TELETECH HOLDINGS INC
Form 10-Q
August 03, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

Yes No

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

Yes No

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

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

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

As of July 27, 2016, there were 47,243,253 shares of the registrant's common stock outstanding.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

JUNE 30, 2016 FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

(unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 55,330	$ 60,304
Accounts receivable, net	261,569	283,474
Prepaids and other current assets	68,262	64,180
Income tax receivable	12,379	7,114
Total current assets	397,540	415,072
Long-term assets		
Property, plant and equipment, net	170,124	168,289
Goodwill	114,092	114,183
Deferred tax assets, net	48,021	52,082
Other intangible assets, net	46,845	51,215
Other long-term assets	45,526	42,486
Total long-term assets	424,608	428,255
Total assets	$ 822,148	$ 843,327
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 41,724	$ 43,323
Accrued employee compensation and benefits	60,877	71,634
Other accrued expenses	22,216	33,160
Income tax payable	6,074	9,125
Deferred revenue	22,367	26,184
Other current liabilities	24,740	23,480
Total current liabilities	177,998	206,906
Long-term liabilities		
Line of credit	135,000	100,000
Deferred tax liabilities, net	3,496	3,333

Deferred rent	11,821	11,791
Other long-term liabilities	69,634	76,349
Total long-term liabilities	219,951	191,473
Total liabilities	397,949	398,379
Commitments and contingencies (Note 10)		
Mandatorily redeemable noncontrolling interest	—	4,131
Stockholders’ equity		
Preferred stock; $0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of June 30, 2016 and December 31, 2015	—	—
Common stock; $0.01 par value; 150,000,000 shares authorized; 47,319,652 and 48,481,323 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	474	485
Additional paid-in capital	347,704	347,251
Treasury stock at cost: 34,732,601 and 33,570,930 shares as of June 30, 2016 and December 31, 2015, respectively	(566,980)	(533,744)
Accumulated other comprehensive income (loss)	(98,542)	(101,365)
Retained earnings	734,441	720,989
Noncontrolling interest	7,102	7,201
Total stockholders’ equity	424,199	440,817
Total liabilities and stockholders’ equity	$ 822,148	$ 843,327

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	$ 305,105	$ 310,223	$ 617,515	$ 635,744
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	226,768	223,617	458,108	456,601
Selling, general and administrative	44,774	47,376	90,274	97,613
Depreciation and amortization	17,221	15,680	34,950	31,043
Restructuring charges, net	114	198	202	1,007
Total operating expenses	288,877	286,871	583,534	586,264
Income from operations	16,228	23,352	33,981	49,480
Other income (expense)				
Interest income	263	364	429	681
Interest expense	(1,753)	(1,676)	(3,717)	(3,374)
Other income (expense), net	756	1,294	1,234	987
Total other income (expense)	(734)	(18)	(2,054)	(1,706)
Income before income taxes	15,494	23,334	31,927	47,774
Provision for income taxes	(2,952)	(7,841)	(7,480)	(12,246)
Net income	12,542	15,493	24,447	35,528
Net income attributable to noncontrolling interest	(926)	(797)	(1,606)	(2,060)
Net income attributable to TeleTech stockholders	$ 11,616	$ 14,696	$ 22,841	$ 33,468
Other comprehensive income (loss)				
Net income	$ 12,542	$ 15,493	$ 24,447	$ 35,528
Foreign currency translation adjustments	(9,484)	(6,062)	472	(17,345)
Derivative valuation, gross	(5,965)	(4,662)	3,614	(6,307)
Derivative valuation, tax effect	2,363	1,845	(1,737)	3,338
Other, net of tax	225	234	400	(2,361)
Total other comprehensive income (loss)	(12,861)	(8,645)	2,749	(22,675)
Total comprehensive income (loss)	(319)	6,848	27,196	12,853

Less: Comprehensive income attributable to noncontrolling interest	(792)	(731)	(1,532)	(1,537)
Comprehensive income (loss) attributable to TeleTech stockholders	$ (1,111)	$ 6,117	$ 25,664	$ 11,316
Weighted average shares outstanding				
Basic	47,873	48,325	48,120	48,347
Diluted	48,221	49,064	48,483	49,113
Net income per share attributable to TeleTech stockholders				
Basic	$ 0.24	$ 0.30	$ 0.47	$ 0.69
Diluted	$ 0.24	$ 0.30	$ 0.47	$ 0.68
Dividends paid per share outstanding	$ 0.185	$ —	$ 0.185	$ 0.180

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders’ Equity

(Amounts in thousands)

(Unaudited)

	Stockholders’ Equity of the Company									
	Preferred Stock		Common Stock		Treasury	Additional	Accumulated Other Comprehensive	Retained	Noncontrolling	
	Shares	Amount	Shares	Amount	Stock	Paid-in Capital	Income (Loss)	Earnings	interest	Tota
s of r 31,	—	$ —	48,481	$ 485	$ (533,744)	$ 347,251	$ (101,365)	$ 720,989	$ 7,201	$ 4
ne	—	—	—	—	—	—	—	22,841	1,606	2
s to ers er share)	—	—	—	—	—	—	—	(8,923)	—	(
s d to olling	—	—	—	—	—	—	—	—	(1,710)	(
nts to on ily le olling	—	—	—	—	—	—	—	(466)	—	(
n nts es	—	—	—	—	—	—	546	—	(74)	4
net	—	—	—	—	—	—	1,877	—	—	1
f stock	—	—	154	2	2,404	(4,425)	—	—	—	(
of ons	—	—	29	—	458	(82)	—	—	—	3
x om	—	—	—	—	—	445	—	—	—	4

sed et sed tion	—	—	—	—	—	4,515	—	—	69	4
s of stock	—	—	(1,344)	(13)	(36,098)	—	—	—	—	(
t of	—	—	—	—	—	—	400	—	10	4
s of 2016	—	$ —	47,320	$ 474	$ (566,980)	$ 347,704	$ (98,542)	$ 734,441	$ 7,102	$ 4

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	$ 24,447	$ 35,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,950	31,043
Amortization of contract acquisition costs	334	537
Amortization of debt issuance costs	412	356
Imputed interest expense and fair value adjustments to contingent consideration	195	(123)
Provision for doubtful accounts	224	406
(Gain) loss on disposal of assets	(41)	(69)
Deferred income taxes	5,897	(341)
Excess tax benefit from equity-based awards	(521)	(409)
Equity-based compensation expense	4,584	5,278
(Gain) loss on foreign currency derivatives	62	2,600
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	23,945	9,191
Prepaids and other assets	(14,544)	790
Accounts payable and accrued expenses	(21,442)	13,282
Deferred revenue and other liabilities	(5,476)	(12,556)
Net cash provided by operating activities	53,026	85,513
Cash flows from investing activities		
Proceeds from sale of long-lived assets	63	116
Purchases of property, plant and equipment	(27,743)	(29,505)
Investments in non-marketable equity investments	—	(9,000)
Acquisitions, net of cash acquired of zero and zero, respectively	(400)	(1,775)
Net cash used in investing activities	(28,080)	(40,164)
Cash flows from financing activities		
Proceeds from line of credit	1,186,500	1,185,200
Payments on line of credit	(1,151,500)	(1,170,200)
Payments on other debt	(1,214)	(1,720)
Payments of contingent consideration and hold back payments to acquisitions	(9,467)	(11,883)
Dividends paid to shareholders	(8,923)	(8,710)
Payments to noncontrolling interest	(2,202)	(2,657)

Purchase of mandatorily redeemable noncontrolling interest	(4,105)	—
Proceeds from exercise of stock options	371	432
Excess tax benefit from equity-based awards	521	409
Payments of debt issuance costs	(1,883)	(35)
Purchase of treasury stock	(36,111)	(12,254)
Net cash used in financing activities	(28,013)	(21,418)
Effect of exchange rate changes on cash and cash equivalents	(1,907)	(7,405)
(Decrease) increase in cash and cash equivalents	(4,974)	16,526
Cash and cash equivalents, beginning of period	60,304	77,316
Cash and cash equivalents, end of period	$ 55,330	$ 93,842
Supplemental disclosures		
Cash paid for interest	$ 3,155	$ 2,693
Cash paid for income taxes	$ 13,705	$ 7,761
Non-cash operating, investing and financing activities		
Acquisition of long-lived assets through capital leases	$ 2,667	$ 5,353
Acquisition of equipment through increase in accounts payable, net	$ 289	$ 2,625
Contract acquisition costs credited to accounts receivable	$ 200	$ —

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1)OVERVIEW AND BASIS OF PRESENTATION

Summary of Business

TeleTech Holdings, Inc. and its subsidiaries (“TeleTech” or the “Company”) is a customer engagement management services provider, delivering integrated consulting, technology, growth and customer care solutions on a global scale. Our suite of products and services allows us to design and deliver engaging, outcome-based customer experiences across numerous interaction channels. TeleTech’s 41,500 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries via operations in the U.S., Australia, Belgium, Brazil, Bulgaria, Canada, China, Costa Rica, Germany, Hong Kong, Ireland, Israel, Lebanon, Macedonia, Mexico, New Zealand, the Philippines, Poland, Singapore, South Africa, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, and its 100% interest in iKnowtion, LLC effective January 2016 (see Note 12). All intercompany balances and transactions have been eliminated in consolidation.

The unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (“GAAP”), pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to state fairly the consolidated financial position of the Company and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

During the three months ended March 31, 2016, the Company recorded an additional tax expense of $1.1 million that should have been recorded in prior periods related to operations by an entity outside its country of incorporation. The total amount of $1.1 million should have been recorded as additional expense in the amount of $180 thousand in 2011, $123 thousand in 2012, $137 thousand in 2013, $358 thousand in 2014 and $301 thousand in 2015.

During the three months ended June 30, 2015, an additional expense of $1.75 million was recorded as an additional estimated tax liability that should have been recorded in prior periods related to ongoing discussions with relevant government authorities related to site compliance with tax advantaged status. The total amount of $1.75 million should have been recorded as additional tax expense in the amount of $466 thousand in 2012, $406 thousand in 2013, $645 thousand in 2014 and $234 thousand in the first quarter of 2015.

During the three months ended June 30, 2015, the Company recorded an additional $3.2 million loss related to foreign currency translation within Other comprehensive income (loss) that should have been recorded in 2014 and the three months ended March 31, 2015 to correct for an error in translating the financial results of Sofica Group AD, which the Company acquired on February 28, 2014. Of the $3.2 million recorded, approximately $1.7 million and $1.5 million should have been recorded in the year ended December 31, 2014 and the three months ended March 31, 2015, respectively. The Company also recorded an additional $2.7 million loss to “Other, net of tax” within Other comprehensive income (loss) in the three months ended March 31, 2015 related to the annual actuarial analysis for the Company’s Philippines pension liability that should have been recorded in the fourth quarter of 2014.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the three months ended December 31, 2015, the Company recorded an additional $2.9 million impairment to correct for an error in the goodwill impairment annual assessment and quarterly assessment for the WebMetro reporting unit. The Company should have recorded a $2.3 million impairment in the three months ended December 31, 2014 and an additional $0.6 million impairment in the three months ended September 30, 2015.

The Company has evaluated the aggregate impact of these adjustments and concluded that these adjustments were not material to the previously issued or current period consolidated financial statements.

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, 2015.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including the valuation allowance for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts, contingent consideration, and valuation of goodwill, long-lived and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ materially from these estimates under different assumptions or conditions.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. While ASU-2014-09 was originally effective for fiscal years and interim periods within those years, beginning after December 15, 2016, in August 2015, the FASB issued ASU 2015-14, "Deferral of Effective Date", deferring the effective date by one year, to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 requires all costs incurred in connection with the issuance of debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. This ASU is effective for interim and annual periods beginning on or after December 15, 2015 and early adoption is permitted. Beginning in 2016, the Company has applied the new guidance as applicable and the adoption of this standard did not have a material impact on its financial position, results of operations or related disclosures.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In February 2016, the FASB issued ASU 2016-02, “Leases”, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases and making targeted changes to lessor accounting. The ASU also requires new disclosures regarding the amounts, timing, and uncertainty of cash flows arising from leases. The ASU is effective for interim and annual periods beginning on or after December 15, 2018 and early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently assessing the impact on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting”, which amends the existing accounting standards related to stock-based compensation. The ASU simplifies several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for interim and annual periods beginning on or after December 15, 2016 and early adoption is permitted. The Company is currently determining its implementation approach and assessing the impact on the consolidated statements and related disclosures.

(2)ACQUISITIONS

rogenSi

In the third quarter of 2014, as an addition to the Customer Strategy Services (“CSS”) segment, the Company acquired substantially all operating assets of rogenSi Worldwide PTY, Ltd., a global leadership, change management, sales, performance training and consulting company.

The total purchase price was $34.4 million, subject to certain working capital adjustments, and consisted of $18.1 million in cash at closing and an estimated $14.5 million in three earn-out payments, contingent on the acquired companies and TeleTech’s CSS segment achieving certain agreed earnings before interest, taxes, depreciation and amortization (“EBITDA”) targets, as defined in the sale and purchase agreement. Additionally, the estimated purchase price included a $1.8 million hold-back payment for contingencies as defined in the sale and purchase agreement which was paid in the first quarter of 2016. The total contingent consideration possible per the sale and purchase agreement ranges from zero to $17.6 million and the earn-out payments are payable in early 2015, 2016 and 2017, based on July 1, 2014 through December 31, 2014, and full year 2015 and 2016 performance, respectively.

The fair value of the contingent consideration was measured by applying a probability weighted discounted cash flow model based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.6% and expected future value of payments of $15.3 million. The $15.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with the highest probability associated with rogenSi achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately $14.5 million. During the fourth quarter of 2014, the third quarter of 2015 and the fourth quarter of 2015, the Company recorded fair value adjustments of the contingent consideration of $0.5 million,

$0.8 million and $(0.3) million, respectively, based on revised estimates noting higher or lower probability of exceeding the EBITDA targets (see Note 7). As of June 30, 2016, the fair value of the remaining contingent consideration was $4.2 million, of which $4.2 million was included in Other accrued expenses in the accompanying Consolidated Balance Sheets.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Sofica

In the first quarter of 2014, as an addition to the Customer Management Services ("CMS") segment, the Company acquired a 100% interest in Sofica Group, a Bulgarian joint stock company ("Sofica"). Sofica provides customer lifecycle management and other business process services across multiple channels in multiple sites in over 18 languages.

The purchase price of $14.2 million included $9.4 million in cash consideration (including working capital adjustments) and an estimated $3.8 million in earn-out payments, payable in 2015 and 2016, contingent on Sofica achieving specified EBITDA targets, as defined by the stock purchase agreement. The total contingent consideration possible per the stock purchase agreement ranged from zero to $7.5 million. Additionally, the purchase price included a $1.0 million hold-back payment for contingencies, as defined in the stock purchase agreement, which was paid in the first quarter of 2016.

The fair value of the contingent consideration was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 5.0% and expected future value of payments of $4.0 million. The $4.0 million of expected future payments was calculated using a probability weighted EBITDA assessment with the highest probability associated with Sofica achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately $3.8 million. During the third and fourth quarters of 2014, the Company recorded fair value adjustments of the contingent consideration of $1.8 million and $0.6 million, respectively, based on revised estimates noting higher probability of exceeding the EBITDA targets (see Note 7). During the second quarter of 2015, the Company recorded a negative fair value adjustment for contingent consideration of $0.5 million based on revised estimates noting lower profitability than initially estimated. As of June 30, 2016, all of the contingent consideration has been paid.

(3)SEGMENT INFORMATION

The Company reports the following four segments:

· the CMS segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
· the CGS segment provides technology-enabled sales and marketing solutions that support revenue generation across the customer lifecycle, including sales advisory, search engine optimization, digital demand generation, lead qualification, and acquisition sales, growth and retention services;
· the CTS segment includes operational and design consulting, systems integration, and cloud and on-premise managed services, the requirements needed to design, deliver and maintain best-in-class multichannel customer engagement platforms; and
· the CSS segment provides professional services in customer experience strategy, customer intelligence analytics, system and operational process optimization, and culture development and knowledge management.

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 212,886	$ (79)	$ 212,807	$ 11,879	$ 8,339
Customer Growth Services	36,893	—	36,893	1,639	3,482
Customer Technology Services	37,479	(129)	37,350	2,855	3,376
Customer Strategy Services	18,055	—	18,055	848	1,031
Total	$ 305,313	$ (208)	$ 305,105	$ 17,221	$ 16,228

Three Months Ended June 30, 2015

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income from Operations
Customer Management Services	$ 219,316	$ —	$ 219,316	$ 11,053	$ 13,324
Customer Growth Services	30,570	—	30,570	1,523	2,122
Customer Technology Services	38,094	(7)	38,087	2,195	3,250
Customer Strategy Services	22,250	—	22,250	909	4,656
Total	$ 310,230	$ (7)	$ 310,223	$ 15,680	$ 23,352

Six Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income from Operations
Customer Management Services	$ 440,905	$ (177)	$ 440,728	$ 24,133	$ 23,934

Customer Growth Services	70,412	—	70,412	3,382	3,977
Customer Technology Services	72,849	(231)	72,618	5,730	6,156
Customer Strategy Services	33,757	—	33,757	1,705	(86)
Total	$ 617,923	$ (408)	$ 617,515	$ 34,950	$ 33,981

Six Months Ended June 30, 2015

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 462,325	—	$ 462,325	$ 21,850	$ 35,026
Customer Growth Services	56,526	—	56,526	3,008	2,148
Customer Technology Services	73,815	(14)	73,801	4,359	5,259
Customer Strategy Services	43,092	—	43,092	1,826	7,047
Total	$ 635,758	$ (14)	$ 635,744	$ 31,043	$ 49,480

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Capital Expenditures				
Customer Management Services	$ 9,260	$ 12,569	$ 21,238	$ 22,016
Customer Growth Services	1,984	1,832	3,171	3,137
Customer Technology Services	1,280	1,786	3,013	4,068
Customer Strategy Services	270	280	321	284
Total	$ 12,794	$ 16,467	$ 27,743	$ 29,505

	June 30, 2016	December 31, 2015
Total Assets		
Customer Management Services	$ 489,177	$ 512,100
Customer Growth Services	79,085	75,291
Customer Technology Services	160,139	159,850
Customer Strategy Services	93,747	96,086
Total	$ 822,148	$ 843,327

	June 30, 2016	December 31, 2015
Goodwill		
Customer Management Services	$ 22,106	$ 22,009
Customer Growth Services	24,439	24,439
Customer Technology Services	42,863	42,709
Customer Strategy Services	24,684	25,026
Total	$ 114,092	$ 114,183

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

Three Months Ended June 30,		Six Months Ended June 30,	
2016	2015	2016	2015

Revenue				
United States	$ 166,249	$ 157,740	$ 340,827	$ 329,393
Philippines	84,910	85,585	169,204	170,572
Latin America	29,164	37,623	59,322	78,177
Europe / Middle East / Africa	17,004	19,290	33,497	38,603
Asia Pacific	6,886	8,437	12,536	16,111
Canada	892	1,548	2,129	2,888
Total	$ 305,105	$ 310,223	$ 617,515	$ 635,744

(4)SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the six months ended June 30, 2016 and 2015. This client operates in the communications industry and is included in the CMS segment. This client contributed 10.7% and 11.5% of total revenue for the three months ended June 30, 2016 and 2015, respectively. This client contributed 10.2% and 10.9% of total revenue for the six months ended June 30, 2016 and 2015, respectively. This client had an outstanding receivable balance of $27.4 million and $29.2 million as of June 30, 2016 and 2015, respectively.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

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(UNAUDITED)

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, maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of June 30, 2016.

(5)GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2015	Acquisitions / Adjustments	Impairments	Effect of Foreign Currency	June 30, 2016
Customer Management Services	$ 22,009	$ —	$ —	$ 97	$ 22,106
Customer Growth Services	24,439	—	—	—	24,439
Customer Technology Services	42,709	154	—	—	42,863
Customer Strategy Services	25,026	—	—	(342)	24,684
Total	$ 114,183	$ 154	$ —	$ (245)	$ 114,092

The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended June 30, 2016, the Company assessed whether any such indicators of impairment existed and concluded there were none.

(6)DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company’s exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company's policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of June 30, 2016, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 (in thousands and net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Aggregate unrealized net gain/(loss) at beginning of period	$ (21,406)	$ (18,497)	(26,885)	(18,345)
Add: Net gain/(loss) from change in fair value of cash flow hedges	(145)	(4,119)	8,887	(5,410)
Less: Net (gain)/loss reclassified to earnings from effective hedges	(3,457)	1,302	(7,010)	2,441
Aggregate unrealized net gain/(loss) at end of period	$ (25,008)	$ (21,314)	$ (25,008)	$ (21,314)

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The Company’s foreign exchange cash flow hedging instruments as of June 30, 2016 and December 31, 2015 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

As of June 30, 2016	Local Currency Notional Amount	U.S. Dollar Notional Amount		% Maturing in the next 12 months		Contracts Maturing Through
Philippine Peso	15,315,000	334,869	(1)	48.4	%	May 2021
Mexican Peso	2,467,000	155,861		28.7	%	May 2021
		$ 490,730				

Local