TELETECH HOLDINGS INC
Form 10-K
March 16, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

Registrant’s telephone number, including area code:

(303) 397-8100

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

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

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

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

Yes No

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

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

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

Yes No

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

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

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

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, 2016, the last business day of the registrant's most recently completed second fiscal quarter, there were 47,319,652 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 $415,904,745 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, 2017, there were 45,893,001 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 2017 annual meeting of stockholders.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

DECEMBER 31, 2016 FORM 10-K

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

AVAILABILITY OF INFORMATION

TeleTech 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.teletech.com/investors/sec-filings/ or (ii) sending a written request to Investor Relations at our corporate headquarters or to investor.relations@teletech.com. TeleTech’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.

PART I

ITEM 1. BUSINESS

Our Business

TeleTech Holdings, Inc. (“TeleTech”, “the Company”, “we”, “our” or “us”) is a leading global provider of technology enabled customer experience services. We help leading brands improve customer experiences and operational effectiveness through a unique combination of technological innovation and operational expertise. Our portfolio of solutions includes consulting, technology, operations and analytics to enable a seamless customer experience across every interaction channel and phase of the customer lifecycle. Our solutions are supported by 48,000 employees delivering services in 23 countries from 82 customer engagement centers on six continents. Our revenue for fiscal 2016 was $1,275 million.

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, technology and innovation that create customer strategies designed to differentiate our clients from their competition; data analytics that personalize interactions and increase customer value; and integration services that connect clients’ customer relationship management (“CRM”) system to a cloud-based collaboration platform, leading to customer interactions that are seamless and relevant.

Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments: Customer Management Services (“CMS”), Customer Growth Services (“CGS”), Customer Technology Services (“CTS”) and Customer Strategy Services (“CSS”). Our integrated customer experience platform differentiates the Company by combining strategic consulting, data analytics, process optimization, system design and integration, operational excellence, and technology solutions and services.

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

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 our heritage business process outsourcing services of our CMS segment into higher-value consulting, data analytics, digital marketing and technology-enabled services. Of the $1,275 million in revenue we reported in 2016, approximately 27.5% or $351 million came from the CGS, CTS and CSS segments (our “Emerging Segments”), focused on customer-centric strategy, growth or technology-based services, with the remainder of our revenue coming from the heritage business process outsourcing focused CMS segment.

Consistent with our growth and diversification strategy, we continue to invest in technology differentiation, analytics, and cloud computing. We also invest in businesses that enable us to expand our geographic footprint and increase our scale: in 2016, we acquired Atelka Enterprises, Inc., a Canadian-based customer management services company which provides our clients with additional geographic capabilities; and in 2014, we acquired Sofica Group, a Bulgarian customer management services company which provides our clients with the capabilities of 18 additional languages while contributing to the geographic and time zone diversity of our footprint; and rogenSi, a global leadership, change management and sales consulting company that further diversifies our consulting offerings.

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Our business is structured and reported in the following four segments:

Operating Segments and Industry Verticals

CMS	CGS	CTS	CSS
Automotive	Automotive	Automotive	Automotive
Communication	Communication	Communication	Communication
Financial Services	Financial Services	Financial Services	Financial Services
Government	Healthcare	Government	Government
Healthcare	Media & Entertainment	Healthcare	Healthcare
Media & Entertainment	Retail	Media & Entertainment	Media & Entertainment
Retail	Technology	Retail	Retail
Technology	Travel & Transportation	Technology	Technology
Travel & Transportation		Travel & Transportation	

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 and incremental investments. Additionally, we continue to return capital to our shareholders via an ongoing stock repurchase program and regular semi-annual dividends. As of December 31, 2016, our cumulative authorized repurchase allowance was $737.3 million, of which we repurchased 45.5 million shares for $717.4 million. For the period from January 1, 2017 through February 28, 2017, we purchased 234 thousand additional shares at a cost of $7.0 million. The stock repurchase program does not have an expiration date. Effective February 23, 2017, the Board of Directors authorized an increase in the share repurchase allowance of $25 million.

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TeleTech’s performance, cash flows, capital needs and liquidity factors. 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. The initial dividend of $0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. A second dividend of $0.18 per common share was paid on October 14, 2015 to shareholders of record as of September 30, 2015. A third dividend of $0.185 per common share was paid on April 15, 2016 to shareholders of record as of March 31, 2016. A fourth dividend of $0.20 per common share was paid on October 14, 2016 to shareholders of record as of October 3, 2016. Effective February 23, 2017, the Board of Directors authorized an additional semi-annual dividend of $0.22 per common share, payable on April 14, 2017 to shareholders of record as of March 31, 2017.

Our Market Opportunity

We believe that our ability to help clients design and deliver simple, engaging and personal customer experiences across every interaction channel will continue to create sustainable economic value, in part, driven by the following trends:

· Increasing focus on customer engagement to sustain competitive advantage. — Our ability to sustain a competitive advantage based on price or product differentiation has significantly narrowed given the speed of technological innovation. As our clients' customers become more connected and widely broadcast their experiences across a variety of social networking channels, the quality of the experience has a profound impact on brand loyalty and business performance. We believe customers are increasingly shaping their attitudes, behaviors and willingness to recommend or stay with a brand on the totality of their experience, including not only the superiority of the product or service but more importantly on the quality of their ongoing service interactions. Given the strong correlation between high customer satisfaction and improved profitability, we believe more companies are increasingly focused on selecting third-party partners, such as TeleTech, who can deliver an analytic-driven, integrated solution that increases the lifetime value of each customer relationship versus merely reducing costs.

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- 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 TeleTech, who have demonstrated expertise in increasing brand value by delivering a holistic, integrated customer-centric solution that spans strategy to execution versus the time, expense and often failed returns resulting from linking together a series of point solutions from different providers.
- 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 heritage customer management capabilities as well as higher margin, data and technology-enabled services that drive a superior customer experience and engagement. To that end we plan to continue:

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

Our Integrated Service Offerings and Business Segments

We have four operating and reportable segments, which provide an integrated set of services including:

Customer Strategy Services

We typically begin by engaging our clients at a strategic level. 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, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this segment involves instilling a high performance culture through management and leadership alignment and process optimization.

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Customer Technology Services

Once the design of the customer engagement is completed, 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™ 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.

Customer Management Services

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, 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. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Customer Growth Services

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 approximately $3 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 our proprietary Revana Analytic Multichannel PlatformTM. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications.

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

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

Our Competitive Strengths

We believe our integrated suite of products and services and holistic approach to customer experience and engagement is an industry differentiator. Our end-to-end capabilities, from customer strategy and technology services to customer management and growth services, improve customer outcomes, increase satisfaction and loyalty, strengthen operating effectiveness and efficiencies, and drive long-term growth and profitability for our clients. We also believe that our technological solutions, innovative human capital strategies and globally scaled and deployed best practices are key elements to our continued industry leadership.

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

- Our industry reputation and leadership position with over three decades of expertise delivering integrated customer engagement solutions provides our clients with the ability to enable, manage and grow the value of every customer relationship;
- Multi-channel, multi-modal solutions that meet the rapidly changing profile of the customer and their heightened expectations;
- Scalable technology and human capital infrastructure using globally deployed best practices to ensure a consistent, high-quality service;

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- Tailored and optimized customer care delivery through the use of proprietary workforce hiring, training and performance optimization methodology and tools; and
- Commitment to continued product and services innovation that enhances the strategic capabilities of our clients.

Technological Excellence

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

The foundation of this platform is our four IP hosting centers known as TeleTech GigaPOPs®, which are located on three continents. Our GigaPOPs® provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, business analytic and storage capabilities, enabling seamless operations from any location around the globe. This hub and spoke model enables us to provide our services at the lowest cost while increasing scalability, reliability, asset utilization and the diversity of our service offerings. It also provides an effective redundancy to address ordinary course system interruptions and outages due to natural disasters and other force majeure conditions.

To ensure high end-to-end security and reliability of this critical infrastructure, we monitor and manage the TeleTech GigaPOPs® 24 x 7, 365 days per year from several strategically located global command centers as well as providing redundant, fail-over capabilities for each GigaPOP® to address ordinary course system interruptions and outages due to natural disasters and other force majeure conditions.

Importantly, this platform has become the foundation for new, innovative offerings including TeleTech's cloud-based offerings, TeleTech@Home and our suite of human capital solutions.

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 82 customer engagement centers and work from home associates around the world. Standardized processes include our approach to attracting, screening, hiring, training, scheduling, evaluating, coaching and maximizing associate performance to meet our clients' needs. We provide real-time reporting and analytics on performance across the globe to ensure consistency of delivery. This information provides valuable insight into what is driving customer inquiries, enabling us to proactively recommend process changes to our clients to optimize their customers' experience.

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

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Of the 17 countries from which we provide customer management solutions, 11 provide services for onshore clients including the U.S., Australia, Brazil, Canada, China, Germany, Ireland, New Zealand, South Africa, Thailand, and the United Kingdom. The total number of workstations in these countries is 16,100, or 42% of our total delivery capacity. The other six countries provide services, partially or entirely, for offshore clients including Bulgaria, Costa Rica, Macedonia, Mexico, Poland, and the Philippines. The total number of workstations in these countries is 22,700 or 58% 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 2016, our top five and ten clients represented 35% and 51% of total revenue, respectively; and one of our clients, Telstra Corporation Limited, represented 10% of our total annual revenue. In several of our operating segments, we enter into long-term relationships which provide us with a more predictable revenue stream. Although most of our contracts can be terminated for convenience by either party, our relationships with our top five clients have ranged from 10 to 20 years including multiple contract renewals for several of these clients. In 2016, we had a 97% 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 17% of our total annual revenue. Expenditures under these supplier contracts represent less than one percent of our total operating costs.

Competition

We are a diverse, global customer engagement management company. 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: Convergys, Sykes, and Teleperformance, among others. As we expand our offerings into customer engagement consulting, technology, and growth, we are competing with smaller specialized companies and divisions of multinational companies, including Bain & Company, McKinsey & Company, Accenture, IBM, AT&T, Interactive Intelligence, LiveOps, inContact, Five9, WPP, Publicis Groupe, Dentsu, Sitel, and others.

Employees

Our people are our most valuable asset. As of December 31, 2016, we had 48,000 employees in 23 countries on six continents. Although a percentage of our Customer Management Services 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 82 locations and through our @home environment. Approximately 69% of our employees are located outside of the U.S. Approximately 13% of our employees are covered by collective bargaining agreements, most of which are mandated under national labor laws outside of the United States. These agreements are subject to periodic renegotiations and we anticipate that they will be renewed in the ordinary course of business without material impact to our business or in a manner materially different from other companies covered by such industry-wide agreements.

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Research, Innovation, Intellectual Property and Proprietary Technology

We recognize the value of innovation in our business and are committed to developing leading-edge technologies and proprietary solutions. Research and innovation has been a major factor in our success and we believe that it 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, 2016 we had 66 patent applications pending in 11 jurisdictions; and own 122 U.S. and non-U.S. patents that we leverage in our operations and as market place differentiation for our service offerings. Our trade name, logos and names of our proprietary solution offerings are protected by their historic use and by trademarks and service marks registered in 27 countries.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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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 successfully manage our costs. Our cost management strategies include optimizing the alignment between the demand for our services and our resource capacity, including contact center utilization; the costs of service delivery; the cost of sales and general and administrative costs as a percentage of revenues. 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.

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

Our business is dependent upon our information technology systems. Information security breaches, computer viruses, interruption or loss of business data, DDoS (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 and preventing key personnel from being able to perform their duties or communicate within our organization.

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

In recent years, there have been an increasing number of high profile security breaches at private and public companies and government agencies, and security experts have warned about the growing risks of hackers, cyber criminals and a broad range of potential attacks targeting information technology systems. While we have taken reasonable measures to protect our systems from intrusion, 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.

Cyber attacks may force us to expend significant additional resources in response to system disruptions or security breaches, including additional investments in repairing system damage, reconfiguring and rerouting systems to reduce vulnerabilities; cyber security protection costs, and litigation and resolution of related legal claims. A significant cyber security breach could materially harm our business, financial condition, and operating results.

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

Our success depends on our ability to develop and implement technology, consulting and outsourcing services and solutions that anticipate and respond to rapid and continuing changes in technology. Areas of significant change include mobility, cloud-based computing, artificial intelligence, digitization, and processing and analyzing large and unstructured data. Our growth and profitability will depend on our ability to develop and adopt new technologies that expand our existing solutions and service offerings to leverage new technological trends and developments, and achieve cost efficiencies in our operations. We may not be successful in anticipating or responding to new technology developments and our integration of new technologies may not achieve their intended cost reductions. Services and technologies offered by our competitors may make our service offerings obsolete. 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.

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Our cloud solutions present execution and competitive risks

We are devoting significant resources to extend our current cloud solutions which are and will continue to be materially dependent upon certain third party infrastructure and licensed software. There can be no assurance that such third parties will continue to support and maintain their products and services. In addition to certain software development costs, we are incurring costs to build and maintain infrastructure to support cloud computing services.

Certain new competitors offer alternative cloud-based services for consumers and business customers. While we believe our expertise, investments in infrastructure, and the breadth of our cloud-based services provide us with a solid foundation to compete, there can be no assurances that our strategies will generate the revenue required to be successful given the level of investment being made.

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

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

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

We rely on strategic, long-term relationships with large, global companies in targeted industries. As a result, we derive a substantial portion of our revenue from relatively few clients. Our five and ten largest clients collectively represented 35% and 51% of our revenue in 2016 while the largest client represented 10% of our revenue in 2016.

Although we have multiple engagements with each of our largest clients and all contracts are unlikely to terminate at the same time, the contracts with our five largest clients expire between 2017 and 2020 and there can be no assurance that these contracts will continue to be renewed at all or be renewed on favorable terms. The loss of all or part of a major client's business could have a material adverse effect on our business, financial condition, and results of operations, if the loss of revenue was not replaced with profitable business from other clients.

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

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

Our business model is dependent on our service customer engagement centers and enterprise support functions being located in low cost jurisdictions around the globe. We have presence in 23 countries, but our customer care management delivery capacity and our back office functions are concentrated in the Philippines and Mexico, and our technology solutions customer engagement centers are concentrated in a few locations in the United States. Natural disasters (floods, winds, and earthquakes), terrorist attacks, pandemics, large-scale utilities outages, telecommunication and transportation disruptions, labor or political unrest, and restriction on repatriation of funds at some of these locations may interrupt or limit our ability to operate or may increase our costs. Our business continuity and disaster recovery plans, while extensive, may not be effective, particularly if catastrophic events occur.

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Our dependence on our customer engagement centers and enterprise services support functions in the Philippines, which is subject to frequent severe weather, natural disasters, occasional security threats, and certain volatile positions recently taken by its government leaders with respect to the country’s relationship with the United States, represents a particular risk. Our dependence on our customer engagement centers and enterprise services support functions in Mexico, which could be subject to risks associated with a political backlash regarding recent immigration positions taken by the United States government, also represents a potential risk. For these and other reasons, our geographic concentration could result in a material adverse effect on our business, financial condition and results of operations. Although we procure business interruption insurance to cover some of these exposures, adequate insurance may not be available on an ongoing basis for a reasonable price.

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

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

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As previously disclosed, in prior periods, our management had identified material weaknesses in our internal control over financial reporting related to the effectiveness of our control environment and controls over account reconciliations, journal entries, revenue, and impairments.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in our annual or interim financial statements will not be prevented or detected on a timely basis. Although we are taking remedial actions in response to the previously identified material weaknesses in our internal control over financial reporting, there can be no assurances that we will be able to prevent future control deficiencies, including material weaknesses, from occurring, nor that our remediation actions taken to date will be successful. If additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements. These misstatements could result in restatements of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, which could lead to a decline in our stock price.

Any internal and disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, any controls can be circumvented by individuals acting alone or in collusion with others to override controls. Accordingly, because of the inherent limitations in the design of a cost effective control system, misstatements due to error or fraud may occur and may not always be prevented or timely detected, even if we are successful in remediating the material weaknesses previously identified by management.

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

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

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

Our business is labor intensive and our ability to recruit and train employees with the right skills at the right price point is critical to achieving our growth objective. Demand for qualified personnel with multiple language capabilities and fluency in English may exceed supply. Employees with new 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.

We may continue to incur material restructuring charges and our restructuring efforts may not produce anticipated results

We continually evaluate ways to optimize our operating expenses and adapt to changing industry and market conditions, which sometimes lead to restructuring opportunities, including more effective utilization of our assets, workforce, and operating facilities. We have recorded restructuring charges in the past related to staff reductions, market exits, and facility closures, and we may incur similar restructuring charges in the future. These efforts may result in significant restructuring charges that may adversely affect our results of operations for the periods in which such charges occur. Additionally, actual costs related to such restructuring may exceed estimated and disclosed amounts and may not lead to improvements in results of operations at levels expected.

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

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

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

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

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

Many of our contracts have termination for convenience clauses, which could have a material adverse effect on our results of operation. Although many of our contracts can be terminated for convenience, our relationships with our top five clients have ranged from 10 to 20 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.

We may not always offset increased costs with increased fees under long-term contracts. The pricing and other terms of our client contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase. While many of our contracts allow periodic fee adjustments based on increases in certain price indices, in the past several years, our payroll costs, including jurisdiction specific minimum wage costs, have increased at rates much greater than increases in these indices. If we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

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

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

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Delays in payment for our services by clients who represent a large percentage of our accounts receivable balance could adversely affect our business

We often carry significant accounts receivable balances from a limited number of clients that generate a large portion of our revenues. We assess and monitor the creditworthiness of our clients and manage outstanding accounts receivable balances proactively, but we may not always accurately assess such creditworthiness. While we closely monitor timely payment of our accounts receivable, a client may become unable or unwilling to pay its balance timely due to an economic weakness in its industry or the financial insolvency of its business. Client delays in payments, requests for modifications to their contractual payment arrangements, or defaults on their payment obligations to us could adversely impact our income from operations and cash flow.

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 2016 we derived approximately 46% of our revenue from operations outside of the United States. Conducting business abroad is subject to a variety of risks, including:

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

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

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

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

We operate in multiple countries through legal entity forms that optimize our operations and tax positions globally. We make our business decisions regarding entity capitalization and repatriation of capital based on the needs of the business and costs and tax impacts of such decisions. Changes in the tax regulations in the countries where we currently operate could lead to higher taxation levels, changes in our legal operating status, and higher costs of doing business. Plans for tax reform in the United States announced by the new administration may also impact our business decisions. Many of these yet unknown changes may materially affect our business, operating costs, and results of operations, although not all the changes would necessarily result in negative impact.

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

We have transfer pricing arrangements among our subsidiaries in relation to various aspects of our business, including operations, marketing, sales, and delivery functions. U.S., Australian, Philippines and other transfer pricing regulations in other countries where we operate, require that cross-border transaction 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 selective acquisitions involves risks of failing to successfully identify, acquire, and integrate acquisition opportunities and realize returns on our investments

Our corporate development team continuously evaluates opportunities to expand the scope of our services through acquisitions. Yet, we may be unable to identify companies that complement our strategies and which are available to be acquired at valuation levels accretive to our business.

Our acquisition strategy also involves the potential risks of our inability to integrate acquired companies effectively and realize the full amounts of anticipated synergies and benefits from the acquisitions; the diversion of management's attention to the integration of the acquired businesses at the expense of delivering results for the legacy business; the risk that we will not be able to retain key employees of the acquired business or that they will not be effective as part of TeleTech operations; the impact of liabilities of the acquired businesses undiscovered or underestimated as part of the acquisition due diligence; and the unforeseen difficulties experienced by the acquired operations due to the acquisition or the integration which could result in short or longer term effects on our operating results.

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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, 2016, we have approximately $129.6 million of goodwill and $30.8 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.

”Social engineering” attacks and other phishing scams aimed at the company may result in the inadvertent loss of cash and cash equivalents

The increased activity and sophistication of corporate social engineering attacks and other phishing scams in recent years have increased the risk of inadvertent transfer of large amounts of cash and cash equivalents from the various bank accounts we have around the world. We actively train and inform our employees and key personnel about these risks and, while we have implemented a series of measures to curb these risks, the very nature of these attacks may deceive one or more employees, thereby resulting in a material loss.

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

Our services or 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.

Our intellectual property may not always receive favorable treatment from the United States Patent and Trademark Office, the European Patent Office or similar foreign intellectual property adjudication and registration agencies; and our “patent pending” intellectual property may not receive a patent or may be subject to prior art limitations. The lack of legal system sophistication in certain countries where we do business or lack of commitment to protection of intellectual property rights, may prevent us from being able to defend our intellectual property and related technology against infringement by others, leading to a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Many contracts that we service from customer engagement centers outside of the United States (for example in Bulgaria, Canada, Costa Rica, Mexico, the Philippines and the United Kingdom) are typically priced, invoiced, and paid in U.S. and Australian dollars or Euros, while the costs incurred to operate these customer engagement centers are denominated in the functional currency 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 22% of our revenue is derived from contracts denominated in other currencies, our results of operations could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

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

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

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

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

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

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

Our growth depends, in large part, on the willingness of our clients and potential clients to outsource customer care and management services to companies like TeleTech. 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 at the center of political debate during recent presidential campaign. As a result, current and prospective clients may be reluctant to hire offshore service providers like TeleTech to avoid negative perceptions and regulatory scrutiny. If they seek customer care and management capacity onshore that was previously available to them through outsourcers outside of the United States, they may elect to perform these services in-house as a less expensive alternative to outsourcing the services onshore. Possible tax incentives for U.S. businesses to return offshored, including outsourced and offshored, services to the U.S. could also impact our clients' continuing interest in using our services.

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

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

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

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

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

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

Kenneth D. Tuchman, our Chairman and Chief Executive Officer, directly and beneficially owns approximately 68% of TeleTech's common stock. As a result, Mr. Tuchman could exercise control over all matters requiring action by our stockholders, including the election of our entire Board of Directors. Therefore, a change in control of our company could not be effected without his approval, even when such a change of control 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 2016 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, 2016 we operated 82 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

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- 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.

As of December 31, 2016, our customer engagement centers were located in the following countries:

	Multi-Client Centers	Dedicated Centers	Managed Centers	Total Number of Delivery Centers
Australia	1	4	—	5
Brazil	2	—	—	2
Bulgaria	2	—	—	2
Canada	8	—	1	9
China	—	—	1	1
Costa Rica	—	1	—	1
Germany	—	—	1	1
Ireland	1	—	—	1
Macedonia	1	—	—	1
Mexico	3	—	—	3
New Zealand	1	—	—	1
Philippines	16	3	—	19
Poland	—	—	1	1
South Africa	—	—	2	2
Thailand	—	—	1	1
United Kingdom	—	—	2	2
United States of America	16	5	9	30
Total	51	13	18	82

The leases for our customer engagement centers have remaining terms ranging from one to 10 years and generally contain renewal options. We believe that our existing customer engagement centers are suitable and adequate for our current operations, and we have plans to build additional centers to accommodate future business.

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

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

	High	Low
Fourth Quarter 2016	$ 31.75	$ 25.40
Third Quarter 2016	$ 30.24	$ 26.87
Second Quarter 2016	$ 28.29	$ 25.80
First Quarter 2016	$ 28.71	$ 24.49
Fourth Quarter 2015	$ 30.61	$ 26.76
Third Quarter 2015	$ 28.97	$ 25.37
Second Quarter 2015	$ 28.01	$ 25.14
First Quarter 2015	$ 25.54	$ 21.86

As of December 31, 2016, we had approximately 206 holders of record of our common stock and during 2016 we declared and paid an $0.185 per share dividend and a $0.20 per share dividend on our common stock as discussed below.

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TeleTech's performance, cash flows, capital needs and liquidity factors. 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. The initial dividend of $0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. A second dividend of $0.18 per common share was paid on October 14, 2015 to shareholders of record as of September 30, 2015. A third dividend of $0.185 per common share was paid on April 15, 2016 to shareholders of record as of March 31, 2016. A fourth dividend of $0.20 per common share was paid on October 14, 2016 to shareholders of record as of October 3, 2016. On February 23, 2017, the Board of Directors authorized a $0.22 dividend per common share, payable on April 14, 2017, to shareholders of record as of March 31, 2017. While it is our intention to continue to pay semi-annual dividends in 2017 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, 2016, the cumulative authorized repurchase allowance was $737.3 million, of which we have purchased 45.5 million shares for $717.4 million.

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Issuer Purchases of Equity Securities During the Fourth Quarter of 2016

The following table provides information about our repurchases of equity securities during the quarter ended December 31, 2016:

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, 2016				$ 12,310
October 1, 2016 - October 31, 2016	228,874	$ 28.62	228,874	$ 5,760
November 1, 2016 - November 30, 2016	166,833	$ 27.31	166,833	$ 26,204
December 1, 2016 - December 31, 2016	210,801	$ 29.87	210,801	$ 19,906
Total	606,508		606,508	

In 2017, through February 28, 2017, we purchased 234 thousand additional shares at a cost of $7.0 million. The stock repurchase program does not have an expiration date and the Board authorizes additional stock repurchases under the program from time to time. On February 23, 2017, the Board of Directors authorized an increase in the share repurchase allowance of $25 million.

Stock Performance Graph

The graph depicted below compares the performance of TeleTech 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, 2011 and ending on December 31, 2016. We have chosen a “Peer Group” composed of Convergys Corporation (NYSE: CVG), Sykes Enterprises, Incorporated (NASDAQ: SYKE) and Teleperformance (NYSE Euronext: RCF). We believe that the companies in the Peer Group are relevant to our current business model, market capitalization and position in the overall BPO industry.

The graph assumes that $100 was invested on December 31, 2011 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 $0.36 during 2015 and $0.385 during 2016. Stock price performance shown on the graph below is not necessarily indicative of future price performance.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

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

The Russell 2000 Index, And A Peer Group

	December 31,					
	2011	2012	2013	2014	2015	2016
TeleTech Holdings, Inc.	$ 100	$ 110	$ 148	$ 146	$ 175	$ 194
NASDAQ Composite	$ 100	$ 116	$ 165	$ 189	$ 200	$ 217
Russell 2000	$ 100	$ 116	$ 162	$ 169	$ 162	$ 196
Peer Group	$ 100	$ 136	$ 206	$ 222	$ 279	$ 310

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ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31, 2016		2015		2014		2013		2012	
Statement of Operations Data										
Revenue	$ 1,275,258		$ 1,286,755		$ 1,241,781	(7)	$ 1,193,157	(12)	$ 1,162,981	(17)
Cost of services	(941,592)		(928,247)		(886,492)		(846,631)		(834,803)	
Selling, general and administrative	(175,797)		(194,606)		(198,553)		(193,423)		(182,634)	
Depreciation and amortization	(68,675)		(63,808)		(56,538)		(46,064)		(41,166)	
Other operating expenses	(36,442)	(1)	(9,914)	(5)	(3,723)	(8)	(5,640)	(13)	(25,833)	(18)
Income from operations	52,752		90,180		96,475		101,399		78,545	
Other income (expense)	(2,454)	(2)	(4,291)		3,984	(9)	(9,330)	(14)	(4,683)	
(Provision for) benefit from income taxes	(12,863)	(3)	(20,004)	(6)	(23,042)	(10)	(20,598)	(15)	61	(19)
Noncontrolling interest	(3,757)		(4,219)		(5,124)		(4,083)		(3,908)	
Net income attributable to TeleTech stockholders	$ 33,678		$ 61,666		$ 72,293		$ 67,388		$ 70,015	
Weighted average shares outstanding										
Basic	47,423		48,370		49,297		51,338		54,738	
Diluted	47,736		49,011		50,102		52,244		55,540	
Net income per share attributable to TeleTech stockholders										
Basic	$ 0.71		$ 1.27		$ 1.47		$ 1.31		$ 1.28	
Diluted	$ 0.71		$ 1.26		$ 1.44		$ 1.29		$ 1.26	

Dividends issued per common share	$ 0.385		$ 0.36		$ —		$ —		$ —	
Balance Sheet Data										
Total assets	$ 846,304	(4)	$ 843,327		$ 852,475	(11)	$ 842,342	(16)	$ 847,173	(20)
Total long-term liabilities	$ 304,380	(4)	$ 191,473		$ 187,780	(11)	$ 175,564	(16)	$ 175,431	(20)

(1) Includes $3.4 million expense related to reductions in force, a $1.0 million expense due to facility exit and other charges, a $1.3 million impairment of fixed assets, a $1.4 million impairment of goodwill, a $11.1 million impairment of internally developed software, and a $18.2 million of impairment charges related to several trade name, customer relationship and non-compete intangible assets.

(2) 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.

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

(4) 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 assumed, $7.7 million in liabilities ($1.4 million in long-term liabilities).

(5) 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.

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(6) 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.

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

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

(9) 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.

(10) 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.

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

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

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

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

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

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

(17) Includes $8.9 million in revenue generated by OnState, iKnowtion and Guidon, which were acquired in 2012.

(18) Includes $22.5 million expense related to reductions in force, $0.4 million expense related to facilities exit charges, and $2.9 million expense related to the impairment of property and equipment.

(19) Includes a $7.6 million benefit related to Australia and New Zealand Transfer Pricing Arrangements, a $1.4 million benefit from the release of uncertain tax positions, a $9.2 million benefit related to restructuring charges, a $1.9 million benefit related to return to provision adjustments and $0.1 million of expense related to other discrete items.

(20) The Company spent $35.8 million, net of cash acquired of $3.7 million, in 2012 for the acquisitions of OnState, iKnowtion, Guidon, and TSG through an increase in borrowings on its line of credit. Upon acquisition of these companies, the Company acquired $65.6 million in assets and assumed $12.4 million in liabilities ($3.1 million in long-term liabilities). The Company also assumed a purchase price payable of $12.7 million related to these acquisitions. Of the $12.7 million purchase price payable, $10.8 million was included in long-term liabilities.

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

Executive Summary

TeleTech Holdings, Inc. ("TeleTech", "the Company", "we", "our" or "us") is a leading global provider of technology enabled customer experience services. We help leading brands improve customer experiences and operational effectiveness through a unique combination of technological innovation and operational expertise. Our portfolio of solutions includes consulting, technology, operations and analytics to enable a seamless customer experience across every interaction channel and phase of the customer lifecycle. Our solutions are supported by 48,000 employees delivering services in 23 countries from 82 customer engagement centers on six continents. Our revenue for fiscal 2016 was $1,275 million.

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, technology and innovation that create customer strategies designed to differentiate our clients from their competition; data analytics that personalize interactions and increase customer value; and integration services that connect clients' customer relationship management ("CRM") system to a cloud-based collaboration platform, leading to customer interactions that are seamless and relevant.

Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments: Customer Management Services ("CMS"), Customer Growth Services ("CGS"), Customer Technology Services ("CTS") and Customer Strategy Services ("CSS"). Our integrated customer experience platform differentiates the Company by combining strategic consulting, data analytics, process optimization, system design and integration, operational excellence, and technology solutions and services.

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

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 our heritage business process outsourcing services of our CMS segment into higher-value consulting, data analytics, digital marketing and technology-enabled services. Of the $1,275 million in revenue we reported in 2016, approximately 27.5% or $351 million came from the CGS, CTS and CSS segments (our "Emerging Segments"), focused on customer-centric strategy, growth or technology-based services, with the remainder of our revenue coming from the heritage business process outsourcing focused CMS segment.

We have four operating and reportable segments, which provide an integrated set of services including:

Customer Strategy Services

We typically begin by engaging our clients at a strategic level. 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, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this segment involves instilling a high performance culture through management and leadership alignment and process optimization.

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Customer Technology Services

Once the design of the customer engagement is completed, our ability to architect, deploy and host or manage the client's customer management environment 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™ platform, we also provide data-driven context aware SaaS-based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

Customer Management Services

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, 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. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Customer Growth Services

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 approximately $3 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 our proprietary Revana Analytic Multichannel PlatformTM. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications.

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

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

Our 2016 Financial Results

In 2016, our revenue decreased 0.9% to $1,275.3 million over the same period in 2015, including a decrease of 1.6% or $20.2 million due to foreign currency fluctuations. The decrease in revenue is comprised of increases for CMS and CGS offset by a reduction in the CTS segment due to lower Avaya revenue and overall product sales and a reduction in the CSS segment due to decreases in our Middle East consulting business in connection with macro-economic trends. Revenue adjusted for the $20.2 million decrease related to foreign exchange increased 0.7% over the prior year.

Our 2016 income from operations decreased $37.4 million to $52.8 million or 4.1% of revenue, from $90.2 or 7.0% of revenue for 2015. The decrease is primarily due to $18.2 million of impairment charges related to trade name, customer relationship and non-compete intangible assets, $11.1 million of impairment charges related to internally developed software and technology, a $1.4 million impairment of goodwill (see Part II. Item 8. Financial Statements and Supplementary Data, Notes 6 and 7 to the Consolidated Financial Statements) and a $1.3 million impairment of fixed assets. Also included in 2016 was a $3.7 million restructuring charge related to a reorganization of the global sales force and restructuring of a portion of the IT functions, and a large decrease for the CSS segment related to lower revenue which caused an under utilization of the consultants. These were offset by increased income for the CMS segment related to higher revenue. Included in 2015 was $7.7 million of goodwill impairment for our WebMetro and Latin America reporting units (see Part II. Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements). Income from operations in 2016 and 2015 included $36.4 million and $9.9 million of restructuring charges and asset impairments, respectively.

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Our offshore customer engagement centers serve clients based in the U.S. and in other countries and span five countries with 22,700 workstations representing 58% of our global delivery capabilities. Revenue for our CMS and CGS segments that is provided in these offshore locations was $437 million and represented 41% of our revenue for 2016, as compared to $450 million and 43% of our revenue for 2015.

At December 31, 2016, we had $55.3 million of cash and cash equivalents, total debt of $229.6 million, and a total debt to total capitalization ratio of 39.0%.

We internally target capacity utilization in our customer engagement centers at 80% to 90% of our available workstations. As of December 31, 2016, the overall capacity utilization in our multi-client centers was 80%. The table below presents workstation data for all of our centers as of December 31, 2016 and 2015. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations.

	December 31, 2016				December 31, 2015			
	Total Production Workstations	In Use	% In Use		Total Production Workstations	In Use	% In Use	
Total centers								
Sites open >1 year	38,506	30,674	80	%	31,354	22,710	72	%
Sites open <1 year	270	270	100	%	4,022	3,334	83	%
Total workstations	38,776	30,944	80	%	35,376	26,044	74	%

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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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.

During 2014, new guidance was issued related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for years beginning after December 15, 2017 and can be adopted retrospectively or as a cumulative effect adjustment. We have assigned a project manager and team, have selected an external consulting company to assist us through the project, have begun our project assessment phase, and are determining our implementation approach. As we have not yet completed our assessment, we have not made any conclusions regarding the potential impact to our financials.

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 Provision for income taxes in the accompanying Consolidated Statements of Comprehensive Income (Loss).

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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.

Impairment of Long-Lived Assets

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

Goodwill and Indefinite-Lived Intangible Assets

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

We use a three 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 proceed to Step 2 where the fair value of the reporting unit will be allocated to assets and liabilities as it would be completed in a business combination. Impairment occurs when the carrying amount of goodwill exceeds its estimated fair value calculated in Step 2.

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 Liability

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

Derivatives

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

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

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

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

Contingencies

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

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.

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Selling, General and Administrative

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

Restructuring 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.

Interest Expense

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

Other Income

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

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 liabilities.

RESULTS OF OPERATIONS

Year Ended December 31, 2016 Compared to December 31, 2015

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

Customer Management Services

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

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

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

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Customer Growth Services

	Year Ended December 31, 2016	2015	$ Change	% Change
Revenue	$ 141,005	$ 129,021	$ 11,984	9.3 %
Operating Income	6,969	3,077	3,892	126.5 %
Operating Margin	4.9 %	2.4 %		

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

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

Customer Technology Services

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

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

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

Customer Strategy Services

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

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

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

Interest Income (Expense)

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

Other Income (Expense), Net

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

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

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

Income Taxes

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

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

Year Ended December 31, 2015 Compared to 2014

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, 2015 and 2014 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

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Customer Management Services

	Year Ended December 31,				
	2015	2014	$ Change	% Change	
Revenue	$ 913,272	$ 923,497	$ (10,225)	(1.1)	%
Operating Income	58,018	76,792	(18,774)	(24.4)	%
Operating Margin	6.4 %	8.3 %			

The change in revenue for the Customer Management Services segment was attributable to a $69.3 million net increase in client programs and acquisitions offset by program completions of $25.6 million. Revenue was further impacted by a $53.9 million reduction due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real.

The operating income as a percentage of revenue decreased to 6.4% in 2015 as compared to 8.3% in 2014. The operating margin, as with revenue, was negatively impacted by $13.0 million of foreign currency fluctuations and a $4.5 million increase in spending on a number of growth related investments in CMS including sales, marketing and research and development. The decrease is also attributable to a $1.8 million goodwill impairment for the Latin America reporting unit (see Part II, Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements), and the build out of a super site for one of our largest clients. Included in the operating income was amortization related to acquired intangibles of $0.8 million and $0.8 million for the years ended December 31, 2015 and 2014, respectively.

Customer Growth Services

	Year Ended December 31,				
	2015	2014	$ Change	% Change	
Revenue	$ 129,021	$ 115,434	$ 13,587	11.8	%
Operating Income	3,077	7,255	(4,178)	(57.6)	%
Operating Margin	2.4 %	6.3 %			

The increase in revenue for the Customer Growth Services segment was due to a $29.4 million increase in client programs offset by program completions of $10.4 million and a $5.4 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue decreased to 2.4% in 2015 as compared to 6.3% in 2014. This decrease was primarily driven by a $5.9 million goodwill impairment for the WebMetro reporting unit (see Part II, Item 8. Financial Statements and Supplementary Data, Note 6 to the Consolidated Financial Statements), a $1.8 million decrease due to foreign currency fluctuations and the completion of established programs. These were partially offset by increased profits from additional business booked during 2015 which began operating in 2015. Included in the operating income was amortization related to acquired intangibles of $2.7 million and $2.7 million for the years ended December 31, 2015 and 2014, respectively.

Customer Technology Services

	Year Ended December 31,			
	2015	2014	$ Change	% Change
Revenue	$ 157,606	$ 139,182	$ 18,424	13.2 %
Operating Income	13,339	4,519	8,820	195.2 %
Operating Margin	8.5 %	3.2 %		

The increase in revenue for the Customer Technology Services segment was related to increases in both the Cisco and Avaya offerings including recurring revenue for the cloud and managed services solutions.

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The operating income as a percentage of revenue increased to 8.5% in 2015 as compared to 3.2% in 2014. The improvement in operating income margin is attributable to increased revenue in combination with lower selling, general and administrative expenses. Also, as the revenue grows for the cloud and managed services solutions, the margins increase due to higher utilization of fixed expenses. Included in the operating income was amortization related to acquired intangibles of $4.2 million and $4.4 million for the years ended December 31, 2015 and 2014, respectively.

Customer Strategy Services

	Year Ended December 31,			
	2015	2014	$ Change	% Change
Revenue	$ 86,856	$ 63,668	$ 23,188	36.4 %
Operating Income	15,746	7,909	7,837	99.1 %
Operating Margin	18.1 %	12.4 %		

The increase in revenue for the Customer Strategy Services segment was primarily related to the acquisition of rogenSi in August 2014, as well as organic growth across several of our geographies and practices including our Customer Insights and Service Optimization practices offset by a $3.9 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 18.1% in 2015 as compared to 12.4% in 2014. The operating margin increase was related to the acquisition of rogenSi and stronger year over year margins in the Customer Insight, Service Optimization and CX Consulting practices. Included in the operating income was amortization expense related to acquired intangibles of $2.9 million and $2.1 million for the years ended December 31, 2015 and 2014, respectively.

Interest Income (Expense)

Interest income decreased to $1.1 million in 2015 from $1.8 million in 2014. Interest expense increased to $7.5 million during 2015 from $6.9 million for the comparable period in 2014, primarily due to higher outstanding debt.

Other Income (Expense), Net

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

Included in the year ended December 31, 2014, was a combined net $6.7 million benefit related to fair value adjustments of the contingent consideration based on revised estimates of performance against targets for four 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 2015 was 23.3% as compared to 22.9% for 2014. The effective tax rate for 2015 was impacted by earnings in international jurisdictions currently under an income tax holiday, $2.6 million of benefit related to impairments, $0.7 million of benefit related to restructuring charges, $1.2 million net of expense related to changes in valuation allowance and a related release of a deferred tax liability, $1.3 million of expense related to state net operating losses and credits, $1.5 million of expense related to provisions for uncertain tax positions, and $0.4 million benefit related to other discrete items. Without these items our effective tax rate for the year ended December 31, 2015 would have been 20.4%. For the year ended December 31, 2014, our effective tax rate was 22.9%. Without a $1.3 million benefit related to restructuring charges, a $1.2 million benefit related to the closing of statute of limitations in Canada, a $0.4 million benefit related to a valuation allowance for equity compensation, $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, our effective tax rate for the year ended December 31, 2014 would have been 19.8%.

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Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our credit facility, dated June 3, 2013 which was amended and restated effective February 11, 2016 (the “Credit Facility”). During the year ended December 31, 2016, we generated positive operating cash flows of $107.9 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

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

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

We primarily utilize our Credit Facility to fund working capital, general operations, stock repurchases, dividends, and other strategic activities, such as the acquisitions described in Part II. Item 8. Financial Statements and Supplementary Data, Note 2 to the Consolidated Financial Statements. As of December 31, 2016 and 2015, we had borrowings of $217.3 million and $100.0 million, respectively, under our Credit Facility, and our average daily utilization was $375.3 million and $319.6 million for the years ended December 31, 2016 and 2015, respectively. After consideration for the current level of availability based on the covenant calculations, our remaining borrowing capacity was approximately $370 million as of December 31, 2016. As of December 31, 2016, 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, 2016, 2015, and 2014.

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 $55.3 million and $60.3 million as of December 31, 2016 and 2015, 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 2016, 2015 and 2014 we reported net cash flows provided by operating activities of $107.9 million, $133.8 million and $94.1 million, respectively. The decrease of $25.9 million from 2015 to 2016 was primarily due to a $12.0 million increase in cash collected from accounts receivable, a $5.3 million increase in prepaid assets, offset by a $35.0 million increase in payments made for operating expenses. The net increase of $39.7 million from 2014 to 2015 was primarily due to a $21.1 million increase in cash collected from accounts receivable, a $20.1 million decrease in payments made for operating expenses offset by decreases in deferred revenue of $13.1 million.

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Cash Flows from Investing Activities

For the years 2016, 2015 and 2014, we reported net cash flows used in investing activities of $100.4 million, $77.2 million and $91.9 million, respectively. The net increase in cash used in investing activities from 2015 to 2016 was primarily due to increased spending on acquisitions of $44.7 million offset by a decrease in spending on investments of $5.8 million and a decrease of $15.8 due to lower capital expenditures. The net decrease in cash used in investing activities from 2014 to 2015 was primarily due to decreased spending on acquisitions and investments of $13.6 million.

Cash Flows from Financing Activities

For the years 2016, 2015 and 2014, we reported net cash flows provided by (used in) financing activities of $2.3 million, $(52.9) million and $(74.2) million, respectively. The change in net cash flows from 2015 to 2016 was primarily due to a $117.3 million increase in borrowing on the Credit Facility, a decrease in the contingent consideration and hold-back payments of $2.4 million, offset by a $57.5 million increase in purchases of our outstanding common stock, a $4.1 million payment to purchase a non-controlling interest, and $1.9 million paid for debt issuance costs. The change in net cash flows from 2014 to 2015 was primarily due to a $39.8 million decrease in purchases of our outstanding common stock offset by $17.4 million of dividends paid during 2015 and a $3.3 million increase for payments of contingent consideration related to acquisitions.

Free Cash Flow

Free cash flow (see “Presentation of Non-GAAP Measurements” below for the definition of free cash flow) was $57.1 million, $67.2 million and $26.4 million for the years 2016, 2015 and 2014, respectively. The decrease from 2015 to 2016 was primarily due to the decrease in cash flows provided by operating activities offset by a decrease in spend for capital expenditures. The increase from 2014 to 2015 was primarily due to the increase in cash flows provided by operating activities and a decrease in spend for capital expenditures and acquisitions.

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,

	2016	2015	2014
Net cash provided by operating activities	$ 107,897	$ 133,750	$ 94,090
Less: Purchases of property, plant and equipment	50,832	66,595	67,641
Free cash flow	$ 57,065	$ 67,155	$ 26,449

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Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of December 31, 2016 are summarized as follows (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility(1)	$ 4,828	$ 9,484	$ 222,635	$ —	$ 236,947
Equipment financing arrangements	2,118	2,004	457	—	4,579
Contingent consideration	608	642	—	—	1,250
Purchase obligations	7,318	11,072	2,154	—	20,544
Operating lease commitments	39,362	60,601	34,372	32,364	166,699
Other debt	2,521	4,038	1,208	—	7,767
Total	$ 56,755	$ 87,841	$ 260,826	$ 32,364	$ 437,786

(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, 2016.

- 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 $3.5 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 17% 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 2017 to be approximately 4.2% of 2017 revenue. 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 2017 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, 2016, we were authorized to purchase an additional $19.9 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.

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

Debt Instruments and Related Covenants

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

The Credit Agreement provides for a secured revolving credit facility that matures on February 11, 2021 with an initial maximum aggregate commitment of $900.0 million, and an accordion feature of up to $1.2 billion in the aggregate, if certain conditions are satisfied. At our discretion, direct borrowing options under the Credit Agreement include (i) Eurodollar loans with one, two, three, and six month terms, (ii) overnight base rate loans, and (iii) alternate currency loans. The Credit Agreement also provides for a foreign subsidiary borrowing capacity sub-limit for loans or letters of credit of up to 50% of the total commitment amount, in both U.S. dollars and certain foreign currencies.

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

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo’s prime rate, (ii) one half of 1% in excess of the federal funds effective rate, or (iii) 1.25% in excess of the one month London Interbank Offered Rate (“LIBOR”); and Eurodollar loans bear interest at LIBOR. For each loan a margin is added based upon our net leverage ratio ranging from 0% to 0.75% for base rate loans and 1.0% and 1.75% for LIBOR fixed rate loans. 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.

The Credit Facility commitment fees are payable to the lenders in an amount equal to the unused portion of the Credit Facility multiplied by a range of 0.125% to 0.250% per annum determined by our net leverage ratio.

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

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

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

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

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As of December 31, 2016 and 2015, we had borrowings of $217.3 million and $100.0 million, respectively, under the Credit Facility. During 2016, 2015 and 2014, borrowings accrued interest at an average rate of approximately 1.5%, 1.2%, and 1.2% per annum, respectively, excluding unused commitment fees. Our daily average borrowings during 2016, 2015 and 2014 were $375.3 million, $319.6 million and $285.9 million, respectively. As of December 31, 2016, and 2015, based on the current level of availability based on the covenant calculations, other remaining borrowing capacity was approximately $370 million and $415 million, respectively.

Client Concentration

During 2016, one of our clients represented 10% of our total annual revenue. Our five largest clients accounted for 35%, 35% and 38% of our annual revenue for the years ended December 31, 2016, 2015 and 2014, respectively. We have long-term relationships with our top five clients, ranging from 10 to 20 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 2017 and 2020. 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.

Recently Issued Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of December 31, 2016, we had $217.3 million of outstanding borrowings under the Credit Agreement. Based upon average daily outstanding borrowings during the years ended December 31, 2016 and 2015, interest accrued at a rate of approximately 1.5% and 1.2% 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.

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The Company's interest rate swap arrangements as of December 31, 2016 and 2015 were as follows:

	Notional	Variable Rate	Fixed Rate	Contract Commencement	Contract Maturity
As of December 31, 2016	Amount	Received	Paid	Date	Date
Swap 2	$ 15 million	1 - month LIBOR	3.14 %	May 2012	May 2017
	15 million				
As of December 31, 2015					
Swap 1	$ 25 million	1 - month LIBOR	2.55 %	April 2012	April 2016
Swap 2	15 million	1 - month LIBOR	3.14 %	May 2012	May 2017
	40 million				

Foreign Currency Risk

Our subsidiaries in Bulgaria, Costa Rica, Mexico, Poland, and the Philippines 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, 2016, 2015 and 2014, revenue associated with this foreign exchange risk was 32%, 30% and 31% of our consolidated revenue, respectively.

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

	Year Ended December 31,		
	2016	2015	2014
Canadian Dollar vs. U.S. Dollar	3.1 %	(19.3)%	(8.7) %
Philippine Peso vs. U.S. Dollar	(5.9) %	(4.7) %	(0.9) %
Mexican Peso vs. U.S. Dollar	(19.5)%	(17.5)%	(13.0)%
Australian Dollar vs. U.S. Dollar	(1.3) %	(11.8)%	(8.8) %
Euro vs. U.S. Dollar	(3.6) %	(11.5)%	(13.3)%
Philippine Peso vs. Australian Dollar	(4.5) %	6.3 %	7.2 %

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.

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Our cash flow hedging instruments as of December 31, 2016 and 2015 are summarized as follows (in thousands). All hedging instruments are forward contracts, except as noted.

As of December 31, 2016	Local Currency Notional Amount	U.S. Dollar Notional Amount		% Maturing in the next 12 months		Contracts Maturing Through
Philippine Peso	14,315,000	301,134	(1)	42.3	%	August 2021
Mexican Peso	2,089,000	129,375		23.7	%	May 2021
		$ 430,509				

As of December 31, 2015	Local Currency Notional Amount	U.S. Dollar Notional Amount
Philippine Peso	16,362,000	