NEW YORK COMMUNITY BANCORP INC
Form 10-Q
August 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

Commission File Number 1-31565

NEW YORK COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-1377322**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

615 Merrick Avenue, Westbury, New York 11590

(Address of principal executive offices)

(Registrant s telephone number, including area code) (516) 683-4100

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 X 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 X No __

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

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

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

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

490,360,806

Number of shares of common stock outstanding at

August 2, 2018

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NEW YORK COMMUNITY BANCORP, INC.

FORM 10-Q

Quarter Ended June 30, 2018

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GLOSSARY

BASIS POINT

Throughout this filing, the changes that occur in certain financial measures are reported in terms of basis points. Each basis point is equal to one hundredth of a percentage point, or 0.01%.

BOOK VALUE PER COMMON SHARE

Book value per common share refers to the amount of common stockholders equity attributable to each outstanding share of common stock, and is calculated by dividing total stockholders equity less preferred stock at the end of a period, by the number of shares outstanding at the same date.

BROKERED DEPOSITS

Refers to funds obtained, directly or indirectly, by or through deposit brokers that are then deposited into one or more deposit accounts.

CHARGE-OFF

Refers to the amount of a loan balance that has been written off against the allowance for loan losses.

COMMERCIAL REAL ESTATE LOAN

A mortgage loan secured by either an income-producing property owned by an investor and leased primarily for commercial purposes or, to a lesser extent, an owner-occupied building used for business purposes. The commercial real estate loans in our portfolio are typically secured by office buildings, retail shopping centers, and light industrial centers with multiple tenants, or mixed-use properties.

COST OF FUNDS

The interest expense associated with interest-bearing liabilities, typically expressed as a ratio of interest expense to the average balance of interest-bearing liabilities for a given period.

CRE CONCENTRATION RATIO

Refers to the sum of multi-family, non-owner occupied commercial real estate, and acquisition, development, and construction loans divided by total risk-based capital.

DEBT SERVICE COVERAGE RATIO

An indication of a borrower s ability to repay a loan, the debt service coverage ratio generally measures the cash flows available to a borrower over the course of a year as a percentage of the annual interest and principal payments owed during that time.

DIVIDEND PAYOUT RATIO

The percentage of our earnings that is paid out to shareholders in the form of dividends. It is determined by dividing the dividend paid per share during a period by our diluted earnings per share during the same period of time.

EFFICIENCY RATIO

Measures total operating expenses as a percentage of the sum of net interest income and non-interest income.

GOODWILL

Refers to the difference between the purchase price and the fair value of an acquired company s assets, net of the liabilities assumed. Goodwill is reflected as an asset on the balance sheet and is tested at least annually for impairment.

GOVERNMENT-SPONSORED ENTERPRISES

Refers to a group of financial services corporations that were created by the United States Congress to enhance the availability, and reduce the cost, of credit to certain targeted borrowing sectors, including home finance. The GSEs include, but are not limited to, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks.

GSE OBLIGATIONS

Refers to GSE mortgage-related securities (both certificates and collateralized mortgage obligations) and GSE debentures.

INTEREST RATE SENSITIVITY

Refers to the likelihood that the interest earned on assets and the interest paid on liabilities will change as a result of fluctuations in market interest rates.

INTEREST RATE SPREAD

The difference between the yield earned on average interest-earning assets and the cost of average interest-bearing liabilities.

LOAN-TO-VALUE RATIO

Measures the balance of a loan as a percentage of the appraised value of the underlying property.

MORTGAGE BANKING INCOME

Refers to the income generated through our mortgage banking business, which is recorded in non-interest income. Mortgage banking income has two components: income generated from the origination of one-to-four family loans for sale (income from originations) and income generated by servicing such loans (servicing income).

MULTI-FAMILY LOAN

A mortgage loan secured by a rental or cooperative apartment building with more than four units.

NET INTEREST INCOME

The difference between the interest income generated by loans, securities and money market instruments, and the interest expense produced by deposits and borrowed funds.

NET INTEREST MARGIN

Measures net interest income as a percentage of average interest-earning assets.

NON-ACCRUAL LOAN

A loan generally is classified as a non-accrual loan when it is 90 days or more past due or when it is deemed to be impaired because we no longer expect to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. A loan generally is returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.

NON-PERFORMING LOANS AND ASSETS

Non-performing loans consist of non-accrual loans and loans that are 90 days or more past due and still accruing interest. Non-performing assets consist of non-performing loans, OREO, and repossessed assets.

OREO AND OTHER REPOSSESSED ASSETS

Includes assets owned by the Company which are acquired either through foreclosure or default.

RENT-REGULATED APARTMENTS

In New York City, where the vast majority of the properties securing our multi-family loans are located, the amount of rent that tenants may be charged on the apartments in certain buildings is restricted under certain rent-control and rent-stabilization laws. Rent-control laws apply to apartments in buildings that were constructed prior to February 1947. An apartment is said to be rent-controlled if the tenant has been living continuously in the apartment for a period of time beginning prior to July 1971. When a rent-controlled apartment is vacated, it typically becomes rent-stabilized. Rent-stabilized apartments are generally located in buildings with six or more units that were built between February 1947 and January 1974. Rent-controlled and -stabilized (together, rent-regulated) apartments tend to be more affordable to live in because of the applicable

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regulations, and buildings with a preponderance of such rent-regulated apartments are therefore less likely to experience vacancies in times of economic adversity.

REPURCHASE AGREEMENTS

Repurchase agreements are contracts for the sale of securities owned or borrowed by the Banks with an agreement to repurchase those securities at an agreed-upon price and date. The Banks repurchase agreements are primarily collateralized by GSE obligations and other mortgage-related securities, and are entered into with either the FHLBs or various brokerage firms.

SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION

A bank holding company with total consolidated assets that average more than $250 billion over the four most recent quarters is designated a Systemically Important Financial Institution under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as revised by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

WHOLESALE BORROWINGS

Refers to advances drawn by the Banks against their respective lines of credit with the FHLBs, their repurchase agreements with the FHLBs and various brokerage firms, and federal funds purchased.

YIELD

The interest income associated with interest-earning assets, typically expressed as a ratio of interest income to the average balance of interest-earning assets for a given period.

LIST OF ABBREVIATIONS AND ACRONYMS

ADC - Acquisition, development, and construction loan
ALCO - Asset and Liability Management Committee
AMT - Alternative minimum tax
AmTrust - AmTrust Bank
AOCL - Accumulated other comprehensive loss
ASC - Accounting Standards Codification
ASU - Accounting Standards Update
BOLI - Bank-owned life insurance
BP - Basis point(s)
C&I - Commercial and industrial loan
CCAR - Comprehensive Capital Analysis and Review
CDs - Certificates of deposit
CFPB - Consumer Financial Protection Bureau
CMOs - Collateralized mortgage obligations
CMT - Constant maturity treasury rate
CPI - Consumer Price Index
CPR - Constant prepayment rate
CRA - Community Reinvestment Act
CRE - Commercial real estate loan
Desert Hills - Desert Hills Bank
DIF - Deposit Insurance Fund
DFA - Dodd-Frank Wall Street Reform and Consumer Protection Act
DSCR - Debt service coverage ratio
EPS - Earnings per common share
ERM - Enterprise Risk Management
ESOP - Employee Stock Ownership Plan
Fannie Mae - Federal National Mortgage Association
FASB - Financial Accounting Standards Board
FDI Act - Federal Deposit Insurance Act
FHLB-NY - Federal Home Loan Bank of New York
FOMC - Federal Open Market Committee
FRB - Federal Reserve Board
FRB-NY - Federal Reserve Bank of New York
Freddie Mac - Federal Home Loan Mortgage Corporation
FTEs - Full-time equivalent employees
GAAP - U.S. generally accepted accounting principles
GNMA - Government National Mortgage Association
GSEs - Government-sponsored enterprises
HQLAs - High-quality liquid assets
IRLCs - Interest rate lock commitments
LCR - Liquidity coverage ratio
LSA - Loss Share Agreements
LTV - Loan-to-value ratio
MBS Mortgage-backed securities
MSRs - Mortgage servicing rights
NIM - Net interest margin
NOL - Net operating loss
NPAs - Non-performing assets
NPLs - Non-performing loans
NPV - Net Portfolio Value
NYSDFS - New York State Department of Financial Services
NYSE - New York Stock Exchange
OCC - Office of the Comptroller of the Currency
OFAC - Office of Foreign Assets Control
OREO - Other real estate owned
OTTI - Other-than-temporary impairment
PCI - Purchased credit-impaired loans
SEC - U.S. Securities and Exchange Commission

FDIC - Federal Deposit Insurance Corporation

FHLB - Federal Home Loan Bank

SIFI - Systemically Important Financial Institution

TDRs - Troubled debt restructurings

NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets:		
Cash and cash equivalents	$ 2,204,397	$ 2,528,169
Securities:		
Debt securities available-for-sale ($842,424 and $1,263,227 pledged, respectively)	4,122,883	3,531,427
Equity investments with readily determinable fair values, at fair value	31,766	--
Total securities	4,154,649	3,531,427
Loans held for sale	--	35,258
Loans held for investment, net of deferred loan fees and costs	39,447,825	38,387,971
Less: Allowance for loan losses	(160,652)	(158,046)
Loans held for investment, net	39,287,173	38,229,925
Total loans, net	39,287,173	38,265,183
Federal Home Loan Bank stock, at cost	653,075	603,819
Premises and equipment, net	359,725	368,655
Goodwill	2,436,131	2,436,131
Mortgage servicing rights ($2,505 and $2,729 measured at fair value, respectively)	4,362	6,100
Bank-owned life insurance	971,795	967,173
Other real estate owned and other repossessed assets	14,204	16,400
Other assets	383,659	401,138
Total assets	$ 50,469,170	$ 49,124,195
Liabilities and Stockholders Equity:		
Deposits:		
Interest-bearing checking and money market accounts	$ 11,830,315	$ 12,936,301
Savings accounts	4,920,967	5,210,001
Certificates of deposit	10,306,519	8,643,646
Non-interest-bearing accounts	2,498,044	2,312,215
Total deposits	29,555,845	29,102,163
Borrowed funds:		
Wholesale borrowings:		
Federal Home Loan Bank advances	13,234,500	12,104,500
Repurchase agreements	200,000	450,000

Total wholesale borrowings	13,434,500	12,554,500
Junior subordinated debentures	359,339	359,179
Total borrowed funds	13,793,839	12,913,679
Other liabilities	330,134	312,977
Total liabilities	43,679,818	42,328,819
Stockholders equity:		
Preferred stock at par $0.01 (5,000,000 shares authorized): Series A (515,000 shares issued and outstanding)	502,840	502,840
Common stock at par $0.01 (900,000,000 shares authorized; 490,439,070 and 489,072,101 shares issued; and 490,379,705 and 488,490,352 shares outstanding, respectively)	4,904	4,891
Paid-in capital in excess of par	6,082,394	6,072,559
Retained earnings	271,559	237,868
Treasury stock, at cost (59,365 and 581,749 shares, respectively)	(757)	(7,615)
Accumulated other comprehensive loss, net of tax:		
Net unrealized (loss) gain on securities available for sale, net of tax of $3,757 and $(27,961), respectively	(9,069)	39,188
Net unrealized loss on the non-credit portion of OTTI losses on securities, net of tax of $2,517 and $3,338, respectively	(6,042)	(5,221)
Net unrealized loss on pension and post-retirement obligations, net of tax of $21,057 and $32,121, respectively	(56,477)	(49,134)
Total accumulated other comprehensive loss, net of tax	(71,588)	(15,167)
Total stockholders equity	6,789,352	6,795,376
Total liabilities and stockholders equity	$ 50,469,170	$ 49,124,195

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Interest Income:				
Mortgage and other loans	$368,456	$361,330	$724,373	$719,732
Securities and money market investments	48,876	37,745	97,284	78,462
Total interest income	417,332	399,075	821,657	798,194
Interest Expense:				
Interest-bearing checking and money market accounts	40,380	24,084	74,749	43,793
Savings accounts	6,630	7,150	13,851	13,960
Certificates of deposit	39,534	24,006	70,049	46,137
Borrowed funds	66,833	56,066	128,755	111,618
Total interest expense	153,377	111,306	287,404	215,508
Net interest income	263,955	287,769	534,253	582,686
Provision for losses on non-covered loans	4,714	11,645	14,285	13,432
Recovery of losses on covered loans	--	(17,906)	--	(23,701)
Net interest income after provision for (recovery of) loan losses	259,241	294,030	519,968	592,955
Non-Interest Income:				
Fee income	7,492	8,151	14,819	16,011
Bank-owned life insurance	6,318	6,519	13,122	12,856
Mortgage banking income	--	8,196	--	17,960
Net (loss) gain on securities	(303)	26,936	(769)	28,915
FDIC indemnification expense	--	(14,325)	--	(18,961)
Other	9,199	14,960	18,391	25,828
Total non-interest income	22,706	50,437	45,563	82,609
Non-Interest Expense:				
Operating expenses:				
Compensation and benefits	80,314	93,512	164,289	189,718

Occupancy and equipment	25,026	23,403	49,910	48,462
General and administrative	32,802	46,820	63,050	92,344
Total operating expenses	138,142	163,735	277,249	330,524
Amortization of core deposit intangibles	--	30	--	184
Total non-interest expense	138,142	163,765	277,249	330,708
Income before income taxes	143,805	180,702	288,282	344,856
Income tax expense	36,451	65,447	74,376	125,644
Net income	107,354	115,255	213,906	219,212
Preferred stock dividends	8,207	8,207	16,414	8,207
Net income available to common shareholders	$99,147	$107,048	$197,492	$211,005
Basic earnings per common share	$0.20	$0.22	$0.40	$0.43
Diluted earnings per common share	$0.20	$0.22	$0.40	$0.43
Net income	$107,354	$115,255	$213,906	$219,212
Other comprehensive (loss) income, net of tax:				
Change in net unrealized gain/loss on securities available for sale, net of tax of $7,111; $(38,189); $31,718; and $(38,542), respectively	(17,119)	53,538	(48,257)	54,033
Change in the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $0; $0; $(821); and $(13), respectively	--	1	(821)	20
Change in pension and post-retirement obligations, net of tax of $(547); $(869); $(11,064) and $(1,741), respectively	1,313	1,219	(7,343)	2,437
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of $770	--	--	--	(1,078)
Total other comprehensive (loss) income, net of tax	(15,806)	54,758	(56,421)	55,412
Total comprehensive income, net of tax	$91,548	$170,013	$157,485	$274,624

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	For the Six Months Ended June 30, 2018
Preferred Stock (Par Value: $0.01):	
Balance at beginning of year	$ 502,840
Balance at end of period	502,840
Common Stock (Par Value: $0.01):	
Balance at beginning of year	4,891
Shares issued for restricted stock awards (1,366,969 shares)	13
Balance at end of period	4,904
Paid-in Capital in Excess of Par:	
Balance at beginning of year	6,072,559
Shares issued for restricted stock awards, net of forfeitures	(8,879)
Compensation expense related to restricted stock awards	18,714
Balance at end of period	6,082,394
Retained Earnings:	
Balance at beginning of year	237,868
Net income	213,906
Dividends paid on common stock ($0.34 per share)	(166,607)
Dividends paid on preferred stock ($31.88 per share)	(16,414)
Effect of adopting ASU No. 2016-01	260
Effect of adopting ASU No. 2018-02	2,546
Balance at end of period	271,559
Treasury Stock, at Cost:	
Balance at beginning of year	(7,615)
Purchase of common stock (150,250 shares)	(2,008)

Shares issued for restricted stock awards (672,634 shares)		8,866
Balance at end of period		(757)
Accumulated Other Comprehensive Loss, Net of Tax:		
Balance at beginning of year		(15,167)
Effect of adopting ASU No. 2018-02		(2,546)
Other comprehensive loss, net of tax		(53,875)
Balance at end of period		(71,588)
Total stockholders equity	$	6,789,352

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended June 30, 2018	2017
Cash Flows from Operating Activities:		
Net income	$213,906	$ 219,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	14,285	(10,269)
Depreciation	16,549	16,001
Amortization of discounts and premiums, net	(3,095)	(2,130)
Amortization of core deposit intangibles	--	184
Net gain on sales of securities	--	(28,915)
Gain on trading securities activity	(178)	--
Net gain on sales of loans	(178)	(10,501)
Stock-based compensation	18,714	18,195
Deferred tax expense	4,620	27,766
Changes in operating assets and liabilities:		
Decrease in other assets	10,140	101,612
Increase in other liabilities	36,492	51,393
Purchases of securities held for trading	(113,615)	--
Proceeds from sales of securities held for trading	113,793	--
Origination of loans held for sale	--	(1,122,084)
Proceeds from sales of loans originated for sale	35,258	1,275,991
Net cash provided by operating activities	346,691	536,455
Cash Flows from Investing Activities:		
Proceeds from repayment of securities held to maturity	--	175,375
Proceeds from repayment of securities available for sale	416,555	2,614
Proceeds from sales of securities held to maturity	--	547,925
Proceeds from sales of securities available for sale	--	139,009
Purchase of securities held to maturity	--	(13,030)
Purchase of securities available for sale	(1,116,898)	(84,000)
Redemption of Federal Home Loan Bank stock	51,139	65,161
Purchases of Federal Home Loan Bank stock	(100,395)	(63,294)
Proceeds from bank-owned life insurance	9,457	--
Proceeds from sales of loans	78,058	364,164
Other changes in loans, net	(1,149,413)	(89,365)
Purchase of premises and equipment, net	(7,619)	(22,648)
Net cash (used in) provided by investing activities	(1,819,116)	1,021,911

Cash Flows from Financing Activities:		
Net increase in deposits	453,682	5,662
Net decrease in short-term borrowed funds	--	(460,000)
Proceeds from long-term borrowed funds	3,450,000	--
Repayments of long-term borrowed funds	(2,570,000)	(850,000)
Net proceeds from issuance of preferred stock	--	502,840
Cash dividends paid on common stock	(166,607)	(166,031)
Cash dividends paid on preferred stock	(16,414)	(8,207)
Payments relating to treasury shares received for restricted stock award tax payments	(2,008)	(10,634)
Net cash provided by (used in) financing activities	1,148,653	(986,370)
Net (decrease) increase in cash and cash equivalents	(323,772)	571,996
Cash and cash equivalents at beginning of period	2,528,169	557,850
Cash and cash equivalents at end of period	$2,204,397	$ 1,129,846
Supplemental information:		
Cash paid for interest	$280,653	$ 214,315
Cash paid for income taxes	13,884	67,651
Non-cash investing and financing activities:		
Transfers to repossessed assets from loans	$2,461	$ 9,558
Transfer of loans from held for investment to held for sale	77,880	1,843,765
Shares issued for restricted stock awards	8,879	10,312
Securities transferred from held to maturity to available for sale	--	3,040,305

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

Organization

New York Community Bancorp, Inc. (on a stand-alone basis, the Parent Company or, collectively with its subsidiaries, the Company) was organized under Delaware law on July 20, 1993 and is the holding company for New York Community Bank and New York Commercial Bank (hereinafter referred to as the Community Bank and the Commercial Bank, respectively, and collectively as the Banks). For the purpose of these Consolidated Financial Statements, the Community Bank and the Commercial Bank refer not only to the respective banks but also to their respective subsidiaries.

The Community Bank is the primary banking subsidiary of the Company, which was formerly known as Queens County Bancorp, Inc. Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Community Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company issued its initial offering of common stock (par value: $0.01 per share) at a price of $25.00 per share ($0.93 per share on a split-adjusted basis, reflecting the impact of nine stock splits between 1994 and 2004). The Commercial Bank was established on December 30, 2005.

Reflecting its growth through acquisitions, the Community Bank currently operates 223 branches, two of which operate directly under the Community Bank name. The remaining 221 Community Bank branches operate through seven divisional banks: Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, and Roosevelt Savings Bank in New York; Garden State Community Bank in New Jersey; AmTrust Bank in Florida and Arizona; and Ohio Savings Bank in Ohio.

The Commercial Bank currently operates 30 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island (all in New York), including 18 branches that operate under the Atlantic Bank name.

Basis of Presentation

The following is a description of the significant accounting and reporting policies that the Company and its subsidiaries follow in preparing and presenting their consolidated financial statements, which conform to GAAP and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowances for loan losses and the evaluation of goodwill for impairment.

The accompanying consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company accounts and transactions are eliminated in consolidation. The Company currently has certain unconsolidated subsidiaries in the form of wholly-owned statutory business trusts, which were formed to issue guaranteed capital securities. See Note 7, Borrowed Funds, for additional information regarding these trusts.

Note 2. Computation of Earnings per Common Share

Basic EPS is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

Unvested stock-based compensation awards containing non-forfeitable rights to dividends paid on the Company s common stock are considered participating securities, and therefore are included in the two-class method for calculating EPS. Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends on the common stock. The Company grants restricted stock to certain employees under its stock-based compensation plan. Recipients receive cash dividends during the vesting periods of these awards, including on the unvested portion of such awards. Since these dividends are non-forfeitable, the unvested awards are considered participating securities and therefore have earnings allocated to them.

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The following table presents the Company s computation of basic and diluted EPS for the periods indicated:

(in thousands, except share and per share amounts)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Net income available to common shareholders	$99,147	$107,048	$197,492	$211,005
Less: Dividends paid on and earnings allocated to participating securities	(1,267)	(873)	(2,524)	(1,693)
Earnings applicable to common stock	$97,880	$106,175	$194,968	$209,312
Weighted average common shares outstanding	488,530,527	487,282,404	488,336,395	486,899,209
Basic earnings per common share	$0.20	$0.22	$0.40	$0.43
Earnings applicable to common stock	$97,880	$106,175	$194,968	$209,312
Weighted average common shares outstanding	488,530,527	487,282,404	488,336,395	486,899,209
Potential dilutive common shares	--	--	--	--
Total shares for diluted earnings per share computation	488,530,527	487,282,404	488,336,395	486,899,209
Diluted earnings per common share and common share equivalents	$0.20	$0.22	$0.40	$0.43

Note 3. Reclassifications Out of Accumulated Other Comprehensive Loss

(in thousands)	For the Six Months Ended June 30, 2018	
Details about Accumulated Other Comprehensive Loss	Amount Reclassified from Accumulated Other Comprehensive Loss [1]	Affected Line Item in the Consolidated Statement of Operations and Comprehensive Income (Loss)
Unrealized gains (losses) on debt securities available-for-sale	$ --	Net (loss) gain on securities
	--	Income tax expense
	$ --	Total net (loss) gain on securities
Amortization of defined benefit pension plan items:		

Past service liability	$ 124	Included in the computation of net periodic (credit) expense (2)
Actuarial losses	(3,744)	Included in the computation of net periodic (credit) expense (2)
	(3,620)	Total before tax
	1,065	Tax benefit
	$(2,555)	Amortization of defined benefit pension plan items, net of tax
Total reclassifications for the period	$(2,555)	

(1) Amounts in parentheses indicate expense items.
(2) See Note 8, Pension and Other Post-Retirement Benefits, for additional information.

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Note 4. Securities

The following tables summarize the Company s portfolio of debt securities available for sale and equity investments with readily determinable fair values at June 30, 2018 and December 31, 2017:

	June 30, 2018			
(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Debt securities available-for-sale				
Mortgage-Related Debt Securities:				
GSE certificates	$ 1,936,949	$ 11,307	$ 24,840	$ 1,923,416
GSE CMOs	658,435	5,755	4,418	659,772
Total mortgage-related debt securities	$ 2,595,384	$ 17,062	$ 29,258	$ 2,583,188
Other Debt Securities:				
U. S. Treasury securities	$ 199,839	$ --	$ 143	$ 199,696
GSE debentures	562,866	929	9,146	554,649
Asset-backed securities (1)	280,755	201	158	280,798
Municipal bonds	69,546	178	2,119	67,605
Corporate bonds	379,069	9,922	898	388,093
Capital trust notes	48,252	6,478	5,876	48,854
Total other debt securities	$ 1,540,327	$ 17,708	$ 18,340	$ 1,539,695
Total debt securities available for sale (2)	$ 4,135,711	$ 34,770	$ 47,598	$ 4,122,883
Equity securities:				
Preferred stock	$ 15,292	$ --	$ 184	$ 15,108
Mutual funds and common stock (3)	16,874	346	562	16,658
Total equity securities	$ 32,166	$ 346	$ 746	$ 31,766
Total securities	$ 4,167,877	$ 35,116	$ 48,344	$ 4,154,649

(1) The underlying assets of the asset-backed securities are substantially guaranteed by the U.S. Government.
(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At June 30, 2018, the non-credit portion of OTTI recorded in AOCL was $8.6 million before taxes.
(3) Primarily consists of mutual funds that are CRA-qualified investments.

	December 31, 2017			
		Gross	Gross	

(in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Mortgage-Related Securities:				
GSE certificates	$ 2,023,677	$ 46,364	$ 1,199	$ 2,068,842
GSE CMOs	536,284	14,446	826	549,904
Total mortgage-related securities	$ 2,559,961	$ 60,810	$ 2,025	$ 2,618,746
Other Securities:				
U. S. Treasury obligations	$ 199,960	$ --	$ 62	$ 199,898
GSE debentures	473,879	2,044	2,665	473,258
Municipal bonds	70,381	540	801	70,120
Corporate bonds	79,702	11,073	--	90,775
Capital trust notes	48,230	6,498	8,632	46,096
Preferred stock	15,292	142	--	15,434
Mutual funds and common stock (1)	16,874	487	261	17,100
Total other securities	$ 904,318	$ 20,784	$ 12,421	$ 912,681
Total securities available for sale (2)	$ 3,464,279	$ 81,594	$ 14,446	$ 3,531,427

(1) Primarily consists of mutual funds that are CRA-qualified investments.
(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At December 31, 2017, the non-credit portion of OTTI recorded in AOCL was $8.6 million before taxes.

At June 30, 2018 and December 31, 2017, respectively, the Company had $653.1 million and $603.8 million of FHLB-NY stock, at cost. The Company maintains an investment in FHLB-NY stock partly in conjunction with its membership in the FHLB and partly related to its access to the FHLB funding it utilizes.

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The following table summarizes the gross proceeds and gross realized gains from the sale of available-for-sale securities during the six months ended June 30, 2018 and 2017:

	For the Six Months Ended June 30,	
(in thousands)	2018	2017
Gross proceeds	$ --	$139,009
Gross realized gains	--	1,986

In the following table, the beginning balance represents the credit loss component for debt securities on which OTTI occurred prior to January 1, 2018. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment).

(in thousands)	For the Six Months Ended June 30, 2018
Beginning credit loss amount as of December 31, 2017	$196,333
Add: Initial other-than-temporary credit losses	--
Subsequent other-than-temporary credit losses	--
Amount previously recognized in AOCL	--
Less: Realized losses for securities sold	--
Securities intended or required to be sold	--
Increase in cash flows on debt securities	30
Ending credit loss amount as of June 30, 2018	$196,303

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The following table summarizes, by contractual maturity, the amortized cost of securities at June 30, 2018:

(dollars in thousands)	Mortgage-Related Securities	Average Yield	U.S. Government and GSE Obligations	Average Yield	State, County, and Municipal	Average Yield (1)	Other Debt Securities (2)	Average Yield	Fair Value
Available-for-Sale Debt Securities: (3)									
Due within one year	$ --	--%	$ 199,839	1.70%	$ 149	6.51%	$ --	--%	$ 199,846
Due from one to five years	1,219,407	3.34	6,950	3.84	293	6.63	48,648	3.86	1,283,154
Due from five to ten years	557,628	3.39	471,325	3.11	--	--	330,421	3.98	1,359,372
Due after ten years	818,349	2.94	84,591	3.09	69,104	2.88	329,007	3.24	1,280,511
Total debt securities available for sale	$ 2,595,384	3.22%	$ 762,705	2.74%	$ 69,546	2.90%	$ 708,076	3.63%	$ 4,122,883

(1) Not presented on a tax-equivalent basis.
(2) Includes corporate bonds, capital trust notes, and asset-backed securities.
(3) As equity securities have no contractual maturity, they have been excluded from this table.

The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of June 30, 2018:

	Less than Twelve Months		Twelve Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Temporarily Impaired Securities:						
U. S. Treasury securities	$ 199,695	$ 143	$ --	$ --	$ 199,695	$ 143
U. S. Government agency and GSE obligations	524,847	9,146	--	--	524,847	9,146
GSE certificates	959,158	23,556	19,434	1,284	978,592	24,840
GSE CMOs	329,114	4,418	--	--	329,114	4,418
Asset-backed securities	112,408	158	--	--	112,408	158
Municipal bonds	--	--	50,087	2,119	50,087	2,119
Corporate bonds	293,218	898	--	--	293,218	898
Capital trust notes	--	--	37,883	5,876	37,883	5,876
Equity securities	19,089	211	11,271	535	30,360	746

Total temporarily impaired securities	$ 2,437,529	$ 38,530	$ 118,675	$ 9,814	$ 2,556,204	$ 48,344

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The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2017:

	Less than Twelve Months		Twelve Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Temporarily Impaired Available-for-Sale Securities:						
GSE certificates	$ 232,546	$ 535	$ 20,440	$ 664	$ 252,986	$ 1,199
GSE debentures	333,045	2,665	--	--	333,045	2,665
GSE CMOs	118,694	826	--	--	118,694	826
U. S. Treasury obligations	199,898	62	--	--	199,898	62
Municipal bonds	11,169	259	41,054	542	52,223	801
Capital trust notes	--	--	35,105	8,632	35,105	8,632
Equity securities	--	--	11,545	261	11,545	261
Total temporarily impaired available-for-sale securities	$ 895,352	$ 4,347	$ 108,144	$ 10,099	$ 1,003,496	$ 14,446

An OTTI loss on impaired debt securities must be fully recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss occurs, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts of impairment relating to factors other than credit losses are recorded in AOCL.

At June 30, 2018, the Company had unrealized losses on certain GSE obligations, U.S. Treasury obligations, municipal bonds, corporate bonds, asset-backed securities, capital trust notes, and equity securities. The unrealized losses on the Company s GSE obligations, U.S. Treasury obligations, municipal bonds, corporate bonds, asset-backed securities and capital trust notes at June 30, 2018 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. These securities are not expected to be settled at a price that is less than the amortized cost of the Company s investment.

The Company reviews quarterly financial information related to its investments in capital trust notes, as well as other information that is released by each of the issuers of such notes, to determine their continued creditworthiness. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and potential OTTI losses in the future. Future events that could trigger material unrecoverable declines in the fair values of the Company s investments, and thus result in potential OTTI losses, include, but are not limited to, government intervention; deteriorating asset quality and credit metrics; significantly higher levels of default and loan loss provisions; losses in value on the underlying collateral; net operating losses; and illiquidity in the financial markets.

The Company considers a decline in the fair value of equity securities to be other than temporary if the Company does not expect to recover the entire amortized cost basis of the security. The unrealized losses on the Company s equity securities at June 30, 2018 were caused by market volatility. The Company evaluated the near-term prospects of recovering the fair value of these securities, together with the severity and duration of impairment to date, and determined that they were not other-than-temporarily impaired. Nonetheless, it is possible that these equity securities will perform worse than is currently expected, which could lead to adverse changes in their fair value, or to the failure of the securities to fully recover in value as currently anticipated by management. Either event could cause the Company to record an OTTI loss in a future period. Events that could trigger a material decline in the fair value of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolio of the issuer in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuer.

The investment securities designated as having a continuous loss position for twelve months or more at both June 30, 2018 and December 31, 2017 consisted of six agency mortgage-related securities, five capital trust notes, three municipal bonds, and one mutual fund. At June 30, 2018, the fair value of securities having a continuous loss position for twelve months or more was 7.6% below the collective amortized cost of $128.5 million. At December 31, 2017, the fair value of such securities was 8.5% below the collective amortized cost of $118.2 million. At June 30, 2018 and December 31, 2017, the combined market value of the respective securities represented unrealized losses of $9.8 million and $10.1 million, respectively.

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Note 5. Loans

The following table sets forth the composition of the loan portfolio at the dates indicated:

	June 30, 2018		December 31, 2017	
(dollars in thousands)	Amount	Percent of Loans Held for Investment	Amount	Percent of Loans Held for Investment
Loans Held for Investment:				
Mortgage Loans:				
Multi-family	$ 29,211,541	74.10%	$ 28,074,709	73.19%
Commercial real estate	7,153,868	18.15	7,322,226	19.09
One-to-four family	449,419	1.14	477,228	1.24
Acquisition, development, and construction	424,827	1.08	435,825	1.14
Total mortgage loans held for investment	$ 37,239,655	94.47	$ 36,309,988	94.66
Other Loans:				
Commercial and industrial	1,535,618	3.90	1,377,964	3.59
Lease financing, net of unearned income of $59,088 and $65,041, respectively	634,821	1.61	662,610	1.73
Total commercial and industrial loans (1)	2,170,439	5.51	2,040,574	5.32
Other	8,663	0.02	8,460	0.02
Total other loans held for investment	2,179,102	5.53	2,049,034	5.34
Total loans held for investment	$ 39,418,757	100.00%	$ 38,359,022	100.00%
Net deferred loan origination costs	29,068		28,949	
Allowance for losses on non-covered loans	(160,652)		(158,046)	
Loans held for investment, net	$ 39,287,173		$ 38,229,925	
Loans held for sale	--		35,258	
Total loans, net	$ 39,287,173		$ 38,265,183	

(1) Includes specialty finance loans and leases of $1.7 billion at June 30, 2018 and December 31, 2017, and other C&I loans of $491.7 million and $500.8 million, respectively, at June 30, 2018 and December 31, 2017.

Loans

Loans Held for Investment

The majority of the loans the Company originates for investment are multi-family loans, most of which are collateralized by non-luxury apartment buildings in New York City with rent-regulated units and below-market rents. In addition, the Company originates CRE loans, most of which are collateralized by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties that are located in New York City and on Long Island.

To a lesser extent, the Company also originates ADC loans for investment. One-to-four family loans held for investment were originated through the Company s former mortgage banking operation and primarily consisted of jumbo prime adjustable rate mortgages made to borrowers with a solid credit history.

ADC loans are primarily originated for multi-family and residential tract projects in New York City and on Long Island. C&I loans consist of asset-based loans, equipment loans and leases, and dealer floor-plan loans (together, specialty finance loans and leases) that generally are made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide; and other C&I loans that primarily are made to small and mid-size businesses in Metro New York. Other C&I loans are typically made for working capital, business expansion, and the purchase of machinery and equipment.

The repayment of multi-family and CRE loans generally depends on the income produced by the underlying properties which, in turn, depends on their successful operation and management. To mitigate the potential for credit losses, the Company underwrites its loans in accordance with credit standards it considers to be prudent, looking first at the consistency of the cash flows being produced by the underlying property. In addition, multi-family buildings, CRE properties, and ADC projects are inspected as a prerequisite to approval, and independent appraisers, whose appraisals are carefully reviewed by the Company s in-house appraisers, perform appraisals on the collateral properties. In many cases, a second independent appraisal review is performed.

To further manage its credit risk, the Company s lending policies limit the amount of credit granted to any one borrower and typically require conservative debt service coverage ratios and loan-to-value ratios. Nonetheless, the ability of the Company s borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy. Accordingly, there can be no assurance that its underwriting policies will protect the Company from credit-related losses or delinquencies.

ADC loans typically involve a higher degree of credit risk than loans secured by improved or owner-occupied real estate. Accordingly, borrowers are required to provide a guarantee of repayment and completion, and loan proceeds are disbursed as construction progresses, as certified by in-house inspectors or third-party engineers. The Company seeks to minimize the credit risk on ADC loans by maintaining conservative lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the ADC loan portfolio, and could result in losses or delinquencies. In addition, the Company utilizes the same stringent appraisal process for ADC loans as it does for its multi-family and CRE loans.

To minimize the risk involved in specialty finance lending and leasing, the Company participates in syndicated loans that are brought to it, and equipment loans and leases that are assigned to it, by a select group of nationally recognized sources who have had long-term relationships with its experienced lending officers. Each of these credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancelable lease. To further minimize the risk involved in specialty finance lending and leasing, each transaction is re-underwritten. In addition, outside counsel is retained to conduct a further review of the underlying documentation.

To minimize the risks involved in other C&I lending, the Company underwrites such loans on the basis of the cash flows produced by the business; requires that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and typically requires personal guarantees. However, the capacity of a borrower to repay such a C&I loan is substantially dependent on the degree to which the business is successful. In addition, the collateral underlying such loans may depreciate over time, may not be conducive to appraisal, or may fluctuate in value, based upon the results of operations of the business.

Included in loans held for investment at June 30, 2018 were loans of $55.6 million to officers, directors, and their related interests and parties. There were no loans to principal shareholders at that date.

Loans Held for Sale

At June 30, 2018 the Company had no loans held for sale as compared to $35.3 million at December 31, 2017. At December 31, 2017, all loans held for sale were one-to-four family loans.

Asset Quality

The following table presents information regarding the quality of the Company s loans held for investment at June 30, 2018:

(in thousands)

	Loans 30-89 Days Past Due	Non-Accrual Loans	Loans 90 Days or More Delinquent and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	$ 5	$ 5,408	$ --	$ 5,413	$ 29,206,128	$ 29,211,541
Commercial real estate	--	4,917	--	4,917	7,148,951	7,153,868
One-to-four family	214	1,669	--	1,883	447,536	449,419
Acquisition, development, and construction	--	--	--	--	424,827	424,827
Commercial and industrial(1) (2)	1,994	44,483	--	46,477	2,123,962	2,170,439
Other	4,065	4	--	4,069	4,594	8,663
Total	$ 6,278	$ 56,481	$ --	$ 62,759	$ 39,355,998	$ 39,418,757

(1) Includes $2.0 million and $43.5 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.
(2) Includes lease financing receivables, all of which were current.

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The following table presents information regarding the quality of the Company s loans held for investment at December 31, 2017:

(in thousands)	Loans 30-89 Days Past Due	Non-Accrual Loans	Loans 90 Days or More Delinquent and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	$ 1,258	$ 11,078	$ --	$ 12,336	$ 28,062,373	$ 28,074,709
Commercial real estate	13,227	6,659	--	19,886	7,302,340	7,322,226
One-to-four family	585	1,966	--	2,551	474,677	477,228
Acquisition, development, and construction	--	6,200	--	6,200	429,625	435,825
Commercial and industrial(1) (2)	2,711	47,768	--	50,479	1,990,095	2,040,574
Other	8	11	--	19	8,441	8,460
Total	$ 17,789	$ 73,682	$ --	$ 91,471	$ 38,267,551	$ 38,359,022

(1) Includes $2.7 million and $46.7 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.
(2) Includes lease financing receivables, all of which were current.

The following table summarizes the Company s portfolio of loans held for investment by credit quality indicator at June 30, 2018:

	Mortgage Loans					**Other Loans**		
(in thousands)	**Multi-Family**	**Commercial Real Estate**	**One-to-Four Family**	**Acquisition, Development, and Construction**	**Total Mortgage Loans**	**Commercial and Industrial(1)**	**Other**	**Total Other Loans**
Credit Quality Indicator:								
Pass	$ 29,019,539	$ 7,101,257	$ 444,093	$ 341,154	$ 36,906,043	$ 2,080,569	$ 8,659	$ 2,089,228
Special mention	172,517	46,973	3,657	74,121	297,268	16,302	--	16,302
Substandard	19,485	5,638	1,669	9,552	36,344	73,568	4	73,572
Doubtful	--	--	--	--	--	--	--	--
Total	$ 29,211,541	$ 7,153,868	$ 449,419	$ 424,827	$ 37,239,655	$ 2,170,439	$ 8,663	$ 2,179,102

(1) Includes lease financing receivables, all of which were classified as Pass.

The following table summarizes the Company s portfolio of loans held for investment by credit quality indicator at December 31, 2017:

	Mortgage Loans					Other Loans		
(in thousands)	Multi-Family	Commercial Real Estate	One-to-Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial(1)	Other	Total Other Loans
Credit Quality Indicator:								
Pass	$ 27,874,330	$ 7,255,100	$ 471,571	$ 344,040	$ 35,945,041	$ 1,925,527	$ 8,449	$ 1,933,976
Special mention	125,752	47,123	3,691	76,033	252,599	20,883	--	20,883
Substandard	74,627	20,003	1,966	15,752	112,348	94,164	11	94,175
Doubtful	--	--	--	--	--	--	--	--
Total	$ 28,074,709	$ 7,322,226	$ 477,228	$ 435,825	$ 36,309,988	$ 2,040,574	$ 8,460	$ 2,049,034

(1) Includes lease financing receivables, all of which were classified as Pass.

The preceding classifications are the most current ones available and generally have been updated within the last twelve months. In addition, they follow regulatory guidelines and can generally be described as follows: pass loans are of satisfactory quality; special mention loans have potential weaknesses that deserve management s close attention; substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged (these loans have a well-defined weakness and there is a possibility that the Company will sustain some loss); and doubtful loans, based on existing circumstances, have weaknesses that make collection or liquidation in full highly questionable and improbable. In addition, one-to-four family loans are classified based on the duration of the delinquency.

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Troubled Debt Restructurings

The Company is required to account for certain held-for-investment loan modifications and restructurings as TDRs. In general, a modification or restructuring of a loan constitutes a TDR if the Company grants a concession to a borrower experiencing financial difficulty. A loan modified as a TDR generally is placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which requires, among other things, that the borrower demonstrate performance according to the restructured terms for a period of at least six consecutive months.

In an effort to proactively manage delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, extension of maturity dates, and forbearance agreements. As of June 30, 2018, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to $39.9 million; loans on which forbearance agreements were reached amounted to $1.8 million.

The following table presents information regarding the Company s TDRs as of June 30, 2018 and December 31, 2017:

	June 30, 2018			**December 31, 2017**		
(in thousands)	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Loan Category:						
Multi-family	$ 816	$ 5,174	$ 5,990	$ 824	$ 8,061	$ 8,885
Commercial real estate	--	356	356	--	368	368
One-to-four family	--	1,043	1,043	--	1,066	1,066
Acquisition, development, and construction	9,552	--	9,552	8,652	--	8,652
Commercial and industrial	--	24,759	24,759	177	26,408	26,585
Total	$ 10,368	$ 31,332	$ 41,700	$ 9,653	$ 35,903	$ 45,556

The eligibility of a borrower for work-out concessions of any nature depends upon the facts and circumstances of each loan, which may change from period to period, and involves judgment by Company personnel regarding the likelihood that the concession will result in the maximum recovery for the Company.

The financial effects of the Company s TDRs for the three months ended June 30, 2018 and 2017 are summarized as follows:

	For the Three Months Ended June 30, 2018						
				Weighted Average Interest Rate			
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification	Post-Modification	Charge-off Amount	Capitalized Interest
Loan Category:							
Commercial and industrial	6	$ 2,613	$ 1,420	3.27%	3.05%	$ 1,158	$ --

	For the Three Months Ended June 30, 2017											
						Weighted Average Interest Rate						
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment		Post-Modification Recorded Investment		Pre-Modification	Post-Modification	Charge-off Amount		Capitalized Interest	
Loan Category:											
One-to-four family	3	$	544	$	657	5.90%	2.00%	$	--	$	7
Commercial and industrial	13		22,752		18,722	3.49	3.45		825		--
Total	16	$	23,296	$	19,379			$	825	$	7

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The financial effects of the Company s TDRs for the six months ended June 30, 2018 and 2017 are summarized as follows:

	For the Six Months Ended June 30, 2018						
				Weighted Average Interest Rate			
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification	Post-Modification	Charge-off Amount	Capitalized Interest
Loan Category:							
Acquisition, development, and construction	1	$ 900	$ 900	4.50%	4.50%	$ --	$ --
Commercial and industrial	12	5,780	3,174	3.27	3.14	2,476	--
Total	13	$ 6,680	$ 4,074			$ 2,476	$ --

	For the Six Months Ended June 30, 2017						
				Weighted Average Interest Rate			
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification	Post-Modification	Charge-off Amount	Capitalized Interest
Loan Category:							
Multi-family	4	$ 809	$ 994	5.93%	2.21%	$ --	$ 12
Commercial and industrial	30	30,714	23,151	3.45	3.45	4,104	--
Total	34	$ 31,523	$ 24,145			$ 4,104	$ 12

At June 30, 2018, six C&I loans, in the amount of $1.7 million that had been modified as a TDR during the twelve months ended at that date were in payment default.

The Company does not consider a payment to be in default when the loan is in forbearance, or otherwise granted a delay of payment, when the agreement to forebear or allow a delay of payment is part of a modification.

Subsequent to the modification, the loan is not considered to be in default until payment is contractually past due in accordance with the modified terms. However, the Company does consider a loan with multiple modifications or forbearance periods to be in default, and would also consider a loan to be in default if the borrower were in bankruptcy or if the loan were partially charged off subsequent to modification.

Note 6. Allowance for Loan Losses

The following tables provide additional information regarding the Company s allowance for loan losses based upon the method of evaluating loan impairment:

(in thousands)	Mortgage	Other	Total
Allowances for Loan Losses at June 30, 2018:			
Loans individually evaluated for impairment	$ --	$ 39	$ 39
Loans collectively evaluated for impairment	129,697	30,916	160,613
Total	$ 129,697	$ 30,955	$ 160,652

(in thousands)	Mortgage	Other	Total
Allowances for Loan Losses at December 31, 2017:			
Loans collectively evaluated for impairment	$ 128,275	$ 29,771	$ 158,046

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The following tables provide additional information regarding the methods used to evaluate the Company s loan portfolio for impairment:

(in thousands)	Mortgage	Other	Total
Loans Receivable at June 30, 2018:			
Loans individually evaluated for impairment	$ 20,886	$ 45,348	$ 66,234
Loans collectively evaluated for impairment	37,218,769	2,133,754	39,352,523
Total	$ 37,239,655	$ 2,179,102	$ 39,418,757

(in thousands)	Mortgage	Other	Total
Loans Receivable at December 31, 2017:			
Loans individually evaluated for impairment	$ 31,747	$ 48,810	$ 80,557
Loans collectively evaluated for impairment	36,278,241	2,000,224	38,278,465
Total	$ 36,309,988	$ 2,049,034	$ 38,359,022

Allowance for Loan Losses

The following table summarizes activity in the allowance for loan losses for the periods indicated:

	For the Six Months Ended June 30,					
	2018			2017 (1)		
(in thousands)	Mortgage	Other	Total	Mortgage	Other	Total
Balance, beginning of period	$ 128,275	$ 29,771	$ 158,046	$ 125,416	$ 32,874	$ 158,290
Charge-offs	(5,444)	(7,404)	(12,848)	(90)	(17,646)	(17,736)
Recoveries	229	940	1,169	180	517	697
Provision for (recovery of) non-covered loan losses	6,637	7,648	14,285	(3,785)	17,217	13,432
Balance, end of period	$ 129,697	$ 30,955	$ 160,652	$ 121,721	$ 32,962	$ 154,683

(1) Represents allowance for losses on non-covered loans, excluding PCI loans.

The following table presents additional information about the Company s impaired loans at June 30, 2018:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					

Multi-family	$ 5,990	$ 8,778	$ --	$ 7,771	$ 227
Commercial real estate	3,675	8,790	--	3,811	29
One-to-four family	1,669	1,722	--	1,861	24
Acquisition, development, and construction	9,552	10,452	--	11,619	287
Other	45,309	106,995	--	46,962	1,504
Total impaired loans with no related allowance	$ 66,195	$ 136,737	$ --	$ 72,024	$ 2,071
Impaired loans with an allowance recorded:					
Multi-family	$ --	$ --	$ --	$ --	$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	39	39	39	26	4
Total impaired loans with an allowance recorded	$ 39	$ 39	$ 39	$ 26	$ 4
Total impaired loans:					
Multi-family	$ 5,990	$ 8,778	$ --	$ 7,771	$ 227
Commercial real estate	3,675	8,790	--	3,811	29
One-to-four family	1,669	1,722	--	1,861	24
Acquisition, development, and construction	9,552	10,452	--	11,619	287
Other	45,348	107,034	39	46,988	1,508

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Total impaired loans	$ 66,234	$ 136,776	$ 39	$ 72,050	$ 2,075

The following table presents additional information about the Company s impaired loans at December 31, 2017:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Multi-family	$ 8,892	$ 11,470	$ --	$ 9,554	$ 495
Commercial real estate	5,137	10,252	--	3,522	92
One-to-four family	1,966	2,072	--	2,489	50
Acquisition, development, and construction	15,752	25,952	--	10,976	575
Other	48,810	104,901	--	43,074	2,200
Total impaired loans with no related allowance	$ 80,557	$ 154,647	$ --	$ 69,615	$ 3,412
Impaired loans with an allowance recorded:					
Multi-family	$ --	$ --	$ --	$ --	$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	--	--	--	314	--
Total impaired loans with an allowance recorded	$ --	$ --	$ --	$ 314	$ --
Total impaired loans:					
Multi-family	$ 8,892	$ 11,470	$ --	$ 9,554	$ 495
Commercial real estate	5,137	10,252	--	3,522	92
One-to-four family	1,966	2,072	--	2,489	50
Acquisition, development, and construction	15,752	25,952	--	10,976	575
Other	48,810	104,901	--	43,388	2,200
Total impaired loans	$ 80,557	$ 154,647	$ --	$ 69,929	$ 3,412

Note 7. Borrowed Funds

The following table summarizes the Company s borrowed funds at the dates indicated:

(in thousands)	June 30, 2018	December 31, 2017
Wholesale Borrowings:		
FHLB advances	$ 13,234,500	$ 12,104,500
Repurchase agreements	200,000	450,000
Total wholesale borrowings	$ 13,434,500	$ 12,554,500
Junior subordinated debentures	359,339	359,179
Total borrowed funds	$ 13,793,839	$ 12,913,679

The following table summarizes the Company s repurchase agreements accounted for as secured borrowings at June 30, 2018:

	Remaining Contractual Maturity of the Agreements			
(in thousands)	Overnight and Continuous	Up to 30 Days	30 90 Days	Greater than 90 Days
GSE obligations	$ --	$ --	$ --	$ 200,000

At June 30, 2018 and December 31, 2017, the Company had $359.3 million and $359.2 million, respectively, of outstanding junior subordinated deferrable interest debentures (junior subordinated debentures) held by statutory business trusts (the Trusts) that issued guaranteed capital securities.

The Trusts are accounted for as unconsolidated subsidiaries, in accordance with GAAP. The proceeds of each issuance were invested in a series of junior subordinated debentures of the Company and the underlying assets of each statutory business trust are the relevant debentures. The Company has fully and unconditionally guaranteed the obligations under each trust s

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capital securities to the extent set forth in a guarantee by the Company to each trust. The Trusts capital securities are each subject to mandatory redemption, in whole or in part, upon repayment of the debentures at their stated maturity or earlier redemption.

The following junior subordinated debentures were outstanding at June 30, 2018:

Issuer	Interest Rate of Capital Securities and Debentures	Junior Subordinated Debentures Amount Outstanding	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
		(dollars in thousands)				
New York Community Capital Trust V (BONUSES℠ Units)	6.000%	$145,413	$139,062	Nov. 4, 2002	Nov. 1, 2051	Nov. 4, 2007 (1)
New York Community Capital Trust X	3.941	123,712	120,000	Dec. 14, 2006	Dec. 15, 2036	Dec. 15, 2011 (2)
PennFed Capital Trust III	5.591	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008 (2)
New York Community Capital Trust XI	3.987	59,286	57,500	April 16, 2007	June 30, 2037	June 30, 2012 (2)
Total junior subordinated debentures		$359,339	$346,562			

(1) Callable subject to certain conditions as described in the prospectus filed with the SEC on November 4, 2002.
(2) Callable from this date forward.

Note 8. Pension and Other Post-Retirement Benefits

The following table sets forth certain disclosures for the Company s pension and post-retirement plans for the periods indicated:

	For the Three Months Ended June 30,			
	2018		2017	
	Pension	Post-Retirement	Pension	Post-Retirement

(in thousands)	Benefits	Benefits	Benefits	Benefits
Components of net periodic (credit) expense: (1)				
Interest cost	$ 1,271	$ 128	$ 1,404	$ 144
Expected return on plan assets	(4,035)	--	(4,073)	--
Amortization of prior-service costs	--	(62)	--	(62)
Amortization of net actuarial loss	1,795	76	2,053	68
Net periodic (credit) expense	$ (969)	$ 142	$ (616)	$ 150

(1) Amounts are included in G&A expense on the Consolidated Statements of Income and Comprehensive Income.

For the Six Months Ended June 30,

		2018		**2017**	
(in thousands)		Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense: (1)					
Interest cost		$ 2,543	$ 256	$ 2,808	$ 288
Expected return on plan assets		(8,071)	--	(8,146)	--
Amortization of prior-service costs		--	(124)	--	(124)
Amortization of net actuarial loss	&nidth:10.94%;white-space:nowrap;"> 3.5		3.5	3.4	
Amortization of intangibles	1.0		1.3	1.3	
Impairment of long-lived assets	0.6		0.3	—	
Income from operations	3.8		5.5	6.3	
Interest income	0.0		0.0	0.0	
Interest (expense)	(0.3	)	(0.5)	(0.4)	
Other income (expense), net	(0.1	)	0.1	0.2	
Income before income taxes	3.4		5.1	6.1	
Income taxes	0.5		3.1	1.8	
Net income	2.9	%	2.0 %	4.3 %	

2018 Compared to 2017

Revenues

	Years Ended December 31, 2018		2017		
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change
Americas	$1,330,638	81.9%	$1,325,643	83.6%	$4,995
EMEA	294,954	18.1%	260,283	16.4%	34,671
Other	95	0.0%	82	0.0%	13
Consolidated	$1,625,687	100.0%	$1,586,008	100.0%	$39,679

Consolidated revenues increased $39.7 million, or 2.5%, in 2018 from 2017.

The increase in Americas' revenues was due to higher volumes from existing clients of $48.6 million, new clients of $30.3 million and a favorable foreign currency impact of $1.3 million, partially offset by end-of-life client programs of $75.2 million. Revenues from our offshore operations represented 39.7% of Americas' revenues in 2018, compared to 40.7% for the comparable period in 2017.

The increase in EMEA's revenues was due to higher volumes from existing clients of $21.5 million, new clients of $10.0 million and a favorable foreign currency impact of $8.4 million, partially offset by end-of-life client programs of $5.2 million.

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequent amendments (together, "ASC 606") on January 1, 2018. See Note 2, Revenues, in the accompanying "Notes to Consolidated Financial Statements" for further information.

On a consolidated basis, we had 48,800 brick-and-mortar seats as of December 31, 2018, a decrease of 3,800 seats from 2017. We rationalized 5,000 seats in the Americas as part of the 2018 Americas Exit Plan. This rationalization was partially offset by seat additions internationally for demand. The capacity utilization rate on a combined basis was 71% in 2018, compared to 72% in 2017.

On a segment basis, 41,200 seats were located in the Americas, a decrease of 4,200 seats from 2017, and 7,600 seats were located in EMEA, an increase of 400 seats from 2017. The capacity utilization rate for the Americas in 2018 was 70%, compared to 71% in 2017. The capacity utilization rate for EMEA in 2018 was 75%, compared to 81% in 2017, down primarily due to expansion and the utilization of our at-home platform as a complement to our brick-and-mortar facilities. We strive to attain a capacity utilization of 85% at each of our locations.

Direct Salaries and Related Costs

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$864,954	65.0%	$856,306	64.6%	$8,648	0.4%
EMEA	207,953	70.5%	183,371	70.5%	24,582	0.0%
Consolidated	$1,072,907	66.0%	$1,039,677	65.6%	$33,230	0.4%

The increase of $33.2 million in direct salaries and related costs included a favorable foreign currency impact of $6.3 million in the Americas and an unfavorable foreign currency impact of $5.0 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher customer-acquisition advertising costs of 1.1% primarily due to an increased reliance on paid search results over organic search results, higher severance costs related to the Americas 2018 Exit Plan of 0.2% and higher other costs of 0.4%, partially offset by lower compensation costs of 0.8%, lower auto tow claim costs of 0.3% and lower communications costs of 0.2%.

EMEA's direct salaries and related costs, as a percentage of revenues, were consistent with the prior period and primarily attributable to higher fulfillment materials costs of 1.0%, higher communications costs of 0.2% and higher other costs of 0.1%, offset by lower compensation costs of 1.3% primarily due to an increase in agent productivity principally within the financial services vertical in the current period.

General and Administrative

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$285,597	21.5%	$259,667	19.6%	$25,930	1.9%
EMEA	63,287	21.5%	54,696	21.0%	8,591	0.5%
Other	58,401	-	62,462	-	(4,061)	-
Consolidated	$407,285	25.1%	$376,825	23.8%	$30,460	1.3%

The increase of $30.5 million in general and administrative expenses included a favorable foreign currency impact of $2.4 million in the Americas and an unfavorable foreign currency impact of $1.5 million in EMEA.

The increase in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to higher facility-related costs of 0.5% resulting from the Americas 2018 Exit Plan, higher compensations costs of 0.5%, higher merger and integration costs of 0.3%, higher legal and professional fees of 0.3% and higher other costs of 0.3%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.3% and higher other costs of 0.2%.

The decrease of $4.1 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower compensation costs of $2.9 million, lower legal and professional fees of $1.3 million, lower severance costs of $0.6 million, lower travel costs of $0.4 million and lower other costs of $0.2 million, partially offset by higher merger and integration costs of $1.1 million and higher software and maintenance costs of $0.2 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Depreciation, net:						
Americas	$48,378	3.6%	$47,730	3.6%	$648	0.0%
EMEA	5,952	2.0%	5,211	2.0%	741	0.0%
Other	3,020	-	3,031	-	(11)	-
Consolidated	$57,350	3.5%	$55,972	3.5%	$1,378	0.0%
Amortization of intangibles:						
Americas	$14,287	1.1%	$20,144	1.5%	$(5,857)	-0.4%
EMEA	1,255	0.4%	938	0.4%	317	0.0%
Other	—	-	—	-	—	-
Consolidated	$15,542	1.0%	$21,082	1.3%	$(5,540)	-0.3%
Impairment of long-lived assets:						
Americas	$9,401	0.7%	$5,410	0.4%	$3,991	0.3%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	$9,401	0.6%	$5,410	0.3%	$3,991	0.3%

The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions and infrastructure upgrades, partially offset by the impact since the prior period of certain fully depreciated fixed assets and fixed assets that were impaired and disposed of as part of the Americas 2018 Exit Plan.

The decrease in amortization was primarily due to certain fully amortized intangible assets, partially offset by intangibles acquired during the year.

See Note 4, Costs Associated with Exit and Disposal Activities, and Note 5, Fair Value, in the accompanying “Notes to Consolidated Financial Statements” for further information regarding the impairment of long-lived assets.

Other Income (Expense)

	Years Ended December 31,		
(in thousands)	2018	2017	$ Change
Interest income	$706	$696	$10
Interest (expense)	$(4,743)	$(7,689)	$2,946
Other income (expense), net:			
Foreign currency transaction gains (losses)	$2,029	$(548)	$2,577

Gains (losses) on derivative instruments not designated as hedges	(1,751)	143	(1,894)
Gains (losses) on investments held in rabbi trust	(867)	1,619	(2,486)
Other miscellaneous income (expense)	(1,659)	44	(1,703)
Total other income (expense), net	$(2,248)	$1,258	$(3,506)

Interest income remained consistent with the prior year.

The decrease in interest (expense) was primarily due to a decrease in the outstanding borrowings under our Credit Agreement as a result of $173.0 million of repayments, net, in 2018, partially offset by an increase in weighted average interest rates on outstanding borrowings.

See Note 12, Investments Held in Rabbi Trust, of "Notes to Consolidated Financial Statements" for further information.

The change in other miscellaneous income (expense) was primarily due to Affordable Care Act compliance costs, losses from our equity method investee, XSell, and payroll tax compliance costs.

Income Taxes

(in thousands)	Years Ended December 31, 2018	2017	$ Change
Income before income taxes	$56,917	$81,307	$(24,390)
Income taxes	$7,991	$49,091	$(41,100)
			% Change
Effective tax rate	14.0 %	60.4 %	-46.4 %

The decrease in the effective tax rate in 2018 compared to 2017 was primarily due to the $32.7 million provisional estimate recognized in 2017 related to the 2017 Tax Reform Act. In addition, we recognized a benefit of $2.7 million in 2018 from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. The effective tax rate was also affected by shifts in earnings among the various jurisdictions in which we operate along with several additional factors, the overall impact of which was not material.

2017 Compared to 2016

Revenues

	Years Ended December 31,				
	2017		2016		
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change
Americas	$1,325,643	83.6%	$1,220,818	83.6%	$104,825
EMEA	260,283	16.4%	239,089	16.4%	21,194
Other	82	0.0%	130	0.0%	(48)
Consolidated	$1,586,008	100.0%	$1,460,037	100.0%	$125,971

Consolidated revenues increased $126.0 million, or 8.6%, in 2017 from 2016.

The increase in Americas' revenues was primarily due to higher volumes from existing clients of $51.3 million, new client sales of $51.1 million and Clearlink acquisition revenues of $43.1 million, partially offset by end-of-life client programs of $39.7 million and an unfavorable foreign currency impact of $1.0 million. Revenues from our offshore operations represented 40.7% of Americas' revenues, compared to 41.2% in 2016.

The increase in EMEA's revenues was primarily due to higher volumes from existing clients of $24.9 million and new client sales of $2.7 million, partially offset by end-of-life client programs of $3.5 million and an unfavorable foreign currency impact of $2.9 million.

Direct Salaries and Related Costs

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$856,306	64.6%	$779,099	63.8%	$77,207	0.8%
EMEA	183,371	70.5%	168,494	70.5%	14,877	0.0%
Consolidated	$1,039,677	65.6%	$947,593	64.9%	$92,084	0.7%

The increase of $92.1 million in direct salaries and related costs included a favorable foreign currency impact of $8.7 million in the Americas and a favorable foreign currency impact of $1.1 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.5% and higher customer-acquisition advertising costs of 0.5%, partially offset by lower communication costs of 0.2%.

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EMEA's direct salaries and related costs, as a percentage of revenues, remained consistent and were primarily attributable to higher compensation costs of 0.4% and higher other costs of 0.4%, offset by lower fulfillment materials costs of 0.8%.

General and Administrative

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$259,667	19.6%	$240,698	19.7%	$18,969	-0.1%
EMEA	54,696	21.0%	46,635	19.5%	8,061	1.5%
Other	62,462	-	64,348	-	(1,886)	-
Consolidated	$376,825	23.8%	$351,681	24.1%	$25,144	-0.3%

The increase of $25.1 million in general and administrative expenses included a favorable foreign currency impact of $2.7 million in the Americas and a favorable foreign currency impact of $1.0 million in EMEA.

The decrease in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to a reduction in technology costs of 0.2% allocated from corporate and lower technology equipment and maintenance costs of 0.2%, partially offset by higher compensation costs of 0.2% and higher other costs of 0.1%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to a gain on settlement of Qelp's contingent consideration in the prior period of 1.1%, higher compensation costs of 0.6% and higher recruiting costs of 0.4%, partially offset by lower advertising and marketing costs of 0.3% and lower other costs of 0.3%.

The decrease of $1.9 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower merger and integration costs of $3.8 million, lower compensation costs of $2.8 million and lower other costs of $0.1 million, partially offset by a reduction in technology costs of $2.5 million allocated to the Americas, higher legal and professional fees of $0.9 million, higher severance costs of $0.8 million and higher charitable contributions of $0.6 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Depreciation, net:						
Americas	$47,730	3.6%	$42,436	3.5%	$ 5,294	0.1%
EMEA	5,211	2.0%	4,532	1.9%	679	0.1%
Other	3,031	-	2,045	-	986	-
Consolidated	$55,972	3.5%	$49,013	3.4%	$ 6,959	0.1%
Amortization of intangibles:						

Americas	$20,144	1.5%	$18,329	1.5%	$1,815	0.0%
EMEA	938	0.4%	1,048	0.4%	(110)	0.0%
Other	—	-	—	-	—	-
Consolidated	$21,082	1.3%	$19,377	1.3%	$1,705	0.0%
Impairment of long-lived assets:						
Americas	$5,410	0.4%	$—	0.0%	$5,410	0.4%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	$5,410	0.3%	$—	0.0%	$5,410	0.3%

The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions and infrastructure upgrades as well as the addition of depreciable fixed assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully depreciated fixed assets.

The increase in amortization was primarily due to the addition of intangible assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully amortized intangible assets.

See Note 5, Fair Value, of the "Notes to Consolidated Financial Statements" for further information regarding the impairment of long-lived assets.

Other Income (Expense)

(in thousands)	Years Ended December 31, 2017	2016	$ Change
Interest income	$696	$607	$89
Interest (expense)	$(7,689)	$(5,570)	$(2,119)
Other income (expense), net:			
Foreign currency transaction gains (losses)	$(548)	$3,348	$(3,896)
Gains (losses) on derivative instruments not designated as hedges	143	(2,270)	2,413
Gains (losses) on investments held in rabbi trust	1,619	582	1,037
Other miscellaneous income (expense)	44	(186)	230
Total other income (expense), net	$1,258	$1,474	$(216)

Interest income remained consistent with the prior year.

The increase in interest (expense) was primarily due to $216.0 million in borrowings used to acquire Clearlink in April 2016 as well as an increase in weighted average interest rates on outstanding borrowings, partially offset by a decrease in the interest accretion on contingent consideration.

See Note 12, Investments Held in Rabbi Trust, of "Notes to Consolidated Financial Statements" for further information.

Income Taxes

(in thousands)	Years Ended December 31, 2017	2016	$ Change
Income before income taxes	$81,307	$88,884	$(7,577)
Income taxes	$49,091	$26,494	$22,597

			% Change
Effective tax rate	60.4 %	29.8 %	30.6 %

The increase in the effective tax rate in 2017 compared to 2016 is primarily due to a $32.7 million one-time mandatory deemed repatriation tax on undistributed non-U.S. earnings resulting from the 2017 Tax Reform Act. This increase in the effective tax rate was partially offset by several other factors including the recognition of $2.0 million of previously unrecognized tax benefits, inclusive of penalties and interest, $1.2 million arising from the effective settlement of the Canadian Revenue Agency audit and $0.8 million arising from other favorable audit settlements and statute of limitation expirations. Additionally, we recognized a $0.8 million benefit related to the increase in anticipated tax credits and reductions in estimated non-deferred foreign income, as well as a $0.3 million benefit for the release of a valuation allowance where it is more likely than not that the benefit will be realized. We also recognized a $0.9 million benefit resulting from the adoption of ASU 2016-09 on January 1, 2017. The effective tax rate was also affected by shifts in earnings among the various jurisdictions in which we operate. Several additional factors, none of which are individually material, also impacted the rate.

Quarterly Results

The following information presents our unaudited quarterly operating results for 2018 and 2017. The data has been prepared on a basis consistent with the accompanying Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof.

(in thousands, except per share data)	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017	9/30/2017	6/30/2017	3/31/2017
Revenues	$415,198	$399,333	$396,785	$414,371	$419,247	$407,309	$375,438	$384,014
Operating expenses:								
Direct salaries and related costs	271,437	261,474	264,924	275,072	276,437	267,489	248,615	247,136
General and administrative (1),(2),(3),(4),(5)	97,660	105,148	102,037	102,440	99,190	93,355	92,236	92,044
Depreciation, net	13,882	14,072	14,560	14,836	14,577	14,227	13,820	13,348
Amortization of intangibles	4,062	3,638	3,629	4,213	5,308	5,293	5,250	5,231
Impairment of long-lived assets (6)	145	555	5,175	3,526	339	680	4,189	202
Total operating expenses	387,186	384,887	390,325	400,087	395,851	381,044	364,110	357,961
Income from operations	28,012	14,446	6,460	14,284	23,396	26,265	11,328	26,053
Other income (expense):								
Interest income	177	183	175	171	228	169	144	155
Interest (expense)	(1,220)	(1,168)	(1,149)	(1,206)	(2,104)	(2,021)	(1,865)	(1,699)
Other income (expense), net (7)	(2,785)	919	(537)	155	(376)	28	793	813
Total other income (expense), net	(3,828)	(66)	(1,511)	(880)	(2,252)	(1,824)	(928)	(731)
Income before income taxes	24,184	14,380	4,949	13,404	21,144	24,441	10,400	25,322
Income taxes (8)	7,136	628	(2,229)	2,456	38,180	2,746	1,555	6,610
Net income (loss)	$17,048	$13,752	$7,178	$10,948	$(17,036)	$21,695	$8,845	$18,712
Net income (loss) per common share: (9)								
Basic	$0.40	$0.33	$0.17	$0.26	$(0.41)	$0.52	$0.21	$0.45
Diluted	$0.40	$0.33	$0.17	$0.26	$(0.41)	$0.52	$0.21	$0.45
Weighted average shares:								
Basic	42,145	42,136	42,125	41,939	41,888	41,879	41,854	41,654
Diluted	42,264	42,204	42,160	42,232	41,888	42,033	41,934	41,905

(1) The quarters ended December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018 include $3.8 million, $2.4 million, $0.6 million and $0.4 million of acquisition-related costs, respectively, related to the WhistleOut and Symphony acquisitions as well as another immaterial acquisition. The quarters ended December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017 include $0.4 million, $0.3 million, $0.4 million and $0.1 million of acquisition-related costs, respectively, related to the Telecommunications Asset acquisition as well as another immaterial acquisition.

(2) The quarters ended December 31, 2018, September 30, 2018 and June 30, 2018 include $0.7 million, $7.2 million and $3.6 million of exit costs. See Note 4, Costs Associated with Exit or Disposal Activities, for further information.

(3) The quarters ended September 30, 2017, June 30, 2017 and March 31, 2017 include (gain) loss on contingent consideration of $0.1 million, $(0.3) million and $(0.4) million, respectively. See Note 5, Fair Value, for further information.

(4) The quarter ended December 31, 2018 includes a $0.3 million net loss on the sale of fixed assets, land and buildings located in Wise, Virginia and Ponca City, Oklahoma. See Note 13, Property and Equipment, for further information. The quarters ended December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018 include $(0.1) million, $0.3 million, $(0.3) million and $0.1 million of net (gain) loss on disposal of property and equipment, respectively. The quarters ended December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017 include $0.2 million, $0.1 million, $0.1 million and $0.1 million of net loss on disposal of property and equipment, respectively.

(5) The quarter ended September 30, 2018 includes $1.2 million related to a legal settlement. See Note 22, Commitments and Loss Contingency, for further information.

(6) Impairment, primarily leasehold improvements, equipment and furniture and fixtures in the Americas, was related to an effort to streamline excess capacity and consolidate leased space. See Note 4, Costs Associated with Exit or Disposal Activities, and Note 5, Fair Value, for further information.

(7) The quarter ended December 31, 2018 includes $0.4 million of Symphony acquisition-related costs.

(8) The quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 include $0.3 million, $(0.5) million and $32.7 million, respectively, related to the impact of the 2017 Tax Reform Act.

(9) Net income (loss) per basic and diluted common share is computed independently for each of the quarters presented and, therefore, may not sum to the total for the year.

Business Outlook

For the three months ended March 31, 2019, we anticipate the following financial results:

- Revenues in the range of $403.0 million to $408.0 million;
- Effective tax rate of approximately 26%;
- Fully diluted share count of approximately 42.3 million;
- Diluted earnings per share in the range of $0.29 to $0.32; and
- Capital expenditures in the range of $11.0 million to $13.0 million

For the twelve months ended December 31, 2019, we anticipate the following financial results:

- Revenues in the range of $1,656.0 million to $1,676.0 million;
- Effective tax rate of approximately 25%;
- Fully diluted share count of approximately 42.3 million;
- Diluted earnings per share in the range of $1.73 to $1.86; and
- Capital expenditures in the range of $45.0 million to $50.0 million

We are encouraged by initial indications of demand. This demand spans virtually all of our vertical markets and is being fueled by both existing and new clients, which should lead to comparable revenue growth in the second half of 2019 driven by ramps in the first half of the year. Deploying this demand across our existing capacity in combination with savings from capacity rationalization actions taken in 2018, additional benefits from incremental rationalization in 2019 and improved operational inefficiencies should aid operating margin expansion in 2019 relative to 2018.

Our revenues and earnings per share assumptions for the first quarter and full year 2019 are based on foreign exchange rates as of February 2019. Therefore, the continued volatility in foreign exchange rates between the U.S. Dollar and the functional currencies of the markets we serve could have a further impact, positive or negative, on revenues and earnings per share relative to the business outlook for the first quarter and full-year. Revenue growth in 2019 compared to 2018 reflects foreign exchange headwinds of approximately $20.0 million, or roughly 1% impact to full-year growth rate, with roughly $10.0 million, or approximately 2.5% of that impact, expected in the first quarter of 2019.

We anticipate total other interest income (expense), net of approximately $(1.2) million for the first quarter and $(4.8) million for the full year 2019. The amounts in other interest income (expense), net, however, exclude the potential impact of any future foreign exchange gains or losses.

We expect an increase in our full year 2019 effective tax rate compared to 2018 due largely to discrete benefits in 2018 and expected mix-shift in the geographic of mix of earnings to higher tax rate jurisdictions in 2019.

Not included in this guidance is the impact of any future acquisitions, share repurchase activities or a potential sale of previously exited customer engagement centers.

Liquidity and Capital Resources

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facility. We utilize these capital resources to make capital expenditures associated primarily with our customer engagement services, invest in technology applications and tools to further develop our service offerings and for working capital and other general corporate purposes, including the repurchase of our common stock in the open market and to fund acquisitions. In future periods, we intend similar uses of these funds.

Our Board of Directors authorized us to purchase up to 10.0 million shares of our outstanding common stock (the "2011 Share Repurchase Program") on August 18, 2011, as amended on March 16, 2016. A total of 5.3 million shares have been repurchased under the 2011 Share Repurchase Program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date.

During 2018, cash increased $109.1 million from operating activities, $58.0 million from proceeds from issuance of long-term debt and $1.6 million from other investing and financing activities. This increase was offset by $231.0 million used to repay long-term debt, $78.4 million of cash paid for acquisitions, $46.9 million used for capital expenditures, an $8.2 million purchase of intangible assets, a $5.0 million investment in equity method investees and $3.7 million to repurchase common stock for tax withholding on equity awards, resulting in a $214.6 million decrease in available cash, cash equivalents and restricted cash (including the unfavorable effects of foreign currency exchange rates on cash, cash equivalents and restricted cash of $10.1 million).

Net cash flows provided by operating activities for 2018 were $109.1 million, compared to $134.8 million in 2017. The $25.7 million decrease in net cash flows from operating activities was due to a net decrease of $38.7 million in cash flows from assets and liabilities and a $3.7 million decrease in non-cash reconciling items such as depreciation, amortization, impairment, unrealized foreign currency transaction (gains) losses and deferred income tax provision (benefit), partially offset by a $16.7 million increase in net income. The $38.7 million decrease in cash flows from assets and liabilities was principally a result of a $29.3 million decrease in other liabilities, a $13.4 million increase in other assets and a $2.2 million increase in taxes receivable, net, partially offset by a $4.2 million increase in deferred revenue and customer liabilities and a $1.9 million decrease in accounts receivable. The $29.3 million decrease in the change in other liabilities was primarily due to a $14.9 million decrease in other long-term liabilities principally due to the provisional amounts recorded in the prior year related to the 2017 Tax Reform Act, a $11.5 million decrease principally related to the timing of accrued employee compensation and benefits and a $8.9 million decrease in accounts payable principally due to the timing of invoices and related payments, partially offset by a $6.0 million increase in other accrued expenses and current liabilities principally due to the settlement of contingent consideration and a change in the fair value of derivatives. The $13.4 million increase in the change in other assets was primarily due to a $12.7 million increase in deferred charges and other assets principally due to long-term accounts receivable recorded in accordance with ASC 606, subsequent to the January 1, 2018 adoption date.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were $46.9 million for 2018, compared to $63.3 million for 2017, a decrease of $16.4 million. In 2019, we anticipate capital expenditures in the range of $45.0 million to $50.0 million, primarily for maintenance, new seat additions, facility upgrades and systems infrastructure.

On May 12, 2015, we entered into a $440 million revolving credit facility (the “Credit Agreement”) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent, Swing Line Lender and Issuing Lender (“KeyBank”). The Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At December 31, 2018, we were in compliance with all loan requirements of the Credit Agreement and had $102.0 million of outstanding borrowings under this facility.

We repaid $173.0 million, net, of long-term debt outstanding under our credit agreement in 2018, primarily using funds we repatriated from our foreign subsidiaries, resulting in a remaining outstanding debt balance of $102.0 million. Our 2019 interest expense will vary based on our usage of the credit facility and market interest rates.

The Credit Agreement includes a $200 million alternate-currency sub-facility, a $10 million swingline sub-facility and a $35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. We are not currently aware of any inability of our lenders to provide access to the full commitment of funds that exist under the Credit Agreement, if necessary. However, there can be no assurance that such facility will be available to us, even though it is a binding commitment of the financial institutions. The Credit Agreement will mature on May 12, 2020.

Our credit agreement had an average daily utilization of $106.2 million, $268.8 million and $222.6 million during the years ended December 31, 2018, 2017 and 2016, respectively. During the years ended December 31, 2018, 2017, and 2016, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was $3.8 million, $6.7 million and $4.0 million, respectively, which represented weighted average interest rates of 3.6%, 2.5% and 1.8%, respectively.

Borrowings under the Credit Agreement bear interest at the rates set forth in the Credit Agreement. In addition, we are required to pay certain customary fees, including a commitment fee determined quarterly based on our leverage ratio and due quarterly in arrears and calculated on the average unused amount of the Credit Agreement.

The Credit Agreement is guaranteed by all of our existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all of our direct foreign subsidiaries and those of the guarantors.

On February 14, 2019, we entered into a $500 million revolving credit facility, which replaced our prior $440 million revolving credit facility. The prior $440 million agreement was terminated simultaneously upon execution of the new agreement. Our new revolving credit facility will mature on February 14, 2024 includes a $200 million alternate-currency sub-facility, a $15 million swingline sub-facility and a $15 million letter of credit sub-facility, and has terms that are substantially similar to our $440 million revolving credit facility.

We received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and we paid mandatory security deposits to Canada as part of this process of approximately $13.8 million. As of June 30, 2017, we determined that all material aspects of the Canadian audit were effectively settled pursuant to ASC 740, Income Taxes. As a result, we recognized an income tax benefit of $1.2 million, net of the U.S. tax impact, and the deposits were netted against the anticipated liability at that time. During the year ended December 31, 2018, we finalized procedures ancillary to the Canadian audit and recognized an additional $2.8 million income tax benefit due to the elimination of certain penalties, interest and assessed withholding taxes.

With the effective settlement of the Canadian audit, we have no significant tax jurisdictions under audit; however, we are currently under audit in several tax jurisdictions. We believe we are adequately reserved for the remaining audits and their resolution is not expected to have a material impact on our financial condition and results of operations.

The 2017 Tax Reform Act provides for a one-time transition tax based on our undistributed foreign earnings on which we previously had deferred U.S. income taxes. We recorded a $28.3 million provisional liability in 2017, which was net of $5.0 million of available tax credits, for our one-time transition tax. As of December 31, 2018 and 2017, $2.0 million and $3.8 million, respectively, of the liability was included in "Income taxes payable" in the accompanying Consolidated Balance Sheets. As of December 31, 2018 and 2017, $20.4 million and $24.5 million, respectively, of the long-term liability were included in "Long-term income tax liabilities" in the accompanying Consolidated Balance Sheets. This transition tax liability will be paid in yearly installments until 2025. We provide U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. No additional income taxes have been provided for any remaining outside basis difference inherent in our investments in our foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations.

As part of the Symphony acquisition on November 1, 2018, a portion of the purchase price, with present value of GBP 7.9 million or $10.0 million, has been deferred and will be paid in equal installments over the next three years.

As of December 31, 2018, we had $128.7 million in cash and cash equivalents, of which approximately 89.9%, or $115.7 million, was held in international operations. As a result of the 2017 Tax Reform Act, most of these funds will not be subject to additional taxes if repatriated to the United States. There are circumstances where we may be unable to repatriate some of the cash and cash equivalents held by our international operations due to country restrictions.

We expect our current cash levels and cash flows from operations to be adequate to meet our anticipated working capital needs, including investment activities such as capital expenditures and debt repayment for the next twelve months and the foreseeable future. However, from time to time, we may borrow funds under our Credit Agreement as a result of the timing of our working capital needs, including capital expenditures.

Our cash resources could also be affected by various risks and uncertainties, including but not limited to, the risks detailed in Item 1A, Risk Factors.

Off-Balance Sheet Arrangements and Other

At December 31, 2018, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct and (ii) indemnities involving breach of contract, the accuracy of representations and warranties, or other liabilities assumed by us in certain contracts. In addition, we have agreements whereby we will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Consolidated Balance Sheets. In addition, we have some client contracts that do not contain contractual provisions for the limitation of liability, and other client contracts that contain agreed upon exceptions to limitation of liability. We have not recorded any liability in the accompanying Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 31, 2018, and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

	Payments Due By Period					
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	Other
Operating leases [(1),(2)]	$253,267	$53,071	$92,094	$56,646	$51,456	$—
Purchase obligations [(3)]	81,351	61,281	18,524	1,546	—	—
Accounts payable [(4)]	26,923	26,923	—	—	—	—
Accrued employee compensation and benefits [(4)]	95,813	95,813	—	—	—	—
Income taxes payable [(5)]	1,433	1,433	—	—	—	—
Other accrued expenses and current liabilities [(6)]	31,111	31,111	—	—	—	—
Long-term debt [(7)]	102,000	—	102,000	—	—	—
Long-term income tax liabilities [(8)]	23,787	—	3,895	5,599	10,954	3,339
Other long-term liabilities [(9)]	17,112	—	13,342	438	3,332	—
	$632,797	$269,632	$229,855	$64,229	$65,742	$3,339

(1) Amounts represent the expected cash payments under our operating leases.
(2) As of December 31, 2018, we subleased three of our operating leases. Future contractual sublease income of $1.8 million, $3.7 million, $2.7 million and $2.8 million is expected in the periods of less than one year, one to three years, three to five years, and after five years, respectively.
(3) Amounts represent the expected cash payments under our purchase obligations, which include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.
(4) Accounts payable and accrued employee compensation and benefits, which represent amounts due to vendors and employees payable within one year.
(5) Income taxes payable, which represents amounts due to taxing authorities payable within one year.
(6) Other accrued expenses and current liabilities, which excludes deferred grants, include amounts primarily related to restructuring costs, legal and professional fees, telephone charges, rent, derivative contracts and other accruals.
(7) Amount represents total outstanding borrowings. We entered into a $500 million revolving credit facility on February 14, 2019 that matures in February 2024, which simultaneously replaced and terminated the Company's $440 million revolving credit facility. See Note 18, Borrowings, to the accompanying Consolidated Financial Statements.
(8) Long-term income tax liabilities include amounts owed in annual installments through 2025 related to our deemed repatriation under the 2017 Tax Reform Act, as well as uncertain tax positions and related penalties and interest as discussed in Note 20, Income Taxes, to the accompanying Consolidated Financial Statements. We cannot make reasonably reliable estimates of the cash settlement of $3.3 million of uncertain tax positions with the taxing authority; therefore, amounts have been excluded from payments due by period.
(9)

Other long-term liabilities, which excludes deferred income taxes and other non-cash long-term liabilities. See Note 23, Defined Benefit Pension Plan and Postretirement Benefits, to the accompanying Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires estimations and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of our financial condition and operating results. Unless we need to clarify a point to readers, we will refrain from citing specific section references when discussing the application of accounting principles or addressing new or pending accounting rule changes.

Recognition of Revenues

We recognize revenue in accordance with ASC 606, Revenue Recognition. We primarily recognize revenues from services over time using output methods such as a per minute, per hour, per call, per transaction or per time and material basis, since our customers simultaneously receive and consume the benefits of our services as they are delivered. Our customer contracts include penalty and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies, as well as the right of certain of our clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred. Certain customers also receive cash discounts for early payment. These provisions are accounted for as variable consideration and are estimated using the expected value method based on historical service and pricing trends for the past six months, the individual contract provisions, and our best judgment at the time. Since we maintain a large portfolio of contracts with similar billing structures and characteristics, and the nature of these provisions can result in numerous potential outcomes, the expected value method provides a more accurate assessment of the consideration to which we are entitled. We utilize a rolling six-month historical servicing and pricing trend data in order to reduce the likelihood of a significant revenue reversal in the future since the majority of our customer contracts include termination for convenience or without cause provisions allowing either party to cancel within a defined notification period, typically up to 180 days.

Income Taxes

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies. Establishment or reversal of certain valuation allowances may have a significant impact on both current and future results. The recoverability of a net deferred tax asset is dependent upon future profitability, estimates of future taxable income and any applicable tax-planning strategies, within each taxing jurisdiction.

As of December 31, 2018, we determined that a total valuation allowance of $32.3 million was necessary to reduce U.S. deferred tax assets by $0.9 million and foreign deferred tax assets by $31.4 million, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. The recoverability of the remaining net deferred tax asset of $1.9 million as of December 31, 2018 is dependent upon future profitability within each tax jurisdiction. As of December 31, 2018, based on our estimates of future taxable income and any applicable tax-planning strategies within various tax jurisdictions, we believe that it is more likely than not that the remaining net deferred tax assets will be realized.

On December 22, 2017, the 2017 Tax Reform Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a participation exemption regime, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We have estimated our provision for income taxes in accordance with the 2017 Tax Reform Act and guidance available as of the date of this filing and as a result have recorded $32.7 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The $32.7 million estimate includes the provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings of $32.7 million based on cumulative foreign earnings of $531.8 million and $1.0 million of foreign withholding taxes on certain anticipated distributions. The provisional tax expense was partially offset by a provisional benefit of $1.0 million related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. No additional income taxes have been provided for any remaining outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining outside basis difference in these entities is not practicable due to the inherent complexity of the multi-national tax environment in which we operate.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Reform Act. In accordance with SAB 118, we have determined that the deferred tax expense recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 31, 2017. The Company recorded a $0.2 million decrease to the provision for income tax during the year ended December 31, 2018 upon finalizing the impact of the 2017 Tax Reform Act.

We evaluate tax positions that have been taken or are expected to be taken in our tax returns, and record a liability for uncertain tax positions in accordance with ASC 740. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

As of December 31, 2018, we had $2.7 million of unrecognized tax benefits, a net increase of $1.4 million from $1.3 million as of December 31, 2017. Had we recognized these tax benefits, approximately $2.7 million and $1.3 million, along with the related interest and penalties, would have favorably impacted the effective tax rate in 2018 and 2017, respectively. We do not anticipate that any of the unrecognized tax benefits will be recognized in the next twelve months.

Our provision for income taxes is subject to volatility and is impacted by the distribution of earnings in the various domestic and international jurisdictions in which we operate. Our effective tax rate could be impacted by earnings being either proportionally lower or higher in foreign countries with tax rates different from the U.S. tax rates. In addition, we have been granted tax holidays in several foreign tax jurisdictions, which have various expiration dates ranging from 2019 through 2028. If we are unable to renew a tax holiday in any of these jurisdictions, our effective tax rate could be adversely impacted. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will permit a renewal. The tax holidays decreased the provision for income taxes by $4.0 million, $3.0 million and $3.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our effective tax rate could also be affected by several additional factors, including changes in the valuation of our deferred tax assets or liabilities, changing legislation, regulations, and court interpretations that impact tax law in multiple tax jurisdictions in which we operate, as well as new requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations.

Purchase Accounting

Our financial statements include the operations of an acquired business starting from the completion of the acquisition. In addition, the assets acquired and liabilities assumed are recorded on the date of acquisition at their respective estimated fair values, with any excess of the purchase price over the estimated fair values of the net assets acquired recorded as goodwill.

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. Accordingly, we typically obtain the assistance of third-party valuation specialists for significant items. The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management but are inherently uncertain. We consider the income, market and cost approaches and place reliance on the approach or approaches deemed most indicative of value to estimate the fair value of intangible assets. Significant estimates and assumptions inherent in the valuations reflect a consideration of other marketplace participants and include the amount and timing of future cash flows (including expected growth rates and profitability), the underlying demand, technology life cycles, the economic barriers to entry and the discount rate applied to the cash flows. Unanticipated market or macroeconomic events and circumstances may occur that could affect the accuracy or validity of the estimates and assumptions.

Determining the useful life of an intangible asset also requires judgment. With the exception of domain names, the majority of our acquired intangible assets (e.g., customer relationships, trade names and trademarks) are expected to have determinable useful lives. Our assessment as to the useful lives of these intangible assets is based on a number of factors including competitive environment, market share, trademark, brand history, underlying demand, operating plans and the macroeconomic environment of the countries in which the services are provided. Finite-lived intangible assets are amortized over their estimated useful life.

Goodwill, Intangibles and Long-Lived Assets

The value of indefinite-lived intangible assets and goodwill is not amortized but is tested at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We perform our annual impairment test on July 31st of each year. To assess the realizability of goodwill, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We may elect to forgo this option and proceed to the quantitative goodwill impairment test.

If we elect to perform the qualitative assessment and it 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, or we elect to forgo this qualitative assessment, we will proceed to the quantitative goodwill impairment test where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If the quantitative goodwill impairment test indicates that the carrying value of a reporting unit is in excess of its fair value, we will recognize an impairment loss for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

We test indefinite-lived intangibles by reviewing the book values compared to the fair value. We determine the fair value of our reporting units and indefinite-lived intangible assets based on the income and market approaches. We calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows.

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, projected foreign currency exchange rates, 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 services are being provided. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. If actual results differ substantially from the assumptions used in performing the impairment test, the fair value of the reporting units may be significantly lower, causing the carrying value to exceed the fair value and indicating an impairment has occurred.

We did not recognize any impairment charges for goodwill in the years presented, as our annual impairment testing indicated that all reporting unit goodwill fair values exceeded their respective carrying values. Future changes in the judgments, assumptions and estimates that are used in our impairment testing for goodwill and indefinite-lived intangible assets, including discount and tax rates and future cash flow projections, could result in significantly different estimates of the fair values. A significant reduction in the estimated fair values could result in impairment charges that could materially affect our results of operations.

We evaluate the carrying value of our other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows, which is at the individual asset level or the asset group level. An asset is considered to be impaired when the forecasted undiscounted cash flows are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset or asset group and its fair value, which is determined by an appropriate market appraisal or other valuation technique. Undiscounted cash flows are based on assumptions concerning the amount and timing of estimated future cash flows. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future. Assets classified as held-for-sale, if any, are recorded at the lower of carrying value or fair value less costs to sell.

New Accounting Standards Not Yet Adopted

See Note 1, Overview and Summary of Significant Accounting Policies, of the accompanying "Notes to Consolidated Financial Statements" for information related to recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

Our earnings and cash flows are subject to fluctuations due to changes in currency exchange rates. We are exposed to foreign currency exchange rate fluctuations when subsidiaries with functional currencies other than the U.S. Dollar ("USD") are translated into our USD consolidated financial statements. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact profitability. The cumulative translation effects for subsidiaries using functional currencies other than USD are included in "Accumulated other comprehensive income (loss)" in shareholders' equity. Movements in non-USD currency exchange rates may negatively or positively affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in certain earnings and cash flows caused by volatility in foreign currency exchange ("FX") rates. We also utilize derivative contracts to hedge intercompany receivables and payables that are denominated in a foreign currency and to hedge net investments in foreign operations.

We serve a number of U.S.-based clients using customer engagement center capacity in the Philippines and Costa Rica, which are within our Americas segment. Although a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine Pesos ("PHP") and Costa Rican Colones ("CRC"), the contracts with these clients are priced in USDs, which represent FX exposures. Additionally, our EMEA segment services clients in Hungary and Romania with a substantial portion of the costs incurred to render services under these contracts denominated in Hungarian Forints and Romanian Leis, where the contracts are priced in Euros.

In order to hedge a portion of our anticipated revenues denominated in USD, we had outstanding forward contracts and options as of December 31, 2018 with counterparties through December 2019 with notional amounts totaling $132.3 million. As of December 31, 2018, we had net total derivative liabilities associated with these contracts with a fair value of $1.6 million. If the USD was to weaken against the PHP and CRC by 10% from current period-end levels, we would incur a loss of approximately $11.1 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had outstanding forward exchange contracts as of December 31, 2018 with notional amounts totaling $19.3 million that are not designated as hedges. The purpose of these derivative instruments is to protect against FX volatility pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than our subsidiaries' functional currencies. As of December 31, 2018, the fair value of these derivatives was a net liability of $0.3 million. The potential loss in fair value at December 31, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately $1.2 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had embedded derivative contracts with notional amounts totaling $14.1 million that are not designated as hedges. As of December 31, 2018, the fair value of these derivatives was a net liability of $0.4 million. The potential loss in fair value at December 31, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately $2.2 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into contracts with those considered to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties.

We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates. As a general rule, we do not use financial instruments to hedge local currency denominated operating expenses in countries where a natural hedge exists. For example, in many countries, revenue from the local currency services substantially offsets the local currency denominated operating expenses.

Interest Rate Risk

Our exposure to interest rate risk results from variable rate debt outstanding under our revolving credit facility. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. As of December 31, 2018, we had $102.0 million in borrowings outstanding under the revolving credit facility. Based on our level of variable rate debt outstanding during the year ended December 31, 2018, a 1.0% increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had an impact of $1.1 million on our results of operations.

We have not historically used derivative instruments to manage exposure to changes in interest rates.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are located beginning on page 54 and page 34 of this report, respectively.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management believes that, as of December 31, 2018, our internal control over financial reporting was effective.

We acquired WhistleOut Pty Ltd and WhistleOut Inc. (together, "WhistleOut") on July 9, 2018 and Symphony Ventures Ltd ("Symphony") on November 1, 2018. See Note 3, Acquisitions, of "Notes to Consolidated Financial Statements" for additional information. As permitted by the Securities and Exchange Commission, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition and management elected to exclude WhistleOut and Symphony (collectively, the "Excluded Acquisitions") from its assessment of internal control over financial reporting as of December 31, 2018. The aggregate assets and revenues of the Excluded Acquisitions constituted 8.7% and 0.9% of the Company's consolidated total assets and revenues as of and for the year ended December 31, 2018, respectively.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except for the change discussed under "Changes to Internal Control Over Financial Reporting" below.

Attestation Report of Independent Registered Public Accounting Firm

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on page 46.

Changes to Internal Control Over Financial Reporting

We have excluded WhistleOut and Symphony from our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. We have completed certain integration activities and both WhistleOut and Symphony have designed internal controls over financial reporting. Management will continue to assess the control environment.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Sykes Enterprises, Incorporated

Tampa, Florida

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and schedule as of and for the year ended December 31, 2018 of the Company and our report dated February 26, 2019 expressed an unqualified opinion on those financial statements and schedule.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at WhistleOut Pty Ltd, WhistleOut Inc. and Symphony Ventures Ltd (collectively, the “Excluded Acquisitions”) which were acquired during the year ended December 31, 2018, and whose financial statements constitute 8.7% of total assets and 0.9% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting of the Excluded Acquisitions.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Deloitte & Touche LLP

Tampa, Florida

February 26, 2019

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item, with the exception of information on Executive Officers which appears in this report in Item 1 under the caption “Executive Officers,” will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018 and is incorporated herein by reference.

Our Board of Directors has adopted a code of ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our code of ethics is posted on the investor relations page on our website which is located at http://investor.sykes.com under the heading “Documents & Charters” of the “Corporate Governance” section. We will post any amendments to our code of ethics, or waivers of its requirements, on our website.

Item 11. Executive Compensation

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

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

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

Consolidated Financial Statements

The Index to Consolidated Financial Statements is set forth on page 54 of this report.

Financial Statements Schedule

Schedule II — Valuation and Qualifying Accounts is set forth on page 115 of this report.

Other schedules have been omitted because they are not required or applicable or the information is included in the Consolidated Financial Statements or notes thereto.

Exhibits:

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger, dated as of March 6, 2016, by and among Sykes Enterprises, Incorporated, Sykes Acquisition Corporation II, Inc., Clear Link Holdings, LLC, and Pamlico Capital Management, L.P. (Incorporated herein by reference from Exhibit 2.1 to Form 8-K filed on March 8, 2016.)
3.1	Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.1 to Form S-3, Registration No. 333-38513, filed on October 23, 1997.)
3.2	Articles of Amendment to Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.2 to Form 10-K filed on March 29, 1999.)
3.3	Bylaws of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.3 to Form 10-K filed on March 23, 2005.)
3.4	Amendment to Bylaws of Sykes Enterprises, Incorporated. (Incorporated herein by reference from Exhibit 3.1 to Form 8-K filed on March 24, 2014.)
4.1 (P)	Specimen certificate for the Common Stock of Sykes Enterprises, Incorporated. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.1 (P)*	Form of Split Dollar Plan Documents. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.2 (P)*	Form of Split Dollar Agreement. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.3 (P)	

	Form of Indemnity Agreement between Sykes Enterprises, Incorporated and directors & executive officers. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.4 *	2001 Equity Incentive Plan. (Incorporated herein by reference from Exhibit 10.32 to Form 10-Q filed on May 7, 2001.)
10.5 *	Form of Restricted Share And Stock Appreciation Right Award Agreement dated as of March 29, 2006. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on April 4, 2006.)
10.6 *	Form of Restricted Share And Bonus Award Agreement dated as of March 29, 2006. (Incorporated herein by reference from Exhibit 99.2 to Form 8-K filed on April 4, 2006.)

Exhibit Number	Exhibit Description
10.7 *	Form of Restricted Share Award Agreement dated as of May 24, 2006. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on May 31, 2006.)
10.8 *	Form of Restricted Share And Stock Appreciation Right Award Agreement dated as of January 2, 2007. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on December 28, 2006.)
10.9 *	Form of Restricted Share Award Agreement dated as of January 2, 2007. (Incorporated herein by reference from Exhibit 99.2 to Form 8-K filed on December 28, 2006.)
10.10 *	Form of Restricted Share and Stock Appreciation Right Award Agreement dated as of January 2, 2008. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on January 8, 2008.)
10.11 *	2011 Equity Incentive Plan. (Incorporated herein by reference from Exhibit 10.17 to Form 10-K filed on February 29, 2016.)
10.12 *	Founder’s Retirement and Consulting Agreement dated December 10, 2004 between Sykes Enterprises, Incorporated and John H. Sykes. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on December 16, 2004.)
10.13 *	Amended and Restated Employment Agreement dated as of December 30, 2008 between Sykes Enterprises, Incorporated and Charles E. Sykes. (Incorporated herein by reference from Exhibit 10.26 to Form 10-K filed on March 10, 2009.)
10.14 *	Amended and Restated Employment Agreement dated as of December 29, 2008 between Sykes Enterprises, Incorporated and Jenna R. Nelson. (Incorporated herein by reference from Exhibit 10.31 to Form 10-K filed on March 10, 2009.)
10.15 *	Amended and Restated Employment Agreement dated as of December 29, 2008 between Sykes Enterprises, Incorporated and James T. Holder. (Incorporated herein by reference from Exhibit 10.37 to Form 10-K filed on March 10, 2009.)
10.16 *	Amended and Restated Employment Agreement dated as of December 29, 2008 between Sykes Enterprises, Incorporated and William N. Rocktoff. (Incorporated herein by reference from Exhibit 10.38 to Form 10-K filed on March 10, 2009.)
10.17 *	Amended and Restated Employment Agreement dated as of December 29, 2008 between Sykes Enterprises, Incorporated and David L. Pearson. (Incorporated herein by reference from Exhibit 10.43 to Form 10-K filed on March 10, 2009.)
10.18	Lease Agreement, dated January 25, 2008, Lease Amendment Number One and Lease Amendment Number Two dated February 12, 2008 and May 28, 2008 respectively, between Sykes Enterprises, Incorporated and Kingstree Office One, LLC. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on May 29, 2008.)
10.19	Credit Agreement, dated May 12, 2015, between Sykes Enterprises, Incorporated, the lenders party thereto and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent. (Incorporated herein by reference from Exhibit 10.1 to Form 8-K filed on May 13, 2015.)

10.20	Credit Agreement, dated February 14, 2019, between Sykes Enterprises, Incorporated; KeyBank National Association, as Administrative Agent, Swing Line Lender and Issuing Lender; KeyBanc Capital Markets Inc. as Lead Arranger and Sole Book Runner; and the lenders named therein (Incorporated herein by reference from Exhibit 10.1 to Form 8-K filed on February 15, 2019.)
10.21 *	Employment Agreement, dated as of September 13, 2012, between Sykes Enterprises, Incorporated and Lawrence R. Zingale. (Incorporated herein by reference from Exhibit 99.2 to Form 8-K filed on September 19, 2012.)

Exhibit Number	Exhibit Description
10.22 *	Sykes Enterprises, Incorporated Deferred Compensation Plan Amended and Restated as of January 1, 2014. (Incorporated herein by reference from Exhibit 10.35 to Form 10-K filed on February 19, 2015.)
10.23 *	Employment Agreement, dated as of April 15, 2014, between Sykes Enterprises, Incorporated and John Chapman. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on April 15, 2014.)
10.24 *	Employment Agreement, dated as of October 29, 2014, between Sykes Enterprises, Incorporated and Andrew Blanchard. (Incorporated herein by reference from Exhibit 10.37 to Form 10-K filed on February 19, 2015.)
10.25 *	Employment Agreement, dated as of October 29, 2016, between Sykes Enterprises, Incorporated and James D. Farnsworth. (Incorporated herein by reference from Exhibit 10.36 to Form 10-K filed on March 1, 2017.)
10.26 *	Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of January 1, 2016. (Incorporated herein by reference from Exhibit 10.37 to Form 10-K filed on March 1, 2017.)
10.27 *	First Amendment to the Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of June 30, 2016. (Incorporated herein by reference from Exhibit 10.38 to Form 10-K filed on March 1, 2017.)
10.28 *	Second Amendment to the Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of January 1, 2017. (Incorporated herein by reference from Exhibit 10.39 to Form 10-K filed on March 1, 2017.)
10.29 *	Third Amendment to the Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of January 1, 2017. (Incorporated herein by reference from Exhibit 10.1 to Form 10-Q filed on August 9, 2017.)
10.30 *	Fourth Amendment to the Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of July 1, 2017. (Incorporated herein by reference from Exhibit 10.2 to Form 10-Q filed on August 9, 2017.)
10.31 *	Amended and Restated Sykes Enterprises, Incorporated Deferred Compensation Plan, effective as of January 1, 2018. (Incorporated herein by reference from Exhibit 10.1 to Form 10-Q filed on November 9, 2017.)
21.1 +	List of subsidiaries of Sykes Enterprises, Incorporated.
23.1 +	Consent of Independent Registered Public Accounting Firm.
24.1 +	Power of Attorney relating to subsequent amendments (included on the signature page of this report).
31.1 +	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).
31.2 +	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).

32.1 ++	Certification of Chief Executive Officer, pursuant to Section 1350.
32.2 ++	Certification of Chief Financial Officer, pursuant to Section 1350.
101.INS +,#	XBRL Instance Document
101.SCH +,#	XBRL Taxonomy Extension Schema Document
101.CAL +,#	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB +,#	XBRL Taxonomy Extension Label Linkbase Document

Exhibit Number	Exhibit Description
101.PRE +,#	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF +,#	XBRL Taxonomy Extension Definition Linkbase Document
*	Indicates management contract or compensatory plan or arrangement.
+	Filed herewith.
++	Furnished herewith.
#	Submitted electronically with this Annual Report.
(P)	This exhibit has been paper filed and is not subject to the hyperlinking requirements of Item 601 of Regulation S-K.

Item 16. Form 10-K Summary

Not Applicable.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Tampa, and State of Florida, on this 26th day of February 2019.

SYKES ENTERPRISES, INCORPORATED
(Registrant)

By: /s/ John Chapman
John Chapman
Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints John Chapman his true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or should do in person, thereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ James S. MacLeod James S. MacLeod	Chairman of the Board	February 26, 2019
/s/ Charles E. Sykes Charles E. Sykes	President and Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2019
/s/ Vanessa C.L. Chang Vanessa C.L. Chang	Director	February 26, 2019
/s/ Carlos E. Evans Carlos E. Evans	Director	February 26, 2019
/s/ Lorraine L. Lutton Lorraine L. Lutton	Director	February 26, 2019
/s/ William J. Meurer William J. Meurer	Director	February 26, 2019

/s/ William D. Muir, Jr. William D. Muir, Jr.	Director	February 26, 2019
/s/ W. Mark Watson W. Mark Watson	Director	February 26, 2019
/s/ Paul L. Whiting Paul L. Whiting	Director	February 26, 2019
/s/ John Chapman John Chapman	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Sykes Enterprises, Incorporated

Tampa, Florida

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for revenue in the year ended December 31, 2018 due to the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Tampa, Florida

February 26, 2019

We have served as the Company's auditor since 2001.

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except per share data)	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 128,697	$ 343,734
Receivables, net	347,425	341,958
Prepaid expenses	23,754	22,132
Other current assets	16,761	19,743
Total current assets	516,637	727,567
Property and equipment, net	135,418	160,790
Goodwill, net	302,517	269,265
Intangibles, net	174,031	140,277
Deferred charges and other assets	43,364	29,193
	$ 1,171,967	$ 1,327,092
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 26,923	$ 32,133
Accrued employee compensation and benefits	95,813	102,899
Income taxes payable	1,433	2,606
Deferred revenue and customer liabilities	30,176	34,717
Other accrued expenses and current liabilities	31,235	30,888
Total current liabilities	185,580	203,243
Deferred grants	2,241	3,233
Long-term debt	102,000	275,000
Long-term income tax liabilities	23,787	27,098
Other long-term liabilities	31,750	22,039
Total liabilities	345,358	530,613
Commitments and loss contingency (Note 22)		
Shareholders' equity:		
Preferred stock, $0.01 par value per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value per share, 200,000 shares authorized; 42,778 and 42,899 shares issued, respectively	428	429
Additional paid-in capital	286,544	282,385
Retained earnings	598,788	546,843
Accumulated other comprehensive income (loss)	(56,775)	(31,104)
Treasury stock at cost: 126 and 117 shares, respectively	(2,376)	(2,074)
Total shareholders' equity	826,609	796,479
	$ 1,171,967	$ 1,327,092

See accompanying Notes to Consolidated Financial Statements.

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SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Operations

	Years Ended December 31,		
(in thousands, except per share data)	2018	2017	2016
Revenues	$1,625,687	$1,586,008	$1,460,037
Operating expenses:			
Direct salaries and related costs	1,072,907	1,039,677	947,593
General and administrative	407,285	376,825	351,681
Depreciation, net	57,350	55,972	49,013
Amortization of intangibles	15,542	21,082	19,377
Impairment of long-lived assets	9,401	5,410	—
Total operating expenses	1,562,485	1,498,966	1,367,664
Income from operations	63,202	87,042	92,373
Other income (expense):			
Interest income	706	696	607
Interest (expense)	(4,743)	(7,689)	(5,570)
Other income (expense), net	(2,248)	1,258	1,474
Total other income (expense), net	(6,285)	(5,735)	(3,489)
Income before income taxes	56,917	81,307	88,884
Income taxes	7,991	49,091	26,494
Net income	$48,926	$32,216	$62,390
Net income per common share:			
Basic	$1.16	$0.77	$1.49
Diluted	$1.16	$0.76	$1.48
Weighted average common shares outstanding:			
Basic	42,090	41,822	41,847
Diluted	42,246	42,141	42,239

See accompanying Notes to Consolidated Financial Statements.

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,		
(in thousands)	2018	2017	2016
Net income	$48,926	$32,216	$62,390
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments, net of taxes	(21,938)	36,078	(13,792)
Unrealized gain (loss) on net investment hedges, net of taxes	—	(5,220)	2,096
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(4,335)	4,696	(1,698)
Unrealized actuarial gain (loss) related to pension liability, net of taxes	682	449	96
Unrealized gain (loss) on postretirement obligation, net of taxes	(80)	(80)	(67)
Other comprehensive income (loss), net of taxes	(25,671)	35,923	(13,365)
Comprehensive income (loss)	$23,255	$68,139	$49,025

See accompanying Notes to Consolidated Financial Statements.

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2016	42,785	$ 428	$ 275,380	$ 458,325	$ (53,662)	$ (1,791)	$ 678,680
Stock-based compensation expense	—	—	10,779	—	—	—	10,779
Excess tax benefit from stock-based compensation	—	—	2,098	—	—	—	2,098
Issuance of common stock under equity award plans, net of forfeitures	425	4	190	—	—	(194)	—
Shares repurchased for tax withholding on equity awards	(169)	(2)	(4,914)	—	—	—	(4,916)
Repurchase of common stock	—	—	—	—	—	(11,144)	(11,144)
Retirement of treasury stock	(146)	(1)	(2,176)	(2,104)	—	4,281	—
Comprehensive income (loss)	—	—	—	62,390	(13,365)	—	49,025
Balance at December 31, 2016	42,895	429	281,357	518,611	(67,027)	(8,848)	724,522
Cumulative effect of accounting change	—	—	232	(153)	—	—	79
Stock-based compensation expense	—	—	7,621	—	—	—	7,621
Issuance of common stock under equity award plans, net of forfeitures	386	4	250	—	—	(254)	—
Shares repurchased for tax withholding on equity awards	(132)	(1)	(3,881)	—	—	—	(3,882)
Retirement of treasury stock	(250)	(3)	(3,194)	(3,831)	—	7,028	—
Comprehensive income (loss)	—	—	—	32,216	35,923	—	68,139
Balance at December 31, 2017	42,899	429	282,385	546,843	(31,104)	(2,074)	796,479
Cumulative effect of accounting change (Note 2)	—	—	—	3,019	—	—	3,019

Stock-based compensation expense	—	—	7,543	—	—	—	7,543
Issuance of common stock under equity award plans, net of forfeitures	(3)	—	302	—	—	(302)	—
Shares repurchased for tax withholding on equity awards	(118)	(1)	(3,686)	—	—	—	(3,687)
Comprehensive income (loss)	—	—	—	48,926	(25,671)	—	23,255
Balance at December 31, 2018	42,778	$ 428	$ 286,544	$ 598,788	$ (56,775)	$ (2,376)	$ 826,609

See accompanying Notes to Consolidated Financial Statements.

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Years Ended December 31,		
(in thousands)	2018	2017	2016
Cash flows from operating activities:			
Net income	$48,926	$32,216	$62,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	57,817	56,482	49,600
Amortization of intangibles	15,542	21,082	19,377
Amortization of deferred grants	(657)	(716)	(845)
Impairment losses	9,401	5,410	—
Unrealized foreign currency transaction (gains) losses, net	(843)	(4,671)	(1,104)
Stock-based compensation expense	7,543	7,621	10,779
Deferred income tax provision (benefit)	(1,509)	7,908	2,339
Net (gain) loss on disposal of property and equipment	312	474	314
Write-downs (recoveries) of value added tax receivables	—	—	(148)
Unrealized (gains) losses and premiums on financial instruments, net	805	(98)	521
Amortization of deferred loan fees	269	269	269
Imputed interest expense and fair value adjustments to contingent consideration	—	(529)	(1,496)
Other	834	(34)	(37)
Changes in assets and liabilities, net of acquisitions:			
Receivables, net	(8,224)	(10,154)	(32,905)
Prepaid expenses	(1,690)	(221)	(3,587)
Other current assets	(693)	(1,433)	(3,398)
Deferred charges and other assets	(13,621)	(930)	(1,286)
Accounts payable	(1,571)	7,286	(2,938)
Income taxes receivable / payable	(1,066)	1,137	4,999
Accrued employee compensation and benefits	(6,418)	5,101	15,699
Other accrued expenses and current liabilities	449	(5,548)	5,090
Deferred revenue and customer liabilities	(1,623)	(5,866)	6,343
Other long-term liabilities	5,111	20,003	2,850
Net cash provided by operating activities	109,094	134,789	132,826
Cash flows from investing activities:			
Capital expenditures	(46,884)	(63,344)	(78,342)
Cash paid for business acquisitions, net of cash acquired	(78,395)	(9,075)	(205,324)
Net investment hedge settlement	—	(5,122)	10,339
Purchase of intangible assets	(8,156)	(4,825)	(10)
Investment in equity method investees	(5,000)	(5,012)	—
Other	1,495	101	582
Net cash (used for) investing activities	(136,940)	(87,277)	(272,755)

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Continued)

	Years Ended December 31,		
(in thousands)	2018	2017	2016
Cash flows from financing activities:			
Payments of long-term debt	(231,000)	—	(19,000)
Proceeds from issuance of long-term debt	58,000	8,000	216,000
Cash paid for repurchase of common stock	—	—	(11,144)
Proceeds from grants	31	163	202
Shares repurchased for tax withholding on equity awards	(3,687)	(3,882)	(4,916)
Payments of contingent consideration related to acquisitions	—	(5,760)	(1,396)
Net cash provided by (used for) financing activities	(176,656)	(1,479)	179,746
Effects of exchange rates on cash, cash equivalents and restricted cash	(10,072)	31,178	(8,468)
Net increase (decrease) in cash, cash equivalents and restricted cash	(214,574)	77,211	31,349
Cash, cash equivalents and restricted cash – beginning	344,805	267,594	236,245
Cash, cash equivalents and restricted cash – ending	$130,231	$344,805	$267,594
Supplemental disclosures of cash flow information:			
Cash paid during period for interest	$3,888	$6,680	$4,003
Cash paid during period for income taxes	$19,587	$24,342	$18,764
Non-cash transactions:			
Property and equipment additions in accounts payable	$1,944	$6,056	$10,692
Unrealized gain (loss) on postretirement obligation in accumulated other comprehensive income (loss)	$(80)	$(80)	$(67)

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies

Business — Sykes Enterprises, Incorporated and consolidated subsidiaries ("SYKES" or the "Company") is a leading provider of multichannel demand generation and global customer engagement services. SYKES provides differentiated full lifecycle customer engagement solutions and services primarily to Global 2000 companies and their end customers principally within the financial services, communications, technology, transportation & leisure, healthcare and other industries. SYKES primarily provides customer engagement solutions and services with an emphasis on inbound multichannel demand generation, customer service and technical support to its clients' customers. Utilizing SYKES' integrated onshore/offshore global delivery model, SYKES provides its services through multiple communication channels including phone, e-mail, social media, text messaging, chat and digital self-service. SYKES also provides various enterprise support services in the United States that include services for its clients' internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, SYKES also provides fulfillment services, which include order processing, payment processing, inventory control, product delivery and product returns handling. Additionally, through the Company's acquisition of robotic processing automation ("RPA") provider Symphony Ventures Ltd ("Symphony") coupled with our investment in artificial intelligence ("AI") through XSell Technologies, Inc. ("XSell"), the Company also provides a suite of solutions such as consulting, implementation, hosting and managed services that optimizes its differentiated full lifecycle management services platform. The Company has operations in two reportable segments entitled (1) the Americas, in which the client base is primarily companies in the United States that are using the Company's services to support their customer management needs, which includes the United States, Canada, Latin America, Australia and the Asia Pacific Rim; and (2) EMEA, which includes Europe, the Middle East and Africa.

U.S. 2017 Tax Reform Act

On December 20, 2017, the Tax Cuts and Jobs Act (the "2017 Tax Reform Act") was approved by Congress and received presidential approval on December 22, 2017. In general, the 2017 Tax Reform Act reduced the United States ("U.S.") corporate income tax rate from 35% to 21%, effective in 2018. The 2017 Tax Reform Act moved from a worldwide business taxation approach to a participation exemption regime. The 2017 Tax Reform Act also imposed base-erosion prevention measures on non-U.S. earnings of U.S. entities, as well as a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings. The impact of the 2017 Tax Reform Act on the consolidated financial results began with the fourth quarter of 2017, the period of enactment. This impact, along with the transitional taxes discussed in Note 20, Income Taxes, is reflected in the Other segment.

Acquisitions

On November 1, 2018, the Company completed the acquisition of Symphony, pursuant to a definitive Share Purchase Agreement (the "Symphony Purchase Agreement") entered into on October 18, 2018 (the "Symphony acquisition"). The Company has reflected Symphony's results in its consolidated financial statements in the EMEA segment since November 1, 2018.

On July 9, 2018, the Company completed the acquisition of WhistleOut Pty Ltd and WhistleOut Inc. (together, "WhistleOut"), pursuant to a definitive Share Sale Agreement (the "WhistleOut Sale Agreement"). The Company has reflected WhistleOut's results in its consolidated financial statements in the Americas segment since July 9, 2018.

In May 2017, the Company completed the acquisition of certain assets of a Global 2000 telecommunications services provider, pursuant to a definitive Asset Purchase Agreement (the “Telecommunications Asset Acquisition Purchase Agreement”) entered into on April 24, 2017 (the “Telecommunications Asset acquisition”). The Company has reflected the Telecommunications Asset acquisition’s results in its consolidated financial statements in the Americas segment since May 31, 2017.

In April 2016, the Company completed the acquisition of Clear Link Holdings, LLC (“Clearlink”), pursuant to a definitive Agreement and Plan of Merger (the “Merger Agreement”), dated March 6, 2016. The Company has reflected Clearlink’s results in its consolidated financial statements in the Americas segment since April 1, 2016.

The Company’s acquisitions during 2017 and 2018 were immaterial to the Company individually and in the aggregate. See Note 3, Acquisitions, for additional information.

Principles of Consolidation — The consolidated financial statements include the accounts of SYKES and its wholly-owned subsidiaries and controlled majority-owned subsidiaries. Investments in less than majority-owned subsidiaries in which the Company does not have a controlling interest, but does have significant influence, are accounted for as equity method investments. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “U.S. GAAP”) requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — Subsequent events or transactions have been evaluated through the date and time of issuance of the consolidated financial statements. On February 14, 2019, the Company entered into a new credit agreement. See Note 18, Borrowings, for further information. There were no other material subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

Cash, Cash Equivalents and Restricted cash — Cash and cash equivalents consist of cash and highly liquid short-term investments, primarily held in non-interest-bearing investments which have original maturities of less than 90 days. Cash in the amount of $128.7 million and $343.7 million at December 31, 2018 and 2017, respectively, was primarily held in non-interest bearing accounts. Cash and cash equivalents of $115.7 million and $335.1 million at December 31, 2018 and 2017, respectively, were held in international operations. Most of these funds will not be subject to additional taxes if repatriated to the United States. There are circumstances where the Company may be unable to repatriate some of the cash and cash equivalents held by its international operations due to country restrictions.

Restricted cash includes cash whereby the Company’s ability to use the funds at any time is contractually limited or is generally designated for specific purposes arising out of certain contractual or other obligations.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Consolidated Balance Sheets that sum to the amounts reported in the Consolidated Statements of Cash Flows (in thousands):

	December 31,			
	2018	2017	2016	2015
Cash and cash equivalents	$128,697	$343,734	$266,675	$235,358
Restricted cash included in "Other current assets"	149	154	160	207
Restricted cash included in "Deferred charges and other assets"	1,385	917	759	680
	$130,231	$344,805	$267,594	$236,245

Allowance for Doubtful Accounts — The Company maintains allowances for doubtful accounts on trade account receivables for estimated losses arising from the inability of its customers to make required payments. The Company's estimate is based on qualitative and quantitative analyses, including credit risk measurement tools and methodologies using publicly available credit and capital market information, a review of the current status of the Company's trade accounts receivable and the historical collection experience of the Company's clients. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change if the financial condition of the Company's customers were to deteriorate, resulting in a reduced ability to make payments.

Property and Equipment — Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Improvements to leased premises are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Cost and related accumulated depreciation on assets retired or disposed of are removed from the accounts and any resulting gains or losses are credited or charged to income. The Company capitalizes certain costs incurred, if any, to internally develop software upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred.

The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360, Property, Plant and Equipment. For purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable cash flows (the "asset group"). An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets or independent third party offers. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets. Other than what has been disclosed in Note 5, Fair Value, the Company determined that its property and equipment was not impaired as of December 31, 2018 and 2017.

Rent Expense — The Company has entered into operating lease agreements, some of which contain provisions for future rent increases, rent free periods, or periods in which rent payments are reduced. The total amount of the rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease in accordance with ASC 840, Leases.

Goodwill — The Company accounts for goodwill and other intangible assets under ASC 350, Intangibles — Goodwill and Other ("ASC 350"). The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. For goodwill and other intangible assets with indefinite lives not subject to amortization, the Company reviews goodwill and intangible assets for impairment at least annually in the third quarter, and more frequently in the presence of certain circumstances. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company may elect to forgo this option and proceed to the quantitative goodwill impairment test. If the Company elects to perform the qualitative assessment and it 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, or the Company elects to forgo this qualitative assessment, the Company will proceed to the quantitative goodwill impairment test where the fair value of a reporting unit is calculated based on discounted future probability-weighted cash flows. If the quantitative goodwill impairment test indicates that the carrying value of a reporting unit is in excess of its fair value, the Company will recognize an impairment loss for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

Intangible Assets — Definite-lived intangible assets, primarily customer relationships, are amortized using the straight-line method over their estimated useful lives which approximate the pattern in which the economic benefits of the assets are consumed. The Company periodically evaluates the recoverability of intangible assets and takes into account events or changes in circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. Fair value for intangible assets is based on discounted cash flows, market multiples and/or appraised values, as appropriate.

Income Taxes — The Company accounts for income taxes under ASC 740, Income Taxes ("ASC 740") which requires recognition of deferred tax assets and liabilities to reflect tax consequences of differences between the tax bases of assets and liabilities and their reported amounts in the accompanying consolidated financial statements. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that the deferred tax assets will not be realized in accordance with the criteria of ASC 740. Valuation allowances are established against deferred tax assets due to an uncertainty of realization. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence, in accordance with criteria of ASC 740, to support a change in judgment about the ability to realize the related deferred tax assets. Uncertainties regarding expected future income in certain jurisdictions could affect the realization of deferred tax assets in those jurisdictions.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns and records a liability for uncertain tax positions in accordance with ASC 740. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying consolidated financial statements.

Self-Insurance Programs — The Company self-insures for certain levels of workers' compensation and self-funds the medical, prescription drug and dental benefit plans in the United States. Estimated costs are accrued at the projected settlements for known and anticipated claims. Amounts related to these self-insurance programs are included in “Accrued employee compensation and benefits” and “Other long-term liabilities” in the accompanying Consolidated Balance Sheets.

Deferred Grants — Recognition of income associated with grants for land and the acquisition of property, buildings and equipment (together, “property grants”) is deferred until after the completion and occupancy of the building and title has passed to the Company, and the funds have been released from escrow. The deferred amounts for both land and building are amortized and recognized as a reduction of depreciation expense over the corresponding useful lives of the related assets. Amounts received in excess of the cost of the building are allocated to the cost of equipment and, only after the grants are released from escrow, recognized as a reduction of depreciation expense over the weighted average useful life of the related equipment, which approximates five years. Upon sale of the related facilities, any deferred grant balance is recognized in full and is included in the gain on sale of property and equipment.

The Company receives government employment grants as an incentive to create and maintain permanent employment positions for a specified time period. These grants are repayable, under certain terms and conditions, if the Company's relevant employment levels do not meet or exceed the employment levels set forth in the grant agreements. Accordingly, grant monies received are deferred and amortized primarily as a reduction to “Direct salaries and related costs” using the proportionate performance model over the required employment period.

The Company receives government lease grants as an incentive for leasing space at specific locations or locating engagement centers in a government’s jurisdiction. These grants are repayable under certain terms and conditions, as set forth in the grant agreements. Accordingly, grant monies received are deferred and amortized primarily as a reduction to rent expense included in “General and administrative” over the required lease period.

Investments in Equity Method Investees — The Company uses the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. The Company’s proportionate share of the net income or loss of an equity method investment is included in consolidated net income. Judgment regarding the level of influence over an equity method investment includes considering key factors such as the Company’s ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

The Company evaluates an equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Factors considered by the Company when reviewing an equity method investment for impairment include the length of time (duration) and the extent (severity) to which the fair value of the equity method investment has been less than cost, the investee’s financial condition and near-term prospects, and the intent and ability to hold the investment for a period of time sufficient to allow for anticipated recovery. An impairment that is other-than-temporary is recognized in the period identified. As of December 31, 2018 and 2017, the Company did not identify any instances where the carrying values of its equity method investments were not recoverable.

In July 2017, the Company made a strategic investment of $10.0 million in XSell for 32.8% of XSell’s preferred stock. The Company is incorporating XSell’s machine learning and AI algorithms into its business. The Company believes this will increase the sales performance of its agents to drive revenue for its clients, improve the experience of the Company's clients' end customers and enhance brand loyalty, reduce the cost of customer care and leverage analytics and machine learning to source the best agents and improve their performance.

The Company's net investment in XSell of $9.2 million and $9.8 million was included in "Deferred charges and other assets" in the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017, respectively. The Company's investment was paid in two installments of $5.0 million, one in July 2017 and one in August 2018. The Company's proportionate share of XSell's income (loss) of $(0.7) million and $(0.1) million was included in "Other income (expense), net" in the accompanying Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, respectively.

Customer-Acquisition Advertising Costs — The Company's advertising costs are expensed as incurred. Total advertising costs included in the accompanying Consolidated Statements of Operations were as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Customer-acquisition advertising costs included in "Direct salaries and related costs"	$49,657	$36,659	$28,116
Customer-acquisition advertising costs included in "General and administrative"	60	115	—

Stock-Based Compensation — The Company has three stock-based compensation plans: the 2011 Equity Incentive Plan (for employees and certain non-employees), approved by the Company's shareholders, the Non-Employee Director Fee Plan (for non-employee directors) and the Deferred Compensation Plan (for certain eligible employees). All of these plans are discussed more fully in Note 24, Stock-Based Compensation. Stock-based awards under these plans may consist of common stock, stock options, cash-settled or stock-settled stock appreciation rights, restricted stock and other stock-based awards. The Company issues common stock and uses treasury stock to satisfy stock option exercises or vesting of stock awards.

In accordance with ASC 718, Compensation — Stock Compensation ("ASC 718"), the Company recognizes in its accompanying Consolidated Statements of Operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Compensation expense for equity-based awards is recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) is re-measured to fair value at each balance sheet date until the awards are settled.

Fair Value of Financial Instruments — The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- Cash, short-term and other investments, investments held in rabbi trust and accounts payable — The carrying values for cash, short-term and other investments, investments held in rabbi trust and accounts payable approximate their fair values.
- Foreign currency forward contracts and options — Foreign currency forward contracts and options, including premiums paid on options, are recognized at fair value based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk.

- Embedded derivatives — Embedded derivatives within certain hybrid lease agreements are bifurcated from the host contract and recognized at fair value based on pricing models or formulas using significant unobservable inputs, including adjustments for credit risk.
- Long-term debt — The carrying value of long-term debt approximates its estimated fair value as the debt bears interest based on variable market rates, as outlined in the debt agreement.
- Contingent consideration — Contingent consideration is recognized at fair value based on the discounted cash flow method.

Fair Value Measurements — ASC 820, Fair Value Measurements and Disclosures ("ASC 820") defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10-20 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 825, Financial Instruments ("ASC 825") permits an entity to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company has not elected to use the fair value option permitted under ASC 825 for any of its financial assets and financial liabilities that are not already recorded at fair value.

A description of the Company's policies regarding fair value measurement is summarized below.

Fair Value Hierarchy — ASC 820-10-35 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Determination of Fair Value — The Company generally uses quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access to determine fair value and classifies such items in Level 1. Fair values determined by Level 2 inputs utilize inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, and inputs other than quoted market prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, etc. Assets or liabilities valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

The following section describes the valuation methodologies used by the Company to measure assets and liabilities at fair value on a recurring basis, including an indication of the level in the fair value hierarchy in which each asset or liability is generally classified.

Money Market and Open-End Mutual Funds — The Company uses quoted market prices in active markets to determine the fair value. These items are classified in Level 1 of the fair value hierarchy.

Foreign Currency Forward Contracts and Options — The Company enters into foreign currency forward contracts and options over-the-counter and values such contracts using quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk. The key inputs include forward or option foreign currency exchange rates and interest rates. These items are classified in Level 2 of the fair value hierarchy.

Embedded Derivatives — The Company uses significant unobservable inputs to determine the fair value of embedded derivatives, which are classified in Level 3 of the fair value hierarchy. These unobservable inputs include expected cash flows associated with the lease, currency exchange rates on the day of commencement, as well as forward currency exchange rates; results of which are adjusted for credit risk. These items are classified in Level 3 of the fair value hierarchy. See Note 11, Financial Derivatives, for further information.

Investments Held in Rabbi Trust — The investment assets of the rabbi trust are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 12, Investments Held in Rabbi Trust, and Note 24, Stock-Based Compensation.

Contingent Consideration — The Company uses significant unobservable inputs to determine the fair value of contingent consideration, which is classified in Level 3 of the fair value hierarchy. The contingent consideration recorded related to the Qelp B.V. (“Qelp”) acquisition and liabilities assumed as part of the Clearlink acquisition was recognized at fair value using a discounted cash flow methodology and a discount rate of approximately 14.0% and 10.0%, respectively. The discount rates vary dependent on the specific risks of each acquisition including the country of operation, the nature of services and complexity of the acquired business, and other similar factors, all of which are significant inputs not observable in the market. Significant increases or decreases in any of the inputs in isolation would result in a significantly higher or lower fair value measurement.

Foreign Currency Translation — The assets and liabilities of the Company’s foreign subsidiaries, whose functional currency is other than the U.S. Dollar, are translated at the exchange rates in effect on the balance sheet date, and income and expenses are translated at the weighted average exchange rate during the period. The net effect of translation gains and losses is not included in determining net income, but is included in “Accumulated other comprehensive income (loss)” (“AOCI”), which is reflected as a separate component of shareholders’ equity until the sale or until the complete or substantially complete liquidation of the net investment in the foreign subsidiary. Foreign currency transactional gains and losses are included in “Other income (expense), net” in the accompanying Consolidated Statements of Operations.

Foreign Currency and Derivative Instruments — The Company accounts for financial derivative instruments under ASC 815, Derivatives and Hedging (“ASC 815”). The Company generally utilizes non-deliverable forward contracts and options expiring within one to 24 months to reduce its foreign currency exposure due to exchange rate fluctuations on forecasted cash flows denominated in non-functional foreign currencies and net investments in foreign operations. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

The Company designates derivatives as either (1) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow” hedge); (2) a hedge of a net investment in a foreign operation; or (3) a derivative that does not qualify for hedge accounting. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge.

Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in AOCI, until the forecasted underlying transactions occur. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within “Revenues”. Changes in the fair value of derivatives that are highly effective and designated as a net investment hedge are recorded in cumulative translation adjustment in AOCI, offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company’s net investment in the foreign operation. Any realized gains and losses from settlements of the net investment hedge remain in AOCI until partial or complete liquidation of the net investment. Ineffectiveness is measured based on the change in fair value of the forward contracts and options and the fair value of the hypothetical derivatives with terms that match the critical terms of the risk being hedged. Hedge ineffectiveness is recognized within “Revenues” for cash flow hedges and within “Other income (expense), net” for net investment hedges. Cash flows from the derivative contracts are classified within the operating section in the accompanying Consolidated Statements of Cash Flows.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective on a prospective and retrospective basis. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge or if a forecasted hedge is no longer probable of occurring, or if the Company de-designates a derivative as a hedge, the Company discontinues hedge accounting prospectively. At December 31, 2018 and 2017, all hedges were determined to be highly effective.

The Company also periodically enters into forward contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to reduce the effects from fluctuations caused by volatility in currency exchange rates on the Company's operating results and cash flows. Changes in the fair value of the derivative instruments are included in "Revenues" or "Other income (expense), net", depending on the underlying risk exposure. See Note 11, Financial Derivatives, for further information on financial derivative instruments.

Reclassifications — Certain balances in prior years have been reclassified to conform to current year presentation.

New Accounting Standards Not Yet Adopted

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02") and subsequent amendments (together, "ASC 842"). These amendments require the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840, Leases. These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities have the option to either apply the amendments (1) at the beginning of the earliest period presented using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements or (2) at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without the need to restate prior periods. There are also certain optional practical expedients that an entity may elect to apply.

The Company's implementation team has compiled a detailed inventory of leases, performed a preliminary analysis of the impact to the financial statements, and implemented a lease accounting software solution to assist in complying with ASC 842. Additionally, the implementation team is evaluating the impact of ASC 842 on the Company's business processes, systems and internal controls, and has begun the process of instituting changes where needed.

The Company elected to use the package of practical expedients that allows it to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The Company additionally elected to use the practical expedients that allows lessees to treat the lease and non-lease components of leases as a single lease component as well as the short-term lease recognition exemption for certain of the Company's asset classes. The Company will adopt this guidance at the adoption date of January 1, 2019, using the transition method that allows it to initially apply ASC 842 as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company does not expect to recognize a material adjustment to retained earnings upon adoption.

The adoption of ASC 842 will have a material impact on the Company's Consolidated Balance Sheet due to the recognition of the right-of-use ("ROU") assets and lease liabilities. The Company believes that the majority of its leases will maintain their current lease classification under ASC 842. The adoption of ASC 842 is not expected to have a material impact on the Company's Consolidated Statement of Operations or Consolidated Statement of Cash Flows. Because of the transition method the Company has elected, ASC 842 will not be applied to periods prior to adoption and, therefore, will have no impact on the Company's previously reported results. The future undiscounted minimum lease payments for the Company's operating leases of $253.3 million as of December 31, 2018 are discussed in Note 22, Commitments and Loss Contingency. Upon adoption of ASC 842, the Company expects to recognize operating lease ROU assets in the range of $212.0 million to $217.0 million and lease liabilities in the range of $225.0

million to $230.0 million, which generally reflects the present value of these future payments. After the adoption of ASC 842, the Company will first report the ROU assets and lease liabilities as of March 31, 2019 based on its lease portfolio as of that date.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). These amendments remove, modify or add certain disclosure requirements for fair value measurements. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain of the amendments will be applied prospectively in the initial year of adoption while the remainder are required to be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company is evaluating the timing of its adoption of ASU 2018-13 but does not expect a material impact on its disclosures.

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans - General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans ("ASU 2018-14"). These amendments remove, modify or add certain disclosure requirements for defined benefit plans. These amendments are effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company is evaluating the timing of its adoption of ASU 2018-14 but does not expect a material impact on its disclosures.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"). These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. These amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early application permitted in any interim period after issuance of this update. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the timing of its adoption of ASU 2018-15 but does not expect a material impact on its financial condition, results of operations, cash flows and disclosures.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedge Activities ("ASU 2017-12"). These amendments help simplify certain aspects of hedge accounting and better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. For cash flow and net investment hedges as of the adoption date, the guidance requires a modified retrospective approach. The amended presentation and disclosure guidance is required only prospectively. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early application permitted in any interim period after issuance of this update. The Company does not expect the adoption of ASU 2017-12 to materially impact its financial condition, results of operations, cash flows and disclosures.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). These amendments require measurement and recognition of expected versus incurred credit losses for financial assets held. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses ("ASU 2018-19"). These amendments clarify that receivables arising from operating leases are accounted for using the lease guidance in ASC 842 and not as financial instruments. These amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company expects ASU 2016-13 to apply to its trade receivables but does not expect the adoption of the amendments to have a material impact on its financial condition, results of operations or cash flows because credit losses associated from trade receivables have historically been insignificant. Additionally, the Company does not anticipate early adopting ASU 2016-13.

New Accounting Standards Recently Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") and subsequent amendments (together, "ASC 606"). ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and indicates that 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. To achieve this, an entity should identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective transition method.

See Note 2, Revenues, for further details as well as the Company's significant accounting policy for the Recognition of Revenues.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). These amendments modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception applies to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such, these investments may be measured at cost. These amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). These amendments clarify the presentation of cash receipts and payments in eight specific situations. These amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. These amendments have been applied using a retrospective transition method to each period presented. The adoption of ASU 2016-15 on January 1, 2018 did not have a material impact on the Company's cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash (A Consensus of the FASB Emerging Issues Task Force ("ASU 2016-18"). These amendments clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, requiring entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. These amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. These amendments have been applied using a retrospective transition method to each period presented. The inclusion of restricted cash increased the beginning balance of cash in the Consolidated Statements of Cash Flows by $1.1 million for the year ended December 31, 2018, increased the beginning and ending balance of cash by $0.9 million and $1.1 million, respectively, for the year ended December 31, 2017 and increased the beginning and ending balances of cash by $0.9 million and $0.9 million, respectively, for the year ended December 31, 2016. Other than the change in presentation within the accompanying Consolidated Statements of Cash Flows, the retrospective adoption of ASU 2016-18 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other than Inventory ("ASU 2016-16"). These amendments require recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. These amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The adoption of ASU 2016-16 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements and no cumulative-effect adjustment to retained earnings was required.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the 2017 Tax Reform Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or to treat any taxes on GILTI inclusions as period costs are both acceptable methods subject to an accounting policy election. The Company evaluated the accounting treatment options related to the GILTI provisions and elected to treat any potential GILTI inclusions as a current period cost. The election did not have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 ("ASU 2018-05"). These amendments add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"). SAB 118, issued in December 2017, directs taxpayers to consider the implications of the 2017 Tax Reform Act as provisional when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. As described in Note 20, Income Taxes, and in accordance with SAB 118, the Company recorded amounts that were considered provisional as of December 31, 2017 and finalized the calculations in December 2018.

Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220) ("ASU 2018-02"). These amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Reform Act. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendment in this update is permitted, including adoption in any interim period. These amendments can be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate tax rate in the 2017 Tax Reform Act is recognized. The early adoption of ASU 2018-02 on June 30, 2018 had no impact on the Company's consolidated financial statements or disclosures.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business ("ASU 2017-01"). These amendments clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. These amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. These amendments were applied prospectively. The adoption of ASU 2017-01 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). These amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component outside of a subtotal of income from operations. If a separate line item is not used, the line items used in the income statement to present other components of net benefit cost must be disclosed. These amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. These amendments were applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements.

The Company adopted the income statement presentation aspects of ASU 2017-07 on a retrospective basis effective January 1, 2018. The following is a reconciliation of the effect of the reclassification of the interest cost and amortization of actuarial gain (loss) from operating expenses to other income (expense) in the Company's Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 (in thousands):

	As Previously Reported	Adjustments Due to the Adoption of ASU 2017-07	As Revised
Year Ended December 31, 2017:			
Direct salaries and related costs	$ 1,039,790	$ (113)	$ 1,039,677
General and administrative	376,863	(38)	376,825
Income from operations	86,891	151	87,042
Other income (expense), net	(5,584)	(151)	(5,735)
Year Ended December 31, 2016:			
Direct salaries and related costs	$ 947,677	$ (84)	$ 947,593
General and administrative	351,722	(41)	351,681
Income from operations	92,248	125	92,373
Other income (expense), net	(3,364)	(125)	(3,489)

Note 2. Revenues

Adoption of ASC 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC 606, which includes ASU 2014-09 and all related amendments, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting for revenues under ASC 605, Revenue Recognition ("ASC 605").

The Company recorded an increase to opening retained earnings of $3.0 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact, all in the Americas segment, primarily related to the change in the timing of revenue recognition associated with certain customer contracts that provide fees upon renewal, as well as changes in estimating variable consideration with respect to penalty and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies. Revenues recognized under ASC 606 were higher during 2018 than revenues would have been under ASC 605. This is primarily attributable to the change in the timing of revenue recognition, as discussed above. The impact on revenues recognized for the year ended December 31, 2018 is reported below.

The cumulative effect of the adjustments made to the Company's Consolidated Balance Sheet as of December 31, 2017 for the line items impacted by the adoption of ASC 606 was as follows (in thousands):

	December 31, 2017	Adjustments Due to the Adoption of ASC 606	January 1, 2018
Receivables, net	$ 341,958	$ 825	$ 342,783
Deferred charges and other assets	29,193	2,045	31,238
Income taxes payable	2,606	697	3,303
Deferred revenue and customer liabilities	34,717	(1,048)	33,669
Other long-term liabilities	22,039	202	22,241
Retained earnings	546,843	3,019	549,862

The financial statement line items impacted by the adoption of ASC 606 in the Company's Consolidated Balance Sheet as of December 31, 2018, including the impact of acquisitions, were as follows (in thousands):

	As Reported	Balances Without the Impact of the ASC 606 Adoption	Effect of Adoption Increase (Decrease)
Receivables, net	$347,425	$344,975	$ 2,450
Other current assets	16,761	16,648	113
Deferred charges and other assets	43,364	27,398	15,966
Income taxes payable	1,433	(2,088)	3,521
Deferred revenue and customer liabilities	30,176	32,609	(2,433)
Other accrued expenses and current liabilities	31,235	31,100	135
Other long-term liabilities	31,750	28,021	3,729
Retained earnings	598,788	585,211	13,577

The financial statement line items impacted by the adoption of ASC 606 in the Company's Consolidated Statement of Operations for the year ended December 31, 2018, including the impact of acquisitions, were as follows, along with the impact per share (in thousands, except per share data):

	As Reported	Balances Without the Impact of the ASC 606 Adoption	Effect of Adoption Increase (Decrease)
Revenues	$1,625,687	$1,608,731	$ 16,956
Direct salaries and related costs	1,072,907	1,069,667	3,240
Income from operations	63,202	49,486	13,716
Income before income taxes	56,917	43,201	13,716
Income taxes	7,991	4,833	3,158
Net income	48,926	38,368	10,558

Net income per common share:			
Basic	$1.16	$0.91	$ 0.25
Diluted	$1.16	$0.91	$ 0.25

The Company's net cash provided by operating activities for the year ended December 31, 2018 did not change due to the adoption of ASC 606.

Practical Expedients

The Company utilized the practical expedient that allows for the application of ASC 606 to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

Costs of Obtaining Customer Contracts

ASC 606 requires an entity to recognize as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (e.g., a sales commission). Because the Company's sales commissions are not directly incremental to obtaining customer contracts, they are expensed as incurred.

Recognition of Revenues Accounting Policy

The Company recognizes revenues in accordance with ASC 606, whereby revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services.

Customer Engagement Solutions and Services

Under ASC 606, the Company accounts for a contract with a client when it has approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection. The Company's customer engagement solutions and services are classified as stand-ready performance obligations. Because the Company's customers simultaneously receive and consume the benefits of its services as they are delivered, the performance obligations are satisfied over time. The Company recognizes revenues over time using output methods such as a per minute, per hour, per call, per transaction or per time and materials basis. These output methods faithfully depict the satisfaction of the Company's obligation to deliver the services as requested and represent a direct measurement of value to the customer. The Company's contracts have a single performance obligation as the promise to transfer the customer solutions and services are not separately identifiable from other promises in the contract, and therefore not distinct.

The stated term of the Company's contracts with customers range from 30 days to six years. The majority of these contracts include termination for convenience or without cause provisions allowing either party to cancel the contract without substantial cost or penalty within a defined notification period ("termination rights"). The periods vary typically up to 180 days. Because of the termination rights, only the noncancelable portion qualifies as a legally enforceable contract under Step 1, Identify the Contract with a Customer, of ASC 606 ("Step 1") and is accounted for as such, even if the customer is unlikely to exercise its termination right. Furthermore, the amounts excluded from assessment under Step 1 are, in effect, optional customer purchases of additional services.

If the termination right is only provided to the customer, the unsatisfied performance obligations will be evaluated as a customer option. The Company typically does not include options in customer contracts that would result in a material right. If options to purchase additional services or options to renew are included in customer contracts, the Company evaluates the option in order to determine if the arrangement includes promises that may represent a material right and needs to be accounted for as a performance obligation in the contract with the customer.

The Company's primary billing terms are that payment is due within 30 or 60 days of the invoice date. Invoices are generally issued on a monthly basis as control transfers and/or as services are rendered. Revenue recognition is limited to the established transaction price, the amount to which the Company expects to be entitled to under the contract, including the amount of expected fees for those contracts with renewal provisions, and the amount that is not contingent upon delivery of any future product or service or meeting other specified performance obligations. The transaction price, once determined, is allocated to the single performance obligation on a contract by contract basis.

The Company's customer contracts include penalty and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies, as well as the right of certain of the Company's clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred. Certain customers also receive cash discounts for early payment. These provisions are accounted for as variable consideration and are estimated using the expected value method based on historical service and pricing trends, the individual contract provisions, and the Company's best judgment at the time. None of these variable consideration components are subject to constraint due to the short time period to resolution, the Company's extensive history with similar transactions, and the limited number of possible outcomes and third-party influence. The portion of the consideration received under the contract that the Company expects to ultimately refund to the customer is excluded from the transaction price and is recorded as a refund liability.

Other Revenues

The Company offers RPA services, including RPA consulting, implementation, hosting and managed services for front, middle and back-office processes, in Europe and the U.S. Revenues are primarily recognized over time using output methods such as per time and materials basis.

The Company offers fulfillment services that are integrated with its customer care and technical support services, primarily to clients operating in Europe. The Company's fulfillment solutions include order processing, payment processing, inventory control, product delivery and product returns handling. Revenues are recognized upon shipment to the customer and satisfaction of all obligations.

The Company provides a range of enterprise support services including technical staffing services and outsourced corporate help desk services, primarily in the U.S. Revenues are recognized over time using output methods such as number of positions filled.

The Company also has miscellaneous other revenues in the Other segment.

In total, other revenues are immaterial, representing 1.0%, 0.6% and 0.8% of the Company's consolidated total revenues for the years ended December 31, 2018, 2017 and 2016, respectively.

Disaggregated Revenues

The Company disaggregates its revenues from contracts with customers by service type and geographic location (see Note 25, Segments and Geographic Information), for each of its reportable segments, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenues and cash flows are affected by economic factors.

The following table represents revenues from contracts with customers disaggregated by service type and by the reportable segment for each category (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Americas:			
Customer engagement solutions and services	$1,329,614	$1,324,534	$1,219,824
Other revenues	1,024	1,109	994
Total Americas	1,330,638	1,325,643	1,220,818
EMEA:			
Customer engagement solutions and services	280,437	252,423	228,667
Other revenues	14,517	7,860	10,422
Total EMEA	294,954	260,283	239,089
Other:			
Other revenues	95	82	130
Total Other	95	82	130
	$1,625,687	$1,586,008	$1,460,037

Trade Accounts Receivable

The Company's trade accounts receivable, net, consists of the following (in thousands):

	December 31, 2018	January 1, 2018
Trade accounts receivable, net, current [(1)]	$ 335,377	$332,014
Trade accounts receivable, net, noncurrent [(2)]	15,948	2,078
	$ 351,325	$334,092

(1) Included in "Receivables, net" in the accompanying Consolidated Balance Sheets. The January 1, 2018 balance includes the $0.8 million adjustment recorded upon adoption of ASC 606.
(2) Included in "Deferred charges and other assets" in the accompanying Consolidated Balance Sheets. The January 1, 2018 balance includes a $2.1 million adjustment recorded upon adoption of ASC 606.

The Company's noncurrent trade accounts receivable result from (1) contracts with customers that include renewal provisions, and (2) a contract with a customer under a multi-year arrangement. For contracts with customers that include renewal provisions, revenue is recognized up-front upon satisfaction of the associated performance obligations, but payments are received upon renewal. Renewals occur in bi-annual and annual increments over the associated expected contract term, the majority of which range from two to five years. The Company's contract with a customer under a multi-year arrangement has a term of four years and is invoiced annually at the beginning of each annual coverage period. The Company records a receivable related to revenue recognized for the multi-year arrangement as the Company has an unconditional right to invoice and receive payment in the future related to that arrangement.

Where the timing of revenue recognition differs from the timing of invoicing and payment, the Company has determined that its contracts do not include a significant financing component. A substantial amount of the consideration promised by the customer under the contracts that include renewal provisions is variable, and the amount and timing of that consideration varies based on the occurrence or nonoccurrence of future events that are not substantially within the Company's control. Furthermore, the primary purpose of the multi-year arrangement invoicing terms is to provide the customer with a simplified and predictable way of purchasing certain products, not to provide financing or to receiving financing from the Company's customer.

Deferred Revenue and Customer Liabilities

Deferred revenue and customer liabilities consists of the following (in thousands):

	December 31, 2018	January 1, 2018
Deferred revenue	$ 3,655	$4,598
Customer arrangements with termination rights	16,404	21,755
Estimated refund liabilities [(1)]	10,117	7,316
	$ 30,176	$33,669

(1) The January 1, 2018 balance includes the $1.0 million adjustment recorded upon adoption of ASC 606.

Deferred Revenue

The Company receives up-front fees in connection with certain contracts. In accordance with ASC 606, the up-front fees are recorded as a contract liability only to the extent a legally enforceable contract exists. The termination right notice period, which typically vary up to 180 days, is the portion of the contract that is legally enforceable. Accordingly, the up-front fees allocated to the notification period are recorded as deferred revenue, while the fees that extend beyond the notification period are classified as a customer arrangement with termination rights. These up-front fees do not represent a significant financing component since they were structured primarily to reduce the administrative burden in managing the operations of certain contracts, to provide the customer with un-interrupted service, and to assist in managing the overall risk and profitability of providing the services.

Revenues of $4.4 million were recognized during the year ended December 31, 2018 from amounts included in deferred revenue at January 1, 2018. The Company expects to recognize the majority of its deferred revenue as of December 31, 2018 over the next 180 days.

Customer Liabilities – Customer Arrangements with Termination Rights

Customer arrangements with termination rights represent the amount of up-front fees received for unsatisfied performance obligations for periods that extend beyond the legally enforceable contract period. All customer arrangements with termination rights are classified as current as the customer can terminate the contracts and demand pro-rata refunds of the up-front fees over varying periods, typically up to 180 days. The Company expects to recognize the majority of the customer arrangements with termination rights into revenue as the Company has not historically experienced a high rate of contract terminations.

Customer Liabilities – Refund Liabilities

Refund liabilities represent consideration received under the contract that the Company expects to ultimately refund to the customer and primarily relates to estimated penalties, holdbacks and chargebacks. Penalties and holdbacks result from the failure to meet specified minimum service levels in certain contracts and other performance-based contingencies. Chargebacks reflect the right of certain of the Company’s clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred.

Refund liabilities are generally resolved in 180 days, once it is determined whether the requisite service levels and client requirements were achieved to settle the contingency.

Note 3. Acquisitions

Symphony Acquisition

On October 18, 2018, the Company as guarantor and its wholly-owned subsidiary, SEI International Services S.a.r.l, a Luxembourg company, entered into the Symphony Purchase Agreement with Pascal Baker, Ian Barkin, David Brain, David Poole, FIS Nominee Limited, Baronsmead Venture Trust plc and Baronsmead Second Venture Trust plc (together, the “Symphony Sellers”) to acquire all of the outstanding shares of Symphony.

Symphony, headquartered in London, England, provides RPA services, offering RPA consulting, implementation, hosting and managed services for front, middle and back-office processes. Symphony serves numerous industries globally, including financial services, healthcare, business services, manufacturing, consumer products, communications, media and entertainment.

The aggregate purchase price of GBP 52.5 million ($67.6 million) is subject to certain post-closing adjustments related to Symphony’s working capital. The Company paid GBP 44.6 million ($57.6 million) at the closing of the transaction on November 1, 2018 using cash on hand as well as $31.0 million of additional borrowings under the Company’s Credit Agreement. The present value of the remaining GBP 7.9 million ($10.0 million) of purchase price has been deferred and will be paid in equal installments over the next three years. The Symphony Purchase Agreement also provides for a three-year, retention based earnout payable in restricted stock units (“RSUs”) with a value of GBP 3.0 million. The acquisition resulted in $26.1 million of intangible assets, primarily customer relationships and trade names, $2.2 million of fixed assets and $36.4 million of goodwill.

The Symphony Purchase Agreement contains customary representations and warranties, indemnification obligations and covenants.

The Company accounted for the Symphony acquisition in accordance with ASC 805, whereby the purchase price paid was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the closing date. Certain amounts are provisional and are subject to change, including the finalization of the working capital adjustment, tax analysis of the assets acquired and liabilities assumed, and goodwill. The Company expects to complete its analysis of the purchase price allocation during the fourth quarter of 2019 and any resulting adjustments will be recorded in accordance with ASC 805.

WhistleOut Acquisition

On July 9, 2018, the Company, as guarantor, and its wholly-owned subsidiaries, Sykes Australia Pty Ltd, an Australian company, and Clear Link Technologies, LLC, a Delaware limited liability company, entered into and closed the WhistleOut Sale Agreement with WhistleOut Nominees Pty Ltd as trustee for the WhistleOut Holdings Unit Trust, CPC Investments USA Pty Ltd, JJZL Pty Ltd, Kenneth Wong as trustee for Wong Family Trust and C41 Pty Ltd as trustee for the Ottery Family Trust (together, the "WhistleOut Sellers") to acquire all of the outstanding shares of WhistleOut.

The aggregate purchase price of AUD 30.2 million ($22.4 million), paid at the closing of the transaction on July 9, 2018, resulted in $16.5 million of intangible assets, primarily indefinite-lived domain names, $2.4 million of fixed assets and $2.2 million of goodwill. The purchase price was funded through $22.0 million of additional borrowings under the Company's Credit Agreement. The WhistleOut Sale Agreement provides for a three-year, retention based earnout of AUD 14.0 million.

The WhistleOut Sale Agreement contained customary representations and warranties, indemnification obligations and covenants.

The Company accounted for the WhistleOut acquisition in accordance with ASC 805, whereby the purchase price paid was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the closing date. Certain amounts are provisional and are subject to change, including the tax analysis of the assets acquired and liabilities assumed, and goodwill. The Company expects to complete its analysis of the purchase price allocation during the second quarter of 2019 and any resulting adjustments will be recorded in accordance with ASC 805.

Telecommunications Asset Acquisition

On April 24, 2017, the Company entered into the Telecommunications Asset Acquisition Purchase Agreement to acquire certain assets from a Global 2000 telecommunications services provider. The aggregate purchase price of $7.5 million, paid on May 31, 2017 using cash on hand, resulted in $6.0 million of property and equipment and $1.5 million of customer relationship intangibles. The Telecommunications Asset Acquisition Asset Purchase Agreement contained customary representations and warranties, indemnification obligations and covenants. The Telecommunications Asset acquisition was completed to strengthen and create new partnerships for the Company and expand its geographic footprint in North America.

The Company accounted for the Telecommunications Asset acquisition in accordance with ASC 805, whereby the fair value of the purchase price was allocated to the tangible and identifiable intangible assets acquired based on their estimated fair values as of the closing date. The Company completed its analysis of the purchase price allocation during the second quarter of 2017.

Clearlink Acquisition

On April 1, 2016, the Company acquired 100% of the outstanding membership units of Clearlink through a merger of Clearlink with and into a subsidiary of the Company (the "Merger"). Clearlink, with its operations located in the U.S., is an inbound demand generation and sales conversion platform serving numerous Fortune 500 business-to-consumer and business-to-business clients across various industries and subsectors, including telecommunications, satellite television, home security and insurance. The results of Clearlink's operations have been included in the Company's consolidated financial statements since April 1, 2016 (the "Clearlink acquisition date") in the Americas segment. The strategic acquisition of Clearlink expanded the Company's suite of service offerings while creating differentiation in the marketplace, broadened its addressable market opportunity and extended executive level reach within the Company's existing clients' organizations. This resulted in the Company paying a substantial premium for Clearlink, resulting in the recognition of goodwill. Pursuant to Federal income tax laws, intangibles and goodwill from the Clearlink acquisition are deductible over a 15-year amortization period.

The Clearlink purchase price totaled $207.9 million, consisting of the following:

	Total
Cash [1]	$209,186
Working capital adjustment	(1,278)
	$207,908

(1) Funded through borrowings under the Company's credit agreement. See Note 18, Borrowings, for more information.

Approximately $2.6 million of the purchase price was placed in an escrow account as security for the indemnification obligations of Clearlink's members under the Merger Agreement. The escrow was released pursuant to the terms of the escrow agreement, but the Company subsequently asserted a claim of approximately $0.4 million against the Clearlink members. This claim has been resolved by the parties for $0.2 million, with the outstanding amount received by the Company in December 2017.

The Company accounted for the Clearlink acquisition in accordance with ASC 805, whereby the purchase price paid was allocated to the tangible and identifiable intangibles acquired and liabilities assumed from Clearlink based on their estimated fair values as of the closing date. The Company completed its analysis of the purchase price allocation during the fourth quarter of 2016 and the resulting adjustments of $0.3 million to income taxes payable and goodwill were recorded in accordance with ASC 805.

Fair values were based on management's estimates and assumptions including variations of the income approach, the cost approach and the market approach.

The amount of Clearlink's revenues and net income since the April 1, 2016 acquisition date, included in the Company's Consolidated Statement of Operations for the period indicated below, was as follows (in thousands):

	From April 1, 2016 Through December 31, 2016
Revenues	$ 123,289
Net income	$ 1,563

The following table presents the unaudited pro forma combined revenues and net earnings as if Clearlink had been included in the consolidated results of the Company for the year ended December 31, 2016. The pro forma financial information is not indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place on January 1, 2016 (in thousands):

Year Ended

	December 31, 2016
Revenues	$ 1,493,866
Net income	$ 65,662
Net income per common share:	
Basic	$ 1.57
Diluted	$ 1.55

These amounts were calculated to reflect the additional depreciation, amortization, interest expense and rent expense that would have been incurred assuming the fair value adjustments and borrowings occurred on January 1, 2016, together with the consequential tax effects. In addition, these amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies' operating results. Included in these costs are advisory and legal costs, net of the tax effects.

Merger and integration costs associated with Clearlink included in “General and administrative” costs in the accompanying Consolidated Statement of Operations for the year ended December 31, 2016 were as follows (none in 2018 and 2017) (in thousands):

	Year Ended December 31, 2016
Severance costs:	
Americas	$ 135
Transaction and integration costs:	
Americas	29
Other	4,470
	4,499
Total merger and integration costs	$ 4,634

Note 4. Costs Associated with Exit or Disposal Activities

Americas 2018 Exit Plan

During the second quarter of 2018, the Company initiated a restructuring plan to streamline excess capacity through targeted seat reductions (the “Americas 2018 Exit Plan”) in an on-going effort to manage and optimize capacity utilization. The Americas 2018 Exit Plan includes, but is not limited to, closing customer contact management centers and consolidating leased space in various locations in the U.S. and Canada. The Company finalized the remainder of the site closures under the Americas 2018 Exit Plan as of December 31, 2018.

The Company’s actions resulted in a reduction in seats as well as anticipated general and administrative cost savings, and lower depreciation expense resulting from the 2018 site closures.

The cumulative total costs expected and incurred to date related to cash and non-cash expenditures resulting from the Americas 2018 Exit Plan are outlined below as of December 31, 2018 (in thousands):

	Cumulative Costs Incurred To Date
Lease obligations and facility exit costs (1)	$ 7,077
Severance and related costs (2)	3,429
Severance and related costs (1)	1,035
Non-cash impairment charges	5,875
	$ 17,416

(1) Related to “General and administrative” costs.
(2) Related to “Direct salaries and related costs.”

The total costs expected to be incurred under the Americas 2018 Exit Plan increased $1.4 million since the initiation of the plan as the Company progressed with its plan and actual costs became known. No further costs are expected to be incurred under the plan. The Company has paid $9.3 million in cash through December 31, 2018.

The following table summarizes the accrued liability and related charges for the year ended December 31, 2018 (none in 2017 and 2016) (in thousands):

	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total
Balance at the beginning of the period	$ —	$ —	$—
Charges included in "Direct salaries and related costs"	—	3,429	3,429
Charges included in "General and administrative"	7,077	1,035	8,112
Cash payments	(5,643)	(3,647)	(9,290)
Balance sheet reclassifications [1]	335	—	335
Balance at the end of the period	$ 1,769	$ 817	$2,586

(1) Consists of the reclassification of deferred rent balances to the restructuring liability for locations subject to closure.

Restructuring Liability Classification

The following table summarizes the Company's short-term and long-term accrued liabilities associated with the Americas 2018 Exit Plan as of December 31, 2018 (none in 2017) (in thousands):

	December 31, 2018
Lease obligations and facility exit costs:	
Included in "Accounts payable"	$ 100
Included in "Other accrued expenses and current liabilities"	952
Included in "Other long-term liabilities"	717
	1,769
Severance and related costs:	
Included in "Accrued employee compensation and benefits"	793
Included in "Other accrued expenses and current liabilities"	24
	817
	$ 2,586

The long-term accrued restructuring liability relates to future rent obligations to be paid through the remainder of the lease terms, the last of which ends in June 2021.

Note 5. Fair Value

The Company's assets and liabilities measured at fair value on a recurring basis subject to the requirements of ASC 820 consist of the following (in thousands):

		Fair Value Measurements Using:		
	Balance at December 31, 2018	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Foreign currency forward and option contracts (1)	$ 1,068	$—	$ 1,068	$ —
Embedded derivatives (1)	10	—	—	10
Equity investments held in rabbi trust for the Deferred Compensation Plan (2)	8,075	8,075	—	—
Debt investments held in rabbi trust for the Deferred Compensation Plan (2)	3,367	3,367	—	—
	$ 12,520	$11,442	$ 1,068	$ 10
Liabilities:				
Foreign currency forward and option contracts (1)	$ 2,895	$—	$ 2,895	$ —
Embedded derivatives (1)	369	—	—	369
	$ 3,264	$—	$ 2,895	$ 369

		Fair Value Measurements Using:		
	Balance at	Quoted Prices in Active Markets For Identical	Significant Other Observable Inputs	Significant Unobservable Inputs

	December 31, 2017	Assets Level 1	Level 2	Level 3
Assets:				
Foreign currency forward and option contracts (1)	$ 3,848	$—	$ 3,848	$ —
Embedded derivatives (1)	52	—	—	52
Equity investments held in rabbi trust for the Deferred Compensation Plan (2)	8,094	8,094	—	—
Debt investments held in rabbi trust for the Deferred Compensation Plan (2)	3,533	3,533	—	—
	$ 15,527	$11,627	$ 3,848	$ 52
Liabilities:				
Foreign currency forward and option contracts (1)	$ 256	$—	$ 256	$ —
Embedded derivatives (1)	579	—	—	579
	$ 835	$—	$ 256	$ 579

(1) See Note 11, Financial Derivatives, for the classification in the accompanying Consolidated Balance Sheets.
(2) Included in "Other current assets" in the accompanying Consolidated Balance Sheets. See Note 12, Investments Held in Rabbi Trust.

Reconciliations of Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy

Embedded Derivatives in Lease Agreements

A rollforward of the net asset (liability) activity in the Company's fair value of the embedded derivatives is as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Balance at the beginning of the period	$(527)	$(555)	$—
Gains (losses) recognized in "Other income (expense), net"	(7)	(139)	(714)
Settlements	158	170	(7)
Effect of foreign currency	17	(3)	166
Balance at the end of the period	$(359)	$(527)	$(555)
Change in unrealized gains (losses) included in "Other income (expense), net" related to embedded derivatives held at the end of the period	$15	$(325)	$3

Contingent Consideration

A rollforward of the activity in the Company's fair value of the contingent consideration (liability) is as follows (none in 2018) (in thousands):

	Years Ended December 31,	
	2017	2016
Balance at the beginning of the period	$(6,100)	$(6,280)
Acquisition (1)	—	(2,779)
Imputed interest	(76)	(754)
Fair value gain (loss) adjustments (2)	605	2,250
Settlements	5,760	1,396
Effect of foreign currency	(189)	67
Balance at the end of the period	$—	$(6,100)
Change in unrealized gains (losses) included in "General and administrative" related to contingent consideration outstanding at the end of the period	$—	$2,268

(1) Liabilities acquired as part of the Clearlink acquisition on April 1, 2016. See Note 3, Acquisitions.

(2) Included in “General and administrative” costs in the accompanying Consolidated Statements of Operations.

The Company recorded a fair value gain of $2.6 million to the Qelp contingent consideration in “General and administrative” during the year ended December 31, 2016 due to the execution of an addendum to the Qelp purchase agreement dated September 26, 2016, subject to which the Company agreed to pay the Sellers EUR 4.0 million by June 30, 2017 ($4.2 million as of December 31, 2016). The Company paid $4.4 million in May 2017 to settle the outstanding contingent consideration obligation.

The Company recorded a net fair value gain of $0.6 million and fair value loss of $0.3 million to the Clearlink contingent consideration in “General and administrative” during the years ended December 31, 2017 and 2016, respectively. All outstanding Clearlink contingent consideration liabilities were paid prior to December 31, 2017.

The Company accreted interest expense each period using the effective interest method until the contingent consideration reached its estimated future value. Interest expense related to the contingent consideration was included in “Interest (expense)” in the accompanying Consolidated Statements of Operations for the years ended December 31, 2017 and 2016.

Non-Recurring Fair Value

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs, as described in Note 1, Overview and Summary of Significant Accounting Policies, like those associated with acquired businesses, including goodwill, other intangible assets, other long-lived assets and equity method investments. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if these assets were determined to be impaired.

The adjusted carrying values for assets measured at fair value on a nonrecurring basis (no liabilities) subject to the requirements of ASC 820 were not material at December 31, 2018 and 2017. The following table summarizes the total impairment losses related to nonrecurring fair value measurements of certain assets (no liabilities) (none in 2016):

	Total Impairment (Loss) Years Ended December 31,	
	2018	2017
Americas:		
Property and equipment, net	$(9,401)	$(5,410)

In connection with the closure of certain under-utilized customer contact management centers and the consolidation of leased space in the U.S. and Canada, the Company recorded impairment charges of $9.4 million and $5.2 million during the years ended December 2018 and 2017, respectively, related to leasehold improvements, equipment, furniture and fixtures which were not recoverable. See Note 4, Costs Associated with Exit or Disposal Activities, for further information.

The Company recorded an impairment charge of $0.2 million related to the write-down of a vacant and unused parcel of land in the U.S. to its estimated fair value during the year ended December 31, 2017.

Note 6. Goodwill and Intangible Assets

Intangible Assets

The following table presents the Company's purchased intangible assets as of December 31, 2018 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	$ 189,697	$ (106,502)	$ 83,195	10
Trade names and trademarks	19,236	(10,594)	8,642	8
Non-compete agreements	2,746	(1,724)	1,022	3

Content library	517	(517)	—	2
Proprietary software	1,040	(725)	315	4
Intangible assets not subject to amortization:				
Domain names	80,857	—	80,857	N/A
	$ 294,093	$ (120,062)	$ 174,031	5

The following table presents the Company's purchased intangible assets as of December 31, 2017 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	$ 170,853	$ (95,175)	$ 75,678	10
Trade names and trademarks	14,138	(8,797)	5,341	7
Non-compete agreements	1,820	(1,052)	768	3
Content library	542	(542)	—	2
Proprietary software	1,040	(585)	455	4
Intangible assets not subject to amortization:				
Domain names	58,035	—	58,035	N/A
	$ 246,428	$ (106,151)	$ 140,277	6

The Company's estimated future amortization expense for the succeeding years relating to the purchased intangible assets resulting from acquisitions completed prior to December 31, 2018, is as follows (in thousands):

Years Ending December 31,	Amount
2019	16,679
2020	14,013
2021	9,437
2022	8,133
2023	7,282
2024 and thereafter	37,630

Goodwill

Changes in goodwill for the year ended December 31, 2018 consist of the following (in thousands):

	January 1, 2018	Acquisition	Effect of Foreign Currency	December 31, 2018
Americas	$ 258,496	$ 2,175	$ (5,235)	$ 255,436
EMEA	10,769	36,361	(49)	47,081
	$ 269,265	$ 38,536	$ (5,284)	$ 302,517

Changes in goodwill for the year ended December 31, 2017 consist of the following (in thousands):

	January 1, 2017	Acquisition	Effect of Foreign Currency	December 31, 2017
Americas	$ 255,842	$ 390	$ 2,264	$ 258,496
EMEA	9,562	—	1,207	10,769
	$ 265,404	$ 390	$ 3,471	$ 269,265

(1) See Note 3, Acquisitions, for further information.

The Company performs its annual goodwill impairment test during the third quarter, or more frequently, if indicators of impairment exist.

For the annual goodwill impairment test, the Company elected to forgo the option to first assess qualitative factors and performed its annual quantitative goodwill impairment test as of July 31, 2018. Under ASC 350, the carrying value of assets is calculated at the reporting unit level. The quantitative assessment of goodwill includes comparing a reporting unit's calculated fair value to its carrying value. The calculation of fair value requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recognized for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

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

- Revenue projections, including revenue growth during the forecast periods;
- EBITDA margin projections over the forecast periods;
- Estimated income tax rates;
- Estimated capital expenditures; and
- Discount rates based on various inputs, including the risks associated with the specific reporting units as well as their revenue growth and EBITDA margin assumptions.

As of July 31, 2018, the Company concluded that goodwill was not impaired for all six of its reporting units with goodwill, based on generally accepted valuation techniques and the significant assumptions outlined above. While the fair values of four of the six reporting units were substantially in excess of their carrying value, the Qelp and Clearlink reporting units' fair values exceeded the respective carrying values, although not substantially.

The Qelp and Clearlink reporting units are at risk of future impairment if projected operating results are not met or other inputs into the fair value measurement change. However, as of December 31, 2018, the Company believes there were no indicators of impairment related to Qelp's $10.2 million of goodwill and Clearlink's $71.2 million of goodwill. Additionally as of December 31, 2018, the Company noted no indicators of impairment related to Symphony's $36.9 million of goodwill, recorded as a result of the acquisition on November 1, 2018.

Note 7. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company's credit concentrations are limited due to the wide variety of customers and markets in which the Company's services are sold. See Note 11, Financial Derivatives, for a discussion of the Company's credit risk relating to financial derivative instruments, and Note 25, Segments and Geographic Information, for a discussion of the Company's customer concentration.

Note 8. Receivables, Net

Receivables, net consist of the following (in thousands):

	December 31,	
	2018	2017
Trade accounts receivable, current	$338,473	$334,147
Income taxes receivable	916	4,138
Other	11,132	6,631
Receivables, gross	350,521	344,916
Less: Allowance for doubtful accounts	3,096	2,958
Receivables, net	$347,425	$341,958
Allowance for doubtful accounts as a percent of trade accounts receivable, current	0.9 %	0.9 %

Note 9. Prepaid Expenses

Prepaid expenses consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Prepaid maintenance	$5,888	$7,773
Prepaid insurance	4,500	4,380
Prepaid software	3,499	1,638
Prepaid rent	3,471	3,767
Prepaid other	6,396	4,574
	$23,754	$22,132

Note 10. Other Current Assets

Other current assets consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Investments held in rabbi trust (Note 12)	$11,442	$11,627
Deferred rent	1,867	1,936
Financial derivatives (Note 11)	1,078	3,857
Other current assets	2,374	2,323
	$16,761	$19,743

Note 11. Financial Derivatives

Cash Flow Hedges – The Company has derivative assets and liabilities relating to outstanding forward contracts and options, designated as cash flow hedges, as defined under ASC 815 Derivatives and Hedging ("ASC 815"), consisting of Philippine Peso, Costa Rican Colon, Hungarian Forint and Romanian Leu contracts. These contracts are entered into to hedge the exposure to variability in the cash flows of a specific asset or liability, or of a forecasted transaction that is attributable to changes in exchange rates.

The deferred gains (losses) and related taxes on the Company's cash flow hedges recorded in "Accumulated other comprehensive income (loss)" ("AOCI") in the accompanying Consolidated Balance Sheets are as follows (in thousands):

	December 31, 2018	December 31, 2017
Deferred gains (losses) in AOCI	$(1,825)	$2,550
Tax on deferred gains (losses) in AOCI	(39)	(79)

Deferred gains (losses) in AOCI, net of taxes	$(1,864)	$2,471
Deferred gains (losses) expected to be reclassified to "Revenues" from AOCI during the next twelve months	$(1,825)	

Deferred gains (losses) and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts and options as well as the related settlement of forecasted transactions.

Net Investment Hedge – From time to time, the Company enters into foreign exchange forward contracts to hedge its net investment in certain foreign operations, as defined under ASC 815. The purpose of these derivative instruments is to protect the Company's interests against the risk that the net assets of certain foreign subsidiaries will be adversely affected by changes in exchange rates and economic exposures related to the Company's foreign currency-based investments in these subsidiaries.

Non-Designated Hedges

Foreign Currency Forward Contracts – The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect the Company's interests against adverse foreign currency moves relating primarily to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than the Company's subsidiaries' functional currencies. See Note 1, Overview and Summary of Significant Accounting Policies, for additional information on the Company's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

Embedded Derivatives – The Company enters into certain lease agreements which require payments not denominated in the functional currency of any substantial party to the agreements. The foreign currency component of these contracts meets the criteria under ASC 815 as embedded derivatives. The Company has determined that the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contracts (lease agreements), and separate, stand-alone instruments with the same terms as the embedded derivative instruments would otherwise qualify as derivative instruments, thereby requiring separation from the lease agreements and recognition at fair value. Such instruments do not qualify for hedge accounting under ASC 815.

The Company had the following outstanding foreign currency forward contracts and options, and embedded derivatives (in thousands):

	December 31, 2018		December 31, 2017	
Contract Type	Notional Amount in USD	Settle Through Date	Notional Amount in USD	Settle Through Date
Cash flow hedges:				
Options:				
US Dollars/Philippine Pesos	$26,250	December 2019	$78,000	December 2018
Forwards:				
US Dollars/Philippine Pesos	39,000	September 2019	3,000	June 2018
US Dollars/Costa Rican Colones	67,000	December 2019	70,000	March 2019
Non-designated hedges:				
Forwards	19,261	November 2021	9,253	March 2018
Embedded derivatives	14,069	April 2030	13,519	April 2030

Master netting agreements exist with each respective counterparty to reduce credit risk by permitting net settlement of derivative positions. In the event of default by the Company or one of its counterparties, these agreements include a set-off clause that provides the non-defaulting party the right to net settle all derivative transactions, regardless of the currency and settlement date. The maximum amount of loss due to credit risk that, based on gross fair value, the Company would incur if parties to the derivative transactions that make up the concentration failed to perform according to the terms of the contracts was $1.1 million and $3.8 million as of December 31, 2018 and 2017, respectively. After consideration of these netting arrangements and offsetting positions by counterparty, the total net settlement amount as it relates to these positions are asset positions of $1.1 million and $3.6 million, and liability positions of $2.9 million and $0 as of December 31, 2018 and 2017, respectively.

Although legally enforceable master netting arrangements exist between the Company and each counterparty, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in the accompanying Consolidated Balance Sheets. Additionally, the Company is not required to pledge, nor is it entitled to receive, cash collateral related to these derivative transactions.

The following tables present the fair value of the Company's derivative instruments included in the accompanying Consolidated Balance Sheets (in thousands):

	Derivative Assets	
	December 31, 2018 Fair Value	December 31, 2017 Fair Value
Derivatives designated as cash flow hedging instruments under ASC 815:		
Foreign currency forward and option contracts (1)	$ 1,038	$ 3,604
Derivatives not designated as hedging instruments under ASC 815:		
Foreign currency forward contracts (1)	30	244
Embedded derivatives (1)	10	9
Embedded derivatives (2)	—	43
Total derivative assets	$ 1,078	$ 3,900

	Derivative Liabilities	
	December 31, 2018 Fair Value	December 31, 2017 Fair Value
Derivatives designated as cash flow hedging instruments under ASC 815:		
Foreign currency forward and option contracts (3)	$ 2,604	$ 175
Foreign currency forward and option contracts (4)	—	81
	2,604	256
Derivatives not designated as hedging instruments under ASC 815:		
Foreign currency forward contracts (3)	247	—
Foreign currency forward contracts (4)	44	—
Embedded derivatives (3)	8	189
Embedded derivatives (4)	361	390
Total derivative liabilities	$ 3,264	$ 835

(1) Included in "Other current assets" in the accompanying Consolidated Balance Sheets.
(2) Included in "Deferred charges and other assets" in the accompanying Consolidated Balance Sheets.
(3) Included in "Other accrued expenses and current liabilities" in the accompanying Consolidated Balance Sheets.
(4) Included in "Other long-term liabilities" in the accompanying Consolidated Balance Sheets.

The following table presents the effect of the Company’s derivative instruments included in the accompanying Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) December 31,			Gain (Loss) Reclassified From AOCI Into "Revenues" (Effective Portion) December 31,			Gain (Loss) Recognized in "Revenues" on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) December 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Derivatives designated as cash flow hedging instruments under ASC 815:									
Foreign currency forward and option contracts	$(4,259)	$2,277	$(2,308)	$(26)	$(2,536)	$(553)	$(28)	$ (1)	$ (5)
Derivatives designated as net investment hedging instruments under ASC 815:									
Foreign currency forward contracts	—	(8,352)	3,409	—	—	—	—	—	—
	$(4,259)	$(6,075)	$1,101	$(26)	$(2,536)	$(553)	$(28)	$ (1)	$ (5)

The following table presents the gains (losses) recognized in “Other income (expense), net” of the Company’s derivative instruments included in the accompanying Consolidated Financial Statements for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Derivatives not designated as hedging instruments under ASC 815:			
Foreign currency forward contracts	$(1,744)	$282	$(1,556)

Embedded derivatives	(7)	(139)	(714)
	$(1,751)	$143	$(2,270)

Note 12. Investments Held in Rabbi Trust

The Company's investments held in rabbi trust, classified as trading securities and included in "Other current assets" in the accompanying Consolidated Balance Sheets, at fair value, consist of the following (in thousands):

	December 31, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 8,864	$ 11,442	$ 8,096	$ 11,627

The mutual funds held in the rabbi trust were 71% equity-based and 29% debt-based as of December 31, 2018. Net investment income (losses), included in "Other income (expense), net" in the accompanying Consolidated Statements of Operations consists of the following (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Net realized gains (losses) from sale of trading securities	$10	$195	$241
Dividend and interest income	635	422	92
Net unrealized holding gains (losses)	(1,512)	1,002	249
	(867)	1,619	$582

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Note 13. Property and Equipment, Net

Property and equipment, net consists of the following (in thousands):

	December 31,	
	2018	2017
Land	$2,185	$3,217
Buildings and leasehold improvements	129,582	135,100
Equipment, furniture and fixtures	298,537	312,636
Capitalized internally developed software costs	41,883	34,886
Transportation equipment	636	556
Construction in progress	2,253	7,462
	475,076	493,857
Less: Accumulated depreciation	339,658	333,067
	$135,418	$160,790

Capitalized internally developed software, net of depreciation, included in “Property and equipment, net” in the accompanying Consolidated Balance Sheets was as follows (in thousands):

	December 31,	
	2018	2017
Capitalized internally developed software costs, net	$18,352	$15,876

Sale of Fixed Assets, Land and Building Located in Wise, Virginia

In October 2018, the Company sold the fixed assets, land and building located in Wise, Virginia, with a net carrying value of $0.7 million, for cash of $0.8 million (net of selling costs of less than $0.1 million). This resulted in a net gain on disposal of property and equipment of less than $0.1 million, which is included in “General and administrative” in the accompanying Consolidated Statement of Operations for the year ended December 31, 2018.

Sale of Fixed Assets, Land and Building Located in Ponca City, Oklahoma

In September 2018, the Company sold the fixed assets, land and building located in Ponca City, Oklahoma, with a net carrying value of $0.5 million, for cash of $0.2 million (net of selling costs of less than $0.1 million). This resulted in a net loss on disposal of property and equipment of $0.3 million, which is included in “General and administrative” in the accompanying Consolidated Statement of Operations for the year ended December 31, 2018.

Sale of Fixed Assets, Land and Building Located in Morganfield, Kentucky

In December 2016, the Company sold the fixed assets, land and building located in Morganfield, Kentucky, with a net carrying value of $0.3 million, for cash of $0.5 million (net of selling costs of less than $0.1 million). This resulted in a net gain on disposal of property and equipment of $0.2 million, which is included in “General and administrative” in the accompanying Consolidated Statement of Operations for the year ended December 31, 2016.

Note 14. Deferred Charges and Other Assets

Deferred charges and other assets consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Trade accounts receivable, net, noncurrent (Note 2)	$15,948	$—
Equity method investments (Note 1)	9,702	10,341
Net deferred tax assets, noncurrent (Note 20)	5,797	6,657
Rent and other deposits	5,687	5,379
Value added tax receivables, net, noncurrent	519	548
Other	5,711	6,268
	$43,364	$29,193

Note 15. Accrued Employee Compensation and Benefits

Accrued employee compensation and benefits consist of the following (in thousands):

	December 31,	
	2018	2017
Accrued compensation	$34,095	$42,505
Accrued bonus and commissions	19,835	22,523
Accrued vacation	19,019	18,848
Accrued employment taxes	15,598	11,412
Accrued severance and related costs (Note 4)	793	—
Other	6,473	7,611
	$95,813	$102,899

Note 16. Other Accrued Expenses and Current Liabilities

Other accrued expenses and current liabilities consist of the following (in thousands):

	December 31,	
	2018	2017
Deferred Symphony acquisition purchase price (Note 3)	$3,394	$—
Accrued legal and professional fees	3,380	3,417
Accrued rent	3,283	2,983
Financial derivatives (Note 11)	2,859	364
Accrued customer-acquisition advertising costs (Note 1)	2,831	403
Accrued telephone charges	2,000	1,515
Accrued roadside assistance claim costs	1,330	2,011
Accrued utilities	1,148	1,694
Accrued restructuring (Note 4)	976	—
Other	10,034	18,501
	$31,235	$30,888

Note 17. Deferred Grants

Deferred grants, net of accumulated amortization, consist of the following (in thousands):

	December 31,	
	2018	2017
Property grants	$1,983	$2,843
Lease grants	369	507
Employment grants	13	61

Total deferred grants	2,365	3,411
Less: Lease grants - short-term (1)	(111)	(117)
Less: Employment grants - short-term (1)	(13)	(61)
Total long-term deferred grants	$2,241	$3,233

(1) Included in "Other accrued expenses and current liabilities" in the accompanying Consolidated Balance Sheets.

Note 18. Borrowings

On May 12, 2015, the Company entered into a $440 million revolving credit facility (the “Credit Agreement”) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender (“KeyBank”). The Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants.

The Credit Agreement includes a $200 million alternate-currency sub-facility, a $10 million swingline sub-facility and a $35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. The Company is not currently aware of any inability of its lenders to provide access to the full commitment of funds that exist under the revolving credit facility, if necessary. However, there can be no assurance that such facility will be available to the Company, even though it is a binding commitment of the financial institutions.

The Credit Agreement matures on May 12, 2020, and had outstanding borrowings of $102.0 million and $275.0 million at December 31, 2018 and 2017, respectively, included in “Long-term debt” in the accompanying Consolidated Balance Sheets.

Borrowings under the Credit Agreement bear interest at the rates set forth in the Credit Agreement. In addition, the Company is required to pay certain customary fees, including a commitment fee determined quarterly based on the Company’s leverage ratio and due quarterly in arrears as calculated on the average unused amount of the Credit Agreement.

The Credit Agreement is guaranteed by all the Company’s existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all the direct foreign subsidiaries of the Company and those of the guarantors.

In May 2015, the Company paid an underwriting fee of $0.9 million for the Credit Agreement, which is deferred and amortized over the term of the loan, along with the deferred loan fees of $0.4 million related to the previous credit agreement.

In January 2018, the Company repaid $175.0 million of long-term debt outstanding under its Credit Agreement, primarily using funds repatriated from its foreign subsidiaries.

The following table presents information related to our credit agreements (dollars in thousands):

	Years Ended December 31,		
	2018	2017	2016
Average daily utilization	$106,189	$268,775	$222,612
Interest expense (1), (2)	$3,817	$6,668	$3,952
Weighted average interest rate (2)	3.6 %	2.5 %	1.8 %

(1) Excludes the amortization of deferred loan fees.
(2) Includes the commitment fee.

On February 14, 2019, the Company entered into a $500 million revolving credit facility, which replaced the Company’s existing $440 million revolving credit facility. The prior $440 million agreement was terminated simultaneously upon execution of the new agreement. The Company’s new revolving credit facility will mature on February 14, 2024, includes a $200 million alternate-currency sub-facility, a $15 million swingline sub-facility and a

$15 million letter of credit sub-facility, and has terms that are substantially similar to the Company's $440 million revolving credit facility.

The Company is not currently aware of any inability of its lenders to provide access to the full commitment of funds that exist under the revolving credit facility, if necessary. However, there can be no assurance that such facility will be available to the Company, even though it is a binding commitment of the financial institutions.

Note 19. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) consist of the following (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Net Investment Hedge	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Unrealized Actuarial Gain (Loss) Related to Pension Liability	Unrealized Gain (Loss) on Postretirement Obligation	Total
Balance at January 1, 2016	$ (58,601)	$ 4,170	$ (527)	$ 1,029	$ 267	$ (53,662)
Pre-tax amount	(13,832)	3,409	(2,313)	212	(9)	(12,533)
Tax (provision) benefit	—	(1,313)	72	(8)	—	(1,249)
Reclassification of (gain) loss to net income	—	—	527	(52)	(58)	417
Foreign currency translation	40	—	16	(56)	—	—
Balance at December 31, 2016	(72,393)	6,266	(2,225)	1,125	200	(67,027)
Pre-tax amount	36,101	(8,352)	2,276	527	(30)	30,522
Tax (provision) benefit	—	3,132	(54)	(18)	—	3,060
Reclassification of (gain) loss to net income	—	—	2,444	(53)	(50)	2,341
Foreign currency translation	(23)	—	30	(7)	—	—
Balance at December 31, 2017	(36,315)	1,046	2,471	1,574	120	(31,104)
Pre-tax amount	(22,158)	—	(4,287)	783	—	(25,662)
Tax (provision) benefit	—	—	84	47	—	131
Reclassification of (gain) loss to net income	—	—	6	(66)	(80)	(140)
Foreign currency translation	220	—	(138)	(82)	—	—
Balance at December 31, 2018	$ (58,253)	$ 1,046	$ (1,864)	$ 2,256	$ 40	$ (56,775)

The following table summarizes the amounts reclassified to net income from accumulated other comprehensive income (loss) and the associated line item in the accompanying Consolidated Statements of Operations (in thousands):

	Years Ended December 31,			Statements of Operations
	2018	2017	2016	Location
Gain (loss) on cash flow hedging				

instruments: (1)				
Pre-tax amount	$(54)	$(2,537)	$(558)	Revenues
Tax (provision) benefit	48	93	31	Income taxes
Reclassification to net income	(6)	(2,444)	(527)	
Actuarial gain (loss) related to pension liability: (2)				
Pre-tax amount	58	43	40	Other income (expense), net
Tax (provision) benefit	8	10	12	Income taxes
Reclassification to net income	66	53	52	
Gain (loss) on postretirement obligation: (2),(3)				
Reclassification to net income	80	50	58	Other income (expense), net
	$140	$(2,341)	$(417)	

(1) See Note 11, Financial Derivatives, for further information.
(2) See Note 23, Defined Benefit Pension Plan and Postretirement Benefits, for further information.
(3) No related tax (provision) benefit.

As discussed in Note 20, Income Taxes, for periods prior to December 31, 2017, any remaining outside basis differences associated with the Company's investments in its foreign subsidiaries are considered to be indefinitely reinvested and no provision for income taxes on those earnings or translation adjustments has been provided.

Note 20. Income Taxes

The income before income taxes consists of the following (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Domestic (U.S., state and local)	$6,971	$9,662	$34,761
Foreign	49,946	71,645	54,123
	$56,917	$81,307	$88,884

Significant components of the income tax provision are as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Current:			
U.S. federal	$(492)	$29,986	$9,514
State and local	54	855	1,958
Foreign	9,938	10,342	12,683
Total current provision for income taxes	9,500	41,183	24,155
Deferred:			
U.S. federal	(498)	7,919	2,007
State and local	(85)	922	(526)
Foreign	(926)	(933)	858
Total deferred provision (benefit) for income taxes	(1,509)	7,908	2,339
	$7,991	$49,091	$26,494

The temporary differences that give rise to significant portions of the deferred income tax provision (benefit) are as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Net operating loss and tax credit carryforwards	$(613)	$1,231	$285
Accrued expenses/liabilities	(2,512)	16,470	1,173
Depreciation and amortization	101	(10,571)	1,286
Valuation allowance	1,558	(1,441)	901
Deferred statutory income	6	2,479	(1,394)
Other	(49)	(260)	88
	$(1,509)	$7,908	$2,339

The reconciliation of the income tax provision computed at the U.S. federal statutory tax rate to the Company's effective income tax provision is as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Tax at U.S. federal statutory tax rate	$11,953	$28,457	$31,109
State income taxes, net of federal tax benefit	(31)	594	1,432
Foreign rate differential	(4,620)	(14,736)	(15,837)
Tax holidays	(4,050)	(2,951)	(3,314)
Permanent differences	12,150	8,749	12,768
Tax credits	(8,979)	(5,102)	(4,396)
Foreign withholding and other taxes	(840)	2,661	2,667
Valuation allowance	1,549	(1,689)	994
Uncertain tax positions	771	(1,812)	398
Statutory tax rate changes	96	2,536	242
2017 Tax Reform Act	(217)	32,705	—
Other	209	(321)	431
Total provision for income taxes	$7,991	$49,091	$26,494

Withholding taxes on offshore cash movements assessed by certain foreign governments of $2.0 million, $1.7 million and $2.0 million were included in the provision for income taxes in the accompanying Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016, respectively.

On December 22, 2017, the 2017 Tax Reform Act was signed into law making significant changes to the Internal Revenue Code. Changes included, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a participation exemption regime, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. We estimated our provision for income taxes in accordance with the 2017 Tax Reform Act and guidance available upon enactment and as a result recorded $32.7 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The $32.7 million estimate included the provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings of $32.7 million based on cumulative foreign earnings of $531.8 million and $1.0 million of foreign withholding taxes on certain anticipated distributions. The provisional tax expense was partially offset by a provisional benefit of $1.0 million related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The Company recorded a $0.2 million decrease to the provisional amounts during the year ended December 31, 2018 upon finalizing the impact of the 2017 Tax Reform Act.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. No additional income taxes have been provided for any remaining outside basis difference inherent in these entities as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining outside basis difference in these entities is not practicable due to the inherent complexity of the multi-national tax environment in which the Company operates.

On December 22, 2017, the SEC issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Reform Act. In accordance with SAB 118, we have determined that the deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 31, 2017. Final computations were completed during the fourth quarter of 2018, resulting in the $0.2 million decrease to the provisional amount discussed above.

The 2017 Tax Reform Act instituted a number of new provisions effective January 1, 2018, including GILTI, Foreign Derived Intangible Income ("FDII") and Base Erosion and Anti-Abuse Tax ("BEAT"). Based on the guidance, interpretations, and data available as of December 31, 2018, the Company has determined the impact of these measures is immaterial to its tax provision in 2018.

The Company has been granted tax holidays in the Philippines, Colombia, Costa Rica and El Salvador. The tax holidays have various expiration dates ranging from 2019 through 2028. In some cases, the tax holidays expire without possibility of renewal. In other cases, the Company expects to renew these tax holidays, but there are no assurances from the respective foreign governments that they will renew them. This could potentially result in future adverse tax consequences in the local jurisdiction, the impact of which is not practicable to estimate due to the inherent complexity of estimating critical variables such as long-term future profitability, tax regulations and rates in the multi-national tax environment in which the Company operates. The Company's tax holidays decreased the provision for income taxes by $4.1 million ($0.10 per diluted share), $3.0 million ($0.07 per diluted share) and $3.3 million ($0.08 per diluted share) for the years ended December 31, 2018, 2017 and 2016, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income taxes. The temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss and tax credit carryforwards	$34,565	$33,803
Valuation allowance	(32,299)	(32,443)
Accrued expenses	9,500	9,938
Deferred revenue and customer liabilities	4,138	4,544
Depreciation and amortization	1,693	1,628
Other	413	229
	18,010	17,699
Deferred tax liabilities:		
Depreciation and amortization	(13,199)	(12,999)
Deferred statutory income	(838)	(938)
Accrued liabilities	(1,779)	(2,849)
Other	(253)	(258)
	(16,069)	(17,044)
Net deferred tax assets	$1,941	$655

	December 31,	
	2018	2017
Classified as follows:		
Deferred charges and other assets (Note 14)	$5,797	$6,657
Other long-term liabilities	(3,856)	(6,002)
Net deferred tax assets	$1,941	$655

There are approximately $154.2 million of income tax loss carryforwards as of December 31, 2018, with varying expiration dates, approximately $123.8 million relating to foreign operations and $30.4 million relating to U.S. state operations. With respect to foreign operations, $93.9 million of the net operating loss carryforwards have an indefinite expiration date and the remaining $22.7 million net operating loss carryforwards have varying expiration dates through December 2039. Regarding the foreign and U.S. state aforementioned tax loss carryforwards, no benefit has been recognized for $116.6 million and $24.0 million, respectively, as the Company does not anticipate that the losses will more likely than not be fully utilized.

The Company has accrued $2.7 million and $1.3 million as of December 31, 2018 and 2017, respectively, excluding penalties and interest, for the liability for unrecognized tax benefits. The $2.7 million and $1.3 million of the unrecognized tax benefits at December 31, 2018 and 2017, respectively, were recorded in “Long-term income tax liabilities” in the accompanying Consolidated Balance Sheets. Had the Company recognized these tax benefits, approximately $2.7 million and $1.3 million, and the related interest and penalties, would have favorably impacted the effective tax rate in 2018 and 2017, respectively. The Company does not anticipate that any of the unrecognized tax benefits will be recognized in the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company had $0.6 million and $1.3 million accrued for interest and penalties as of December 31, 2018 and 2017, respectively. Of the accrued interest and penalties at December 31, 2018 and 2017, $0.4 million and $0.8 million, respectively, relate to statutory penalties. The amount of interest and penalties, net, included in the provision for income taxes in the accompanying Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016 was $0.7 million, $(9.5) million and $0.4 million, respectively.

The tabular reconciliation of the amounts of unrecognized net tax benefits is presented below (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Balance at the beginning of the period	$1,342	$8,531	$8,116
Current period tax position increases	2,950	—	—
Decreases from settlements with tax authorities	(191)	(10,865)	—
Decreases due to lapse in applicable statute of limitations	(1,310)	(466)	—
Foreign currency translation increases (decreases)	(71)	4,142	415
Balance at the end of the period	$2,720	$1,342	$8,531

The Company received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and the Company paid mandatory security deposits to Canada as part of this process. As of June 30, 2017, the Company determined that all material aspects of the Canadian audit were effectively settled pursuant to ASC 740. As a result, the Company recognized an income tax benefit of $1.2 million, net of the U.S. tax impact, at that time and the deposits were applied against the anticipated liability. During the year ended December 31, 2018, the Company finalized procedures ancillary to the Canadian audit and recognized an additional $2.8 million income tax benefit due to the elimination of certain assessed penalties, interest and withholding taxes.

With the effective settlement of the Canadian audit, the Company has no significant tax jurisdictions under audit; however, the Company is currently under audit in several tax jurisdictions. The Company believes it is adequately reserved for the remaining audits and their resolution is not expected to have a material impact on its financial conditions and results of operations.

The Company and its subsidiaries file federal, state and local income tax returns as required in the U.S. and in various foreign tax jurisdictions. The major tax jurisdictions and tax years that are open and subject to examination by the respective tax authorities as of December 31, 2018 are tax years 2015 through 2018 for the U.S.

Note 21. Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock appreciation rights, restricted stock, restricted stock units and shares held in rabbi trust using the treasury stock method.

The numbers of shares used in the earnings per share computation are as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Basic:			
Weighted average common shares outstanding	42,090	41,822	41,847
Diluted:			
Dilutive effect of stock appreciation rights, restricted stock, restricted stock units and shares held in rabbi trust	156	319	392
Total weighted average diluted shares outstanding	42,246	42,141	42,239
Anti-dilutive shares excluded from the diluted earnings per share calculation	44	46	20

On August 18, 2011, the Company's Board of Directors (the "Board") authorized the Company to purchase up to 5.0 million shares of its outstanding common stock (the "2011 Share Repurchase Program"). On March 16, 2016, the Board authorized an increase of 5.0 million shares to the 2011 Share Repurchase Program for a total of 10.0 million shares. A total of 5.3 million shares have been repurchased under the 2011 Share Repurchase Program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date.

The shares repurchased under the Company's share repurchase programs were as follows (none in 2018 and 2017) (in thousands, except per share amounts):

For the Year Ended	Total Number of Shares Repurchased	Range of Prices Paid Per Share Low	Range of Prices Paid Per Share High	Total Cost of Shares Repurchased
December 31, 2016	390	$27.81	$30.00	$ 11,144

Note 22. Commitments and Loss Contingency

Lease and Purchase Commitments

The Company leases certain equipment and buildings under operating leases, which expire at various dates through 2035, many with options to cancel at varying points during the lease. Fair value renewal and escalation clauses exist for many of the operating leases. Rental expense, primarily included in “General and administrative” in the accompanying Consolidated Statements of Operations, under operating leases was as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Rental expense	$67,980	$59,906	$55,584

The following is a schedule of future minimum rental payments required under operating leases that have noncancelable lease terms as of December 31, 2018 (in thousands):

	Amount
2019	$53,071
2020	48,770
2021	43,324
2022	34,063
2023	22,583
2024 and thereafter	51,456
	$253,267

The Company enters into agreements with third-party vendors in the ordinary course of business whereby the Company commits to purchase goods and services used in its normal operations. These agreements generally are not cancelable, range from one to five-year periods and may contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments based on certain conditions.

The following is a schedule of future minimum purchases remaining under the agreements as of December 31, 2018 (in thousands):

	Amount
2019	$61,281
2020	16,308
2021	2,216
2022	1,021
2023	525
2024 and thereafter	—
	$81,351

Indemnities, Commitments and Guarantees

From time to time, during the normal course of business, the Company may make certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct of the Company and (ii) indemnities involving breach of contract, the accuracy of representations and warranties of the Company, or other liabilities assumed by the Company in certain contracts. In addition, the Company has agreements whereby it will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that limits its exposure and enables it to recover a portion of any future amounts paid. The Company believes the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying Consolidated Balance Sheets. In addition, the Company has some client contracts that do not contain contractual provisions for the limitation of liability, and other client contracts that contain agreed upon exceptions to limitation of liability. The Company has not recorded any liability in the accompanying Consolidated Balance Sheets with respect to any client contracts under which the Company has or may have unlimited liability.

Loss Contingency

Contingencies are recorded in the consolidated financial statements when it is probable that a liability will be incurred, and the amount of the loss is reasonably estimable, or otherwise disclosed, in accordance with ASC 450, Contingencies (“ASC 450”). Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450.

The Company received a state audit assessment and is currently rebutting the position. The Company has determined that the likelihood of a liability is reasonably possible and developed a range of possible loss up to $1.2 million, net of federal benefit.

The Company, from time to time, is involved in legal actions arising in the ordinary course of business.

On August 24, 2017, a collective action lawsuit was filed against the Company in the United States District Court for the District of Colorado (the “Court”), Slaughter v. Sykes Enterprises, Inc., Case No. 17 Civ. 2038. The lawsuit claimed that the Company failed to pay certain employees overtime compensation for the hours they worked over forty in a workweek, as required by the Fair Labor Standards Act. On October 17, 2018, the parties entered into a verbal agreement to fully resolve all claims and the fees for the plaintiffs’ attorneys for a total payment of $1.2 million. The settlement agreement was approved by the Court and a charge of $1.2 million was included in “General and administrative” in the accompanying Consolidated Statement of Operations for the year ended December 31, 2018. The settlement of $1.2 million was paid on December 31, 2018.

With respect to any such other currently pending matters, management believes that the Company has adequate legal defenses and/or, when possible and appropriate, has provided adequate accruals related to those matters such that the ultimate outcome will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

Note 23. Defined Benefit Pension Plan and Postretirement Benefits

Defined Benefit Pension Plans

The Company sponsors non-contributory defined benefit pension plans (the “Pension Plans”) for its covered employees in the Philippines. The Pension Plans provide defined benefits based on years of service and final salary. All permanent employees meeting the minimum service requirement are eligible to participate in the Pension Plans. As of December 31, 2018, the Pension Plans were unfunded. The Company expects to make no cash contributions to its Pension Plans during 2019.

The following table provides a reconciliation of the change in the benefit obligation for the Pension Plans and the net amount recognized, included in “Other long-term liabilities,” in the accompanying Consolidated Balance Sheets (in thousands):

	December 31,	
	2018	2017
Balance at the beginning of the period	$3,642	$3,551
Service cost	448	443
Interest cost	196	194

Actuarial (gains) losses	(783)	(521)
Benefits paid	(32)	(3)
Effect of foreign currency translation	(189)	(22)
Balance at the end of the period	$3,282	$3,642
Unfunded status	(3,282)	(3,642)
Net amount recognized	$(3,282)	$(3,642)

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The actuarial assumptions used to determine the benefit obligations and net periodic benefit cost for the Pension Plans were as follows:

	Years Ended December 31,		
	2018	2017	2016
Discount rate	7.4-7.5%	5.5-5.6%	5.5-5.6%
Rate of compensation increase	2.0%	2.0 %	2.0 %

The Company evaluates these assumptions on a periodic basis taking into consideration current market conditions and historical market data. The discount rate is used to calculate expected future cash flows at a present value on the measurement date, which is December 31. This rate represents the market rate for high-quality fixed income investments. A lower discount rate would increase the present value of benefit obligations. Other assumptions include demographic factors such as retirement, mortality and turnover.

The following table provides information about the net periodic benefit cost and other accumulated comprehensive income for the Pension Plans (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Service cost	$448	$443	$443
Interest cost	196	194	165
Recognized actuarial (gains)	(58)	(43)	(40)
Net periodic benefit cost	586	594	568
Unrealized net actuarial (gains), net of tax	(2,256)	(1,574)	(1,126)
Total amount recognized in net periodic benefit cost and accumulated other comprehensive income (loss)	$(1,670)	$(980)	$(558)

The Company's service cost for its qualified pension plans was included in "Direct salaries and related costs" and "General and administrative" costs in its Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016. The remaining components of net periodic benefit cost were included in "Other income (expense), net" in the Company's Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016. See Note 1, Overview and Summary of Significant Accounting Policies, for further information related to the adoption of ASU 2016-18.

The estimated future benefit payments, which reflect expected future service, as appropriate, are as follows (in thousands):

Years Ending December 31,	Amount
2019	$ 331
2020	109

2021	108
2022	94
2023	130
2024 - 2028	1,035

The Company expects to recognize $0.1 million of net actuarial gains as a component of net periodic benefit cost in 2019.

Employee Retirement Savings Plans

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the plan provisions, the Company matches 50% of participant contributions to a maximum matching amount of 2% of participant compensation. The Company's contributions included in the accompanying Consolidated Statements of Operations were as follows (in thousands):

	Years Ended December 31,		
	2018	2017	2016
401(k) plan contributions	$1,612	$1,502	$969

Split-Dollar Life Insurance Arrangement

In 1996, the Company entered into a split-dollar life insurance arrangement to benefit the former Chairman and Chief Executive Officer of the Company. Under the terms of the arrangement, the Company retained a collateral interest in the policy to the extent of the premiums paid by the Company. The postretirement benefit obligation included in "Other long-term liabilities" and the unrealized gains (losses) included in "Accumulated other comprehensive income" in the accompanying Consolidated Balance Sheets were as follows (in thousands):

	December 31,	
	2018	2017
Postretirement benefit obligation	$12	$15
Unrealized gains (losses) in AOCI (1)	40	120

(1) Unrealized gains (losses) are due to changes in discount rates related to the postretirement obligation.

Post-Retirement Defined Contribution Healthcare Plan

On January 1, 2005, the Company established a Post-Retirement Defined Contribution Healthcare Plan for eligible employees meeting certain service and age requirements. The plan is fully funded by the participants and accordingly, the Company does not recognize expense relating to the plan.

Note 24. Stock-Based Compensation

The Company's stock-based compensation plans include the 2011 Equity Incentive Plan, the Non-Employee Director Fee Plan and the Deferred Compensation Plan. The following table summarizes the stock-based compensation expense (primarily in the Americas), income tax benefits related to the stock-based compensation and excess tax benefits for all grants of stock-based compensation, both plan related and non-plan related (in thousands):

	Years Ended December 31,		
	2018	2017	2016

Stock-based compensation (expense) (1)	$(7,543)	$(7,621)	$(10,779)
Income tax benefit (2)	1,810	2,858	4,150
Excess tax benefit from stock-based compensation (3)	—	—	2,098

(1) Included in "General and administrative" costs in the accompanying Consolidated Statements of Operations.
(2) Included in "Income taxes" in the accompanying Consolidated Statements of Operations.
(3) Included in "Additional paid-in capital" in the accompanying Consolidated Statements of Changes in Shareholders' Equity.

There were no capitalized stock-based compensation costs as of December 31, 2018, 2017 and 2016.

Beginning January 1, 2017, as a result of the adoption of ASU 2016-09, Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), the Company began accounting for forfeitures as they occur, rather than estimating expected forfeitures. The net cumulative effect of this change was recognized as a $0.2 million reduction to retained earnings as of January 1, 2017. Additionally, excess tax benefits (deficiencies) from stock compensation are included in “Income taxes” in the accompanying Consolidated Statements of Operations subsequent to the adoption of ASU 2016-09.

2011 Equity Incentive Plan — The Company's Board adopted the Sykes Enterprises, Incorporated 2011 Equity Incentive Plan (the "2011 Plan") on March 23, 2011, as amended on May 11, 2011 to reduce the number of shares of common stock available to 4.0 million shares. The 2011 Plan was approved by the shareholders at the May 2011 annual shareholders meeting. The 2011 Plan replaced and superseded the Company's 2001 Equity Incentive Plan (the "2001 Plan"), which expired on March 14, 2011. The outstanding awards granted under the 2001 Plan will remain in effect until their exercise, expiration or termination. The 2011 Plan permits the grant of restricted stock, stock appreciation rights, stock options and other stock-based awards to certain employees of the Company, members of the Company's Board of Directors and certain non-employees who provide services to the Company in order to encourage them to remain in the employment of, or to faithfully provide services to, the Company and to increase their interest in the Company's success.

Stock Appreciation Rights — The Board, at the recommendation of the Compensation and Human Resources Development Committee (the "Compensation Committee"), has approved in the past, and may approve in the future, awards of stock-settled stock appreciation rights ("SARs") for eligible participants. SARs represent the right to receive, without payment to the Company, a certain number of shares of common stock, as determined by the Compensation Committee, equal to the amount by which the fair market value of a share of common stock at the time of exercise exceeds the grant price.

The SARs are granted at the fair market value of the Company's common stock on the date of the grant and vest one-third on March 15th in each of the first three years following the date of grant, provided the participant is employed by the Company on such date. The SARs have a term of 10 years from the date of grant. In the event of a change in control, the SARs will vest on the date of the change in control, provided that the participant is employed by the Company on the date of the change in control.

All currently outstanding SARs are exercisable within three months after the death, disability, retirement or termination of the participant's employment with the Company, if and to the extent the SARs were exercisable immediately prior to such termination. If the participant's employment is terminated for cause, or the participant terminates his or her own employment with the Company, any portion of the SARs not yet exercised (whether or not vested) terminates immediately on the date of termination of employment.

The fair value of each SAR is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions. The fair value of the SARs is expensed on a straight-line basis over the requisite service period. Expected volatility is based on the historical volatility of the Company's stock. The risk-free rate for periods within the contractual life of the award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Exercises and forfeitures are estimated within the valuation model using employee termination and other historical data. The expected term of the SARs granted represents the period of time the SARs are expected to be outstanding.

The following table summarizes the assumptions used to estimate the fair value of SARs granted:

	Years Ended December 31,		
	2018	2017	2016
Expected volatility	21.4 %	19.3 %	25.3 %
Weighted-average volatility	21.4 %	19.3 %	25.3 %
Expected dividend rate	0.0 %	0.0 %	0.0 %
Expected term (in years)	5.0	5.0	5.0
Risk-free rate	2.5 %	1.9 %	1.5 %

The following table summarizes SARs activity as of December 31, 2018 and for the year then ended:

Stock Appreciation Rights	Shares (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Balance at the beginning of the period	734	$ —		
Granted	333	$ —		
Exercised	(62)	$ —		
Forfeited or expired	(43)	$ —		
Balance at the end of the period	962	$ —	8.1	$ 167
Vested or expected to vest at the end of the period	962	$ —	8.1	$ 167
Exercisable at the end of the period	344	$ —	7.0	$ 167

The following table summarizes information regarding SARs granted and exercised (in thousands, except per SAR amounts):

	Years Ended December 31,		
	2018	2017	2016
Number of SARs granted	333	396	323
Weighted average grant-date fair value per SAR	$6.84	$6.24	$7.68
Intrinsic value of SARs exercised	$320	$1,763	$1,691
Fair value of SARs vested	$1,950	$1,846	$1,520

The following table summarizes nonvested SARs activity as of December 31, 2018 and for the year then ended:

Nonvested Stock Appreciation Rights	Shares (000s)	Weighted Average Grant-Date Fair Value
Balance at the beginning of the period	600	$ 6.88
Granted	333	$ 6.84
Vested	(272)	$ 7.16
Forfeited or expired	(43)	$ 6.75
Balance at the end of the period	618	$ 6.74

As of December 31, 2018, there was $2.6 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested SARs granted under the 2011 Plan. This cost is expected to be recognized over a weighted average period of 1.8 years.

Restricted Shares – The Board, at the recommendation of the Compensation Committee, has approved in the past, and may approve in the future, awards of performance and employment-based restricted shares (“restricted shares”) for eligible participants. In some instances, where the issuance of restricted shares has adverse tax consequences to the recipient, the Board may instead issue RSUs. The restricted shares are shares of the Company’s common stock (or in the case of RSUs, represent an equivalent number of shares of the Company’s common stock) which are issued to the participant subject to (a) restrictions on transfer for a period of time and (b) forfeiture under certain conditions. The performance goals, including revenue growth and income from operations targets, provide a range of vesting possibilities from 0% to 100% and will be measured at the end of the performance period. If the performance conditions are met for the performance period, the shares will vest and all restrictions on the transfer of the restricted shares will lapse (or in the case of RSUs, an equivalent number of shares of the Company’s common stock will be issued to the recipient). The Company recognizes compensation cost, net of actual forfeitures, based on the fair value (which approximates the current market price) of the restricted shares (and RSUs) on the date of grant ratably over the requisite service period based on the probability of achieving the performance goals.

Changes in the probability of achieving the performance goals from period to period will result in corresponding changes in compensation expense. The employment-based restricted shares currently outstanding vest one-third on March 15th in each of the first three years following the date of grant, provided the participant is employed by the Company on such date. In the event of a change in control prior to the date the restricted shares vest, all of the restricted shares will vest and the restrictions on transfer will lapse with respect to such vested shares on the date of the change in control, provided that participant is employed by the Company on the date of the change in control.

If the participant's employment with the Company is terminated for any reason, either by the Company or participant, prior to the date on which the restricted shares have vested and the restrictions have lapsed with respect to such vested shares, any restricted shares remaining subject to the restrictions (together with any dividends paid thereon) will be forfeited, unless there has been a change in control prior to such date.

The following table summarizes nonvested restricted shares/RSUs activity as of December 31, 2018 and for the year then ended:

Nonvested Restricted Shares and RSUs	Shares (000s)	Weighted Average Grant-Date Fair Value
Balance at the beginning of the period	1,109	$ 28.50
Granted	492	$ 28.16
Vested	(323)	$ 25.78
Forfeited or expired	(134)	$ 28.23
Balance at the end of the period	1,144	$ 29.15

The following table summarizes information regarding restricted shares/RSUs granted and vested (in thousands, except per restricted share/RSU amounts):

	Years Ended December 31,		
	2018	2017	2016
Number of restricted shares/RSUs granted	492	480	451
Weighted average grant-date fair value per restricted share/RSU	$28.16	$29.42	$30.32
Fair value of restricted shares/RSUs vested	$8,342	$6,868	$6,785

As of December 31, 2018, based on the probability of achieving the performance goals, there was $6.8 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested restricted shares/RSUs granted under the 2011 Plan. This cost is expected to be recognized over a weighted average period of 1.4 years.

Non-Employee Director Fee Plan — The Company's 2004 Non-Employee Director Fee Plan (the "2004 Fee Plan"), as amended on May 17, 2012, expired in May 2014, prior to the 2014 annual shareholders' meeting. In March 2014, upon the recommendation of the Compensation Committee, the Board determined that, following the expiration of the 2004 Fee Plan, the compensation of non-employee directors should continue on the same terms as provided in the May 2012 amendment, except the amounts of cash and equity grants would be determined annually by the Board, and that the stock portion of such compensation would be issued under the 2011 Plan.

All new non-employee directors joining the Board receive an initial grant of shares of common stock on the date the new director is elected or appointed, the number of which is determined by dividing $60,000 by the closing price of the Company's common stock on the trading day immediately preceding the date a new director is elected or appointed, rounded to the nearest whole number of shares. The initial grant of shares vests in twelve equal quarterly installments, one-twelfth on the date of grant and an additional one-twelfth on each successive third monthly anniversary of the date of grant. The award lapses with respect to all unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares are forfeited.

Each non-employee director receives, on the day after the annual shareholders meeting, an annual retainer for service as a non-employee director (the "Annual Retainer"). Beginning in 2015, the total value of the Annual Retainer was $155,000, of which $55,000 was payable in cash, and the remainder paid in stock, the amount of which was determined by dividing $100,000 by the closing price of the Company's common stock on the date of the annual shareholders' meeting. At the Board's regularly scheduled meeting on December 6, 2016, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash compensation payable to non-employee directors beginning on the date of the 2017 annual shareholders' meeting would be increased by $15,000 per year to a total of $70,000. Accordingly, the annual cash and equity compensation for non-employee directors is currently $170,000, of which $70,000 is payable in cash, and the remainder is paid in stock. The annual grant of cash vests in four equal quarterly installments, one-fourth on the day following the annual meeting of shareholders, and an additional one-fourth on each successive third monthly anniversary of the date of grant. The annual grant of shares paid to non-employee directors vests in four equal quarterly installments, one-fourth on the date of grant and an additional one-fourth on each successive third monthly anniversary of the date of grant). The award lapses with respect to all unpaid cash and unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares and unpaid cash are forfeited.

In addition to the Annual Retainer, any non-employee Chairman of the Board receives an additional annual cash award of $100,000, and each non-employee director serving on a committee of the Board receives an additional annual cash award. The additional annual cash award for the Chairperson of the Audit Committee is $20,000 and Audit Committee members are entitled to an annual cash award of $10,000. The annual cash awards for the Chairpersons of the Compensation Committee, Finance Committee and Nominating and Corporate Governance Committee are $15,000, $12,500 and $12,500, respectively, and all other members of such committees are entitled to an annual cash award of $7,500.

The Board may pay additional cash compensation to any non-employee director for services on behalf of the Board over and above those typically expected of directors, including but not limited to service on a special committee of the Board.

The following table summarizes nonvested common stock share award activity as of December 31, 2018 and for the year then ended:

Nonvested Common Stock Share Awards	Shares (000s)	Weighted Average Grant-Date Fair Value
Balance at the beginning of the period	8	$ 32.21
Granted	34	$ 27.68
Vested	(31)	$ 28.80
Forfeited or expired	(2)	$ 27.68
Balance at the end of the period	9	$ 27.72

The following table summarizes information regarding common stock share awards granted and vested (in thousands, except per share award amounts):

	Years Ended December 31,		
	2018	2017	2016
Number of share awards granted	34	24	32
Weighted average grant-date fair value per share award	$27.68	$32.93	$29.04
Fair value of share awards vested	$880	$850	$850

As of December 31, 2018, there was $0.2 million of total unrecognized compensation costs, net of actual forfeitures, related to nonvested common stock share awards granted. This cost is expected to be recognized over a weighted average period of 0.7 years.

Deferred Compensation Plan — The Company's non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan"), which is not shareholder-approved, was adopted by the Board effective December 17, 1998. It was last amended and restated on August 15, 2017, effective January 1, 2018. Eligibility is limited to a select group of key management and employees who are expected to receive an annualized base salary (which will not take into account bonuses or commissions) that exceeds the amount taken into account for purposes of determining highly compensated employees under Section 414(q) of the Internal Revenue Code of 1986 based on the current year's base salary and applicable dollar amounts. The Deferred Compensation Plan provides participants with the ability to defer between 1% and 80% of their compensation (between 1% and 100% prior to June 30, 2016, the effective date of the first amendment) until the participant's retirement, termination, disability or death, or a change in control of the Company. Using the Company's common stock, the Company matches 50% of the amounts deferred by participants on a quarterly basis up to a total of $12,000 per year for the president, chief executive officer and executive vice presidents, $7,500 per year for senior vice presidents, global vice presidents and vice presidents, and, effective January 1, 2017, $5,000 per year for all other participants (there was no match for other participants prior to January 1, 2017, the effective date of the second amendment). Matching contributions and the associated earnings vest over a seven-year service period. Vesting will be accelerated in the event of the participant's death or disability, a change in control or retirement. In the event of a distribution of benefits resulting from a change in control of the Company, the Company will increase the benefit by an amount sufficient to offset the income tax obligations created by the distribution of benefits. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include investments in various mutual funds and shares of the Company's common stock (see Note 11, Investments Held in Rabbi Trust).

As of December 31, 2018 and 2017, liabilities of $11.4 million and $11.6 million, respectively, of the Deferred Compensation Plan were recorded in "Accrued employee compensation and benefits" in the accompanying Consolidated Balance Sheets. Additionally, the Company's common stock match associated with the Deferred Compensation Plan, with a carrying value of approximately $2.4 million and $2.1 million at December 31, 2018 and 2017, respectively, is included in "Treasury stock" in the accompanying Consolidated Balance Sheets.

The following table summarizes nonvested common stock activity as of December 31, 2018 and for the year then ended:

Nonvested Common Stock	Shares (000s)	Weighted Average Grant-Date Fair Value
Balance at the beginning of the period	3	$ 29.56
Granted	16	$ 28.48
Vested	(11)	$ 28.41
Forfeited or expired	—	$ —
Balance at the end of the period	8	$ 29.01

The following table summarizes information regarding shares of common stock granted and vested (in thousands, except per common stock amounts):

	Years Ended December 31,		
	2018	2017	2016
Number of shares of common stock granted	16	13	8
Weighted average grant-date fair value per common stock	$28.48	$30.49	$29.36
Fair value of common stock vested	$315	$334	$255
Cash used to settle the obligation	$804	$1,134	$396

As of December 31, 2018, there was $0.2 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted average period of 4.5 years.

Acquisition-Related Restricted Shares – In conjunction with the Company’s acquisition of Symphony on November 1, 2018, the Company granted RSUs to certain of Symphony’s owners. These RSUs were issued from the Company’s pool of authorized but unissued common stock. See Note 3, Acquisitions, for further information.

The Company recognizes compensation cost, net of actual forfeitures, based on the fair value (which approximates the current market price) of the RSUs on the date of grant ratably over the requisite service period. The RSUs vest one-half on and after each of May 1, 2020 and November 1, 2021, provided the participant is employed by the Company on such date. In the event of a change in control prior to the date the RSUs vest, all of the RSUs will vest and the restrictions on transfer will lapse with respect to such vested shares on the date of the change in control, provided that participant is employed by the Company on the date of the change in control.

If the participant's employment with the Company is terminated for any reason, either by the Company or participant, prior to the date on which the RSUs have vested and the restrictions have lapsed with respect to such vested shares, any RSUs remaining subject to the restrictions (together with any dividends paid thereon) will be forfeited, unless there has been a change in control prior to such date.

The following table summarizes nonvested acquisition-related RSUs activity as of December 31, 2018 and for the year then ended:

Nonvested Restricted Shares and RSUs	Shares (000s)	Weighted Average Grant-Date Fair Value
Balance at the beginning of the period	—	$ —
Granted	124	$ 30.67
Vested	—	$ —
Forfeited or expired	—	$ —
Balance at the end of the period	124	$ 30.67

The following table summarizes information regarding acquisition-related RSUs granted and vested (in thousands, except per restricted share/RSU amounts):

	Year Ended December 31, 2018
Number of restricted shares/RSUs granted	124
Weighted average grant-date fair value per restricted share/RSU	$ 30.67
Fair value of restricted shares/RSUs vested	$ —

As of December 31, 2018, there was $3.6 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested acquisition-related RSUs. This cost is expected to be recognized over a weighted average period of 2.8 years.

Note 25. Segments and Geographic Information

The Company operates within two regions, the Americas and EMEA. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The Company aligns its business into two segments to effectively manage the business and support the customer care needs of every client and to respond to the demands of the Company's global customers.

The reportable segments consist of (1) the Americas, which includes the United States, Canada, Latin America, Australia and the Asia Pacific Rim, and provides outsourced customer engagement solutions (with an emphasis on inbound multichannel demand generation, customer service and technical support) and technical staffing, and (2) EMEA, which includes Europe, the Middle East and Africa, and provides outsourced customer engagement solutions (with an emphasis on technical support and customer service) and fulfillment services. The Company also provides a suite of solutions such as RPA consulting, implementation, hosting and managed services that optimizes its differentiated full lifecycle management services platform. The sites within Latin America, Australia and the Asia Pacific Rim are included in the Americas segment given the nature of the business and client profile, which is primarily made up of U.S.-based companies that are using the Company's services in these locations to support their customer engagement needs.

Information about the Company’s reportable segments is as follows (in thousands):

	Americas	EMEA	Other [1]	Consolidated
Year Ended December 31, 2018:				
Revenues	$1,330,638	$294,954	$95	$1,625,687
Percentage of revenues	81.9 %	18.1 %	0.0 %	100.0 %
Depreciation, net	$48,378	$5,952	$3,020	$57,350
Amortization of intangibles	$14,287	$1,255	$—	$15,542
Income (loss) from operations	$108,021	$16,507	$(61,326)	$63,202
Total other income (expense), net			(6,285)	(6,285)
Income taxes			(7,991)	(7,991)
Net income				$48,926
Year Ended December 31, 2017:				
Revenues	$1,325,643	$260,283	$82	$1,586,008
Percentage of revenues	83.6 %	16.4 %	0.0 %	100.0 %
Depreciation, net	$47,730	$5,211	$3,031	$55,972
Amortization of intangibles	$20,144	$938	$—	$21,082
Income (loss) from operations	$136,386	$16,067	$(65,411)	$87,042
Total other income (expense), net			(5,735)	(5,735)
Income taxes			(49,091)	(49,091)
Net income				$32,216
Year Ended December 31, 2016:				
Revenues	$1,220,818	$239,089	$130	$1,460,037
Percentage of revenues	83.6 %	16.4 %	0.0 %	100.0 %
Depreciation, net	$42,436	$4,532	$2,045	$49,013
Amortization of intangibles	$18,329	$1,048	$—	$19,377
Income (loss) from operations	$140,256	$18,380	$(66,263)	$92,373
Total other income (expense), net			(3,489)	(3,489)
Income taxes			(26,494)	(26,494)
Net income				$62,390

(1) Other items (including corporate and other costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company’s consolidated totals as shown in the tables above for the years ended December 31, 2018, 2017 and 2016. Inter-segment revenues are not material to the Americas and EMEA segment results.

The Company’s reportable segments are evaluated regularly by its chief operating decision maker to decide how to allocate resources and assess performance. The chief operating decision maker evaluates performance based upon reportable segment revenue and income (loss) from operations. Because assets by segment are not reported to or used by the Company’s chief operating decision maker to allocate resources, or to assess performance, total assets by segment are not disclosed.

Total revenues by segment from AT&T Corporation (“AT&T”), a major provider of communication services for which the Company provides various customer support services over several distinct lines of AT&T businesses, were as follows (in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$164,793	12.4%	$220,010	16.6%	$239,033	19.6%
EMEA	179	0.1%	—	0.0%	—	0.0%
	$164,972	10.1%	$220,010	13.9%	$239,033	16.4%

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The Company has multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire at varying dates between 2019 and 2021. The Company has historically renewed most of these contracts. However, there is no assurance that these contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts. Each line of business is governed by separate business terms, conditions and metrics. Each line of business also has a separate decision maker such that a loss of one line of business would not necessarily impact the Company's relationship with the client and decision makers on other lines of business. The loss of (or the failure to retain a significant amount of business with) any of the Company's key clients, including AT&T, could have a material adverse effect on its performance. Many of the Company's contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short notice. Also, clients may unilaterally reduce their use of the Company's services under the contracts without penalty.

Total revenues by segment from the Company's next largest client, which was in the financial services vertical in each of the years, were as follows (in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$105,852	8.0%	$109,475	8.3%	$90,508	7.4%
EMEA	—	0.0%	—	0.0%	—	0.0%
	$105,852	6.5%	$109,475	6.9%	$90,508	6.2%

Other than AT&T, total revenues by segment of the Company's clients that each individually represents 10% or greater of that segment's revenues in each of the periods were as follows (in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$—	0.0%	$—	0.0%	$—	0.0%
EMEA	104,856	35.5%	104,829	40.3%	96,115	40.2%
	$104,856	6.4%	$104,829	6.6%	$96,115	6.6%

The Company's top ten clients accounted for approximately 44.2%, 46.9% and 49.2% of its consolidated revenues during the years ended December 31, 2018, 2017 and 2016, respectively.

The following table represents a disaggregation of revenue from contracts with customers by geographic location for the years ended December 31, 2018, 2017 and 2016, by the reportable segment for each category (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Americas:			
United States	$668,580	$644,870	$578,753
The Philippines	231,966	241,211	235,333
Costa Rica	127,963	132,542	124,823
Canada	102,353	112,367	115,226
El Salvador	81,156	75,800	69,937
People's Republic of China	34,942	38,880	34,851
Australia	31,811	28,442	24,267
Mexico	24,998	25,496	18,167
Colombia	18,067	16,042	8,901
Other	8,802	9,993	10,560
Total Americas	1,330,638	1,325,643	1,220,818
EMEA:			
Germany	91,703	81,634	78,982
Sweden	55,491	56,843	59,313
United Kingdom	57,308	42,247	38,167
Romania	34,205	27,924	21,387
Other	56,247	51,635	41,240
Total EMEA	294,954	260,283	239,089
Total Other	95	82	130
	$1,625,687	$1,586,008	$1,460,037

Revenues are attributed to countries based on location of customer, except for revenues for the Philippines, Costa Rica, the People’s Republic of China and India which are primarily comprised of customers located in the U.S., but serviced by centers in those respective geographic locations.

The Company’s long-lived assets, including property and equipment, net and intangibles, net, by geographic location were as follows (in thousands):

	December 31,	
	2018	2017
Americas:		
United States	$197,167	$219,476
The Philippines	9,840	15,199
Costa Rica	6,511	9,170
Canada	4,654	6,400
El Salvador	4,810	4,048
People's Republic of China	3,379	3,840
Australia	13,693	1,256
Mexico	4,077	2,812
Colombia	2,371	2,710

Other	2,882	1,772
Total Americas	249,384	266,683
EMEA:		
Germany	3,395	2,460
Sweden	1,222	1,171
United Kingdom	28,036	3,016
Romania	1,965	1,929
Other	8,468	7,241
Total EMEA	43,086	15,817
Total Other	16,979	18,567
	$309,449	$301,067

Goodwill by segment was as follows (in thousands):

	December 31,	
	2018	2017
Americas	$255,436	$258,496
EMEA	47,081	10,769
	$302,517	$269,265

Note 26. Other Income (Expense)

Other income (expense), net consists of the following (in thousands):

	Years Ended December 31,		
	2018	2017	2016
Foreign currency transaction gains (losses)	$2,029	$(548)	$3,348
Gains (losses) on derivative instruments not designated as hedges	(1,751)	143	(2,270)
Gains (losses) on investments held in rabbi trust	(867)	1,619	582
Other miscellaneous income (expense)	(1,659)	44	(186)
	$(2,248)	$1,258	$1,474

Note 27. Related Party Transactions

In January 2008, the Company entered into a lease for a customer engagement center located in Kingstree, South Carolina. The landlord, Kingstree Office One, LLC, is an entity controlled by John H. Sykes, the founder, former Chairman and former Chief Executive Officer of the Company and the father of Charles Sykes, President and Chief Executive Officer of the Company. The lease payments on the 20-year lease were negotiated at or below market rates, and the lease is cancellable at the option of the Company. The Company paid $0.5 million, $0.5 million and $0.4 million to the landlord during the years ended December 31, 2018, 2017 and 2016, respectively, under the terms of the lease.

During the year ended December 31, 2018, the Company contracted to receive services from XSell, an equity method investee, for $0.2 million. There were no such transactions in 2017 or 2016. These related party transactions occurred in the normal course of business on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, were measured at the exchange amount.

Schedule II — Valuation and Qualifying Accounts

Years ended December 31, 2018, 2017 and 2016:

(in thousands)	Balance at Beginning of Period	Charged (Credited) to Costs and Expenses	Additions (Deductions) [1]	Balance at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2018	$ 2,958	323	$ (185)	$ 3,096
Year ended December 31, 2017	2,925	63	(30)	2,958
Year ended December 31, 2016	3,574	89	(738)	2,925
Valuation allowance for net deferred tax assets:				
Year ended December 31, 2018	$ 32,443	$ (144)	$ —	$ 32,299
Year ended December 31, 2017	30,221	2,222	—	32,443
Year ended December 31, 2016	30,065	156	—	30,221
Reserves for value added tax receivables:				
Year ended December 31, 2018	$ 76	$ —	$ (4)	$ 72
Year ended December 31, 2017	77	—	(1)	76
Year ended December 31, 2016	283	(148)	(58)	77

(1) Net write-offs and recoveries, including the effect of foreign currency translation.