TELETECH HOLDINGS INC
Form 10-Q
November 04, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

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 þ 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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

As of October 31, 2008, there were 65,308,892 shares of the registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
SEPTEMBER 30, 2008 FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share amounts)
(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 123,156	$ 91,239
Accounts receivable, net	248,629	270,988
Prepaids and other current assets	45,739	62,344
Deferred tax assets, net	25,071	8,386
Income tax receivables	25,029	26,868
Total current assets	467,624	459,825
Long-term assets		
Property, plant and equipment, net	172,003	174,809
Goodwill	44,802	45,154
Contract acquisition costs, net	6,122	6,984
Deferred tax assets, net	42,422	39,764
Other long-term assets	25,839	33,759
Total long-term assets	291,188	300,470
Total assets	$ 758,812	$ 760,295
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 31,009	$ 38,761
Accrued employee compensation and benefits	90,233	87,480
Other accrued expenses	47,927	28,872
Income tax payables	18,740	18,552
Deferred tax liabilities, net	62	88
Other short-term liabilities	10,583	13,057
Total current liabilities	198,554	186,810
Long-term liabilities		
Line of credit	108,700	65,400
Grant advances	3,910	6,741
Deferred tax liabilities, net		57
Other long-term liabilities	46,700	46,531

Total long-term liabilities		159,310		118,729
Total liabilities		357,864		305,539
Minority interest		5,135		3,555
Commitments and contingencies (Note 9)				
Stockholders equity				
Preferred stock $0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of September 30, 2008 and December 31, 2007				
Common stock $0.01 par value; 150,000,000 shares authorized; 65,582,279 and 69,828,671 shares outstanding as of September 30, 2008 and December 31, 2007, respectively		655		698
Treasury stock at cost: 16,472,166 and 12,077,609 shares outstanding as of September 30, 2008 and December 31, 2007, respectively		(213,983)		(143,205)
Additional paid-in capital		340,665		334,593
Accumulated other comprehensive income		7,602		57,888
Retained earnings		260,874		201,227
Total stockholders equity		395,813		451,201
Total liabilities and stockholders equity	$	758,812	$	760,295

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Revenue	$ 349,110	$ 335,727	$ 1,074,162	$ 998,075
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	252,666	246,558	788,599	721,028
Selling, general and administrative	51,157	46,968	148,387	147,675
Depreciation and amortization	14,998	14,250	45,782	41,598
Restructuring charges, net	2,015	2,588	4,657	2,850
Impairment	1,033	2,274	1,033	15,789
Total operating expenses	321,869	312,638	988,458	928,940
Income from operations	27,241	23,089	85,704	69,135
Other income (expense)				
Interest income	1,327	650	3,801	1,535
Interest expense	(1,595)	(1,395)	(4,649)	(4,457)
Loss on sale of business		(6,122)		(6,122)
Other, net	(509)	41	(1,520)	(1,294)
Total other expense	(777)	(6,826)	(2,368)	(10,338)
Income before income taxes and minority interest	26,464	16,263	83,336	58,797
Provision for income taxes	(5,368)	(1,082)	(20,697)	(16,193)
Income before minority interest	21,096	15,181	62,639	42,604
Minority interest	(936)	(808)	(2,992)	(1,750)
Net income	$ 20,160	$ 14,373	$ 59,647	$ 40,854
Other comprehensive income (loss)				
Foreign currency translation adjustments	$ (26,281)	$ 7,710	$ (20,668)	$ 19,197
Derivatives valuation, net of tax	(6,922)	5,683	(29,618)	16,721
Other		(22)		(66)

Total other comprehensive income (loss)	(33,203)	13,371	(50,286)	35,852
Comprehensive income (loss)	$ (13,043)	$ 27,744	$ 9,361	$ 76,706
Weighted average shares outstanding				
Basic	68,217	70,214	69,373	70,367
Diluted	69,508	72,343	70,922	72,909
Net income per share				
Basic	$ 0.30	$ 0.20	$ 0.86	$ 0.58
Diluted	$ 0.29	$ 0.20	$ 0.84	$ 0.56

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders Equity
(Amounts in thousands)
(Unaudited)

	Preferred Stock		Common Stock		Treasury	Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Stockholders
	Shares	Amount	Shares	Amount	Stock	Capital	Income	Earnings	Equity
Balance as of December 31, 2007		$	69,829	$ 698	$ (143,205)	$ 334,593	$ 57,888	$ 201,227	$ 451,201
Net income								59,647	59,647
Foreign currency translation adjustments							(20,668)		(20,668)
Derivatives valuation, net of tax							(29,618)		(29,618)
Vesting of restricted stock units			148	2		(2)			
Exercised stock options			335	3	4,124	(1,194)			2,933
Tax shortfall from equity-based awards						(997)			(997)
Equity-based compensation expense						7,889			7,889
Modifications to equity-based awards						376			376
Purchases of common stock			(4,818)	(48)	(74,902)				(74,950)
Balance as of September 30, 2008		$	65,494	$ 655	$ (213,983)	$ 340,665	$ 7,602	$ 260,874	$ 395,813

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

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

	Nine-Months Ended September 30,	
	2008	**2007**
Cash flows from operating activities		
Net income	$ 59,647	$ 40,854
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,782	41,598
Amortization of contract acquisition costs	1,625	2,017
Provision for doubtful accounts	780	609
Loss on disposal of assets	65	6,185
Impairment losses	1,033	15,789
Deferred income taxes	(38)	975
Minority interest	2,992	1,750
Tax shortfall from equity-based awards	(997)	
Equity-based compensation expense	7,889	9,103
Loss on foreign currency derivative	675	43
Changes in assets and liabilities:		
Accounts receivable	15,034	(786)
Prepaids and other assets	(10,472)	(14,751)
Accounts payable and accrued expenses	15,412	2,001
Other liabilities	(14,128)	(5,102)
Net cash provided by operating activities	125,299	100,285
Cash flows from investing activities		
Purchases of property, plant and equipment	(51,728)	(43,788)
Proceeds from disposition of business		3,237
Payment for contract acquisition costs	(763)	
Net cash used in investing activities	(52,491)	(40,551)
Cash flows from financing activities		
Proceeds from lines of credit	779,170	394,800
Payments on lines of credit	(735,870)	(421,300)
Payments on long-term debt and capital lease obligations	(1,203)	(933)
Payments of debt refinancing fees	(1,105)	(17)
Payments to minority shareholder	(1,428)	(2,693)
Proceeds from exercise of stock options	2,933	15,593
Excess tax benefit from exercise of stock options		8,018
Purchase of treasury stock	(73,842)	(47,021)
Net cash used in financing activities	(31,345)	(53,553)

Effect of exchange rate changes on cash and cash equivalents	(9,546)	6,151
Increases in cash and cash equivalents	31,917	12,332
Cash and cash equivalents, beginning of period	91,239	58,352
Cash and cash equivalents, end of period	$ 123,156	$ 70,684
Supplemental disclosures		
Cash paid for interest	$ 3,822	$ 4,131
Cash paid for income taxes	$ 19,191	$ 15,750

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

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

(1) OVERVIEW AND BASIS OF PRESENTATION

Overview

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) serve their clients through the primary businesses of Business Process Outsourcing (BPO), which provides outsourced business process, customer management and marketing services for a variety of industries via operations in the U.S., Argentina, Australia, Brazil, Canada, China, Costa Rica, England, Germany, Malaysia, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa and Spain. On September 28, 2007, the Company, through its wholly owned subsidiary Newgen Results Corporation and related companies (hereinafter Newgen), completed the sale of substantially all of the assets and certain liabilities of its Database Marketing and Consulting business, which provided outsourced database management, direct marketing and related customer acquisition and retention services for automotive dealerships and manufacturers in North America.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S., pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited Condensed Consolidated Financial Statements do reflect all adjustments (consisting only of normal recurring entries) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of September 30, 2008, and the consolidated results of operations and cash flows of the Company for the three and nine months ended September 30, 2008 and 2007. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

These unaudited Condensed 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, 2007.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. (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.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measurement and expands disclosure about fair value measurements. Where applicable, SFAS 157 simplifies and codifies related guidance within generally accepted accounting principles. Except for non-financial assets and liabilities recognized on a non-recurring basis, the Company adopted SFAS 157 in the first quarter of 2008. As permitted by FASB Staff Position, FSP FAS 157-2, the Company will adopt SFAS 157 for non-financial assets and liabilities recognized on a non-recurring basis as of January 1, 2009. Adoption of SFAS 157 in the first quarter of 2008 did not have a significant impact on the Company s results of operations, financial position or cash flows. The Company does not expect the adoption of SFAS 157 for non-financial assets and liabilities in the first quarter of 2009 to have a material impact on the Company s results of operations, financial position or cash flows.

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

Fair Value Hierarchy SFAS 157 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. This hierarchy requires the use of observable market data when available. These two types of inputs have created the following fair-value hierarchy:

Level 1 Quoted prices for *identical* instruments in active markets.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

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

The following section describes the valuation methodologies used by the Company to measure fair value, including an indication of the level in the fair value hierarchy in which each asset or liability is generally classified.

Derivative Financial Instruments The Company enters into foreign currency forward and option contracts and values such contracts using forward rates, discounted at an appropriate forward curve rate and adjusted to account for credit risk. The item is classified in Level 2 of the fair value hierarchy. See related derivatives disclosure in Note 5.

Other Financial Instruments The Company has other financial instruments recorded at cost but for which fair values are disclosed in accordance with SFAS 107. Effective January 1, 2008, the Company began using the principles of SFAS 157 to value these other financial instruments.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). The Company adopted SFAS 159 as of January 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. The decision whether to elect the fair value option is generally: (i) applied instrument by instrument; (ii) irrevocable (unless a new election date occurs, as discussed in SFAS 157); and (iii) applied only to an entire instrument and not to only specified risks, specific cash flows, or portions of that instrument. Under SFAS 159, financial instruments for which the fair value option is elected, must be valued in accordance with SFAS 157 (as described above) and must be marked to market each period through the income statement. Upon adoption on January 1, 2008, the Company did not elect to change its accounting for any of its financial instruments as permitted by SFAS 159 as of the date of this report. Therefore, the adoption of SFAS 159 did not have a material impact on the Company s results of operations, financial position or cash flows.

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

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations a replacement of FASB Statement No. 141* (SFAS 141(R)), which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in fiscal 2009. The Company does not expect that the adoption of this pronouncement will have a material impact on its Condensed Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Condensed Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective prospectively, except for certain retrospective disclosure requirements, for fiscal years beginning after December 15, 2008. This statement will be effective for the Company beginning in fiscal 2009. The Company does not expect that the adoption of this pronouncement will have a material impact on its Condensed Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 amends the disclosure requirements of SFAS No. 33, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 33) related to i) how and why an entity uses derivative instruments, ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and related interpretations, and iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The new disclosures will be expanded to include more tables and discussion about the qualitative aspects of the Company s hedging strategies. The Company will be required to adopt SFAS 161 on January 1, 2009, at which time the Company expects to expand its derivative disclosures.

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

(2) SEGMENT INFORMATION

The Company serves its clients through the primary business of BPO services.

The Company s BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers and represents 100% of total annual revenue. In September 2007, the Company sold substantially all the assets and certain liabilities of its Database Marketing and Consulting business.

When the Company begins operations in a new country, it determines whether the country is intended primarily to serve U.S.-based clients, in which case the country is included in the North American BPO segment. If the country is intended to serve domestic clients from that country and U.S.-based clients, or clients from another country, then the country is included in the International BPO s