TELETECH HOLDINGS INC
Form 10-Q
November 05, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

o **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 x No o

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

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

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

As of October 30, 2014, there were 48,732,502 shares of the registrant s common stock outstanding.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

SEPTEMBER 30, 2014 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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 87,612	$ 158,017
Accounts receivable, net	266,846	236,099
Prepaids and other current assets	67,803	52,332
Deferred tax assets, net	9,939	11,905
Income tax receivable	7,296	11,198
Total current assets	439,496	469,551
Long-term assets		
Property, plant and equipment, net	147,905	126,719
Goodwill	128,830	102,743
Contract acquisition costs, net	1,381	1,642
Deferred tax assets, net	42,868	42,791
Other intangible assets, net	61,831	54,812
Other long-term assets	38,998	44,084
Total long-term assets	421,813	372,791
Total assets	$ 861,309	$ 842,342
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 34,154	$ 32,031
Accrued employee compensation and benefits	68,421	80,130
Other accrued expenses	34,212	31,659
Income taxes payable	6,224	6,066
Deferred tax liabilities, net	34	590
Deferred revenue	30,187	28,799
Other current liabilities	15,666	11,512
Total current liabilities	188,898	190,787
Long-term liabilities		
Line of credit	115,000	100,000
Deferred tax liabilities, net	2,551	2,281
Deferred rent	9,080	9,635
Other long-term liabilities	75,297	63,648
Total long-term liabilities	201,928	175,564

Total liabilities		390,826		366,351
Commitments and contingencies (Note 10)				
Mandatorily redeemable noncontrolling interest		2,790		2,509
Stockholders equity				
Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of September 30, 2014 and December 31, 2013				
Common stock - $0.01 par value; 150,000,000 shares authorized; 48,805,900 and 50,352,881 shares outstanding as of September 30, 2014 and December 31, 2013, respectively		489		503
Additional paid-in capital		355,824		356,381
Treasury stock at cost: 33,246,353 and 31,699,372 shares as of September 30, 2014 and December 31, 2013, respectively		(518,745)		(477,399)
Accumulated other comprehensive income (loss)		(33,750)		(20,586)
Retained earnings		655,720		606,502
Noncontrolling interest		8,155		8,081
Total stockholders equity		467,693		473,482
Total liabilities and stockholders equity	$	861,309	$	842,342

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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue	$ 305,900	$ 296,995	$ 903,611	$ 875,070
Operating expenses				
Cost of services	220,244	208,648	646,346	625,689
Selling, general and administrative	49,847	50,165	148,016	142,080
Depreciation and amortization	13,893	11,463	41,152	33,281
Restructuring charges, net	593	758	1,750	4,181
Impairment losses				1,205
Total operating expenses	284,577	271,034	837,264	806,436
Income from operations	21,323	25,961	66,347	68,634
Other income (expense)				
Interest income	542	938	1,545	2,182
Interest expense	(1,646)	(1,799)	(5,197)	(5,567)
Loss on deconsolidation of subsidiary				(3,655)
Other income (expense), net	248	427	5,498	1,503
Total other income (expense)	(856)	(434)	1,846	(5,537)
Income before income taxes	20,467	25,527	68,193	63,097
Provision for income taxes	(5,778)	(6,358)	(14,071)	(12,603)
Net income	14,689	19,169	54,122	50,494
Net income attributable to noncontrolling interest	(1,442)	(1,526)	(3,795)	(2,575)
Net income attributable to TeleTech stockholders	$ 13,247	$ 17,643	$ 50,327	$ 47,919
Other comprehensive income (loss)				
Net income	$ 14,689	$ 19,169	$ 54,122	$ 50,494
Foreign currency translation adjustment	(16,660)	(1,708)	(11,373)	(18,191)
Derivative valuation, gross	(18,908)	(1,440)	(5,044)	(21,851)
Derivative valuation, tax effect	7,675	412	2,282	8,620
Other, net of tax	248	152	804	451
Total other comprehensive income (loss)	(27,645)	(2,584)	(13,331)	(30,971)
Total comprehensive income (loss)	(12,956)	16,585	40,791	19,523
Less: Comprehensive income attributable to noncontrolling interest	(1,053)	(1,642)	(3,212)	(2,471)

Comprehensive income (loss) attributable to TeleTech stockholders	$ (14,009)	$ 14,943	$ 37,579	$ 17,052
Weighted average shares outstanding				
Basic	49,093	50,732	49,493	51,643
Diluted	49,940	51,678	50,338	52,499
Net income per share attributable to TeleTech stockholders				
Basic	$ 0.27	$ 0.35	$ 1.02	$ 0.93
Diluted	$ 0.27	$ 0.34	$ 1.00	$ 0.91

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							
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total Equity
Balance as of December 31, 2013		$	50,353	$ 503	$ (477,399)	$ 356,381	$ (20,586)	$ 606,502	$ 8,081	$ 473,482
Net income								50,327	3,379	53,706
Dividends distributed to noncontrolling interest									(3,150)	(3,150)
Adjustments to redemption value of mandatorily redeemable noncontrolling interest								(1,109)		(1,109)
Foreign currency translation adjustments							(11,206)		(167)	(11,373)
Derivatives valuation, net of tax							(2,762)			(2,762)
Vesting of restricted stock units			346	4	5,203	(9,983)				(4,776)
Exercise of stock options			47	1	713	(400)				314
Excess tax benefit from equity-based awards						885				885
Equity-based compensation expense						8,941			12	8,953
Purchases of common stock			(1,940)	(19)	(47,262)					(47,281)
Other							804			804
Balance as of September 30, 2014		$	48,806	$ 489	$ (518,745)	$ 355,824	$ (33,750)	$ 655,720	$ 8,155	$ 467,693

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)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities		
Net income	$ 54,122	$ 50,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,152	33,281
Amortization of contract acquisition costs	740	753
Amortization of debt issuance costs	527	488
Imputed interest expense and fair value adjustments to contingent consideration	(3,675)	933
Provision for doubtful accounts	471	412
Gain on disposal of assets		(94)
Impairment losses		1,205
Deferred income taxes	13,051	5,467
Excess tax benefit from equity-based awards	(1,086)	(1,074)
Equity-based compensation expense	9,031	9,842
Gain on foreign currency derivatives	1,756	(75)
Loss on deconsolidation of subsidiary, net of cash of zero and $897, respectively		2,758
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(24,179)	709
Prepaids and other assets	(16,118)	(11,241)
Accounts payable and accrued expenses	(17,830)	(14,020)
Deferred revenue and other liabilities	3,945	(3,225)
Net cash provided by operating activities	61,907	76,613
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	135	
Purchases of property, plant and equipment, net of acquisitions	(52,234)	(31,832)
Acquisitions, net of cash acquired of $3,525 and $6,423, respectively	(23,903)	(8,956)
Net cash used in investing activities	(76,002)	(40,788)
Cash flows from financing activities		
Proceeds from line of credit	1,540,100	1,114,050
Payments on line of credit	(1,525,100)	(1,104,050)
Proceeds from other debt		3,709
Payments on other debt	(3,769)	(4,293)
Payments of contingent consideration related to acquisitions	(8,547)	
Dividends paid to noncontrolling interest	(4,838)	(3,420)
Proceeds from exercise of stock options	314	856
Excess tax benefit from equity-based awards	1,086	1,074
Purchase of treasury stock	(47,281)	(51,627)
Payments of debt issuance costs		(1,800)
Net cash used in financing activities	(48,035)	(45,501)

Effect of exchange rate changes on cash and cash equivalents		(8,275)		(9,906)
Decrease in cash and cash equivalents		(70,405)		(19,582)
Cash and cash equivalents, beginning of period		158,017		164,485
Cash and cash equivalents, end of period	$	87,612	$	144,903
Supplemental disclosures				
Cash paid for interest	$	4,038	$	3,271
Cash paid for income taxes	$	10,540	$	12,329
Non-cash investing and financing activities				
Acquisition of equipment through increase in accounts payable	$	2,944	$	3,803
Landlord incentive credited to deferred rent	$		$	1,016
Contract acquisition costs credited to accounts receivable	$		$	1,000

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. (TeleTech or the Company) is a leading provider of customer strategy, analytics-driven and technology-enabled customer engagement management solutions with 41,700 employees delivering services across 25 countries from 59 delivery centers on six continents.

We have deep industry expertise and serve more than 250 customer-focused industry leaders in the Global 1000. Our business is structured and reported in four segments: Customer Management Services (CMS), Customer Growth Services (CGS), Customer Technology Services (CTS), and Customer Strategy Services (CSS).

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, its 80% interest in iKnowtion, LLC, and its 80% interest in Peppers & Rogers Group through the third quarter of 2013 when the final 20% interest was purchased (see Note 2). 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 present 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, 2014.

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, 2013.

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 valuation allowances 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 April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This new guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. Beginning in 2015, the Company will apply the new guidance, as applicable, to future disposals of components or classifications as held for sale.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and 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 June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period . ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. Beginning in 2016, the Company will apply the new guidance as applicable.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern , as a new Sub-topic, Accounting Standards Codification Sub-topic 205.40. The new going concern standard codifies in GAAP management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. This ASU is effective for interim and annual periods beginning on or after December 15, 2016 and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its financial position, results of operation or related disclosures.

(2) ACQUISITIONS

rogenSi

In the third quarter of 2014, the Company acquired substantially all operating assets of rogenSi Worldwide PTY, Ltd., a global sales and leadership performance training and applied leadership consulting company.

The total purchase price was $33.8 million, subject to certain working capital adjustments, and consists of $17.5 million in cash at closing and $14.5 million in three earn-out payments, contingent on the acquired companies and TeleTech s CSS business 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 will be paid in the first quarter of 2016, if required. 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 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 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. As of September 30, 2014, the fair value of the contingent consideration was $14.5 million, of which $5.8 million and $8.7 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

		Preliminary Estimate of Acquisition Date Fair Value
Cash	$	2,668
Accounts receivable		6,415
Other assets		3,342
Property, plant and equipment		578
Customer relationships		9,169
Goodwill		18,038
		40,210
Accounts payable		715
Accrued employee compensation and benefits		2,199
Accrued expenses		1,112
Other		2,427
		6,453
Total purchase price	$	33,757

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 above.

The rogenSi customer relationships have been estimated based on similar acquisitions and are amortized over an estimated useful life of five years. The goodwill recognized from the rogenSi acquisition is estimated to be attributable, but not limited to, the acquired workforce and expected synergies within CSS and the Company s other segments. A portion of the tax basis of the acquired intangibles and goodwill, determined by jurisdiction, will be deductible for income tax purposes. The acquired goodwill and the operating results of rogenSi are reported within the CSS segment from the date of acquisition.

Sofica

In the first quarter of 2014, 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 estimated purchase price of $14.2 million included $9.4 million in cash consideration (including working capital adjustments) and $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. Additionally, the estimated purchase price includes a $1.0 million hold-back payment for contingencies as defined in the stock purchase agreement which will be paid in the second quarter of 2016, if required.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 quarter of 2014, the Company recorded a fair value adjustment of the contingent consideration of $1.8 million based on revised estimates noting higher probability of exceeding the EBITDA targets (see Note 7). As of September 30, 2014, the fair value of the contingent consideration was $5.7 million, of which $2.8 million and $2.9 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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

		Preliminary Estimate of Acquisition Date Fair Value
Cash	$	857
Accounts receivable		3,175
Other assets		378
Property, plant and equipment		653
Customer relationships		3,531
Goodwill		7,603
		16,197
Accounts payable		296
Accrued employee compensation and benefits		697
Accrued expenses		664
Deferred tax liability and other		368
		2,025
Total purchase price	$	14,172

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 above.

The Sofica customer relationships have been estimated based on similar acquisitions and are amortized over an estimated useful life of five years. The goodwill recognized from the Sofica acquisition was attributable primarily to the acquired workforce of Sofica, expected synergies, and other factors. A portion of the tax basis of the acquired intangibles and goodwill, determined by jurisdiction, will be deductible for income tax purposes. The acquired goodwill and the operating results of Sofica are reported within the CMS segment from the date of acquisition.

WebMetro

In the third quarter of 2013, the Company acquired 100% of WebMetro, a California corporation (WebMetro), a digital marketing agency.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The total purchase price was $17.8 million, including $15.3 million in cash consideration (inclusive of working capital adjustments) and $2.5 million in earn-out payments, payable in 2014 and 2015, contingent on WebMetro achieving specified EBITDA targets, as defined by the stock purchase agreement. The first contingent payment of $1.0 million was made in the second quarter of 2014. During the third quarter of 2014, the Company recorded a fair value adjustment to reduce the contingent consideration by $1.7 million based on revised estimates noting the achievement of the EBITDA target is remote (see Note 7). The acquired goodwill and the operating results of WebMetro are reported within the CGS segment.

In the third quarter of 2014, the Company finalized its valuation of WebMetro for the acquisition date assets acquired and liabilities assumed. There were no material measurement period adjustments in 2014.

Financial Impact of Acquired Businesses

The acquired businesses purchased in 2014 and 2013 noted above contributed revenues of $11.1 million and $23.9 million and income from operations of $1.0 million and $1.9 million, inclusive of $0.8 million and $2.1 million of acquired intangible amortization, to the Company for the three and nine months ended September 30, 2014. The acquired businesses purchased in 2013 noted above contributed revenues of $2.5 million and $2.5 million and income from operations of $0.4 million and $0.4 million, inclusive of $0.3 million and $0.3 million of acquired intangibles amortization to the Company for the three and nine months ended September 30, 2013.

Peppers & Rogers Group

In the third quarter of 2013, the Company acquired the remaining 20% interest in Peppers & Rogers Group (PRG) for $425 thousand. The buy-out accelerated TeleTech s rights pursuant to the sale and purchase agreement to acquire the remaining portion of the business in 2015.

(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 September 30, 2014

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 226,814	$	$ 226,814	$ 9,973	$ 18,625
Customer Growth Services	28,765		28,765	1,511	1,800
Customer Technology Services	35,203	(9)	35,194	1,927	(286)
Customer Strategy Services	15,127		15,127	482	1,184
Total	$ 305,909	$ (9)	$ 305,900	$ 13,893	$ 21,323

Three Months Ended September 30, 2013

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 217,347	$ (312)	$ 217,035	$ 8,322	$ 17,944
Customer Growth Services	25,893		25,893	1,148	588
Customer Technology Services	40,712	(63)	40,649	1,538	5,165
Customer Strategy Services	13,418		13,418	455	2,264
Total	$ 297,370	$ (375)	$ 296,995	$ 11,463	$ 25,961

Nine Months Ended September 30, 2014

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 673,421	$	$ 673,421	$ 29,607	$ 55,941
Customer Growth Services	86,545		86,545	4,535	5,401
Customer Technology Services	103,735	(28)	103,707	5,650	1,641
Customer Strategy Services	39,938		39,938	1,360	3,364
Total	$ 903,639	$ (28)	$ 903,611	$ 41,152	$ 66,347

Nine Months Ended September 30, 2013

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 661,201	$ (943)	$ 660,258	$ 24,716	$ 55,140
Customer Growth Services	71,148		71,148	2,622	1,244
Customer Technology Services	111,075	(220)	110,855	4,543	13,882
Customer Strategy Services	33,604	(795)	32,809	1,400	(1,632)
Total	$ 877,028	$ (1,958)	$ 875,070	$ 33,281	$ 68,634

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Capital Expenditures				
Customer Management Services	$ 13,891	$ 15,108	$ 38,390	$ 25,504
Customer Growth Services	1,270	1,274	2,939	2,025
Customer Technology Services	2,371	1,642	10,409	3,930
Customer Strategy Services	219	148	496	373
Total	$ 17,751	$ 18,172	$ 52,234	$ 31,832

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	September 30, 2014	December 31, 2013
Total Assets		
Customer Management Services	$ 540,868	$ 554,015
Customer Growth Services	85,202	86,416
Customer Technology Services	168,026	157,040
Customer Strategy Services	67,213	44,871
Total	$ 861,309	$ 842,342

	September 30, 2014	December 31, 2013
Goodwill		
Customer Management Services	$ 27,274	$ 19,819
Customer Growth Services	30,395	30,128
Customer Technology Services	42,709	42,709
Customer Strategy Services	28,452	10,087
Total	$ 128,830	$ 102,743

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
United States	$ 143,854	$ 137,205	$ 427,919	$ 401,294
Philippines	89,963	89,206	262,171	263,365
Latin America	42,725	43,343	128,029	132,673
Europe / Middle East / Africa	20,825	18,929	62,308	52,551
Asia Pacific	7,168	4,504	18,926	13,087
Canada	1,365	3,808	4,258	12,100
Total Revenue	$ 305,900	$ 296,995	$ 903,611	$ 875,070

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the nine months ended September 30, 2014. This client contributed 11.9% and 11.5% of total revenue for the three months ended September 30, 2014 and 2013. This client contributed 11.9% and 11.7% for the nine months ended September 30, 2014 and 2013. This client had an outstanding receivable balance of $31.5 million and $29.3 million as of September 30, 2014 and 2013.

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 September 30, 2014.

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(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2013	Acquisitions/ Adjustments	Impairments	Effect of Foreign Currency	September 30, 2014
Customer Management Services	$ 19,819	$ 7,603	$	$ (148)	$ 27,274
Customer Growth Services	30,128	267			30,395
Customer Technology Services	42,709				42,709
Customer Strategy Services	10,087	18,388		(23)	28,452
Total	$ 102,743	$ 26,258	$	$ (171)	$ 128,830

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.

The Company identified a triggering event based on the continued decline during the second quarter of 2014 in operating results of the TSG reporting unit within the CTS segment. At June 30, 2014, the Company completed an interim quantitative assessment of the TSG reporting unit s fair value using an income based approach. Key assumptions used in the fair value calculation included, but were not limited to, a perpetuity growth rate of 3.0% based on the current inflation rate combined with the GDP growth rate for the reporting unit s geographical region and a discount rate of 19.1%, 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 were based on the Company s internal business plan and adjusted as appropriate for the Company s view of market participant assumptions. The business plan assumed the occurrence of certain events in the future, such as realignment of operations and reduction of general and administrative costs. Significant differences in 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. The goodwill attributable to the TSG reporting unit was $23.0 million. As of June 30, 2014, the fair value of the TSG reporting unit exceeded its carrying value by 8%. The TSG reporting unit is meeting expectation and there were no further triggering events. The Company will continue to review the calculated fair value of the TSG reporting unit until the fair value is substantially in excess of its carrying value.

During the quarter ended September 30, 2014, the Company assessed whether any indicators of impairment existed for any of the reporting units 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 September 30, 2014, 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 nine months ended September 30, 2014 and 2013 (in thousands and net of tax):

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	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Aggregate unrealized net gain/(loss) at beginning of period	$ 119	$ (2,644)	$ (8,352)	$ 9,559
Add: Net gain/(loss) from change in fair value of cash flow hedges	(11,245)	(630)	(4,948)	(9,332)
Less: Net (gain)/loss reclassified to earnings from effective hedges	12	(398)	2,186	(3,899)
Aggregate unrealized net gain/(loss) at end of period	$ (11,114)	$ (3,672)	$ (11,114)	$ (3,672)

The Company s foreign exchange cash flow hedging instruments as of September 30, 2014 and December 31, 2013 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

As of September 30, 2014	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	3,000	$ 2,909	100.0%	June 2015
Philippine Peso	17,753,000	405,369(1)	34.7%	August 2019
Mexican Peso	2,411,000	171,234	28.9%	July 2019
Total		$ 579,512		

As of December 31, 2013	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	7,500	$ 7,336
Philippine Peso	17,355,000	404,638(1)
Mexican Peso	2,305,500	166,132
British Pound Sterling	1,200	1,853
New Zealand Dollar	150	117
Total		$ 580,076

(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 September 30, 2014 and December 31, 2013.

The Company s interest rate swap arrangements as of September 30, 2014 and December 31, 2013 were as follows:

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of September 30, 2014	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
and December 31, 2013		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 September 30, 2014 and December 31, 2013 the total notional amounts of the Company s forward contracts used as fair value hedges were $226.8 million and $204.5 million, respectively.

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Derivative Valuation and Settlements

The Company s derivatives and related fair value as of September 30, 2014 and December 31, 2013 were as follows (in thousands):

	September 30, 2014			
Designation:	**Designated as Hedging Instruments**		**Not Designated as Hedging Instruments**	
Derivative contract type:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	**Embedded Derivative**
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 1,998	$	$ 77	$
Other long-term assets	1,184			
Other current liabilities	(8,671)	(1,019)	(2,585)	
Other long-term liabilities	(11,609)	(562)		
Total fair value of derivatives, net	$ (17,098)	$ (1,581)	$ (2,508)	$

	December 31, 2013			
Designation:	**Designated as Hedging Instruments**		**Not Designated as Hedging Instruments**	
Derivative contract type:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	**Embedded Derivative**
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 3,379	$	$ 97	$
Other long-term assets	1,439			
Other current liabilities	(4,595)	(1,028)	(815)	(116)
Other long-term liabilities	(11,708)	(1,124)		
Total fair value of derivatives, net	$ (11,485)	$ (2,152)	$ (718)	$ (116)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the three months ended September 30, 2014 and 2013 were as follows (in thousands):

	Three Months Ended September 30,			
	2014		2013	
Designation :	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange	Interest Rate	Foreign Exchange	Interest Rate
Derivative classification:	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	$ (11,271)	$ 26	$ (476)	$ (154)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ 248	$	$ 917	$
Interest Expense		(267)		(264)

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	Three Months Ended September 30,											
	2014						2013					
Designation :	Not Designated as Hedging Instruments						Not Designated as Hedging Instruments					
Derivative contract type:	Foreign Exchange				Leases		Foreign Exchange				Leases	
Derivative classification:	Option and Forward Contracts		Fair Value		Embedded Derivative		Option and Forward Contracts		Fair Value		Embedded Derivative	
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income:												
Costs of services	$		$		$		$		$		$	18
Other income (expense), net	$		$	3,708	$		$		$	(2,373)	$	

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the nine months ended September 30, 2014 and 2013 were as follows (in thousands):

	Nine Months Ended September 30,							
	2014				2013			
Designation :	Designated as Hedging Instruments				Designated as Hedging Instruments			
Derivative contracts:	Foreign Exchange		Interest Rate		Foreign Exchange		Interest Rate	
Derivative classification:	Cash Flow		Cash Flow		Cash Flow		Cash Flow	
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	$	(4,814)	$	(134)	$	(9,254)	$	(78)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:								
Revenue	$	(2,795)	$		$	7,227	$	
Interest Expense				(790)				(778)

	Nine Months Ended September 30,											
	2014						2013					
Designation :	Not Designated as Hedging Instruments						Not Designated as Hedging Instruments					
Derivative contract type:	Foreign Exchange				Leases		Foreign Exchange				Leases	
Derivative classification:	Option and Forward Contracts		Fair Value		Embedded Derivative		Option and Forward Contracts		Fair Value		Embedded Derivative	
Amount and location of net gain or (loss) recognized in the Consolidated Statement of												

Comprehensive Income:						
Costs of services	$	$	$ 116	$	$	$ 131
Other income (expense), net	$	$ 1,502	$	$	$ (3,620)	$

(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.

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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 September 30, 2014 and December 31, 2013 for the Company s assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

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 September 30, 2014 and December 31, 2013, the Company had $115.0 million and $100.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the three and nine months ended September 30, 2014 outstanding borrowings accrued interest at an average rate of 1.2% and 1.2% per annum, respectively, excluding unused commitment fees. The amounts recorded in the accompanying balance sheets approximate fair value due to the variable nature of the debt.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of September 30, 2014, 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 September 30, 2014 and December 31, 2013 (in thousands):

As of September 30, 2014

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**

	(Level 1)		(Level 2)		(Level 3)		At Fair Value
Cash flow hedges	$	$	(17,098)	$		$	(17,098)
Interest rate swaps			(1,581)				(1,581)
Embedded derivatives							
Fair value hedges			(2,508)				(2,508)
Total net derivative asset (liability)	$	$	(21,187)	$		$	(21,187)

As of December 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)		At Fair Value
Cash flow hedges	$	$	(11,485)	$		$	(11,485)
Interest rate swaps			(2,152)				(2,152)
Fair value hedges			(718)				(718)
Embedded derivatives			(116)				(116)
Total net derivative asset (liability)	$	$	(14,471)	$		$	(14,471)

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The following is a summary of all the Company s fair value measurements as of September 30, 2014 and December 31, 2013 (in thousands):

As of September 30, 2014

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets			
Money market investments	$	$	$
Derivative instruments, net			
Total assets	$	$	$
Liabilities			
Deferred compensation plan liability	$	$ (8,237)	$
Derivative instruments, net		(21,187)	
Contingent consideration			(27,302)
Total liabilities	$	$ (29,424)	$ (27,302)

As of December 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)**
Assets			
Money market investments	$	$ 240	$
Derivative instruments, net			
Total assets	$	$ 240	$
Liabilities			
Deferred compensation plan liability	$	$ (6,829)	$
Derivative instruments, net		(14,471)	
Contingent consideration			(21,748)
Total liabilities	$	$ (21,300)	$ (21,748)

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 by the banks based upon the funds net asset values (NAV). As of December 31, 2013, the money market funds 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.

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Contingent Consideration The Company recorded contingent consideration related to the acquisitions of iKnowtion, Guidon, TSG, WebMetro, Sofica and rogenSi. These contingent payables were recognized at fair value using a discounted cash flow approach and a discount rate of 21.0%, 21.0%, 4.6%, 5.3%, 5.0% or 4.6%, respectively. The discount rates vary dependant on the specific risks of each acquisition including the country of operation, the nature of services and complexity of the acquired business, and other factors. These measurements were based on significant inputs not observable in the market. The Company will accrete interest expense each period using the effective interest method until the future value of these contingent payables reaches their expected future value of $28.5 million. Interest expense related to all recorded contingent payables is included in Interest expense in the Consolidated Statements of Comprehensive Income (Loss).

During the second quarter of 2014, the Company recorded a fair value adjustment of the contingent consideration associated with the TSG reporting unit within the CTS segment based on revised estimates noting achievement of the targeted 2014 EBITDA is remote. Accordingly, a $4.0 million reduction in the payable was recorded as of June 30, 2014 and was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

During the third quarter of 2014, the Company recorded a fair value adjustment of the contingent consideration associated with the Sofica reporting unit within the CMS segment of $1.8 million as revised estimates reflect Sofica exceeding its EBITDA targets under stock purchase agreement for both 2014 and 2015. Accordingly, the $1.8 million increase in the payable was recorded as of September 30, 2014 and is included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

Additionally, during the third quarter of 2014, the Company recorded a fair value adjustment of the contingent consideration associated with the WebMetro reporting unit within the CGS segment based on revised estimates noting achievement of the targeted 2014 EBITDA is remote. Accordingly, a $1.7 million reduction in the payable was recorded as of September 30, 2014 and was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

A rollforward of the activity in the Company s fair value of the contingent consideration is as follows (in thousands):

	December 31, 2013	Acquisitions	Payments	Imputed Interest / Adjustments	September 30, 2014
iKnowtion	$ 3,470	$	$ (1,400)	$ 165	$ 2,235
Guidon	2,637		(1,426)	(211)	1,000
TSG	12,933		(5,292)	(3,799)	3,842
WebMetro	2,708		(1,026)	(1,682)	
Sofica		3,830		1,822	5,652
rogenSi		14,543		30	14,573

Total	$ 21,748	$ 18,373	$ (9,144)	$ (3,675)	$ 27,302

(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.

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During the first quarter of 2014, a benefit of $1.2 million was recorded due to the closing of statutes of limitations in Canada.

During the third quarter of 2014, the Company settled an audit with the taxing authorities in the Netherlands for tax years 2010 and 2011. An expense of $1.3 million was recorded in the quarter as a result of that settlement and the related impact through 2014.

As of September 30, 2014, the Company had $52.8 million of gross deferred tax assets (after an $10.2 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of $50.2 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three and nine months ended September 30, 2014 was 28.2% and 20.6%, respectively. The effective tax rate for the three and nine months ended September 30, 2013 was 24.9% and 20.0%, respectively.

The Company s U.S. income tax returns filed for the tax years ending December 31, 2011 to present remain open tax years. The IRS has concluded its audit in the United Sates for tax years 2009, 2011 and 2012 resulting in no changes to the Company s financial statements or tax liabilities as previously reported.

The Company is currently under audit of income taxes in Canada for tax years 2009 and 2010. Although the outcome of examination by taxing authorities is always uncertain, it is the opinion of management that the resolution of this audit will not have a material effect on the Company s Consolidated Financial Statements.

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three and nine months ended September 30, 2014 and 2013, the Company undertook restructuring activities primarily associated with reductions in the Company s capacity and workforce in several of its segments to better align the capacity and workforce with current business needs.

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2014 and 2013, respectively, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Reduction in force				
Customer Management Services	$ 358	$ 628	$ 1,404	$ 3,614
Customer Growth Services		7	37	7
Customer Technology Services	235	73	309	73
Customer Strategy Services				189
Total	$ 593	$ 708	$ 1,750	$ 3,883

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	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Facility exit charges				
Customer Management Services	$	$ 50	$	$ 298
Customer Growth Services				
Customer Technology Services				
Customer Strategy Services				
Total	$	$ 50	$	$ 298

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

	Closure of Delivery Centers	Reduction in Force	Total
Balance as of December 31, 2013	$	$ 1,353	$ 1,353
Expense		1,790	1,790
Payments		(1,935)	(1,935)
Change in estimates		(40)	(40)
Balance as of September 30, 2014	$	$ 1,168	$ 1,168

The remaining restructuring accruals are expected to be paid or extinguished during the next 12 months 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 its asset group are estimated to be less than the asset group s carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three and nine months ended September 30, 2014, the Company recognized no losses related to leasehold improvement assets. During the three and nine months ended September 30, 2013, the Company recognized zero and $0.1 million, respectively, of losses related to leasehold improvement assets in the CMS segment.

During the second quarter of 2013, the Company recorded an impairment charge of $1.1 million related to the PRG trade name intangible asset within the CSS segment. This expense was included in the Impairment losses in the Consolidated Statements of Comprehensive Income (Loss).

(10) COMMITMENTS AND CONTINGENCIES

Credit Facility

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

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

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 September 30, 2014 and December 31, 2013, the Company had borrowings of $115.0 million and $100.0 million, respectively, under its Credit Agreement, and its average daily utilization was $291.0 million and $240.9 million for the nine months ended September 30, 2014 and 2013, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, the Company s remaining borrowing capacity was $581.5 million as of September 30, 2014. As of September 30, 2014, the Company was in compliance with all covenants and conditions under its Credit Agreement.

From time-to-time, the Company has unsecured, uncommitted lines of credit to support working capital for a few foreign subsidiaries. As of September 30, 2014 and 2013, no foreign loans were outstanding.

Letters of Credit

As of September 30, 2014, outstanding letters of credit under the Credit Agreement totaled $3.5 million and primarily guaranteed workers compensation and other insurance related obligations. As of September 30, 2014, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled $1.4 million.

Legal Proceedings

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

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

In the fourth quarter of 2012, a class action complaint was filed in the State of California against a TeleTech subsidiary and Google Inc. (Google), as co-defendants. Pursuant to its contractual commitments, the Company has agreed to indemnify Google for costs and expenses related to the complaint. The Company settled the matter for an immaterial amount during the first quarter of 2014.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(11) NONCONTROLLING INTEREST

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

	Nine Months Ended September 30,			
		2014		**2013**
Noncontrolling interest, January 1	$	8,081	$	12,978
Net income attributable to noncontrolling interest		3,379		2,290
Dividends distributed to noncontrolling interest		(3,150)		(3,148)
Deconsolidation of a subsidiary				(121)
Purchase of remaining interest in subsidiary				(4,140)
Foreign currency translation adjustments		(167)		(104)
Equity-based compensation expense		12		25
Noncontrolling interest, September 30	$	8,155	$	7,780

(12) MANDATORILY REDEEMABLE NONCONTROLLING INTEREST

The Company holds an 80% interest in iKnowtion. 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 which the Company determined is probable of being achieved.

The Company has recorded the mandatorily redeemable noncontrolling interest at the redemption value based on the corresponding EBITDA multiples as prescribed in the purchase and sale agreement at the end of each reporting period. At the end of each reporting period the changes in the redemption value are recorded in retained earnings. Since the EBITDA multiples as defined in the purchase and sale agreement are below the current market multiple, the Company has determined that there is no preferential treatment to the noncontrolling interest shareholders resulting in no impact to earnings per share.

A rollforward of the mandatorily redeemable noncontrolling interest is included in the table below (in thousands).

Nine Months Ended September 30,

	2014	2013
Mandatorily redeemable noncontrolling interest, January 1	$ 2,509	$ 1,067
Net income attributable to mandatorily redeemable noncontrolling interest	416	284
Working capital distributed to mandatorily redeemable noncontrolling interest	(1,244)	(272)
Change in redemption value	1,109	1,178
Mandatorily redeemable noncontrolling interest, September 30	$ 2,790	$ 2,257

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(13) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in the accumulated balance for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (in thousands):

	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
Accumulated other comprehensive income (loss) at December 31, 2013	$ (10,581)	$ (8,352)	$ (1,653)	$ (20,586)
Other comprehensive (loss) income before reclassifications	(11,206)	(4,948)	41	(16,113)
Amounts reclassified from accumulated other comprehensive income (loss)		2,186	763	2,949
Net current period other comprehensive income (loss)	(11,206)	(2,762)	804	(13,164)
Accumulated other comprehensive income (loss) at September 30, 2014	$ (21,787)	$ (11,114)	$ (849)	$ (33,750)
Accumulated other comprehensive income (loss) at December 31, 2012	$ 15,673	$ 9,559	$ (2,251)	$ 22,981
Other comprehensive income (loss) before reclassifications	(18,087)	(9,332)	4	(27,415)
Amounts reclassified from accumulated other comprehensive income (loss)		(3,899)	447	(3,452)
Net current period other comprehensive income (loss)	(18,087)	(13,231)	451	(30,867)
Accumulated other comprehensive income (loss) at September 30, 2013	$ (2,414)	$ (3,672)	$ (1,800)	$ (7,886)

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 September 30, 2014	For the Three Months Ended September 30, 2013	Statement of Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	$ 248	$ 917	Revenue
Loss on interest rate swaps	(267)	(264)	Interest expense
Tax effect	7	(255)	Provision for income taxes
	$ (12)	$ 398	Net income (loss)
Other			
Actuarial loss on defined benefit plan	$ (270)	$ (156)	Cost of services
Tax effect	16	9	Provision for income taxes
	$ (254)	$ (147)	Net (loss)

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	For the Nine Months Ended September 30, 2014	September 30, 2013	Statement of Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	$ (2,795)	$ 7,227	Revenue
Loss on interest rate swaps	(790)	(778)	Interest expense
Tax effect	1,399	(2,550)	Provision for income taxes
	$ (2,186)	$ 3,899	Net income (loss)
Other			
Actuarial loss on defined benefit plan	$ (811)	$ (473)	Cost of services
Tax effect	48	26	Provision for income taxes
	$ (763)	$ (447)	Net (loss)

(14) NET INCOME PER SHARE

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

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Shares used in basic earnings per share calculation	49,093	50,732	49,493	51,643
Effect of dilutive securities:				
Stock options	420	425	420	412
Restricted stock units	427	521	425	444
Performance-based restricted stock units				
Total effects of dilutive securities	847	946	845	856
Shares used in dilutive earnings per share calculation	49,940	51,678	50,338	52,499

For the three months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014 and 2013, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the three months ended September 30, 2014 and 2013, restricted stock units (RSUs) of 0.4 million and 0.2 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the nine months ended September 30, 2014 and 2013, RSUs of 0.2 million and 0.2 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(15) EQUITY-BASED COMPENSATION PLANS

All equity based awards to employees are recognized in the Consolidated Statements of Comprehensive Income (Loss) at the fair value of the award on the grant date. During the three and nine months ended September 30, 2014 and 2013, the Company recognized total compensation expense of $3.2 million and $9.0 million and $3.3 million and $9.8 million, respectively. Of the total compensation expense, $0.5 million and $1.7 million was recognized in Cost of services and $2.2 million and $7.3 million was recognized in Selling, general and administrative during the three and nine months ended September 30, 2014. During the three and nine months ended September 30, 2013, the Company recognized compensation expense of $0.6 million and $1.6 million in Cost of Services and $2.7 million and $8.3 million, in Selling, general and administrative, respectively.

Restricted Stock Unit Grants

During the nine months ended September 30, 2014 and 2013, the Company granted 583,333 and 755,835 RSUs, respectively, to new and existing employees, which vest in equal installments over four or five years. During the nine months ended September 30, 2014 and 2013, the grants weighted average stock price was $27.00 and $21.56, respectively. The Company recognized compensation expense related to RSUs of $3.0 million and $8.6 million for the three and nine months ended September 30, 2014, respectively. The Company recognized compensation expense related to RSUs of $3.1 million and $9.4 million for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, there was approximately $29.5 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company s equity plans.

As of September 30, 2014 and 2013, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified revenue and operating income performance targets. The Company determined it was not probable that some grants performance targets would be met; therefore no expense was recognized related to these grants for the three and nine months ended September 30, 2014 or 2013. For another issued grant, the Company has estimated that the performance condition will be partially met, and therefore, an appropriate amount was expensed in the third quarter of 2014.

(16) DECONSOLIDATION OF SUBSIDIARY

During the second quarter of 2013, the Company concluded that it no longer had controlling influence over Peppers & Rogers Gulf WLL (PRG Kuwait), a once consolidated subsidiary in the CSS segment, because the Company was no longer confident that it could exercise its beneficial ownership rights. Upon deconsolidation of PRG Kuwait, the Company wrote off all PRG Kuwait assets and liabilities resulting in a loss of $3.7 million which was recorded during the second quarter of 2013. Effective April 2014, the Company entered into a stock and membership interest purchase agreement with PRG Kuwait s other shareholders to sell its 48% interest in the company for $175 thousand.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

We caution you not to rely unduly on any forward-looking statements. Actual results may differ materially from what is expressed in the forward-looking statements, and you should review and consider carefully the risks, uncertainties and other factors that affect our business and may cause such differences, as outlined but are not limited to factors discussed in the Risk Factors section of our Annual Report on Form 10-K as amended in this Report.

The forward-looking statements are based on information available as of the date that this Form 10-Q is filed with the United States Securities and Exchange Commission (SEC) and we undertake no obligation to update them, except as may be required by applicable laws. They are based 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.

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

Executive Summary

TeleTech Holdings, Inc. is a leading provider of customer strategy, analytics-driven and technology-enabled customer engagement management solutions with 41,700 employees delivering services across 25 countries from 59 delivery centers on six continents. Our revenue for the quarter ended September 30, 2014 was $306 million.

For over thirty years we have helped clients strengthen their customer relationships through strategy, innovation, technology, and process that provide exceptional customer engagement. The results are customer interactions that are more personalized, seamless, and relevant, and in turn improve our clients brand recognition and loyalty. Our end-to-end offering originates with the design of data-rich customer-centric strategies, which are then enabled by a suite of technologies and operations that allow for effective management and growth of the economic value of our clients customer relationships.

We continue to transform the Company by providing a distinct value proposition through our integrated customer engagement offerings. Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments, including Customer Management Services (CMS), Customer Growth Services (CGS), Customer Technology Services (CTS), and Customer Strategy Services (CSS). Our integrated platform is an industry differentiator, one that unites strategic consulting, data analytics, process optimization, system design and integration, technology solutions and services, and operational excellence. This holistic approach increases customer outcomes, satisfaction and loyalty, improves operating effectiveness and efficiencies, and drives long-term growth and profitability for our clients.

We have developed industry expertise and serve more than 250 customer-focused industry leaders in the Global 1000. Our business is structured and reported in the following four segments, each serving multiple industry segments:

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	Operating Segments and Industry Verticals			
	Customer Management Services	Customer Growth Services	Customer Technology Services	Customer Strategy Services
Automotive	√	√		√
Communication	√	√	√	√
Financial Services	√	√	√	√
Government	√		√	
Healthcare	√	√	√	√
Media and Entertainment	√	√	√	√
Retail	√		√	
Travel and Transportation	√			
Technology	√	√	√	√

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying our traditional business process outsourcing into high-margined analytics and technology-enabled services. Of the $306 million in revenue we reported in the current period, approximately 26% or $79 million came from our emerging CGS, CTS, and CSS segments.

Consistent with our growth and diversification strategy, we continue to invest in technology differentiation, analytics, cloud computing, digital marketing, and geographic footprint. In the third quarter 2014, we acquired substantially all operating assets of rogenSi Worldwide PTY, Ltd., a global sales and leadership performance training and applied leadership consulting company. In first quarter 2014, we acquired Sofica, a customer lifecycle management and business process company based in Central Europe. In 2013, we acquired WebMetro, a digital marketing agency, and completed the buy-out of a 20% interest in Peppers & Rogers Group, our global strategic consulting business.

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

Business Overview

In the third quarter of 2014, our revenue increased 3.0% to $305.9 million over the same period in 2013. The increase in revenue is comprised of growth in the Customer Management Services, Customer Growth Services and Customer Strategy Services segments which collectively grew 5.6%, offset by a decline in the Customer Technology Services segment. The decline in the Customer Technology Services segment is primarily related to a decline in revenue from our Avaya based offerings.

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Our third quarter 2014 income from operations decreased $4.6 million to $21.3 million or 7.0% of revenue, from $26.0 million or 8.7% of revenue in the third quarter of 2013. The decrease is primarily due to a $5.5 million reduction in Customer Technology Services with $1.0 million related to the decrease in revenue from Avaya based offerings, $1.4 million of one-time technology and managed service expenses, $1.2 million in additional selling, general and administrative expenses related to investments in sales, marketing and research and development associated with the build out of the CISCO cloud solution, and $0.5 million associated with severance and other costs related to the integration of TSG into the Customer Technology Services segment. Income from operations in the third quarter of 2014 and 2013 included $0.6 million and $0.8 million of restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based in North America and in other countries, and spans four countries with 18,900 workstations and representing 63% of our global delivery capability. Revenue from services provided in these offshore locations was $115 million and represented 45% of our revenue for the third quarter of 2014, as compared to $123 million and 50% of our revenue for third quarter of 2013, with both years excluding revenue from the acquisitions completed outside the CMS and CGS segments.

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. At September 30, 2014, we had $87.6 million of cash and cash equivalents, total debt of $121.1 million, and a total debt to total capitalization ratio of 20.6%.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of September 30, 2014, the overall capacity utilization in our multi-client centers was 82%. The table below presents workstation data for our multi-client centers as of September 30, 2014 and 2013. Dedicated and Managed Centers (5,401 and 4,145 workstations, at September 30, 2014 and 2013, 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 multi-client production workstations compared to the total number of available multi-client production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

	September 30, 2014			September 30, 2013		
	Total Production Workstations	**In Use**	**% In Use**	**Total Production Workstations**	**In Use**	**% In Use**
Multi-client centers						
Sites open <1 year	441					