

TELETECH HOLDINGS INC
Form 10-Q
July 30, 2013
[Table of Contents](#)

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, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1291044
(I.R.S. Employer
Identification No.)

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of July 25, 2013, there were 50,851,727 shares of the registrant's common stock outstanding.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

JUNE 30, 2013 FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012</u> 1
	<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2012 (unaudited)</u> 2
	<u>Consolidated Statement of Equity as of and for the six months ended June 30, 2013 (unaudited)</u> 3
	<u>Consolidated Statements of Cash Flows for the three and six months ended June 30, 2013 and 2012 (unaudited)</u> 4
	<u>Notes to the Unaudited Consolidated Financial Statements</u> 5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 44
<u>Item 4.</u>	<u>Controls and Procedures</u> 47
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 47
<u>Item 1A.</u>	<u>Risk Factors</u> 48
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 49
<u>Item 6.</u>	<u>Exhibits</u> 50
<u>SIGNATURES</u>	51
<u>EXHIBIT INDEX</u>	52

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(Amounts in thousands, except share amounts)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 150,623	\$ 164,485
Accounts receivable, net	244,823	251,206
Prepays and other current assets	55,231	58,702
Deferred tax assets, net	8,927	14,169
Income tax receivable	9,790	14,982
Total current assets	469,394	503,544
Long-term assets		
Property, plant and equipment, net	108,523	112,276
Goodwill	93,577	94,679
Contract acquisition costs, net	1,321	1,860
Deferred tax assets, net	46,384	35,429
Other long-term assets	91,439	99,385
Total long-term assets	341,244	343,629
Total assets	\$ 810,638	\$ 847,173
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 23,512	\$ 23,494
Accrued employee compensation and benefits	68,853	71,621
Other accrued expenses	27,185	29,056
Income taxes payable	4,055	12,650
Deferred tax liabilities, net	355	341
Deferred revenue	25,866	26,892
Other current liabilities	10,484	7,351
Total current liabilities	160,310	171,405
Long-term liabilities		
Line of credit	110,000	108,000
Deferred tax liabilities, net	2,507	3,029
Deferred rent	9,354	8,589
Other long-term liabilities	54,767	55,813
Total long-term liabilities	176,628	175,431
Total liabilities	336,938	346,836

Commitments and contingencies (Note 10)

Stockholders equity

Preferred stock - \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of June 30, 2013 and December 31, 2012		
Common stock - \$0.01 par value; 150,000,000 shares authorized; 51,346,419 and 52,288,567 shares outstanding as of June 30, 2013 and December 31, 2012, respectively	513	522
Additional paid-in capital	347,737	350,714
Treasury stock at cost: 30,705,834 and 29,763,686 shares as of June 30, 2013 and December 31, 2012, respectively	(452,815)	(428,716)
Accumulated other comprehensive income (loss)	(5,186)	22,981
Retained earnings	571,067	540,791
Noncontrolling interest	12,384	14,045
Total stockholders equity	473,700	500,337
Total liabilities and stockholders equity	\$ 810,638	\$ 847,173

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

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)**

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 289,692	\$ 288,798	\$ 578,075	\$ 581,452
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	208,809	209,121	417,041	421,016
Selling, general and administrative	46,168	45,709	91,915	93,844
Depreciation and amortization	11,263	10,229	21,818	20,345
Restructuring charges, net	2,572	16,296	3,423	18,254
Impairment losses	1,205	997	1,205	2,797
Total operating expenses	270,017	282,352	535,402	556,256
Income from operations	19,675	6,446	42,673	25,196
Other income (expense)				
Interest income	575	695	1,244	1,455
Interest expense	(1,903)	(1,583)	(3,768)	(2,681)
Loss on deconsolidation of subsidiary	(3,655)		(3,655)	
Other income (expense), net	1,884	(582)	1,076	(324)
Total other income (expense)	(3,099)	(1,470)	(5,103)	(1,550)
Income before income taxes	16,576	4,976	37,570	23,646
(Provision for) benefit from income taxes	(3,854)	1,272	(6,245)	(581)
Net income	12,722	6,248	31,325	23,065
Net income attributable to noncontrolling interest	(407)	(925)	(1,049)	(1,861)
Net income attributable to TeleTech stockholders	\$ 12,315	\$ 5,323	\$ 30,276	\$ 21,204
Other comprehensive income (loss)				
Net income	\$ 12,722	\$ 6,248	\$ 31,325	\$ 23,065
Foreign currency translation adjustment	(19,617)	(5,530)	(16,483)	3,252
Derivative valuation, gross	(23,801)	2,719	(20,411)	14,390
Derivative valuation, tax effect	9,418	(1,000)	8,208	(5,574)
Other, net of tax	137	262	299	650
Total other comprehensive income (loss)	(33,863)	(3,549)	(28,387)	12,718
Total comprehensive income (loss)	(21,141)	2,699	2,938	35,783
Comprehensive income attributable to noncontrolling interest	(277)	(960)	(829)	(1,908)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Comprehensive income (loss) attributable to TeleTech stockholders								
	\$	(21,418)	\$	1,739	\$	2,109	\$	33,875
Weighted average shares outstanding								
Basic		51,861		55,125		52,104		55,809
Diluted		52,628		55,712		52,912		56,558
Net income per share attributable to TeleTech stockholders								
Basic	\$	0.24	\$	0.10	\$	0.58	\$	0.38
Diluted	\$	0.23	\$	0.10	\$	0.57	\$	0.37

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

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders Equity**

(Amounts in thousands)

(Unaudited)

	Stockholders Equity of the Company									
	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total Equity
Balance as of December 31, 2012		\$	52,288	\$ 522	\$ (428,716)	\$ 350,714	\$ 22,981	\$ 540,791	\$ 14,045	\$ 500,337
Net income								30,276	1,049	31,325
Dividends distributed to noncontrolling interest									(2,385)	(2,385)
Deconsolidation of a subsidiary									(121)	(121)
Foreign currency translation adjustments							(16,263)		(220)	(16,483)
Derivatives valuation, net of tax							(12,203)			(12,203)
Vesting of restricted stock units			392	4	5,603	(9,686)				(4,079)
Exercise of stock options			90	1	1,285	(430)				856
Excess tax benefit from equity-based awards						644				644
Equity-based compensation expense						6,495			16	6,511
Purchases of common stock			(1,424)	(14)	(30,987)					(31,001)
Other							299			299
Balance as of June 30, 2013		\$	51,346	\$ 513	\$ (452,815)	\$ 347,737	\$ (5,186)	\$ 571,067	\$ 12,384	\$ 473,700

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

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Amounts in thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities		
Net income	\$ 31,325	\$ 23,065
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,818	20,345
Amortization of contract acquisition costs	506	508
Amortization of debt issuance costs	319	347
Imputed interest expense	670	373
Provision for doubtful accounts	478	48
Loss (gain) on disposal of assets	(106)	137
Impairment losses	1,205	2,797
Deferred income taxes	2,697	(8,097)
Excess tax benefit from equity-based awards	(1,046)	(1,136)
Equity-based compensation expense	6,577	6,845
(Gain) loss on foreign currency derivatives	(2,768)	(963)
Loss on deconsolidation of subsidiary, net of cash of \$897 and zero, respectively	2,758	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(2,804)	1,095
Prepays and other assets	1,044	(11,979)
Accounts payable and accrued expenses	(14,151)	13,453
Deferred revenue and other liabilities	(8,311)	1,819
Net cash provided by operating activities	40,211	48,657
Cash flows from investing activities		
Proceeds from grant for property, plant and equipment		110
Proceeds from sale of long-lived assets		225
Purchases of property, plant and equipment, net of acquisitions	(13,660)	(17,478)
Acquisitions, net of cash acquired of zero and \$1,373, respectively	(1,652)	(4,809)
Net cash used in investing activities	(15,312)	(21,952)
Cash flows from financing activities		
Proceeds from line of credit	681,550	515,950
Payments on line of credit	(679,550)	(501,950)
Proceeds from other debt	3,709	6,821
Payments on other debt	(2,661)	(1,390)
Dividends distributed to noncontrolling interest	(2,385)	(720)
Proceeds from exercise of stock options	856	770
Excess tax benefit from equity-based awards	1,046	1,136
Purchase of treasury stock	(31,001)	(40,732)
Payments of debt issuance costs	(1,732)	(432)
Net cash used in financing activities	(30,168)	(20,547)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents		(8,593)		8,049
(Decrease) increase in cash and cash equivalents		(13,862)		14,207
Cash and cash equivalents, beginning of period		164,485		156,371
Cash and cash equivalents, end of period	\$	150,623	\$	170,578
Supplemental disclosures				
Cash paid for interest	\$	2,226	\$	1,706
Cash paid for income taxes	\$	8,913	\$	8,546
Non-cash investing and financing activities				
Purchases of equipment through financing agreements	\$		\$	6,100
Grant income credited to property, plant and equipment	\$		\$	110
Landlord incentives credited to deferred rent	\$	511	\$	604

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) OVERVIEW AND BASIS OF PRESENTATION

Overview

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) serve their clients through the primary businesses of business process outsourcing, data-driven strategic consulting and marketing services, customer management, and hosted and managed technologies for a variety of industries via operations in the U.S., Argentina, Australia, Belgium, Brazil, Canada, China, Costa Rica, England, France, Germany, Ghana, Italy, Lebanon, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa, Spain, Thailand, Turkey and the United Arab Emirates.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% interest in Percepta, LLC, its 80% interest in Peppers & Rogers Group BV (PRG) and its 80% interest in iKnowtion, LLC, which was acquired on February 27, 2012 (see Note 2 for additional information). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of June 30, 2013, and the consolidated results of operations and comprehensive income (loss) of the Company for the three and six months ended June 30, 2013 and 2012, and the consolidated statement of cash flows for the six months ended June 30, 2013. Operating results for the six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

These unaudited Consolidated Financial Statements should be read in conjunction with the Company s audited Consolidated Financial Statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Estimates

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including the valuation allowance for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts and valuation of goodwill, long-lived and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ materially from these estimates under different assumptions or conditions. In the three months ended June 30, 2012, the Company recorded a change in estimate which resulted in a decrease of \$4.6 million to employee related expenses in connection with an authoritative ruling in Spain related to the legally required cost of living adjustment for employees' salaries for the years 2010, 2011 and 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued new accounting guidance that improves the reporting of reclassifications out of accumulated other comprehensive income. This new guidance requires entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income when applicable or to cross-reference the reclassifications with other disclosures that provide additional detail about the reclassifications made when the reclassifications are not made to net income. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The Company's adoption of this guidance did not have a material impact on the Company's financial position, results of operations, or cash flows since it was an enhancement to current required disclosures.

(2) ACQUISITIONS

OnState

On January 1, 2012, the Company entered into an asset purchase agreement with OnState Communications Corporation (OnState) to acquire 100% of its assets and assume certain of its liabilities for total cash consideration of \$3.3 million. OnState provides hosted business process outsourcing solutions to a variety of small businesses. OnState was headquartered in Boston, MA with a minimal employee base.

As of June 30, 2013, the Company had paid \$3.1 million towards the purchase price. The remaining purchase price will be paid out once the potential for covered losses has expired per the purchase agreement, which is expected to be in 2013. The \$0.2 million was included within Other accrued expenses in the accompanying Consolidated Balance Sheets as of June 30, 2013. The Company paid \$0.1 million of acquisition related expenses as part of the OnState purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) during the first quarter of 2012.

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

	Acquisition Date Fair Value	
Cash	\$	36
Accounts Receivable		68

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Property, plant and equipment	33
Software	2,100
Goodwill	1,132
	3,369
Accounts payable	93
Total purchase price	\$ 3,276

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The software acquired will be amortized over four years once it is placed into service. The goodwill recognized from the OnState acquisition is primarily attributable to the synergies resulting from incorporating the acquired software into the Company's current technology platforms in addition to the acquisition of the employees who developed the acquired software. Since this acquisition is an asset acquisition for tax purposes, the goodwill of \$1.1 million and software are deductible over their respective tax lives. The acquired goodwill of OnState is reported within the Customer Technology Services segment from the date of acquisition.

iKnowtion

On February 27, 2012, the Company acquired an 80% interest in iKnowtion, LLC (iKnowtion). iKnowtion integrates proven marketing analytics methodologies and business consulting capabilities to help clients improve their return on marketing expenditures in such areas as demand generation, share of wallet, and channel mix optimization. iKnowtion is located in Boston, MA and has approximately 40 employees.

The up-front cash consideration paid was \$1.0 million. The Company was also obligated to pay a working capital adjustment equivalent to any acquired working capital from iKnowtion in excess of a working capital floor as defined in the purchase and sale agreement. The working capital adjustment was \$0.2 million and was paid during the second quarter of 2012.

The Company is also obligated to make earn-out payments over the next four years if iKnowtion achieves specified earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined by the purchase and sale agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 21% and expected future value of payments of \$4.3 million. The \$4.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with iKnowtion achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately \$2.9 million. As of June 30, 2013, \$1.1 million of contingent consideration has been paid and the fair value of the remaining contingent consideration was \$2.9 million, of which \$1.1 million and \$1.8 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The fair value of the 20% noncontrolling interest in iKnowtion at the date of acquisition was \$0.9 million and was estimated based on a 20% interest of the fair value of a 100% interest in iKnowtion and was discounted for a lack of control at a rate of 23.1%.

In the event iKnowtion meets certain EBITDA targets for calendar year 2015, the purchase and sale agreement requires TeleTech to purchase the remaining 20% interest in iKnowtion in 2016 for an amount equal to a multiple of iKnowtion's 2015 EBITDA as defined in the purchase and sale agreement. These terms represent a contingent redemption feature. The fair value of the redemption feature is based on a comparison of EBITDA multiples and the EBITDA multiple to purchase the remaining 20% of iKnowtion approximates EBITDA multiples in the market for similar acquisitions.

The Company paid \$0.1 million of acquisition related expenses as part of the iKnowtion purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) during the three and six months ended June 30, 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	Acquisition Date Fair Value
Cash	\$ 1,337
Accounts Receivable	1,792
Property, plant and equipment	161
Other assets	90
Customer relationships	1,400
Goodwill	447
	5,227
Accounts payable	18
Accrued expenses	19
Other	164
	201
Noncontrolling interest	941
Total purchase price	\$ 4,085

The iKnowtion customer relationships have an estimated useful life of 5 years. The goodwill recognized from the iKnowtion acquisition was attributable primarily to the acquired workforce of iKnowtion, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of iKnowtion are reported within the Customer Strategy Services segment from the date of acquisition.

Guidon

On October 4, 2012, the Company acquired 100% of the stock of Guidon Performance Solutions (Guidon) parent company. Guidon provides operational consulting services and designs solutions for operational and cultural transformation for global clients. Guidon is located in Mesa, AZ and has approximately 25 employees.

The up-front cash consideration paid was \$5.6 million. The Company was also obligated to pay a working capital adjustment equivalent to any acquired working capital from Guidon in excess of a working capital floor defined in the stock purchase agreement. The working capital payment was less than \$0.1 million and was paid during the fourth quarter of 2012.

The Company is also obligated to make earn-out payments over the next two years if Guidon achieves specified EBITDA targets as defined in the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 21% and expected future value of payments of \$2.8 million. The \$2.8 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with Guidon achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately \$2.1 million. As of June 30, 2013, the fair value of the contingent consideration was \$2.4 million, of which \$1.3 million and \$1.1 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The Company paid \$0.1 million of acquisition related expenses as part of the Guidon purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the year ended December 31, 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	Acquisition Date Fair Value
Cash	\$ 376
Accounts Receivable	1,375
Property, plant and equipment	49
Other assets	228
Customer relationships	2,490
Goodwill	3,619
	8,137
Accounts payable	202
Accrued expenses	122
Other	65
	389
Total purchase price	\$ 7,748

The Guidon customer relationships have an estimated useful life of 5 years. The goodwill recognized from the Guidon acquisition was attributable primarily to the acquired workforce of Guidon, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of Guidon are reported within the Customer Strategy Services segment from the date of acquisition.

TSG

On December 31, 2012, the Company acquired a 100% interest in Technology Solutions Group, Inc. (TSG). TSG designs and implements custom communications systems for a variety of business types and sizes. TSG is located in Aurora, IL and has approximately 90 employees.

The up-front cash consideration paid was \$32.7 million. The Company is also obligated to pay a working capital adjustment equivalent to any acquired working capital from TSG in excess of a working capital floor as defined in the stock purchase agreement. The working capital adjustment was \$0.6 million and was paid during the second quarter of 2013.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The Company is also obligated to make earn-out payments over three years if TSG achieves specified EBITDA targets, as defined by the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 4.6% and expected future value of payments of \$7.3 million. The \$7.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with TSG achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately \$6.7 million. As of June 30, 2013 the fair value of the contingent consideration was \$6.9 million of which \$2.4 million and \$4.5 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The Company paid \$0.1 million of acquisition related expenses as part of the TSG purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income (Loss) during the year ended December 31, 2012.

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities and noncontrolling interest assumed as of the acquisition date (in thousands). The estimates of fair value of identifiable assets acquired and liabilities assumed, are preliminary, pending completion of a valuation, thus are subject to revisions that may result in adjustments to the values presented below:

	Preliminary Estimate of Acquisition Date Fair Value
Cash	\$ 1,995
Accounts receivable	4,871
Prepaid assets - cost deferrals	3,665
Property, plant and equipment	583
Other assets	1,886
Customer relationships	15,300
Noncompete agreements	2,300
Trade name	1,100
Consulting services backlog	800
Goodwill	19,421
	51,921
Accounts payable	3,091
Accrued expenses	1,539
Deferred revenue	7,295
	11,925
Total purchase price	\$ 39,996

The TSG customer relationships have an estimated useful life of 10 years. The goodwill recognized from the TSG acquisition was attributable primarily to the acquired workforce of TSG, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of TSG are reported within the Customer Technology Services segment from the date of acquisition.

The acquired businesses noted above contributed revenues of \$14.5 million and \$27.6 million and income from operations of \$1.7 million and \$2.2 million, inclusive of \$0.9 million and \$1.7 million of acquired intangible amortization, to the Company for the three and six months ended June 30, 2013, respectively. The acquired businesses noted above contributed revenues of \$2.1 million and \$2.7 million and income from operations of \$0.3 million and \$0.4 million, inclusive of \$0.1 million and \$0.1 million of acquired intangible amortization, to the Company for the three and six months ended June 30, 2012, respectively.

WebMetro

Subsequent to June 30, 2013, the Company entered into a conditional binding agreement to acquire 100% of the stock of WebMetro for \$16.4 million subject to a customary working capital adjustment and earn-out payments tied to the 2013 and 2014 financial results of WebMetro for a maximum purchase price of \$21.7 million. The agreement is conditional based on final negotiations. WebMetro is a top digital marketing agency that provides online direct marketing services. The operating results of WebMetro will be reported within the Customer Growth Services segment.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(3) SEGMENT INFORMATION

The Company reports the following four segments:

- the Customer Management Services segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
- the Customer Growth Services segment includes the technology-enabled sales and marketing business;
- the Customer Technology Services segment includes the hosted and managed technology offerings, including certain acquired assets of TSG; and
- the Customer Strategy Services segment includes the customer experience strategy and data analytics offerings.

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

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

Three Months Ended June 30, 2013

Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
--------------------------	-------------------------------	------------------------	--	--

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Customer Management Services	\$	220,965	\$	(324)	\$	220,641	\$	8,532	\$	16,460
Customer Growth Services		22,399				22,399		777		(614)
Customer Technology Services		36,717		(73)		36,644		1,489		5,819
Customer Strategy Services		10,256		(248)		10,008		465		(1,990)
Total	\$	290,337	\$	(645)	\$	289,692	\$	11,263	\$	19,675

Three Months Ended June 30, 2012

		Gross Revenue		Intersegment Sales		Net Revenue		Depreciation & Amortization		Income (Loss) from Operations
Customer Management Services	\$	229,401	\$		\$	229,401	\$	8,302	\$	730
Customer Growth Services		24,409				24,409		898		1,052
Customer Technology Services		25,152		(196)		24,956		687		4,356
Customer Strategy Services		10,347		(315)		10,032		342		308
Total	\$	289,309	\$	(511)	\$	288,798	\$	10,229	\$	6,446

Six Months Ended June 30, 2013

		Gross Revenue		Intersegment Sales		Net Revenue		Depreciation & Amortization		Income (Loss) from Operations
Customer Management Services	\$	443,854	\$	(631)	\$	443,223	\$	16,394	\$	37,191
Customer Growth Services		45,255				45,255		1,474		662
Customer Technology Services		70,363		(157)		70,206		3,005		8,717
Customer Strategy Services		20,186		(795)		19,391		945		(3,897)
Total	\$	579,658	\$	(1,583)	\$	578,075	\$	21,818	\$	42,673

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****Six Months Ended June 30, 2012**

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 464,277	\$	\$ 464,277	\$ 16,462	\$ 17,437
Customer Growth Services	47,173		47,173	1,698	(1,078)
Customer Technology Services	51,351	(843)	50,508	1,492	8,035
Customer Strategy Services	20,710	(1,216)	19,494	693	802
Total	\$ 583,511	\$ (2,059)	\$ 581,452	\$ 20,345	\$ 25,196

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Capital Expenditures				
Customer Management Services	\$ 8,110	\$ 9,733	\$ 10,396	\$ 15,446
Customer Growth Services	435	661	751	1,034
Customer Technology Services	960	523	2,288	854
Customer Strategy Services	50	77	225	144
Total	\$ 9,555	\$ 10,994	\$ 13,660	\$ 17,478

	June 30, 2013	December 31, 2012
Total Assets		
Customer Management Services	\$ 561,321	\$ 588,627
Customer Growth Services	48,046	54,164
Customer Technology Services	152,095	148,043
Customer Strategy Services	49,176	56,339
Total	\$ 810,638	\$ 847,173

	June 30, 2013	December 31, 2012
Goodwill		
Customer Management Services	\$ 19,982	\$ 20,288
Customer Growth Services	24,439	24,439
Customer Technology Services	39,069	38,591
Customer Strategy Services	10,087	11,361
Total	\$ 93,577	\$ 94,679

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Revenue	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
United States	\$ 132,341	\$ 111,857	\$ 264,088	\$ 222,433
Philippines	88,049	83,336	174,158	162,001
Latin America	44,303	46,259	89,331	94,155
Europe / Middle East / Africa	16,638	33,085	33,621	71,451
Canada	4,002	10,288	8,292	23,241
Asia Pacific	4,359	3,973	8,585	8,171
Total	\$ 289,692	\$ 288,798	\$ 578,075	\$ 581,452

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the six months ended June 30, 2013. This client contributed 11.8% and 9.8% of total revenue for the three months ended June 30, 2013 and 2012. This client contributed 11.8% and 9.6% for the six months ended June 30, 2013 and 2012. This client had an outstanding receivable balance of \$32.5 million and \$26.7 million as of June 30, 2013 and 2012.

The loss of one or more of its significant clients could have a material adverse effect on the Company's business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company's credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of June 30, 2013.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (amounts in thousands):

	December 31, 2012	Acquisitions	Impairments	Deconsolidation of Subsidiary	Effect of Foreign Currency	June 30, 2013
Customer Management Services	\$ 20,288	\$	\$	\$	\$ (306)	\$ 19,982
Customer Growth Services	24,439					24,439
Customer Technology Services	38,591	478				39,069
Customer Strategy Services	11,361			(1,274)		10,087
Total	\$ 94,679	\$ 478	\$	\$ (1,274)	\$ (306)	\$ 93,577

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

As of December 2012, the Company had one reporting unit with goodwill of \$7.3 million and a calculated fair value which exceeded its carrying value by 4%. At March 31, 2013, the Company updated its quantitative assessment of this reporting unit's fair value using an income based approach. Key assumptions used in the updated fair value calculation include, but are not limited to, a perpetuity growth rate of 7.0% based on the current inflation rate combined with the GDP growth rate for the reporting unit's geographical region and a discount rate of 25.5%, which is equal to the reporting unit's equity risk premium adjusted for its size and company specific risk factors. Estimated future cash flows under the income approach are based on the Company's internal business plan and adjusted as appropriate for the Company's view of market participant assumptions. The current business plan assumes the occurrence of certain events in the future, such as realignment of operations and reduction of general and administrative costs. Significant differences in the outcome of some or all of these assumptions may impact the calculated fair value of this reporting unit resulting in impairment to goodwill in a future period. As of March 31, 2013, the updated fair value of this reporting unit continued to exceed its carrying value by 4%.

During the three months ended June 30, 2013, the Company reorganized the reporting structure of the Customer Strategy Services segment which necessitated an interim impairment analysis. Therefore, the Company tested the following assets of this reporting unit for impairment: indefinite-lived intangible assets, definite-lived long-lived assets and goodwill. There were no other indicators of impairment in any of the remaining reporting units as of June 30, 2013.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The indefinite-lived intangible asset evaluated for impairment consisted of the PRG trade name. The Company calculated the fair value of the trade name using a relief from royalty method based on forecasted revenues sold under the trade name using significant inputs not observable in the market (Level 3 inputs). The valuation assumptions included an estimated royalty rate of 6.0%, a discount rate specific to the trade name of 38.0% and a perpetuity growth rate of 7.0%. Based on the calculated fair value of \$5.3 million, the Company recorded impairment expense of \$1.1 million in the three months ended June 30, 2013. Changes in the outcome of some or all of these assumptions may impact the calculated fair value of the trade name resulting in a different amount of impairment.

Definite-lived long-lived assets consisted of fixed assets and an intangible asset related to the PRG customer relationships. The Company determined that the undiscounted future cash flows would be sufficient to cover the net book value of all definite-lived long-lived assets.

For the goodwill impairment analysis, the Company calculated the fair value of the PRG reporting unit and compared that to the updated carrying value after the above impairments were recorded and determined that the fair value was not in excess of its carrying value. Key assumptions used in the fair value calculation for goodwill impairment testing include, but are not limited to, a perpetuity growth rate of 7.0% based on the current inflation rate combined with the GDP growth rate for the reporting unit's geographical region and a discount rate of 26.0%, which is equal to the reporting unit's equity risk premium adjusted for its size and company specific risk factors. Estimated future cash flows under the income approach are based on the Company's internal business plan excluding the results of the deconsolidated subsidiary and adjusted as appropriate for the Company's view of market participant assumptions. The current business plan assumes the occurrence of certain events, such as continued realignment of operations and reduction of general and administrative costs. Significant differences in the outcome of some or all of these assumptions may impact the calculated fair value of this reporting unit resulting in a different outcome to goodwill impairment in a future period.

Since the fair value of the reporting unit was not in excess of its carrying value, the Company calculated the implied fair value of goodwill and compared that value to the carrying value of goodwill. Implied fair value of goodwill is equal to the fair value of the reporting unit less the recorded value of any net assets and the fair value of intangible assets. Upon completing this assessment, the Company determined that the implied fair value of goodwill significantly exceeded the carrying value of goodwill by over 50%; therefore, there was no impairment of goodwill.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(6) DERIVATIVES**Cash Flow Hedges**

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company's exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company's policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of June 30, 2013, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012 (amounts in thousands and net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Aggregate unrealized net gain (loss) at beginning of period	\$ 11,739	\$ 1,245	\$ 9,559	\$ (5,852)
Add: Net gain/(loss) from change in fair value of cash flow hedges	(12,801)	2,024	(8,702)	9,095
Less: Net (gain)/loss reclassified to earnings from effective hedges	(1,582)	(305)	(3,501)	(279)
Aggregate unrealized net gain (loss) at end of period	\$ (2,644)	\$ 2,964	\$ (2,644)	\$ 2,964

The Company's foreign exchange cash flow hedging instruments as of June 30, 2013 and December 31, 2012 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts unless noted otherwise.

As of June 30, 2013	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	17,450	\$ 16,976	65.6%	June 2015
Philippine Peso	17,575,000	410,663(1)	40.8%	December 2017
Mexican Peso	1,854,500	133,778	38.4%	December 2017
British Pound Sterling	3,815	5,926(2)	100.0%	June 2014
New Zealand Dollar	450	354	100.0%	March 2014

\$ 567,697

15

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

As of December 31, 2012	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	7,750	\$ 7,407
Philippine Peso	11,710,000	271,970(1)
Mexican Peso	1,320,500	94,530
British Pound Sterling	3,518	5,575(2)
New Zealand Dollar	398	300
		\$ 379,782

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on June 30, 2013 and December 31, 2012.

(2) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on June 30, 2013 and December 31, 2012.

The Company's interest rate swap arrangements as of June 30, 2013 and December 31, 2012 were as follows:

As of June 30, 2013	\$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	\$	40 million				
As of December 31, 2012	\$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	\$	40 million				

Fair Value Hedges

The Company enters into foreign exchange forward contracts to economically hedge against foreign currency exchange gains and losses on certain receivables and payables of the Company's foreign operations. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in earnings in Other income (expense), net. As of June 30, 2013 and December 31, 2012 the total notional amount of the Company's forward contracts used as fair value hedges were \$235.4 million and \$189.3 million, respectively.

Embedded Derivatives

In addition to hedging activities, the Company's foreign subsidiary in Argentina was party to U.S. dollar denominated lease contracts which the Company determined contain embedded derivatives. As such, the Company bifurcated the embedded derivative features of the lease contracts and valued these features as foreign currency derivatives. As of June 30, 2013 and December 31, 2012, the fair value of the embedded derivative was \$0.2 million and \$0.3 million, respectively, and was included in Other current liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheets as shown in the table below.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Derivative Valuation and Settlements

The Company's derivatives as of June 30, 2013 and December 31, 2012 were as follows (amounts in thousands):

Derivative contracts: Derivative classification:	June 30, 2013			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Fair Value	Leases Embedded Derivative
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepays and other current assets	\$ 7,139	\$	\$ 2,341	\$
Other long-term assets	2,634			
Other current liabilities	(2,836)	(1,107)	(43)	(152)
Other long-term liabilities	(9,215)	(1,194)		(13)
Total fair value of derivatives, net	\$ (2,278)	\$ (2,301)	\$ 2,298	\$ (165)

Derivative contracts: Derivative classification:	December 31, 2012			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Fair Value	Leases Embedded Derivative
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepays and other current assets	\$ 11,421	\$	\$ 11	\$
Other long-term assets	7,619			
Other current liabilities	(157)	(1,032)	(476)	(59)
Other long-term liabilities	(65)	(1,955)		(219)
Total fair value of derivatives, net	\$ 18,818	\$ (2,987)	\$ (465)	\$ (278)

[Table of Contents](#)

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the three months ended June 30, 2013 and 2012 were as follows (amounts in thousands):

Derivative contracts: Derivative classification:	Three Months Ended June 30,			
	2013 Designated as Hedging Instruments		2012 Designated as Hedging Instruments	
	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Cash Flow	Interest Rate Cash Flow
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	\$ (12,956)	\$ 155	\$ 2,337	\$ (313)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	\$ 2,850	\$	\$ 692	\$
Interest Expense		(257)		(183)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - ineffective portion and amount excluded from effectiveness testing:				
Other income (expense), net	\$	\$	\$	\$

Derivative contracts: Derivative classification:	Three Months Ended June 30,					
	2013 Not Designated as Hedging Instruments			2012 Not Designated as Hedging Instruments		
	Option and Forward Contracts	Foreign Exchange Fair Value	Leases Embedded Derivative	Option and Forward Contracts	Foreign Exchange Fair Value	Leases Embedded Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):						
Costs of services	\$	\$	\$ 44	\$	\$	\$ (266)
Other income (expense), net	\$	\$ (2,685)	\$	\$	\$ 1,686	\$

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2013 and 2012 were as follows (amounts in thousands):

Derivative contracts: Derivative classification:	Six Months Ended June 30,			
	2013 Designated as Hedging Instruments		2012 Designated as Hedging Instruments	
	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Cash Flow	Interest Rate Cash Flow
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	\$ (8,744)	\$ 42	\$ 9,571	\$ (476)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	\$ 6,310	\$	\$ 649	\$
Interest Expense		(514)		(183)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - ineffective portion and amount excluded from effectiveness testing:				
Other income (expense), net	\$	\$	\$	\$

Derivative contracts: Derivative classification:	Six Months Ended June 30,					
	2013 Not Designated as Hedging Instruments			2012 Not Designated as Hedging Instruments		
	Option and Forward Contracts	Foreign Exchange Fair Value	Leases Embedded Derivative	Option and Forward Contracts	Foreign Exchange Fair Value	Leases Embedded Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):						
Costs of services	\$	\$	\$ 113	\$	\$	\$ (266)
Other income (expense), net	\$	\$ (1,247)	\$	\$	\$ 3,855	\$

(7) FAIR VALUE

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

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

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

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

The following presents information as of June 30, 2013 and December 31, 2012 for the Company's assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

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

Debt - The Company's debt consists primarily of the Company's Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company's leverage ratio calculation (as defined in the Credit Agreement). As of June 30, 2013 and December 31, 2012, the Company had \$110.0 million and \$108.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the three and six months ended June 30, 2013 outstanding borrowings accrued interest at an average rate of 1.5% and 1.5% per annum, respectively, excluding unused commitment fees. The amounts recorded in the accompanying balance sheets approximate fair value due to the variable nature of the debt.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of June 30, 2013, credit risk did not materially change the fair value of the Company's derivative contracts.

The following is a summary of the Company's fair value measurements for its net derivative assets (liabilities) as of June 30, 2013 and December 31, 2012 (amounts in thousands):

As of June 30, 2013

	Fair Value Measurements Using			At Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$	\$ (2,278)	\$	\$ (2,278)
Interest rate swaps		(2,301)		(2,301)
Embedded derivatives		(165)		(165)
Fair value hedges		2,298		2,298
Total net derivative asset (liability)	\$	\$ (2,446)	\$	\$ (2,446)

As of December 31, 2012

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	Fair Value Measurements Using			At Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$	\$	18,818	\$ 18,818
Interest rate swaps			(2,987)	(2,987)
Fair value hedges			(465)	(465)
Embedded derivatives			(278)	(278)
Total net derivative asset (liability)	\$	\$	15,088	\$ 15,088

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following is a summary of the Company's fair value measurements as of June 30, 2013 and December 31, 2012 (amounts in thousands):

As of June 30, 2013

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	\$	\$ 240	\$
Derivative instruments, net			
Total assets	\$	\$ 240	\$
Liabilities			
Deferred compensation plan liability	\$	\$ (6,015)	\$
Derivative instruments, net		(2,446)	
Purchase price payable			(12,123)
Total liabilities	\$	\$ (8,461)	\$ (12,123)

As of December 31, 2012

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	\$	\$ 350	\$
Derivative instruments, net		15,088	
Total assets	\$	\$ 15,438	\$
Liabilities			
Deferred compensation plan liability	\$	\$ (5,305)	\$
Purchase price payable			(12,533)
Total liabilities	\$	\$ (5,305)	\$ (12,533)

Money Market Investments The Company invests in various well-diversified money market funds which are managed by financial institutions. These money market funds are not publicly traded, but have historically been highly liquid. The value of the money market funds are determined

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

by the banks based upon the funds' net asset values (NAV). All of the money market funds currently permit daily investments and redemptions at a \$1.00 NAV.

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

Purchase Price Payable The Company recorded purchase price payables related to the acquisitions of iKnowtion, Guidon and TSG. These purchase price payables were recognized at fair value using a discounted cash flow approach and a discount rate of 4.6% or 21.0%. These measurements were based on significant inputs not observable in the market. The Company will record interest expense each period using the effective interest method until the future value of these purchase price payables reaches their expected future value of \$13.4 million. Interest expense related to all recorded purchase price payables is included in Interest expense in the Consolidated Statements of Comprehensive Income (Loss).

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company also had a future payable related to the purchase of PRG. As part of the PRG acquisition, the Company paid the previously recognized purchase price payable of \$5.0 million on March 1, 2012. The Company recorded interest expense each period using the effective interest rate method until the payable reached the \$5.0 million payment.

(8) INCOME TAXES

The Company accounts for income taxes in accordance with the accounting literature for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. Quarterly, the Company assesses the likelihood that its net deferred tax assets will be recovered. Based on the weight of all available evidence, both positive and negative, the Company records a valuation allowance against deferred tax assets when it is more-likely-than-not that a future tax benefit will not be realized.

In 2005, the Company sought relief under the United States-Canada Income Tax Convention for avoidance of double taxation arising from adjustments to the taxable income assessed in the U.S. and Canada with respect to the years 2001 and 2002. On February 20, 2011, the Company received notice of an adverse decision by the Canadian Revenue Agency (CRA) in regards to the Company's request. Consistent with accounting for tax positions that no longer meet the recognition criteria, in the first quarter of 2011 the Company derecognized income tax positions totaling \$8.6 million through income tax expense and filed for Judicial Review of CRA's actions with the Federal Court of Canada. On March 20, 2013, the Company presented its arguments in the Federal Court of Canada and asked the Court to issue a writ of mandamus to compel the CRA to accept the Company's application for Competent Authority consideration. On May 29, 2013, the Federal Court of Canada ruled in favor of the Canada Revenue Agency by denying the Company's request. The Company now considers the matter closed and does not plan any further action in this regard. There was no accounting charge related to this decision recorded in the three months ended June 30, 2013.

As of June 30, 2013, the Company had \$55.3 million of gross deferred tax assets (after a \$20.2 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$52.4 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability which the Company believes is more-likely-than-not to occur.

The effective tax rate for the three and six months ended June 30, 2013 was 23.3% and 16.6%, respectively. The effective tax rate during these periods in 2013 was influenced by the distribution of earnings in international jurisdictions currently under an income tax holiday and the \$3.8 million and \$4.6 million, respectively, in restructuring and impairment expenses and the income tax benefit related to these incremental expenses. The effective tax rate for the three and six months ended June 30, 2012 was (25.6%) and 2.5%, respectively. The effective tax rate during these periods in 2012 was influenced by the distribution of earnings in international jurisdictions currently under an income tax holiday and the \$17.3 million and \$21.1 million, respectively, in restructuring and impairment expenses and the income tax benefit related to these incremental expenses.

The Company's U.S. income tax returns filed for the tax years ending December 31, 2009 to present, remain open tax years subject to IRS audit. The Company is currently under audit of income taxes in Canada. Although the outcome of examinations by taxing authorities are always uncertain, it is the opinion of management that the resolution of these audits will not have a material effect on the Company's Consolidated Financial Statements.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES**Restructuring Charges**

During the three and six months ended June 30, 2013 and 2012, the Company undertook a number of restructuring activities primarily associated with reductions in the Company's capacity and workforce in its Customer Management Services, Customer Growth Services and Customer Strategy Services segments to better align the capacity and workforce with current business needs.

During the second quarter of 2012, the Company made the decision to cease operations in Spain and terminated the contracts with its clients. The Company notified the employees and commenced severance procedures as required under Spanish law. The Company recorded \$14.7 million of severance and \$0.4 million of center closure expenses for the year ended December 31, 2012. As of the second quarter of 2013, \$14.8 million was paid and the remaining \$0.3 million was included in Other accrued expenses in the Consolidated Balance Sheets as of June 30, 2013.

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2013 and 2012, respectively, is as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Reduction in force				
Customer Management Services	\$ 2,292	\$ 16,109	\$ 2,986	\$ 17,964
Customer Growth Services		32		135
Customer Technology Services		56		56
Customer Strategy Services	32		189	
Total	\$ 2,324	\$ 16,197	\$ 3,175	\$ 18,155

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Facility exit charges				
Customer Management Services	\$ 248	\$ 99	\$ 248	\$ 99
Customer Growth Services				
Customer Technology Services				
Customer Strategy Services				
Total	\$ 248	\$ 99	\$ 248	\$ 99

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

A rollforward of the activity in the Company's restructuring accruals is as follows (amounts in thousands):

	Closure of Delivery Centers	Reduction in Force	Total
Balance as of December 31, 2012	\$	\$ 4,079	\$ 4,079
Expense	248	3,390	3,638
Payments	(248)	(4,709)	(4,957)
Change in estimates		(215)	(215)
Balance as of June 30, 2013	\$	\$ 2,545	\$ 2,545

The remaining restructuring accruals are expected to be paid during 2013 and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain delivery centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than the asset group's carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three and six months ended June 30, 2013, the Company recognized \$0.1 million of losses related to leasehold improvement assets in the Customer Management Services segment. During the three and six months ended June 30, 2012, the Company recognized \$1.0 million of losses related to leasehold improvement assets in the Customer Management Services segment.

During the second quarter of 2013, the Company recorded an impairment charge of \$1.1 million related to the PRG trade name intangible asset within the Customer Strategy Services segment. See Note 5 for further information. This expense was included in the Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

During the first quarter of 2012, the Company rebranded its Direct Alliance Corporation (DAC) subsidiary to RevanaTM, thus the \$1.8 million DAC trade name was impaired as of March 31, 2012. This expense was included in the Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

(10) COMMITMENTS AND CONTINGENCIES

Credit Facility

On June 3, 2013, the Company entered into a \$700.0 million, five-year, multi-currency revolving credit facility (the Credit Agreement) with an accordion feature that permits, under certain conditions, an increase in total commitments up to \$1.0 billion with a syndicate of lenders. Wells Fargo Securities, LLC, KeyBank National Association, Bank of America Merrill Lynch, BBVA Compass and HSBC Bank USA, National Association served as Joint Lead Arrangers. The Credit Agreement amends and restates in its entirety the Company's prior credit facility entered into during 2010 and amended in 2012.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The Credit Agreement provides for a secured revolving credit facility that matures on June 3, 2018 with an initial maximum aggregate commitment of \$700.0 million. At the Company's discretion, direct borrowing options under the Credit Agreement include (i) Eurodollar loans with one, two, three, and six month terms, and/or (ii) overnight base rate loans. The Credit Agreement also provides for a sub-limit for loans or letters of credit in both U.S. dollars and certain foreign currencies, with direct foreign subsidiary borrowing capabilities up to 50% of the total commitment amount. The Company may increase the maximum aggregate commitment under the Credit Agreement to \$1.0 billion if certain conditions are satisfied, including that the Company is not in default under the Credit Agreement at the time of the increase and that the Company obtains the commitment of the lenders participating in the increase.

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo's prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate (LIBOR), in each case adding a margin based upon the Company's leverage ratio. Eurodollar loans bear interest based upon LIBOR, plus a margin based upon the Company's leverage ratio. Alternate loans bear interest at rates applicable to their respective currencies. Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans. Commitment fees are payable to the Lenders in an amount equal to the unused portion of the credit facility and are based upon the Company's leverage ratio.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Indebtedness under the Credit Agreement is guaranteed by certain of the Company's present and future domestic subsidiaries. Indebtedness under the Credit Agreement and the related guarantees are secured by security interests (subject to permitted liens) in the U.S. accounts receivable and cash of the Company and certain of its domestic subsidiaries and may be secured by tangible assets of the Company and such domestic subsidiaries if borrowings by foreign subsidiaries exceed \$100.0 million and the leverage ratio is greater than 3.00 to 1.00. The Company also pledged 65% of the voting stock and 100% of the non-voting stock of certain of the Company's material foreign subsidiaries and may pledge 65% of the voting stock and 100% of the non-voting stock of the Company's other foreign subsidiaries.

The Credit Agreement, which includes customary financial covenants, may be used for general corporate purposes, including working capital, purchases of treasury stock and acquisition financing. As of June 30, 2013, the Company was in compliance with all financial covenants. A copy of this agreement can be found as an exhibit to the TeleTech 8-K filed on June 7, 2013.

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2. As of June 30, 2013 and December 31, 2012, the Company had borrowings of \$110.0 million and \$108.0 million, respectively, under its credit facilities, and its average daily utilization was \$230.9 million and \$137.4 million for the six months ended June 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.8 million, the Company's remaining borrowing capacity was \$586.2 million as of June 30, 2013.

Letters of Credit

As of June 30, 2013, outstanding letters of credit under the Credit Agreement totaled \$3.8 million and primarily guaranteed workers compensation and other insurance related obligations. As of June 30, 2013, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled \$0.5 million.

Guarantees

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

Legal Proceedings

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

From time to time, the Company has been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for legal actions have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of currently available information and advice received from counsel, as appropriate, the Company believes that the disposition or ultimate resolution of such legal actions will not have a material adverse effect on its financial position, cash flows or results of operations. During the quarter ended June 30, 2013, there were no material changes to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

In 2009, the municipality of Sao Paolo, Brazil assessed our Brazilian subsidiary, *TeleTech Brasil Servicos Ltda.* (TTEC Brasil), a services tax on certain equipment rental income earned in 2004 and 2005. In first quarter of 2011, TTEC Brasil filed a tax annulment action to challenge the assessment. In second quarter of 2012, the court issued a ruling on the matter in favor of Sao Paolo municipality, which ruling TTEC Brasil is currently appealing, with the resolution of the matter not currently expected until 2015. Based on an opinion received from legal counsel in Brazil, TeleTech believes that (i) the ruling issued by the Sao Paolo municipal court was incorrect and in contravention of a Brazil Supreme Court ruling concerning the invalidity of services taxes on rental income, (ii) TTEC Brasil has valid defenses against the assessed services taxes and (iii) that payment of these services taxes is not probable. Based on the foregoing, TeleTech has not recorded an expense as of June 30, 2013 for the Sao Paolo services tax assessment. No new development occurred in this matter during the current quarter.

In the fourth quarter of 2012, a complaint was filed in the State of California against a TeleTech subsidiary and Google Inc. (Google), as co-defendants. The action alleges that the defendants violated California Penal Code Section 632 by recording telephone calls made on behalf of Google to residents in California without disclosure. The plaintiff seeks class action certification in the matter. Pursuant to its contractual commitments, the Company has agreed to indemnify Google for costs and expenses related to the complaint. The ultimate outcome of this litigation, and an estimate of the possible loss, if any, cannot reasonably be determined at this time. Management believes that the loss, if any, is adequately insured as part of the Company's insurance program and the outcome of this litigation should not have a material adverse effect on its financial position or results of operations.

(11) NONCONTROLLING INTEREST

The following table reconciles equity attributable to noncontrolling interest (amounts in thousands):

	Six Months Ended June 30,	
	2013	2012
Noncontrolling interest, January 1	\$ 14,045	\$ 11,260
Acquisition of noncontrolling interest		941
Net income attributable to noncontrolling interest	1,049	1,861
Dividends distributed to noncontrolling interest	(2,385)	(720)
Deconsolidation of a subsidiary	(121)	
Foreign currency translation adjustments	(220)	47
Equity-based compensation expense	16	
Noncontrolling interest, June 30	\$ 12,384	\$ 13,389

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(12) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

In 2013, the Company adopted new accounting guidance that requires an entity to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The following table presents changes in the accumulated balance for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (amounts in thousands):

	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
Accumulated other comprehensive income (loss) at December 31, 2012	\$ 15,673	\$ 9,559	\$ (2,251)	\$ 22,981
Other comprehensive income before reclassifications	(16,263)	(8,702)	7	(24,958)
Amounts reclassified from accumulated other comprehensive income (loss)		(3,501)	292	(3,209)
Net current period other comprehensive income (loss)	(16,263)	(12,203)	299	(28,167)
Accumulated other comprehensive income (loss) at June 30, 2013	\$ (590)	\$ (2,644)	\$ (1,952)	\$ (5,186)
Accumulated other comprehensive income (loss) at December 31, 2011	\$ 3,156	\$ (5,852)	\$ (2,778)	\$ (5,474)
Other comprehensive income (loss) before reclassifications	3,205	9,095	242	12,542
Amounts reclassified from accumulated other comprehensive income (loss)		(279)	408	129
Net current period other comprehensive income (loss)	3,205	8,816	650	12,671
Accumulated other comprehensive income (loss) at June 30, 2012	\$ 6,361	\$ 2,964	\$ (2,128)	\$ 7,197

The following table presents the classification and amount of the reclassifications from accumulated other comprehensive income (loss) to the statement of comprehensive income (loss) (in thousands):

For the Three Months Ended June 30,	Statement of Comprehensive Income
--	--

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	2013		2012	(Loss) Classification
Derivative valuation				
Gain (loss) on foreign currency forward exchange contracts	\$	2,850	\$	692 Revenue
Loss on interest rate swaps		(257)		(183) Interest expense
Tax effect		(1,011)		(204) Provision for income taxes
	\$	1,582	\$	305 Net income (loss)
Other				
Actuarial loss on defined benefit plan	\$	(154)	\$	(218) Cost of services
Tax effect		9		13 Provision for income taxes
	\$	(145)	\$	(205) Net income (loss)

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

	For the Six Months Ended June 30,		Statement of
	2013	2012	Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	\$ 6,310	\$ 649	Revenue
Loss on interest rate swaps	(514)	(183)	Interest expense
Tax effect	(2,295)	(187)	Provision for income taxes
	\$ 3,501	\$ 279	Net income (loss)
Other			
Actuarial loss on defined benefit plan	\$ (311)	\$ (434)	Cost of services
Tax effect	19	26	Provision for income taxes
	\$ (292)	\$ (408)	Net income (loss)

(13) NET INCOME PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares used in basic earnings per share calculation	51,861	55,125	52,104	55,809
Effect of dilutive securities:				
Stock options	411	359	403	379
Restricted stock units	356	228	405	370
Performance-based restricted stock units				
Total effects of dilutive securities	767	587	808	749
Shares used in dilutive earnings per share calculation	52,628	55,712	52,912	56,558

For the three months ended June 30, 2013 and 2012, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the six months ended June 30, 2013 and 2012, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the three months ended June 30, 2013 and 2012, restricted stock units (RSUs) of 0.2 million and 1.3 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the six months ended June 30, 2013 and 2012, RSUs of 0.5 million and 1.0 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

(14) EQUITY-BASED COMPENSATION PLANS

All equity based awards to employees are recognized in the Consolidated Statements of Comprehensive Income (Loss) at the fair value of the award on the grant date. During the three and six months ended June 30, 2013 and 2012, the Company recognized total compensation expense of \$3.4 million and \$6.6 million and \$3.5 million and \$6.8 million, respectively. Of the total compensation expense, \$0.6 million and \$1.0 million was recognized in Cost of services and \$2.8 million and \$5.6 million was recognized in Selling, general and administrative during the three and six months ended June 30, 2013. During the three and six months ended June 30, 2012, the Company recognized total compensation expense of \$3.5 million and \$6.8 million, respectively, in Selling, general and administrative.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Stock Options

As of June 30, 2013, there was approximately \$0.5 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to unvested option arrangements granted under the Company's equity plans. The Company recognizes compensation expense straight line over the vesting term of the option grant. The Company recognized compensation expense related to stock options of approximately \$0.1 million and \$0.1 million for the three months ended June 30, 2013 and 2012, respectively. The Company recognized compensation expense related to stock options of approximately \$0.2 million and \$0.3 million for the six months ended June 30, 2013 and 2012, respectively.

Restricted Stock Unit Grants

During the six months ended June 30, 2013 and 2012, the Company granted 693,055 and 565,887 RSUs, respectively, to new and existing employees, which vest in equal installments over four or five years. The Company recognized compensation expense related to RSUs of \$3.2 million and \$6.3 million for the three and six months ended June 30, 2013, respectively. The Company recognized compensation expense related to RSUs of \$3.3 million and \$6.6 million for the three and six months ended June 30, 2012, respectively. As of June 30, 2013, there was approximately \$30.5 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company's equity plans.

As of June 30, 2013 and 2012, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified revenue and operating income performance targets. The Company determined that it was not probable these performance targets would be met; therefore no expense was recognized for the three and six months ended June 30, 2013 or 2012.

(15) DECONSOLIDATION OF SUBSIDIARY

During the three months ended June 30, 2013, the Company concluded that it no longer has controlling influence over a once consolidated subsidiary in the Customer Strategy Services segment. The Company has deconsolidated its interest in Peppers & Rogers Gulf WLL (PRG Kuwait). PRG Kuwait is owned 48% by our affiliate Peppers & Rogers Group BV (PRG BV), 51% by an unaffiliated party and 1% by a former employee. In 2010, PRG BV acquired beneficial interest in 51% of the PRG Kuwait equity owned by others, resulting in 99% control of PRG Kuwait. During the three months ended June 30, 2013, PRG BV took actions with respect to the PRG Kuwait business that under local law required the collaboration of the PRG Kuwait 51% equity owner, which despite the Company's legal entitlement the Company has not been able to secure. Because the Company is no longer confident that it can exercise its beneficial ownership rights, it is deconsolidating its interest in PRG Kuwait. The Company is contemplating legal actions available to us while it is engaged in negotiations to perfect PRG BV's rights to the beneficial ownership in 51% of PRG Kuwait or to dispose PRG BV's equity ownership in the remaining 48%. These legal actions are expected to be protracted and at present the Company cannot estimate the timing of a resolution.

Upon deconsolidation of PRG Kuwait, the Company wrote off all PRG Kuwait assets and liabilities and recorded the retained noncontrolling interest at fair value, which resulted in a recorded loss of \$3.7 million which was included in Loss on deconsolidation of subsidiary in the Consolidated Statements of Comprehensive Income (Loss). The \$3.7 million loss includes \$1.3 million of goodwill allocated to PRG Kuwait immediately prior to deconsolidation based on PRG Kuwait's relative fair value of the Customer Strategy Services segment. The fair value of the noncontrolling interest was determined to be zero as the Company does not believe it will recognize any financial benefit from this interest. The Company is reviewing all options available to it to divest of its noncontrolling interest in this deconsolidated subsidiary.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012. Except for historical information, the discussion below contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect, intend, project, would, could, should, seeks, or scheduled to and other similar meaning. We intend the forward-looking statements throughout this Form 10-Q and the information incorporated by reference to be covered by the safe harbor provisions for forward-looking statements. Important risks, uncertainties and other factors that could cause the actual results to materially differ from those contemplated by the forward-looking statements include but are not limited to:

- U.S. and global economic conditions;
- our ability to develop new clients and retain existing clients;
- the impact of client consolidations;
- geographic concentration of our business activities;
- unauthorized disclosure of sensitive or confidential client and customer data;
- fluctuations in customer demand and our capacity utilization;
- service interruptions, security threats or other disruptions at our facilities relating to our computer and telecommunications equipment and software systems;
- negotiated provisions in our contracts, including fee structures, early termination provisions and increased costs;

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

- compliance with credit facility covenant restrictions, and our ability to obtain financing and manage counterparty credit risks from financial institutions;
- risks associated with conducting business operations in foreign countries;
- fluctuations in foreign currency exchange rates;
- compliance with laws and the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws and regulations;
- our ability to maintain and improve the cost efficiency of our operations, including labor costs;
- movement for delivery center workers to unionize and possible related impacts on labor costs, especially outside of the United States;
- intense competition in the business process outsourcing industry;
- disruptions in the supply chain of the Customer Technology Services segment;
- our ability to develop and protect our intellectual property and contractual rights and avoid infringement;
- our ability to attract and retain personnel;
- our ability to grow our operations and the integration of businesses acquired through joint ventures or acquisitions;

Table of Contents

- the effects of a natural disaster, terrorist attack, health epidemic or other emergencies;
- ownership by our senior management of a majority of our common stock;
- failures of our controls and procedures and internal controls over financial reporting; and
- other risks and uncertainties affecting our business described in this Quarterly Report on Form 10-Q, under the captions Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012, in our other SEC filings and in our press releases.

The forward-looking statements are based on information available as of the date of this Form 10-Q and on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct. We assume no obligation to update any forward-looking statements to reflect actual results, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

TeleTech is one of the largest and most geographically diverse global providers of technology-enabled, fully-integrated customer experience management solutions. We have a 30-year history of helping our clients maximize the value of their brand through the design and delivery of exceptional customer experiences. Our end-to-end offering originates with the design of data-rich customer-centric strategies. These customer-centric strategies are then enabled by a suite of technologies and world class operations that allow us to more effectively manage and grow the economic value of our clients' customer relationships.

We have developed deep vertical industry expertise and serve more than 250 global clients in the automotive, broadband, communications, financial services, government, healthcare, logistics, media and entertainment, retail, technology and travel industries. We target customer-focused industry leaders in the Global 1000, which are the world's largest companies based on market capitalization, due to their size, global reach and desire for a partner who can quickly and globally scale a suite of fully-integrated services. We typically enter into long-term relationships which provide us with a more predictable revenue stream. Our relationships with our top five clients have ranged from seven to 17 years with the majority of these clients having completed multiple contract renewals with us.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

To further improve our competitive position and stay ahead of a rapidly changing market for our services, we continue to invest in new growth areas. We believe our commitment to innovation will enable us to remain strategically relevant to our clients and to grow and diversify our revenue into higher margin, more technology-enabled services. Of the \$289.7 million in revenue we reported in the second quarter of 2013, approximately 24% or \$69.1 million came from customer-centric strategy, growth or technology-based services with the remainder coming from our traditional customer management services.

We believe our track record of innovation, operational excellence, financial strength and ability to deliver on the business goals of our clients represent our strongest competitive advantages and have been significant contributors to our client retention rate of 91% for our Customer Management Services and Customer Growth Services segments during the first six months of 2013.

Our solid balance sheet, cash flows from operations and access to capital markets have provided us the financial flexibility to fund our organic growth, strategic acquisitions and our ongoing stock repurchase program.

Table of Contents

As a means of executing our strategy to expand our operating segments, we have in the past and may in the future acquire additional companies, products or technologies. During 2012, we made four acquisitions including OnState Communications Corporation (OnState) in January, iKnowtion LLC (iKnowtion) in February, Guidon Performance Solutions (Guidon) in October and Technology Solutions Group, Inc. (TSG) in December. Additional acquisitions are planned for 2013. We have included the financial results of the business combinations in our consolidated results of operations beginning on the respective acquisition dates in their applicable segments.

Our Market Opportunity

We believe that our revenue will grow over the long-term as global demand for our services is fueled by the following trends:

- *Increasing focus on the customer experience to sustain competitive advantage.* The ability to sustain a competitive advantage based on price or product differentiation has significantly narrowed given the speed of technological innovation. As customers become more connected and widely broadcast their experiences across a variety of social networking channels, the quality of the experience is having a profound impact on brand loyalty and business performance. We believe customers are increasingly shaping their attitudes, behaviors and willingness to recommend or stay with a brand on the totality of their experience, including not only the superiority of the product or service but more importantly on the quality of their ongoing service interactions. Given the strong correlation between high customer satisfaction and improved profitability, we believe more companies are increasingly focused on selecting third-party partners, such as TeleTech, who can deliver a data-driven, fully-integrated solution that increases the lifetime value of each customer relationship versus merely reducing costs.
- *Increasing percentage of companies consolidating their customer experience requirements with the most capable partners who can deliver measurable business outcomes by offering a fully-integrated, technology-rich solution.* The proliferation of mobile communication technologies and devices along with customers' increased access to information and heightened expectations are driving the need for companies to implement enabling technologies that ensure customers have the best experience regardless of the device, location or media they choose. These two-way interactions need to be received or delivered seamlessly via the customer channel of choice and include voice, email, chat, SMS text, intelligent self serve, virtual agents and the social web. We believe companies will continue to consolidate to third-party partners, such as TeleTech, who have demonstrated expertise in increasing brand value by delivering a holistic, fully-integrated customer-centric solution that spans strategy to execution versus the time, expense and often failed returns resulting from linking together a series of point solutions from different providers.
- *Focus on speed-to-market by companies launching new products or entering new geographic locations.* As companies broaden their product offerings and seek to enter new emerging markets, they are looking for partners that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies select us because of our extensive operating history, established global footprint, financial strength to invest in ongoing technological innovation and the ability to quickly scale infrastructure and large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Future Growth Strategy

We aim to grow our revenue and profitability by focusing on higher margin, technology-enabled services that drive a superior customer experience. To that end we plan to:

- Accelerate investment in both vertical sales leadership and our technology-enabled services and platforms;
- Build deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;

Table of Contents

- Pursue new clients who lead their respective industries and who are committed to the customer experience as a differentiator;
- Target additional, accretive acquisitions that further complement and expand our integrated solutions; and
- Build on our heritage of technology innovation through the creation of proprietary new intellectual property and bring new capabilities to the market that previously did not exist.

As we further develop and scale our strategic business segments, we are continually evaluating ways to maximize stockholder value, which could include, among other things, the sale, merger or spin-off of equity interests in our subsidiaries or the disposition of business units, in whole or in part.

Our Business Segments

Based on the requirements of our clients, we provide our services both on a fully-integrated and discrete basis.

Design – Customer Strategy Services

We typically begin by engaging our clients at a strategic level. Through our data-driven management consulting expertise we help our clients design and build their customer experience strategies. We improve our clients' ability to better understand and predict their customers' behaviors and preferences along with their current and future economic value so that they can deploy resources to achieve the greatest return. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this practice involves instilling a high performance culture through a lean management framework. This process optimization capability enables the client to align and cascade the recommended initiatives to ensure accountability and transparency for the ultimate achievement and sustainability of future results.

Enable – Customer Technology Services

Once the design of the customer experience is completed, our ability to architect, deploy and host or manage the client's customer management environments becomes a key enabler to achieving and sustaining the client's customer experience vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer management environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients.

Manage Customer Management Services

We redesign and manage clients' front-to-back office processes to deliver just-in-time, personalized, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, e-mail, ecommerce and social media to optimize the customer experience for our clients. In addition, we manage certain back-office processes for our clients to enhance their ability to obtain a customer-centric view of their relationships and maximize operating efficiencies. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Table of Contents

Grow Customer Growth Services

We offer fully integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver approximately \$1 billion in client revenue annually via the acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and our proprietary Revana Analytic Multichannel Platform™. This platform continuously aggregates individual customer information across all channels into one holistic view to ensure more relevant and personalized communications. These communications are dynamically triggered to send the right message to the right customer at the right time via their preferred communication channel. The ability of our sales associates to be backed by a highly scalable, technology-enabled platform that delivers smarter, more targeted digital marketing messages over email, social networks, mobile, web, SMS text, voice and chat results in higher conversion rates at a lower overall cost for our clients.

See Note 3 to the Notes to the Consolidated Financial Statements for additional discussion regarding our segment information.

Business Overview

In the second quarter of 2013, our revenue increased 0.3% to \$289.7 million over the same period in 2012, which included an increase of 0.5% or \$1.3 million due to fluctuations in foreign currency rates. Revenue increased due to the addition of 28 new clients and revenue from our acquisitions offset by a decrease of \$14.4 million related to the exit of unprofitable programs including our business in Spain. Our second quarter 2013 income from operations increased 205% to \$19.7 million, or 6.8% of revenue, from \$6.4 million, or 2.2% of revenue, in the second quarter of 2012. This increase was primarily due to the exit of the unprofitable programs described above and the related restructuring charges, increases in our capacity utilization and income related to our acquisitions. Income from operations for the second quarter 2013 and 2012 included an aggregate \$3.8 million and \$17.3 million of expenses related to restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based in North America and in other countries. Our offshore delivery capacity spans five countries with 18,300 workstations and currently represents 66% of our global delivery capabilities. Revenue from services provided in these offshore locations was \$118 million and represented 48% of our revenue for the second quarter of 2013, as compared to \$123 million and 48% of total revenue for the second quarter of 2012, with both years excluding revenue from the five acquisitions.

Our cash flow from operations and available credit allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows and borrowings. At June 30, 2013, we had \$150.6 million of cash and cash equivalents and a total debt to total capitalization ratio of 20.6%.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of June 30, 2013, the overall capacity utilization in our multi-client centers was 75%. The table below presents workstation data for our multi-client centers as of June 30, 2013 and 2012. Dedicated and managed centers (4,332 and 2,652 workstations as of June 30, 2013 and 2012, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

Table of Contents

	June 30, 2013			June 30, 2012		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
Multi-client centers						
Sites open <1 year	713	492	69%	1,842	559	30%
Sites open >1 year	22,760	17,226	76%	26,528	19,991	75%
Total multi-client centers	23,473	17,718	75%	28,370	20,550	72%

We continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue with our clients. In light of this trend, we plan to continue to selectively retain capacity and expand into new offshore markets. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increases, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

Recently Issued Accounting Pronouncements

Refer to Note 1 to the Notes to Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of its financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. For further information, please refer to the discussion of all critical accounting policies in Note 1 of the Notes to the Consolidated Financial Statement in our Annual Report on Form 10-K for the year ended December 31, 2012.

Explanation of Key Metrics and Other Items*Cost of Services*

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

Selling, General and Administrative

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

Restructuring Charges, Net

Restructuring charges, net primarily include costs incurred in conjunction with reductions in force or decisions to exit facilities, including termination benefits and lease liabilities, net of expected sublease rentals.

Table of Contents

Interest Expense

Interest expense includes interest expense, accretion of deferred acquisition costs and amortization of debt issuance costs associated with our debts and capitalized lease obligations.

Other Income

The main components of other income are miscellaneous income not directly related to our operating activities, such as foreign exchange transaction gains.

Other Expense

The main components of other expense are expenditures not directly related to our operating activities, such as foreign exchange transaction losses.

Presentation of Non GAAP Measurements

Free Cash Flow

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

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

Three Months Ended June 30,		Six Months Ended June 30,	
2013	2012	2013	2012

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Net cash provided by operating activities	\$	33,717	\$	33,993	\$	40,211	\$	48,657
Less: Purchases of property, plant and equipment		9,555		10,994		13,660		17,368
Free cash flow	\$	24,162	\$	22,999	\$	26,551	\$	31,289

We discuss factors affecting free cash flow between periods in the *Liquidity and Capital Resources* section below.

Results of Operations

Three months ended June 30, 2013 compared to three months ended June 30, 2012

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the three months ended June 30, 2013 and 2012 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Three Months Ended June 30,			
	2013	2012	\$ Change	% Change
Revenue	\$ 220,641	\$ 229,401	\$ (8,760)	-3.8%
Operating Income	16,460	730	15,730	2154.8%

Table of Contents

The decrease in revenue for the Customer Management Services segment was attributable to a \$14.9 million net increase in client programs and a \$1.5 million increase in realized gains on cash flow hedges and positive changes in foreign exchange translation, offset by a \$14.4 million reduction related to the exit of certain unprofitable programs including our business in Spain, and program completions of \$10.8 million.

The operating income as a percentage of revenue increased to 7.5% in the second quarter of 2013 as compared to 0.3% in the prior period. The increase in margin was primarily due to the exit of certain unprofitable programs as described above and the reduction of restructuring expenses noted below. During 2013 and 2012, we recorded \$2.5 million and \$2.1 million, respectively, in restructuring charges in various locations to better align our capacity and workforce with current business needs. In addition, during 2012, we recorded \$13.9 million in restructuring charges and \$1.0 million in impairment charges as a result of our decision to exit Spain. These items were offset during 2012 in part by a \$4.6 million accrual release for salaries expense due to an authoritative ruling in Spain related to the legally required cost of living adjustments for our employees' salaries.

Customer Growth Services

	Three Months Ended June 30,		\$ Change	% Change
	2013	2012		
Revenue	\$ 22,399	\$ 24,409	\$ (2,010)	-8.2%
Operating Income	(614)	1,052	(1,666)	-158.4%

The decrease in revenue for the Customer Growth Services segment was due to a net increase in client programs of \$4.3 million offset by program completions of \$6.3 million.

The operating income as a percentage of revenue decreased to (2.7%) in the second quarter of 2013 as compared to 4.3% in the prior period. This decrease was due to net declines in client volumes, changes in pricing, and the cost of ramping a significant international client. Included in the operating income was amortization related to acquired intangibles of \$0.2 million and \$0.2 million for the quarter ended June 30, 2013 and 2012, respectively.

Customer Technology Services

	Three Months Ended June 30,		\$ Change	% Change
	2013	2012		
Revenue	\$ 36,644	\$ 24,956	\$ 11,688	46.8%
Operating Income	5,819	4,356	1,463	33.6%

The increase in revenue for the Customer Technology Services segment was primarily related to the acquisition of Technology Solutions Group, Inc. (TSG) on December 31, 2012.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The operating income as a percentage of revenue decreased to 15.9% in the second quarter of 2013 as compared to 17.5% in the prior period. This decrease was related to investments to integrate TSG, expand the solutions portfolio, a change in the mix of revenue between product and services, increases in sales and marketing expenses, and a \$0.7 million increase in amortization expense related to the acquisition of TSG. Included in the operating income was amortization related to acquired intangibles of \$1.0 million and \$0.5 million for the quarters ended June 30, 2013 and 2012, respectively.

Customer Strategy Services

	Three Months Ended June 30,				
	2013	2012		\$ Change	% Change
Revenue	\$ 10,008	\$ 10,032	\$	(24)	-0.2%
Operating Income	(1,990)	308		(2,298)	-746.1%

The revenue for the Customer Strategy Services segment was flat quarter over quarter inclusive of the acquisition of Guidon Performance Solutions.

Table of Contents

The segment incurred an operating loss as a percentage of revenue of (19.9)% in the second quarter of 2013 as compared to 3.1% in the prior period. This decrease was primarily related to the impairment charges of \$1.1 million recorded as a result of the deconsolidation of a subsidiary (see Notes 15 and 5 of the Notes to the Consolidated Financial Statements for further details). The decrease was also related to the full integration of the entities comprising the CSS segment, including leadership, consultants, the services portfolio and the infrastructure. This resulted in a consolidation of geographies and a right sizing of the consulting base. Included in the operating income was amortization expense of \$0.4 million and \$0.3 million for the quarters ended June 30, 2013 and 2012, respectively.

Interest Income (Expense)

For the three months ended June 30, 2013 interest income decreased slightly to \$0.6 million from \$0.7 million in the same period in 2012. Interest expense increased to \$1.9 million during 2013 from \$1.6 million during 2012, due to a higher outstanding balance on our credit facility, additional accretion of deferred acquisition costs and additional expense related to the interest rate swap arrangements.

Other Income (Expense), Net

Included in the three months ended June 30, 2013, was a \$3.7 million charge related to the deconsolidation of a subsidiary (see Note 15 of the Notes to the Consolidated Financial Statements for further details).

Income Taxes

The effective tax rate for the three months ended June 30, 2013 was 23.3%. This compares to an effective tax rate of (25.6)% for the same period of 2012. The effective tax rate for the three months ended June 30, 2013 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without a \$1.3 million benefit related to restructuring charges and a \$0.3 million benefit related to other discrete items recognized during the quarter, our effective tax rate for the second quarter would have been 22.6%. The effective tax rate for the three months ended June 30, 2012 was influenced by earnings in international jurisdictions currently under an income tax holiday and the \$17.3 million in restructuring and impairment charges which influenced the distribution of pre-tax income between the U.S. and international tax jurisdictions.

Results of Operations

Six months ended June 30, 2013 compared to six months ended June 30, 2012

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the six months ended June 30, 2013 and 2012 (amounts in

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

thousands). All inter company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Six Months Ended June 30,		\$ Change	% Change
	2013	2012		
Revenue	\$ 443,223	\$ 464,277	\$ (21,054)	-4.5%
Operating Income	37,191	17,437	19,754	113.3%

The decrease in revenue for the Customer Management Services segment was attributable to a \$36.7 million net increase in client programs and a \$3.5 million increase in realized gains on cash flow hedges and positive changes in foreign exchange translation, offset by a \$30.7 million reduction related to the exit of certain unprofitable programs including our business in Spain, and program completions of \$30.6 million.

Table of Contents

The operating income as a percentage of revenue increased to 8.4% for the six months ended June 30, 2013 as compared to 3.8% in 2012. This increase in margin was primarily due to the exit of certain unprofitable programs as described above, the reduction of restructuring expenses noted below and the improvement in utilization of our capacity. During the six months of 2013, we recorded \$3.2 million and \$3.6 million, respectively, in restructuring charges in various locations to better align our capacity and workforce with current business needs. In addition, during 2012, we recorded \$13.9 million in restructuring charges and \$1.0 million in impairment charges as a result of our decision to exit Spain. These items were offset during 2012 in part by a \$4.6 million accrual release for salaries expense due to an authoritative ruling in Spain related to the legally required cost of living adjustments for our employees' salaries.

Customer Growth Services

	Six Months Ended June 30,		\$ Change	% Change
	2013	2012		
Revenue	\$ 45,255	\$ 47,173	\$ (1,918)	-4.1%
Operating Income	662	(1,078)	1,740	161.4%

The decrease in revenue for the Customer Growth Services segment was due to a net increase in client programs of \$10.9 million offset by program completions of \$12.8 million.

The operating income as a percentage of revenue increased to 1.5% for the six months ended June 30, 2013 as compared to (2.3)% in the same period of 2012. This increase was primarily driven by a \$1.8 million charge related to the impairment of trade-name intangible asset due to the rebranding of our Direct Alliance subsidiary to Revana during the first quarter of 2012. There were also program operational improvements and a shift in program mix to additional outcome-based higher margin programs. These were offset by net declines in client volumes, changes in pricing, and the cost of ramping a significant international client. Included in the operating income was amortization related to acquired intangibles of \$0.4 million and \$0.4 million for the six months ended June 30, 2013 and 2012, respectively.

Customer Technology Services

	Six Months Ended June 30,		\$ Change	% Change
	2013	2012		
Revenue	\$ 70,206	\$ 50,508	\$ 19,698	39.0%
Operating Income	8,717	8,035	682	8.5%

The increase in revenue for the Customer Technology Services segment was primarily related to the acquisition of Technology Solutions Group, Inc. (TSG) on December 31, 2012.

The operating income as a percentage of revenue decreased to 12.4% for the six months ended June 30, 2013 as compared to 15.9% in the same period of 2012. This decrease was related to investments to integrate TSG, expand the solutions portfolio, a change in the mix of revenue between product and services, increases in sales and marketing expenses, and a \$1.3 million increase in amortization expense related to the acquisition of TSG. Included in the operating income was amortization related to acquired intangibles of \$2.0 million and \$1.0 million for the six months ended June 30, 2013 and 2012, respectively.

Customer Strategy Services

	Six Months Ended June 30,				
	2013	2012		\$ Change	% Change
Revenue	\$ 19,391	\$ 19,494	\$	(103)	-0.5%
Operating Income	(3,897)	802		(4,699)	-585.9%

The revenue for the Customer Strategy Services segment was flat quarter over quarter inclusive of the acquisitions of iKnowtion, LLC and Guidon Performance Solutions.

Table of Contents

The segment incurred an operating loss as a percentage of revenue of (20.1)% in the first six months of 2013 as compared to income of 4.1% in the prior period. This decrease was primarily related to the impairment charges of \$1.1 million recorded as a result of the deconsolidation of a subsidiary (see Notes 15 and 5 of the Notes to the Consolidated Financial Statements for further details). The decrease was also related to the full integration of the entities comprising the CSS segment, including leadership, consultants, the services portfolio and the infrastructure. This resulted in a consolidation of geographies and a right sizing of the consulting base. Included in the operating income was amortization related to acquired intangibles of \$0.8 million and \$0.5 million for the six months ended June 30, 2013 and 2012, respectively.

Interest Income (Expense)

For the six months ended June 30, 2013, interest income decreased to \$1.2 million from \$1.5 million in the same period in 2012. Interest expense increased to \$3.8 million during 2013 from \$2.7 million in 2012, due to a higher outstanding balance on our credit facility, additional accretion of deferred acquisition costs and additional expense related to the interest rate swap arrangements.

Other Income (Expense), Net

Included in the six months ended June 30, 2013, was a \$3.7 million charge related to the deconsolidation of a subsidiary (see Note 15 of the Notes to the Consolidated Financial Statements for further details).

Income Taxes

The effective tax rate for the six months ended June 30, 2013 was 16.6%. This compares to an effective tax rate of 2.5% for the same period of 2012. The effective tax rate for the six months ended June 30, 2013 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without a \$0.6 million benefit related to changes in the valuation allowance, a \$1.5 million benefit related to restructuring charges, and a \$1.0 million benefit related to other discrete items recognized during the period, the Company's effective tax rate for the six months would have been 20.4%. The effective tax rate for the six months ended June 30, 2012 was influenced by earnings in international jurisdictions currently under an income tax holiday and the \$21.1 million in restructuring and impairment charges which influenced the distribution of pre-tax income between the U.S. and international tax jurisdictions.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Credit Agreement, dated June 3, 2013 (the Credit Agreement). During the six months ended June 30, 2013, we generated positive operating cash flows of \$40.2 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

We have global operations that expose us to foreign currency exchange rate fluctuations that may positively or negatively impact our liquidity. We are also exposed to higher interest rates associated with our variable-rate debt. To mitigate these risks, we enter into foreign exchange forward and option contracts and interest rate swaps through our cash flow hedging program. Please refer to Item 3. Quantitative and Qualitative Disclosures About Market Risk-Foreign Currency Risk, for further discussion.

Table of Contents

We primarily utilize our Credit Agreement to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2 of the Notes to Consolidated Financial Statements. As of June 30, 2013 and December 31, 2012, we had borrowings of \$110.0 million and \$108.0 million, respectively, under our Credit Agreement, and our average daily utilization was \$230.9 million and \$137.4 million for the six months ended June 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.8 million, our remaining borrowing capacity was \$586.2 million as of June 30, 2013. As of June 30, 2013, we were in compliance with all covenants and conditions under our Credit Agreement.

The following discussion highlights our cash flow activities during the six months ended June 30, 2013 and 2012.

Cash and Cash Equivalents

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled \$150.6 million and \$164.5 million as of June 30, 2013 and December 31, 2012, respectively. We diversify the holdings of such cash and cash equivalents considering the financial condition and stability of the counterparty institutions.

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

Cash Flows from Operating Activities

For the six months ended June 30, 2013 and 2012, net cash flows provided by operating activities were \$40.2 million and \$48.7 million, respectively. The \$8.4 million decrease is attributable to an \$17.4 million increase in cash related net income and a decrease in spending on prepaid and other assets of \$12.9 million offset by a decrease to net cash flows provided by operating activities related to a \$3.9 million decrease in collections of accounts receivable, a \$7.2 million decrease in cash received from prepayments from customers and a \$27.6 million increase in cash spent on operating expenses.

Cash Flows from Investing Activities

For the six months ended June 30, 2013 and 2012, we reported net cash flows used in investing activities of \$15.3 million and \$22.0 million, respectively. The decrease of \$6.7 million was due to decreased spending on acquisitions of \$3.2 million along with a \$3.5 million net decrease in capital expenditures during the first six months of 2013.

Cash Flows from Financing Activities

For the six months ended June 30, 2013 and 2012, we reported net cash flows used in financing activities of \$30.2 million and \$20.5 million, respectively. The \$9.6 million increase in net cash flows used from 2012 to 2013 was primarily due to a \$12.0 million decrease in net borrowings from our line of credit, a \$4.4 million increase in net payments on other debt, a \$1.3 million increase in payments for debt issuance costs and a \$1.7 million increase in distributions made to noncontrolling interest. These cash outflows were offset by a reduction of \$9.7 million in purchases of our outstanding common stock.

Free Cash Flow

Free cash flow, a non-GAAP measurement (see [Presentation of Non-GAAP Measurements](#) for definition of free cash flow) decreased for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 due to the increase in capital expenditures and a decrease in cash flows provided by operating activities. Free cash flow was \$26.6 million and \$31.3 million for the six months ended June 30, 2013 and 2012, respectively.

Table of Contents**Obligations and Future Capital Requirements**

Future maturities of our outstanding debt and contractual obligations as of June 30, 2013 are summarized as follows (amounts in thousands):

	Less than 1 Year		1 to 3 Years		3 to 5 Years		Over 5 Years		Total
Credit Facility(1)	\$ 3,628	\$	7,109	\$	114,048	\$		\$	124,785
Equipment financing arrangements	128								128
Contingent consideration	1,100		10,526		2,919				14,545
Purchase obligations	19,125		13,137						32,262
Operating lease commitments	25,196		38,676		24,264		4,930		93,066
Other debt	6,005		5,263		1,366				12,634
Total	\$ 55,182	\$	74,711	\$	142,597	\$	4,930	\$	277,420

(1) Includes estimated interest payments based on the weighted-average interest rate, unused commitment fees, current interest rate swap arrangements, and outstanding debt as of June 30, 2013.

- Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.
- Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.
- The contractual obligation table excludes our liabilities of \$0.4 million related to uncertain tax positions because we cannot reliably estimate the timing of cash payments.

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

Future Capital Requirements

We expect total capital expenditures in 2013 to be within the range of \$50 to \$60 million. Approximately 70% of these expected capital expenditures are to support growth in our business and 30% relates to the maintenance for existing assets. The anticipated level of 2013 capital expenditures is primarily dependent upon new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

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

Debt Instruments and Related Covenants

On June 3, 2013, we entered into a \$700.0 million, five-year, multi-currency revolving credit facility (the "Credit Agreement") with an accordion feature that permits, under certain conditions, an increase in total commitments up to \$1.0 billion with a syndicate of lenders. Wells Fargo Securities, LLC, KeyBank National Association, Bank of America Merrill Lynch, BBVA Compass and HSBC Bank USA, National Association served as Joint Lead Arrangers. The Credit Agreement amends and restates in its entirety our prior credit facility entered into during 2010 and amended in 2012.

Table of Contents

The Credit Agreement provides for a secured revolving credit facility that matures on June 3, 2018 with an initial maximum aggregate commitment of \$700.0 million. At our discretion, direct borrowing options under the Credit Agreement include (i) Eurodollar loans with one, two, three, and six month terms, and/or (ii) overnight base rate loans. The Credit Agreement also provides for a sub-limit for loans or letters of credit in both U.S. dollars and certain foreign currencies, with direct foreign subsidiary borrowing capabilities up to 50% of the total commitment amount. We may increase the maximum aggregate commitment under the Credit Agreement to \$1.0 billion if certain conditions are satisfied, including that we are not in default under the Credit Agreement at the time of the increase and that we obtain the commitment of the lenders participating in the increase.

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo's prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate (LIBOR), in each case adding a margin based upon our leverage ratio. Eurodollar loans bear interest based upon LIBOR, plus a margin based upon our leverage ratio. Alternate loans bear interest at rates applicable to their respective currencies. Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans. Commitment fees are payable to the Lenders in an amount equal to the unused portion of the credit facility and are based upon our leverage ratio.

Indebtedness under the Credit Agreement is guaranteed by certain of our present and future domestic subsidiaries. Indebtedness under the Credit Agreement and the related guarantees are secured by security interests (subject to permitted liens) in the U.S. accounts receivable and cash of our company and certain of its domestic subsidiaries and may be secured by tangible assets of our company and such domestic subsidiaries if borrowings by foreign subsidiaries exceed \$100.0 million and the leverage ratio is greater than 3.00 to 1.00. We also pledged 65% of the voting stock and 100% of the non-voting stock of certain of our Company's material foreign subsidiaries and may pledge 65% of the voting stock and 100% of the non-voting stock of our Company's other foreign subsidiaries.

The Credit Agreement, which includes customary financial covenants, may be used for general corporate purposes, including working capital, purchases of treasury stock and acquisition financing. As of June 30, 2013, we were in compliance with all financial covenants. A copy of this agreement can be found as an exhibit to the TeleTech 8-K filed on June 7, 2013.

We primarily utilize our credit facilities to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2 of the accompanying financial statements. As of June 30, 2013 and December 31, 2012, we had borrowings of \$110.0 million and \$108.0 million, respectively, under our credit facilities, and our average daily utilization was \$230.9 million and \$137.4 million for the six months ended June 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.8 million, our remaining borrowing capacity was \$586.2 million as of June 30, 2013.

Client Concentration

During the six months ended June 30, 2013, one of our clients represented 11.8% of our total revenue. Our five largest clients accounted for 41.3% and 38.0% of our consolidated revenue for the three months ended June 30, 2013 and 2012, respectively. Our five largest clients accounted for 41.0% and 37.2% of our consolidated revenue for the six months ended June 30, 2013 and 2012, respectively. We have experienced long-term relationships with our top five clients, ranging from seven to 17 years, with the majority of these clients having completed multiple contract renewals with us. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis and varies greatly based upon specific contract terms. In addition, clients may adjust business volumes served by us based on their business requirements. We believe the risk of this concentration is mitigated, in part, by the long term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, we

believe this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

Table of Contents

The contracts with our five largest clients expire between 2014 and 2016. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of June 30, 2013, we had \$110.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three and six months ended June 30, 2013, interest accrued at a rate of approximately 1.5% and 1.5% per annum, respectively. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would not have been a material impact to our consolidated financial position or results of operations.

The Company's interest rate swap arrangements as of June 30, 2013 and December 31, 2012 were as follows:

	Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of June 30, 2013	\$ 25 million	1 - month LIBOR	2.55		