

TELETECH HOLDINGS INC  
Form 10-Q  
May 01, 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 March 31, 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of April 25, 2013, there were 52,181,147 shares of the registrant's common stock outstanding.



Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES**

**MARCH 31, 2013 FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012</u> 1
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 (unaudited)</u> 2
	<u>Consolidated Statement of Equity as of and for the three months ended March 31, 2013 (unaudited)</u> 3
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 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> 25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 36
<u>Item 4.</u>	<u>Controls and Procedures</u> 38
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 39
<u>Item 1A.</u>	<u>Risk Factors</u> 40
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 40
<u>Item 6.</u>	<u>Exhibits</u> 41
<b><u>SIGNATURES</u></b>	42
<b><u>EXHIBIT INDEX</u></b>	43

---

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)

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 170,551	\$ 164,485
Accounts receivable, net	245,836	251,206
Prepays and other current assets	62,583	58,702
Deferred tax assets, net	5,406	14,169
Income tax receivable	15,904	14,982
Total current assets	500,280	503,544
<b>Long-term assets</b>		
Property, plant and equipment, net	108,351	112,276
Goodwill	95,191	94,679
Contract acquisition costs, net	1,607	1,860
Deferred tax assets, net	43,086	35,429
Other long-term assets	98,980	99,385
Total long-term assets	347,215	343,629
Total assets	\$ 847,495	\$ 847,173
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 20,219	\$ 23,494
Accrued employee compensation and benefits	62,354	71,621
Other accrued expenses	26,580	29,056
Income taxes payable	12,927	12,650
Deferred tax liabilities, net	323	341
Deferred revenue	27,224	26,892
Other current liabilities	8,098	7,351
Total current liabilities	157,725	171,405
<b>Long-term liabilities</b>		
Line of credit	115,000	108,000
Deferred tax liabilities, net	2,391	3,029
Deferred rent	8,707	8,589
Other long-term liabilities	50,064	55,813
Total long-term liabilities	176,162	175,431
Total liabilities	333,887	346,836
<b>Commitments and contingencies (Note 10)</b>		

**Stockholders equity**

Preferred stock - \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of March 31, 2013 and December 31, 2012		
Common stock - \$0.01 par value; 150,000,000 shares authorized; 52,200,947 and 52,288,567 shares outstanding as of March 31, 2013 and December 31, 2012, respectively	521	522
Additional paid-in capital	345,158	350,714
Treasury stock at cost: 29,851,306 and 29,763,686 shares as of March 31, 2013 and December 31, 2012, respectively	(432,866)	(428,716)
Accumulated other comprehensive income	28,547	22,981
Retained earnings	558,752	540,791
Noncontrolling interest	13,496	14,045
Total stockholders equity	513,608	500,337
Total liabilities and stockholders equity	\$ 847,495	\$ 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****(Amounts in thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>	\$ 288,383	\$ 292,654
<b>Operating expenses</b>		
Cost of services (exclusive of depreciation and amortization presented separately below)	208,232	211,895
Selling, general and administrative	45,747	48,135
Depreciation and amortization	10,555	10,116
Restructuring charges, net	851	1,958
Impairment losses		1,800
Total operating expenses	265,385	273,904
<b>Income from operations</b>	22,998	18,750
<b>Other income (expense)</b>		
Interest income	669	760
Interest expense	(1,865)	(1,098)
Other income (expense), net	(808)	258
Total other income (expense)	(2,004)	(80)
<b>Income before income taxes</b>	20,994	18,670
Provision for income taxes	(2,391)	(1,853)
<b>Net income</b>	18,603	16,817
Net income attributable to noncontrolling interest	(642)	(936)
<b>Net income attributable to TeleTech stockholders</b>	\$ 17,961	\$ 15,881
<b>Other comprehensive income (loss)</b>		
Net income	\$ 18,603	\$ 16,817
Foreign currency translation adjustment	3,134	8,751
Derivative valuation, gross	3,390	11,671
Derivative valuation, tax effect	(1,210)	(4,574)
Other, net of tax	162	345
Total other comprehensive income	5,476	16,193
<b>Total comprehensive income</b>	24,079	33,010
Comprehensive income attributable to noncontrolling interest	(552)	(948)
<b>Comprehensive income attributable to TeleTech stockholders</b>	\$ 23,527	\$ 32,062
<b>Weighted average shares outstanding</b>		

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Basic	52,347	56,493
Diluted	53,217	57,418
<b>Net income per share attributable to TeleTech stockholders</b>		
Basic	\$ 0.34	\$ 0.28
Diluted	\$ 0.34	\$ 0.28

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	Retained Earnings	Noncontrolling interest	Total Equity
<b>Balance as of December 31, 2012</b>		\$	52,288	\$ 522	\$ (428,716)	\$ 350,714	\$ 22,981	\$ 540,791	\$ 14,045	\$ 500,337
Net income								17,961	642	18,603
Dividends distributed to noncontrolling interest									(1,109)	(1,109)
Foreign currency translation adjustments							3,224		(90)	3,134
Derivatives valuation, net of tax							2,180			2,180
Vesting of restricted stock units			340	3	4,851	(8,813)				(3,959)
Exercise of stock options			59	1	844	(306)				539
Excess tax benefit from equity-based awards						414				414
Equity-based compensation expense						3,149			8	3,157
Purchases of common stock			(487)	(5)	(9,845)					(9,850)
Other							162			162
<b>Balance as of March 31, 2013</b>		\$	52,200	\$ 521	\$ (432,866)	\$ 345,158	\$ 28,547	\$ 558,752	\$ 13,496	\$ 513,608

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 18,603	\$ 16,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,555	10,116
Amortization of contract acquisition costs	255	256
Amortization of debt issuance costs	175	153
Imputed interest expense	346	64
Provision for doubtful accounts	76	40
Loss (gain) on disposal of assets	(107)	110
Impairment losses		1,800
Deferred income taxes	3,975	(1,222)
Excess tax benefit from equity-based awards	(800)	(462)
Equity-based compensation expense	3,191	3,388
(Gain) loss on foreign currency derivatives	(433)	(299)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	5,012	3,031
Prepays and other assets	(7,630)	(7,826)
Accounts payable and accrued expenses	(19,399)	(15,526)
Deferred revenue and other liabilities	(7,325)	4,224
Net cash provided by operating activities	6,494	14,664
<b>Cash flows from investing activities</b>		
Proceeds from grant for property, plant and equipment		110
Purchases of property, plant and equipment, net of acquisitions	(4,105)	(6,484)
Acquisitions, net of cash acquired of \$0 and \$1,373, respectively		(4,627)
Net cash used in investing activities	(4,105)	(11,001)
<b>Cash flows from financing activities</b>		
Proceeds from line of credit	366,950	248,550
Payments on line of credit	(359,950)	(227,550)
Proceeds from other debt	3,709	6,821
Payments on other debt	(1,338)	(655)
Dividends distributed to noncontrolling interest	(1,109)	(720)
Proceeds from exercise of stock options	539	342
Excess tax benefit from equity-based awards	800	462
Purchase of treasury stock	(9,850)	(22,656)
Payments of debt issuance costs		(419)
Net cash (used in) provided by financing activities	(249)	4,175
Effect of exchange rate changes on cash and cash equivalents	3,926	8,552

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Increase in cash and cash equivalents		6,066		16,390
Cash and cash equivalents, beginning of period		164,485		156,371
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>170,551</b>	<b>\$</b>	<b>172,761</b>
<b>Supplemental disclosures</b>				
Cash paid for interest	\$	1,048	\$	873
Cash paid for income taxes	\$	1,751	\$	1,887
<b>Non-cash investing and financing activities</b>				
Landlord incentives credited to deferred rent	\$		\$	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, which includes 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, Kuwait, Lebanon, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, Spain, Thailand, South Africa, 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 ( 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 March 31, 2013, and the consolidated results of operations and comprehensive income and cash flows of the Company for the three months ended March 31, 2013 and 2012. Operating results for the three months ended March 31, 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**

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.

#### **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.

Table of Contents

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

**(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 March 31, 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 under 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 March 31, 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 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
Property, plant and equipment	33
Software	2,100
Goodwill	1,132
	3,369
Accounts payable	93
Total purchase price	\$ 3,276

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.

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

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 March 31, 2013, the fair value of the contingent consideration was \$3.8 million, of which \$1.1 million and \$2.7 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 during the three months ended March 31, 2012.

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

	<b>Acquisition Date Fair Value</b>
Cash	\$ 1,337
Accounts Receivable	1,792
Property, plant and equipment	161
Other assets	90
Customer relationships	1,400
Goodwill	447
	<b>5,227</b>

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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 will be 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.

Table of Contents

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

*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 March 31, 2013, the fair value of the contingent consideration was \$2.3 million, which was included in Other long-term liabilities in the accompanying Consolidated Balance Sheets.

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 for the year ended December 31, 2012.

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

	<b>Acquisition Date Fair Value</b>
Cash	\$ 376
Accounts Receivable	1,375
Property, plant and equipment	49
Other assets	228
Customer relationships	2,490
Goodwill	3,619
	8,137

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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 will be 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.

Table of Contents

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

*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 estimated working capital adjustment is approximately \$0.6 million and will be paid during the second quarter of 2013.

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 March 31, 2013 the fair value of the contingent consideration was \$6.8 million which was included in Other long-term liabilities in the accompanying Consolidated Balance Sheets.

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 during the year ended December 31, 2012.

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:

	<b>Preliminary Estimate of Acquisition Date Fair Value</b>
Cash	\$ 1,995
Accounts receivable	4,871
Prepaid assets - cost deferrals	3,665
Property, plant and equipment	583
Other assets	1,886

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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 will be 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 \$13.1 million and \$0.6 million and income from operations of \$0.6 million and \$0.1 million, inclusive of \$0.9 million and \$0.0 million of acquired intangible amortization, to the Company for the three months ended March 31, 2013 and 2012, respectively.

**(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.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

**Quarter Ended March 31, 2013**

	<b>Gross Revenue</b>	<b>Intersegment Sales</b>	<b>Net Revenue</b>	<b>Depreciation &amp; Amortization</b>	<b>Income (Loss) from Operations</b>
Customer Management Services	\$ 222,889	\$ (307)	\$ 222,582	\$ 7,862	\$ 20,731
Customer Growth Services	22,856		22,856	697	1,276
Customer Technology Services	33,646	(84)	33,562	1,516	2,898
Customer Strategy Services	9,930	(547)	9,383	480	(1,907)
<b>Total</b>	<b>\$ 289,321</b>	<b>\$ (938)</b>	<b>\$ 288,383</b>	<b>\$ 10,555</b>	<b>\$ 22,998</b>

**Quarter Ended March 31, 2012**

	<b>Gross Revenue</b>	<b>Intersegment Sales</b>	<b>Net Revenue</b>	<b>Depreciation &amp; Amortization</b>	<b>Income (Loss) from Operations</b>
Customer Management Services	\$ 234,876	\$	\$ 234,876	\$ 8,160	\$ 16,707
Customer Growth Services	22,764		22,764	800	(2,130)
Customer Technology Services	26,199	(647)	25,552	805	3,679
Customer Strategy Services	10,363	(901)	9,462	351	494
<b>Total</b>	<b>\$ 294,202</b>	<b>\$ (1,548)</b>	<b>\$ 292,654</b>	<b>\$ 10,116</b>	<b>\$ 18,750</b>

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Capital Expenditures</b>		
Customer Management Services	\$ 2,286	\$ 5,262
Customer Growth Services	316	546
Customer Technology Services	1,328	539
Customer Strategy Services	175	137
Total	\$ 4,105	\$ 6,484

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Total Assets</b>		
Customer Management Services	\$ 588,076	\$ 588,627
Customer Growth Services	54,906	54,164
Customer Technology Services	149,416	148,043
Customer Strategy Services	55,097	56,339
Total	\$ 847,495	\$ 847,173

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Goodwill</b>		
Customer Management Services	\$ 20,322	\$ 20,288
Customer Growth Services	24,439	24,439
Customer Technology Services	39,069	38,591
Customer Strategy Services	11,361	11,361
Total	\$ 95,191	\$ 94,679

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>		
United States	\$ 131,747	\$ 110,576
Philippines	86,108	78,665
Latin America	45,028	47,896
Europe / Middle East / Africa	16,984	38,366
Canada	4,290	12,953
Asia Pacific	4,226	4,198
Total	\$ 288,383	\$ 292,654

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 three months ended March 31, 2013. This client contributed 11.9% and 9.4% of total revenue for the three months ended March 31, 2013 and 2012. This client had an outstanding receivable balance of \$25.0 million and \$21.5 million as of March 31, 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 March 31, 2013.

**(5) GOODWILL**

Goodwill consisted of the following (amounts in thousands):

	December 31, 2012	Acquisitions	Impairments	Effect of Foreign Currency	March 31, 2013
Customer Management Services	\$ 20,288	\$	\$	\$ 34	\$ 20,322
Customer Growth Services	24,439				24,439
Customer Technology Services	38,591	478			39,069
Customer Strategy Services	11,361				11,361
<b>Total</b>	<b>\$ 94,679</b>	<b>\$ 478</b>	<b>\$</b>	<b>\$ 34</b>	<b>\$ 95,191</b>

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

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

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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 continues to exceed its carrying value by 4%. The Company will continue to review the calculated fair value of this reporting unit until the fair value is substantially in excess of its carrying value.

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 considers, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of March 31, 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 months ended March 31, 2013 and 2012 (amounts in thousands and net of tax):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Aggregate unrealized net gain/(loss) at beginning of year	\$ 9,559	\$ (5,852)
Add: Net gain/(loss) from change in fair value of cash flow hedges	4,099	7,071
Less: Net (gain)/loss reclassified to earnings from effective hedges	(1,919)	26
Aggregate unrealized net gain/(loss) at end of period	\$ 11,739	\$ 1,245

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

<b>As of March 31, 2013</b>	<b>Local Currency Notional Amount</b>	<b>U.S. Dollar Notional Amount</b>	<b>% Maturing in the Next 12 Months</b>	<b>Contracts Maturing Through</b>
Canadian Dollar	20,750	\$ 20,172	45.8%	June 2015
Philippine Peso	11,970,000	280,827(1)	41.5%	December 2016
Mexican Peso	1,130,000	80,569	50.6%	December 2015
British Pound Sterling	5,122	7,942(2)	76.6%	June 2014
New Zealand Dollar	199	150	100.0%	June 2013
		\$ 389,660		



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

	<b>Local Currency Notional Amount</b>		<b>U.S. Dollar Notional Amount</b>
<b>As of December 31, 2012</b>			
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 March 31, 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 March 31, 2013 and December 31, 2012.

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

	<b>Notional Amount</b>	<b>Variable Rate Received</b>	<b>Fixed Rate Paid</b>	<b>Contract Commencement Date</b>	<b>Contract Maturity Date</b>
As of March 31, 2013	\$ 25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	\$ 40 million				
As of December 31, 2012	\$ 25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	\$ 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 March 31, 2013 and December 31, 2012 the total notional amount of the Company's forward contracts used as fair value hedges were \$212.2 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 bifurcates the embedded derivative features of the lease contracts and valued these features as foreign currency derivatives. As of March 31, 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 March 31, 2013 and December 31, 2012 were as follows (amounts in thousands):

**March 31, 2013**

<b>Derivative contracts:</b>	<b>Designated as Hedging Instruments</b>		<b>Not Designated as Hedging Instruments</b>	
	<b>Foreign Exchange</b>	<b>Interest Rate</b>	<b>Foreign Exchange</b>	<b>Leases Embedded Derivative</b>
<b>Derivative classification:</b>	<b>Cash Flow</b>	<b>Cash Flow</b>	<b>Fair Value</b>	
<b>Fair value and location of derivative in the Consolidated Balance Sheet:</b>				
Prepays and other current assets	\$ 13,859	\$	\$ 237	\$
Other long-term assets	8,480			
Other current liabilities	(238)	(1,111)	(355)	(157)
Other long-term liabilities	(67)	(1,703)		(52)
Total fair value of derivatives, net	\$ 22,034	\$ (2,814)	\$ (118)	\$ (209)

**December 31, 2012**

<b>Derivative contracts:</b>	<b>Designated as Hedging Instruments</b>		<b>Not Designated as Hedging Instruments</b>	
	<b>Foreign Exchange</b>	<b>Interest Rate</b>	<b>Foreign Exchange</b>	<b>Leases Embedded Derivative</b>
<b>Derivative classification:</b>	<b>Cash Flow</b>	<b>Cash Flow</b>	<b>Fair Value</b>	
<b>Fair value and location of derivative in the Consolidated Balance Sheet:</b>				
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 for the three months ended March 31, 2013 and 2012 were as follows (amounts in thousands):

Derivative contracts: Derivative classification:	Three Months Ended March 31,			
	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 - effective portion, net of tax:	\$ 4,178	\$ (79)	\$ 7,234	\$ (163)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	\$ 3,460	\$	\$ (43)	\$
Interest Expense		(257)		
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 March 31,					
	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:						
Costs of services	\$	\$	\$ (69)	\$	\$	\$
Other income (expense), net	\$	\$ 1,438	\$	\$	\$ 2,169	\$

(7) **FAIR VALUE**

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

- Level 1      Quoted prices in active markets for identical assets or liabilities.
- Level 2      Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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

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 March 31, 2013 and December 31, 2012, the Company had \$115.0 million and \$108.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the first quarter of 2013 outstanding borrowings accrued interest at an average rate of 1.5% per annum, excluding unused commitment fees. The amounts recorded in the accompanying balance sheets approximate fair value due to the variable nature of the debt.

*Derivatives* - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of March 31, 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 March 31, 2013 and December 31, 2012 (amounts in thousands):

**As of March 31, 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	\$	\$ 22,034	\$	\$ 22,034
Interest rate swaps		(2,814)		(2,814)
Fair value hedges		(118)		(118)
Embedded derivatives		(209)		(209)
Total net derivative asset (liability)	\$	\$ 18,893	\$	\$ 18,893

**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 March 31, 2013 and December 31, 2012 (amounts in thousands):

**As of March 31, 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)
<b>Assets</b>			
Money market investments	\$	\$ 300	\$
Derivative instruments, net		18,893	
<b>Total assets</b>	<b>\$</b>	<b>\$ 19,193</b>	<b>\$</b>
<b>Liabilities</b>			
Deferred compensation plan liability	\$	\$ (5,436)	\$
Purchase price payable			(12,868)
<b>Total liabilities</b>	<b>\$</b>	<b>\$ (5,436)</b>	<b>\$ (12,868)</b>

**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)
<b>Assets</b>			
Money market investments	\$	\$ 350	\$
Derivative instruments, net		15,088	
<b>Total assets</b>	<b>\$</b>	<b>\$ 15,438</b>	<b>\$</b>
<b>Liabilities</b>			
Deferred compensation plan liability	\$	\$ (5,305)	\$
Purchase price payable			(12,533)
<b>Total liabilities</b>	<b>\$</b>	<b>\$ (5,305)</b>	<b>\$ (12,533)</b>

*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 \$14.5 million. Interest expense related to all recorded purchase price payables is included in Interest expense in the Consolidated Statements of Comprehensive Income.

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. A final decision in this matter is expected later this year.

As of March 31, 2013, the Company had \$48.5 million of gross deferred tax assets (after a \$19.0 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$45.8 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three months ended March 31, 2013 and 2012 was 11.4% and 9.9%, respectively.

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.

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

**Restructuring Charges**

During the three months ended March 31, 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 first quarter of 2013, \$14.1 million was paid and the remaining \$1.0 million was included in Other accrued expenses in the Consolidated Balance Sheets as of March 31, 2013.

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

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, respectively, is as follows (amounts in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Reduction in force		
Customer Management Services	\$ 694	\$ 1,855
Customer Growth Services		103
Customer Technology Services		
Customer Strategy Services	157	
Total	\$ 851	\$ 1,958

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

	<b>Closure of Delivery Centers</b>	<b>Reduction in Force</b>	<b>Total</b>
Balance as of December 31, 2012	\$	\$ 4,079	\$ 4,079
Expense		851	851
Payments		(2,120)	(2,120)
Changes in estimates			
Balance as of March 31, 2013	\$	\$ 2,810	\$ 2,810

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.

**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 months ended March 31, 2013 and 2012, the Company recognized no losses related to leasehold improvement assets.

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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.

### (10) COMMITMENTS AND CONTINGENCIES

#### **Credit Facility**

On October 1, 2010, the Company entered into a five-year, \$350.0 million revolving line of credit agreement (the Credit Agreement ) with a syndicate of lenders led by KeyBank National Association, Wells Fargo Bank, National Association, Bank of America, N.A., BBVA Compass, and JPMorgan Chase Bank, N.A. On March 27, 2012, the Company amended the Credit Agreement by increasing the aggregate commitment by \$150.0 million to \$500.0 million and revising certain definitions.

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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 March 31, 2013 and December 31, 2012, the Company had borrowings of \$115.0 million and \$108.0 million, respectively, under our Credit Agreement, and our average daily utilization was \$219.6 million and \$126.1 million for the three months ended March 31, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.8 million, our remaining borrowing capacity was \$381.2 million as of March 31, 2013. As of March 31, 2013, the Company was in compliance with all covenants and conditions under its Credit Agreement.

**Letters of Credit**

As of March 31, 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 March 31, 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**

From time to time, the Company has been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits 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 present information and advice received from counsel, the Company believes that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on its financial position, cash flows or results of operations. All legal fees are expensed as incurred.

In 2009, the municipality of Sao Paulo, Brazil assessed the Company's Brazilian subsidiary a services tax on certain equipment rental income earned in 2004 and 2005. In March 2011, the Company's Brazilian subsidiary filed a tax annulment action in the Sao Paulo municipal court to challenge the assessment of services taxes on rental income. Further, in order to halt the possibility of any further interest being charged against the alleged due tax assessments, the Company's Brazilian subsidiary gave a bank guarantee of 6.9 million Brazilian reais (approximately \$3.5 million USD as of March 31, 2013). In the second quarter of 2012, the Sao Paulo municipal court issued a ruling in favor of Sao Paulo on this

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

tax annulment action, which ruling the Company's Brazilian subsidiary has challenged. The Company's Brazilian subsidiary filed this challenge in the state court of Sao Paulo which is not bound by the decision of the Sao Paulo municipal court and where a ruling is not expected for the next one to two years. Based on an opinion received from legal counsel in Brazil, the Company believes that (i) the ruling issued by the Sao Paulo municipal court was incorrect and in contravention of a Brazil Supreme Court ruling concerning the invalidity of services taxes on rental income, (ii) the Brazilian subsidiary has valid defenses against the assessed services taxes and (iii) that payment of these services taxes is not probable. Accordingly, the Company has not recorded an expense as of March 31, 2013 for the Sao Paulo services tax assessment.

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

On October 12, 2012, an amended class action complaint was filed in the Superior Court of the State of California, County of Santa Clara, against TeleTech Services Corp. 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 disclosing that the calls might be recorded. The plaintiff seeks class certification, cash statutory damages and attorney fees. Pursuant to the Company's agreement with Google, Google has made a claim for full indemnification from the Company for all expenses incurred by Google in connection with the lawsuit. The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to this litigation, cannot reasonably be determined at this time. The Company intends to vigorously defend itself in these proceedings.

**(11) NONCONTROLLING INTEREST**

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Noncontrolling interest, January 1	\$ 14,045	\$ 11,260
Acquisition of noncontrolling interest		1,365
Net income attributable to noncontrolling interest	642	936
Dividends distributed to noncontrolling interest	(1,109)	(720)
Foreign currency translation adjustments	(90)	12
Equity based compensation expense	8	
Noncontrolling interest, March 31	\$ 13,496	\$ 12,853

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, including current period other comprehensive income and reclassifications out of accumulated other comprehensive income (amounts in thousands):

	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
<b>Accumulated other comprehensive income (loss) at December 31, 2012</b>	\$ 15,673	\$ 9,559	\$ (2,251)	\$ 22,981
Other comprehensive income before reclassifications	3,224	4,099	14	7,337
Amounts reclassified from accumulated other comprehensive income		(1,919)	148	(1,771)
Net current period other comprehensive income	3,224	2,180	162	5,566
<b>Accumulated other comprehensive income (loss) at March 31, 2013</b>	\$ 18,897	\$ 11,739	\$ (2,089)	\$ 28,547
<b>Accumulated other comprehensive income (loss) at December 31, 2011</b>	\$ 3,156	\$ (5,852)	\$ (2,778)	\$ (5,474)
Other comprehensive income before reclassifications	8,739	7,071	141	15,951
Amounts reclassified from accumulated other comprehensive income		26	204	230
Net current period other comprehensive income	8,739	7,097	345	16,181
<b>Accumulated other comprehensive income (loss) at March 31, 2012</b>	\$ 11,895	\$ 1,245	\$ (2,433)	\$ 10,707

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

	For the Three Months Ended March 31, 2013	March 31, 2012	Statement of Comprehensive Income Classification
<b>Derivative valuation</b>			
Gain (loss) on foreign currency forward exchange contracts	\$ 3,460	\$ (43)	Revenue
Loss on interest rate swaps	(257)		Interest expense

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Tax effect		(1,284)		17 Provision for income taxes
	\$	1,919	\$	(26) Net income (loss)
<b>Other</b>				
Actuarial loss on defined benefit plan	\$	(157)	\$	(217) Cost of services
Tax effect		9		13 Provision for income taxes
	\$	(148)	\$	(204) Net income (loss)

Table of Contents

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

**(13) NET INCOME PER SHARE**

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

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Shares used in basic earnings per share calculation	52,347	56,493
Effect of dilutive securities:		
Stock options	391	396
Restricted stock units	479	529
Performance-based restricted stock units		
Total effects of dilutive securities	870	925
Shares used in dilutive earnings per share calculation	53,217	57,418

For the three months ended March 31, 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 three months ended March 31, 2013 and 2012, restricted stock units (RSUs) of 0.4 million and 1.2 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 at the fair value of the award on the grant date. During the three months ended March 31, 2013 and 2012, the Company recognized total compensation expense of \$3.2 million and \$3.4 million, respectively. Of the total compensation expense, \$0.5 million and \$0.5 million was recognized in Cost of services and \$2.7 million and \$2.9 million was recognized in Selling, general and administrative.

**Stock Options**

As of March 31, 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

\$109,000 and \$130,000 for the three months ended March 31, 2013 and 2012, respectively.

#### **Restricted Stock Unit Grants**

During the three months ended March 31, 2013 and 2012, the Company granted 122,000 and 438,500 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 \$3.1 million and \$3.3 million for the three months ended March 31, 2013 and 2012, respectively. As of March 31, 2013, there was approximately \$24.3 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company's equity plans.

As of March 31, 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 months ended March 31, 2013 or 2012.

Table of Contents

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

**Introduction**

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;

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

- negotiated provisions in our contracts, including fee structures, early termination provisions and increased costs;
- 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;
- 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.

**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.

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 \$288.4 million in revenue we reported in the first quarter of 2013, approximately 23% or \$65.8 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 93% for our Customer Management Services and Customer Growth Services segments during the first quarter 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.

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. 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.

Table of Contents

**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;

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

- Build deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;
- Pursue new clients who lead their respective industries and who are committed to the customer experience as a differentiator;
- Target additional, accretive acquisitions that further complement and expand our integrated solution; 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.

Table of Contents

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.

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 so as 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.

Table of Contents

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

**Business Overview**

In the first quarter of 2013, our revenue decreased 1.5% to \$288.4 million over the same period in 2012, which included an increase of 0.6% or \$1.7 million due to fluctuations in foreign currency rates. Revenue decreased \$16.3 million related to the exit of unprofitable programs including our business in Spain, partially offset by the addition of 32 new clients and revenue from our acquisitions. Our first quarter 2013 income from operations increased 22.7% to \$23.0 million, or 8.0% of revenue, from \$18.8 million, or 6.4% of revenue, in the first quarter of 2012. This increase is primarily due to the exit of the unprofitable programs described above, increases in our capacity utilization and income related to our acquisitions. Income from operations for the first quarter 2013 and 2012 included an aggregate \$0.9 million and \$3.8 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 17,700 workstations and currently represents 66% of our global delivery capabilities. Revenue from services provided in these offshore locations was \$118.0 million and represented 47% of our revenue for the first quarter of 2013, as compared to \$122 million and 47% of total revenue for the first 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 March 31, 2013, we had \$170.6 million of cash and cash equivalents and a total debt to total capitalization ratio of 20.1%.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of March 31, 2013, the overall capacity utilization in our multi-client centers was 79%. The table below presents workstation data for our multi-client centers as of March 31, 2013 and 2012. Dedicated and managed centers (3,124 and 2,686 workstations as of March 31, 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.

	March 31, 2013			March 31, 2012		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
<b>Multi-client centers</b>						
Sites open <1 year	495	401	81%	2,074	586	28%
Sites open >1 year	23,376	18,408	79%	27,611	19,735	71%
Total multi-client centers	23,871	18,809	79%	29,685	20,321	68%

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.

Table of Contents

**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.

*Interest Expense*

Interest expense includes interest expense 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.

Table of Contents**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):

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net cash provided by operating activities	\$ 6,494	\$ 14,664
Less: Purchases of property, plant and equipment	4,105	6,374
Free cash flow	\$ 2,389	\$ 8,290

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

**Results of Operations****Three months ended March 31, 2013 compared to three months ended March 31, 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 March 31, 2013 and 2012 (amounts in thousands). All inter company transactions between the reported segments for the periods presented have been eliminated.

*Customer Management Services*

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	Three Months Ended March 31,				
	2013	2012		\$ Change	% Change
Revenue	\$ 222,582	\$ 234,876	\$	(12,294)	-5.2%
Operating Income	20,731	16,707		4,024	24.1%

The decrease in revenue for the Customer Management Services segment was attributable to a \$17.4 million net increase in client programs and a \$2.2 million increase in realized gains on cash flow hedges and positive changes in foreign exchange translation offset by a \$16.3 million reduction related to the exit of certain unprofitable programs including our business in Spain, and program completions of \$15.6 million.

The operating income as a percentage of revenue increased to 9.3% in the first quarter of 2013 as compared to 7.1% in the prior period. This increase in margin is primarily due to the exit of certain unprofitable programs as described above and the improvement in utilization of our capacity. We also incurred lower restructuring charges of \$0.7 million in the first quarter of 2013 as compared to \$1.9 million in the first quarter of 2012.

Table of Contents*Customer Growth Services*

	Three Months Ended March 31,				
	2013	2012	\$ Change		% Change
Revenue	\$ 22,856	\$ 22,764	\$ 92		0.4%
Operating Income	1,276	(2,130)	3,406		159.9%

The increase in revenue for the Customer Growth Services segment was due to a net increase in client programs of \$4.4 million offset by program completions of \$4.3 million.

The operating income as a percentage of revenue increased to 5.6% in the first quarter of 2013 as compared to (9.4%) in the prior period. 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. Included in the operating income was amortization related to acquired intangibles of \$0.2 million and \$0.2 million for the quarters ended March 31, 2013 and 2012, respectively.

*Customer Technology Services*

	Three Months Ended March 31,				
	2013	2012	\$ Change		% Change
Revenue	\$ 33,562	\$ 25,552	\$ 8,010		31.3%
Operating Income	2,898	3,679	(781)		-21.2%

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

The operating income as a percentage of revenue decreased to 8.6% in the first quarter of 2013 as compared to 14.4% in the prior period. This decrease was related to investments in integrating capabilities and fully developing a solutions portfolio, an increase in the mix of revenue between product and services, increases in sales and marketing expenses, and a \$0.7 million increase in amortization expense of the customer relationship asset and other intangible assets related to the acquisition of TSG. Included in the operating income was amortization related to acquired intangibles of \$1.0 million and \$0.6 million for the quarters ended March 31, 2013 and 2012, respectively.

*Customer Strategy Services*

	Three Months Ended March 31,				
	2013	2012	\$ Change		% Change
Revenue	\$ 9,383	\$ 9,462	\$ (79)		-0.8%

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Operating Income	(1,907)	494	(2,401)	-486.0%
------------------	---------	-----	---------	---------

The revenue was flat quarter over quarter inclusive of \$4.3 million of revenue related to the acquisitions of iKnowtion, LLC. and Guidon Performance Solutions.

The segment incurred an operating loss as a percentage of revenue of (20.3)% in the first quarter of 2013 as compared to 5.2% in the prior period. This decrease was primarily related to fully integrating the entities, infrastructure, and our suite of services across the segment, which 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 \$0.4 million and \$0.3 million for the quarters ended March 31, 2013 and 2012, respectively.

### *Other Income (Expense)*

For the three months ended March 31, 2013, interest income decreased slightly to \$0.7 million from \$0.8 million in the same period in 2012. Interest expense increased to \$1.9 million during 2013 from \$1.1 million during 2012, due to a higher outstanding balance on our credit facility and additional expense related to the interest rate swap arrangements.

Table of Contents

*Income Taxes*

The effective tax rate for the three months ended March 31, 2013 was 11.4%. This compares to an effective tax rate of 9.9% for the same period of 2012. The effective tax rate for the three months ended March 31, 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 \$0.9 million benefit related to changes in the valuation allowance, a \$0.2 million benefit related to restructuring charges, and \$0.4 million of benefit related to other discrete items recognized during the quarter, the Company's effective tax rate for the first quarter would have been 17.9%.

**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 October 1, 2010 as amended March 27, 2012. During the quarter ended March 31, 2013, we generated positive operating cash flows of \$6.5 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

We manage a centralized global treasury function in the United States with a focus on concentrating and safeguarding our global cash and cash equivalents. While the majority of our cash is held 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.

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 March 31, 2013 and December 31, 2012, we had borrowings of \$115.0 million and \$108.0 million, respectively, under our Credit Agreement, and our average daily utilization was \$219.6 million and \$126.1 million for the three months ended March 31, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.8 million, our remaining borrowing capacity was \$381.2 million as of March 31, 2013. As of March 31, 2013, we were in compliance with all covenants and conditions under our Credit Agreement.

The following discussion highlights our cash flow activities during the three months ended March 31, 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 \$170.6 million and \$164.5 million as of March 31, 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.

*Cash Flows from Operating Activities*

We reinvest our cash flows from operating activities in our business for strategic acquisitions and for the purchase of our outstanding stock. For the three months ended March 31, 2013 and 2012, net cash flows provided by operating activities was \$6.5 million and \$14.7 million, respectively. The decrease was primarily due to a \$7.0 million decrease in deferred revenue and a \$3.9 million decrease in payments made for operating expenses offset by a \$2.0 million increase in cash collected from accounts receivable.

Table of Contents*Cash Flows from Investing Activities*

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the three months ended March 31, 2013 and 2012, we reported net cash flows used in investing activities of \$4.1 million and \$11.0 million, respectively. The decrease was due to decreased spending in acquisitions along with a net \$2.3 million decrease in capital expenditures during the first three months of 2013.

*Cash Flows from Financing Activities*

For the three months ended March 31, 2013 and 2012, we reported net cash flows (used in) provided by financing activities of \$(0.2) million and \$4.2 million, respectively. The change in net cash flows from 2012 to 2013 was primarily due to a \$14.0 million decrease in net borrowings from our line of credit and \$3.1 million in proceeds from other debt offset by a decrease of \$12.8 million in purchases of our outstanding common stock.

*Free Cash Flow*

Free cash flow (see Presentation of Non GAAP Measurements for the definition of free cash flow) decreased for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 due to the decrease in cash flows provided by operating activities offset partially by a decrease in capital expenditures. Free cash flow was \$2.4 million and \$8.3 million for the three months ended March 31, 2013 and 2012, respectively.

**Obligations and Future Capital Requirements**

Future maturities of our outstanding debt and contractual obligations as of March 31, 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)	\$ 3,780	\$ 120,767	\$ 830	\$	\$ 125,377
Equipment financing arrangements	180	4			184
Contingent consideration	1,100	10,526	2,919		14,545
Purchase obligations	16,240	14,938			31,178
Operating lease commitments	26,861	36,865	22,585	6,325	92,636
Other debt	5,810	6,313	1,562		13,685
<b>Total</b>	<b>\$ 53,971</b>	<b>\$ 189,413</b>	<b>\$ 27,896</b>	<b>\$ 6,325</b>	<b>\$ 277,605</b>

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

(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 March 31, 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.

Table of Contents

*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% relate 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**

We discuss debt instruments and related covenants in Note 13 to the Notes to the Consolidated Financial Statements in our Annual Report on Form 10 K for the year ended December 31, 2012 and in Note 10 to the Notes to Consolidated Financial Statements in this Form 10-Q. As of March 31, 2013, we were in compliance with all covenants under the Credit Agreement and had approximately \$381.2 million in available borrowing capacity. We had \$115.0 million of outstanding borrowings and \$3.8 million of letters of credit outstanding under our Credit Agreement as of March 31, 2013. Based upon average outstanding borrowings during the three months ended March 31, 2013, interest accrued at a rate of approximately 1.5% per annum.

**Client Concentration**

During the first quarter of 2013, one of our clients represented 11.9% of our total revenue. Our five largest clients accounted for 40.7% and 36.7% of our consolidated revenue for the three months ended March 31, 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.

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.



Table of Contents**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 March 31, 2013, we had \$115.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three months ended March 31, 2013, interest accrued at a rate of approximately 1.5% per annum. 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 March 31, 2013 and December 31, 2012 were as follows:

	Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of March 31, 2013	\$ 25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	\$ 40 million				
As of December 31, 2012	\$ 25 million	1 - month LIBOR	2.55%	April 2012	April 2016
	15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	\$ 40 million				

**Foreign Currency Risk**

Our subsidiaries in Argentina, Canada, Costa Rica, Mexico, and the Philippines use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

or negatively affect our results of operations attributed to these subsidiaries. For the three months ended March 31, 2013 and 2012, revenue associated with this foreign exchange risk was 33% and 34% of our consolidated revenue, respectively.

Table of Contents

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

*Cash Flow Hedging Program*

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

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

Our cash flow hedging instruments as of March 31, 2013 and December 31, 2012 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
<b>As of March 31, 2013</b>				
Canadian Dollar	20,750	\$ 20,172	45.8%	June 2015
Philippine Peso	11,970,000	280,827(1)	41.5%	December 2016
Mexican Peso	1,130,000	80,569	50.6%	December 2015
British Pound Sterling	5,122	7,942(2)	76.6%	June 2014
New Zealand Dollar	199	150	100.0%	June 2013
		\$ 389,660		

	Local Currency Notional Amount	U.S. Dollar Notional Amount
<b>As of December 31, 2012</b>		
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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

Table of Contents

The fair value of our cash flow hedges at March 31, 2013 was assets/(liabilities) (amounts in thousands):

	<b>March 31, 2013</b>	<b>Maturing in the Next 12 Months</b>
Canadian Dollar	\$ 82	\$ 97
Philippine Peso	13,659	8,050
Mexican Peso	8,432	5,600
British Pound Sterling	(155)	(142)
New Zealand Dollar	16	16
	\$ 22,034	\$ 13,621

Our cash flow hedges are valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The increase in fair value from March 31, 2013 largely reflects a broad weakening in the U.S. dollar.

We recorded a net gain of approximately \$3.5 million and a net loss of (\$0.1) million for settled cash flow hedge contracts for the three months ended March 31, 2013 and 2012, respectively. These gains/(losses) were reflected in Revenue in the accompanying Consolidated Statements of Comprehensive Income. If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding increases or decreases in our underlying exposures.

Other than the transactions hedged as discussed above and in Note 6 of the Notes to Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in their respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the three months ended March 31, 2013 and 2012, approximately 23% and 28%, respectively of revenue was derived from contracts denominated in currencies other than the U.S. dollar. Our results from operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

**Fair Value of Debt and Equity Securities**

We did not have any investments in debt or equity securities as of March 31, 2013 or December 31, 2012.

**ITEM 4. CONTROLS AND PROCEDURES**

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

**Evaluation of Disclosure Controls and Procedures**

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

Table of Contents

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2013 to provide such reasonable assurance.

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits 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 present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations. All legal fees are expensed as incurred.

In 2009, the municipality of Sao Paulo, Brazil assessed the Company's Brazilian subsidiary a services tax on certain equipment rental income earned in 2004 and 2005. In March 2011, the Company's Brazilian subsidiary filed a tax annulment action in the Sao Paulo municipal court to challenge the assessment of services taxes on rental income. Further, in order to halt the possibility of any further interest being charged against the alleged due tax assessments, the Company's Brazilian subsidiary gave a bank guarantee of 6.9 million Brazilian reais (approximately \$3.5 million USD as of March 31, 2013). In the second quarter of 2012, the Sao Paulo municipal court issued a ruling in favor of Sao Paulo on this tax annulment action, which ruling the Company's Brazilian subsidiary has challenged. The Company's Brazilian subsidiary filed this challenge in the state court of Sao Paulo which is not bound by the decision of the Sao Paulo municipal court and where a ruling is not expected for the next one to two years. Based on an opinion received from legal counsel in Brazil, the Company believes that (i) the ruling issued by the Sao

## Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Paulo municipal court was incorrect and in contravention of a Brazil Supreme Court ruling concerning the invalidity of services taxes on rental income, (ii) the Brazilian subsidiary has valid defenses against the assessed services taxes and (iii) that payment of these services taxes is not probable. Accordingly, the Company has not recorded an expense as of March 31, 2013 for the Sao Paulo services tax assessment.

Table of Contents

On October 12, 2012, an amended class action complaint was filed in the Superior Court of the State of California, County of Santa Clara, against TeleTech Services Corp. 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 disclosing that the calls might be recorded. The plaintiff seeks class certification, cash statutory damages and attorney fees. Pursuant to the Company's agreement with Google, Google has made a claim for full indemnification from the Company for all expenses incurred by Google in connection with the lawsuit. The ultimate outcome of this litigation, and consequently, an estimate of the possible loss, if any, related to this litigation, cannot reasonably be determined at this time. The Company intends to vigorously defend itself in these proceedings.

**ITEM 1A. RISK FACTORS**

There were no material changes to the risk factors as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

Following is the detail of the issuer purchases made during the quarter ended March 31, 2013:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)(1)</b>
December 31, 2012				\$ 25,419
January 1, 2013 - January 31, 2013		\$		\$ 25,419
February 1, 2013 - February 28, 2013		\$		\$ 25,419
March 1, 2013 - March 31, 2013	486,858	\$ 20.22	486,858	\$ 15,576
<b>Total</b>	<b>486,858</b>		<b>486,858</b>	

(1) In November 2001, our Board of Directors ( Board ) authorized a stock repurchase program with the objective of increasing stockholder returns. The Board periodically authorizes additional increases to the program. The most recent Board authorization to purchase additional common stock occurred in December 2012, whereby the Board increased the program allowance by \$25.0 million. Since inception of the program through March 31, 2013, the Board has authorized the repurchase of shares up to a total value of \$537.3 million, of which we have purchased 37.7 million shares on the open market for \$521.7 million. As of March 31, 2013 the remaining amount authorized for repurchases under the program was approximately \$15.6 million. The stock repurchase program does not have an expiration date.



Table of Contents**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1	Amendment to Form of Global Restricted Stock Unit Agreement for Operating Committee Members (effective April 2013)**
10.2	Amendment to Form of Global Restricted Stock Unit Agreement for Non-Operating Committee Members (effective April 2013)**
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

---

\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the three months ended March 31, 2013 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELETECH HOLDINGS, INC.  
(Registrant)

Date: May 1, 2013

By: /s/ Kenneth D. Tuchman  
Kenneth D. Tuchman  
Chairman and Chief Executive Officer

Date: May 1, 2013

By: /s/ Regina M. Paolillo  
Regina M. Paolillo  
Chief Financial Officer

Table of Contents**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1	Amendment to Form of Global Restricted Stock Unit Agreement for Operating Committee Members (effective April 2013)**
10.2	Amendment to Form of Global Restricted Stock Unit Agreement for Non-Operating Committee Members (effective April 2013)**
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

---

\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the three months ended March 31, 2013 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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