated as Hedging Instruments	Not Designated as Hedging Instruments
Derivative contract type:	Foreign Exchange	Foreign Exchange
Derivative classification:	Cash Flow	Fair Value
Fair value and location of derivative in the Consolidated Balance Sheet:		
Prepaids 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

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The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017 were as follows (in thousands):

	Three Months Ended March 31,			
	2018		2017	
Designation:	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	$ (3,893)	$ —	$ (4,084)	$ (52)
Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion:				
Revenue	$ (5,332)	$ —	$ (6,806)	$ —
Interest expense	—	—	—	(89)

	Three Months Ended March 31,			
	2018		2017	
Designation:	Not Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange		Foreign Exchange	
Derivative classification:	Forward Contracts	Fair Value	Forward Contracts	Fair Value
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):				
Costs of services	$ —	$ —	$ —	$ —
Other income (expense), net	$ —	$ (3,352)	$ —	$ (56)

(7)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.

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 March 31, 2018 and December 31, 2017 for 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.

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

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 March 31, 2018, the investment in CaféX Communication, Inc., which consisted 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 March 31, 2018 and December 31, 2017, the Company had $302.5 million and $344.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the first quarter of 2018 outstanding borrowings accrued interest at an average rate of 2.8% per annum, 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 March 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 March 31, 2018 and December 31, 2017 (in thousands):

As of March 31, 2018

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At Fair Value
Cash flow hedges	$ —	$ (21,608)	$ —	$ (21,608)
Fair value hedges	—	777	—	777
Total net derivative asset (liability)	$ —	$ (20,831)	$ —	$ (20,831)

As of December 31, 2017

Fair Value Measurements Using
Quoted Prices in Significant