

TELETECH HOLDINGS INC

Form 10-Q

May 03, 2011

**Table of Contents**

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

**Form 10-Q**

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

**For the quarterly period ended March 31, 2011**

**OR**

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

**For the transition period from            to**

**Commission File Number 001-11919**

**TeleTech Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**84-1291044**

(I.R.S. Employer  
Identification No.)

**9197 South Peoria Street**

**Englewood, Colorado 80112**

(Address of principal executive offices)

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

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

Yes  No

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

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of April 28, 2011, there were 56,731,554 shares of the registrant's common stock outstanding.



**TELETECH HOLDINGS, INC. AND SUBSIDIARIES  
MARCH 31, 2011 FORM 10-Q  
TABLE OF CONTENTS**

|   | <b>Page No.</b> |
|---|-----------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |                 |
| <u>Item 1. Financial Statements</u>   |                 |
| <u>Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010</u>                   | 1               |
| <u>Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited)</u> | 2               |
| <u>Consolidated Statement of Equity as of and for the three months ended March 31, 2011 (unaudited)</u>     | 3               |
| <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited)</u> | 4               |
| <u>Notes to the Unaudited Consolidated Financial Statements</u>   | 5               |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>        | 20              |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>                                   | 33              |
| <u>Item 4. Controls and Procedures</u>  | 36              |
| <b><u>PART II. OTHER INFORMATION</u></b>  |                 |
| <u>Item 1. Legal Proceedings</u>  | 36              |
| <u>Item 1A. Risk Factors</u>  | 36              |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                  | 37              |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 37              |
| <u>Item 4. Reserved</u>   | 37              |
| <u>Item 5. Other Information</u>  | 37              |
| <u>Item 6. Exhibits</u>   | 38              |
| <b><u>SIGNATURES</u></b>  | 39              |
| <b><u>EXHIBIT INDEX</u></b>   | 40              |
| <u>EX-31.1</u>  |                 |
| <u>EX-31.2</u>  |                 |
| <u>EX-32.1</u>  |                 |

EX-32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

---

**Table of Contents**

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**TELETECH HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**(Amounts in thousands, except share amounts)**

|  | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2010</b> |
|--|---|----------------------------------|
| <b>ASSETS</b>                                    |   |                                  |
| <b>Current assets</b>                            |   |                                  |
| Cash and cash equivalents                        | \$ 189,707                                | \$ 119,385                       |
| Accounts receivable, net                         | 224,665                                   | 233,706                          |
| Prepays and other current assets                 | 30,543                                    | 38,486                           |
| Deferred tax assets, net                         | 9,275                                     | 8,770                            |
| Income tax receivable                            | 26,138                                    | 23,869                           |
| <br>Total current assets                         | <br>480,328                               | <br>424,216                      |
| <b>Long-term assets</b>                          |   |                                  |
| Property, plant and equipment, net               | 98,569                                    | 105,528                          |
| Goodwill   | 52,767                                    | 52,707                           |
| Contract acquisition costs, net                  | 2,147                                     | 2,782                            |
| Deferred tax assets, net                         | 34,379                                    | 37,944                           |
| Other long-term assets                           | 42,300                                    | 37,446                           |
| <br>Total long-term assets                       | <br>230,162                               | <br>236,407                      |
| <br>Total assets                                 | <br>\$ 710,490                            | <br>\$ 660,623                   |
| <br><b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |   |                                  |
| <b>Current liabilities</b>                       |   |                                  |
| Accounts payable                                 | \$ 19,404                                 | \$ 23,599                        |
| Accrued employee compensation and benefits       | 78,547                                    | 72,406                           |
| Other accrued expenses                           | 33,838                                    | 40,682                           |
| Income taxes payable                             | 10,073                                    | 23,175                           |
| Deferred tax liabilities, net                    | 1,861                                     | 2,235                            |
| Deferred revenue                                 | 4,776                                     | 5,570                            |
| Other current liabilities                        | 11,701                                    | 4,584                            |
| <br>Total current liabilities                    | <br>160,200                               | <br>172,251                      |
| <b>Long-term liabilities</b>                     |   |                                  |
| Line of credit                                   | 79,500                                    |                                  |
| Negative investment in deconsolidated subsidiary | 76  | 76                               |
| Deferred tax liabilities, net                    | 3,404                                     | 3,559                            |
| Deferred rent                                    | 8,865                                     | 10,363                           |

|                             |         |         |
|-----------------------------|---------|---------|
| Other long-term liabilities | 21,163  | 19,556  |
| Total long-term liabilities | 113,008 | 33,554  |
| Total liabilities           | 273,208 | 205,805 |

**Commitments and contingencies (Note 10)****Stockholders equity**

Preferred stock \$0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of March 31, 2011 and December 31, 2010

Common stock \$0.01 par value; 150,000,000 shares authorized; 56,874,124 and 57,875,269 shares outstanding as of March 31, 2011 and December 31, 2010, respectively

|   |            |            |
|---|------------|------------|
|   | 569        | 579        |
| Additional paid-in capital  | 343,068    | 349,157    |
| Treasury stock at cost: 25,178,129 and 24,179,176 shares as of March 31, 2011 and December 31, 2010, respectively | (348,463)  | (322,946)  |
| Accumulated other comprehensive income  | 23,980     | 20,334     |
| Retained earnings   | 407,075    | 396,602    |
| Noncontrolling interest   | 11,053     | 11,092     |
| Total stockholders equity   | 437,282    | 454,818    |
| Total liabilities and stockholders equity   | \$ 710,490 | \$ 660,623 |

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

**Table of Contents**

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(Amounts in thousands, except per share amounts)  
(Unaudited)

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| <b>Revenue</b>   | \$ 280,979                | \$ 271,526  |
| <b>Operating expenses</b>  |                           |             |
| Cost of services (exclusive of depreciation and amortization presented separately below) | 199,121                   | 194,618     |
| Selling, general and administrative  | 47,801                    | 43,408      |
| Depreciation and amortization  | 11,598                    | 12,724      |
| Restructuring charges, net   | 739                       | 1,469       |
| Impairment losses  | 230                       |             |
| Total operating expenses   | 259,489                   | 252,219     |
| <b>Income from operations</b>  | 21,490                    | 19,307      |
| <b>Other income (expense)</b>  |                           |             |
| Interest income  | 666                       | 574         |
| Interest expense   | (1,380)                   | (817)       |
| Other income (expense), net  | 444                       | 32          |
| Total other income (expense)   | (270)                     | (211)       |
| <b>Income before income taxes</b>  | 21,220                    | 19,096      |
| Provision for income taxes   | (9,849)                   | (5,054)     |
| <b>Net income</b>  | 11,371                    | 14,042      |
| Net income attributable to noncontrolling interest                                       | (898)                     | (755)       |
| <b>Net income attributable to TeleTech shareholders</b>                                  | \$ 10,473                 | \$ 13,287   |
| <b>Weighted average shares outstanding</b>   |                           |             |
| Basic  | 57,190                    | 61,877      |
| Diluted  | 58,797                    | 63,483      |
| <b>Net income per share attributable to TeleTech shareholders</b>                        |                           |             |

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 0.18 | \$ 0.21 |
| Diluted | \$ 0.18 | \$ 0.21 |

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

2

---

**Table of Contents**

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

|   | Stockholders Equity of the Company |                           |                             |                    |                       |                           |                      |                            | Total<br>Equity |
|---|------------------------------------|---------------------------|-----------------------------|--------------------|-----------------------|---------------------------|----------------------|----------------------------|-----------------|
|   | Preferred<br>Stock<br>Shares       | Common<br>Stock<br>Shares | Treasury<br>Stock<br>Amount | Paid-in<br>Capital | Accumulated           |                           | Retained<br>Earnings | Noncontrolling<br>interest |                 |
|   |                                    |                           |                             |                    | Additional<br>Capital | Other<br>Income<br>(Loss) |                      |                            |                 |
| <b>Balance as of<br/>December 31,<br/>2010</b>                    | \$                                 | 57,875                    | \$579                       | \$(322,946)        | \$349,157             | \$ 20,334                 | \$396,602            | \$ 11,092                  | \$454,818       |
| Net income  |                                    |                           |                             |                    |                       |                           | 10,473               | 898                        | 11,371          |
| Dividends<br>distributed to<br>noncontrolling<br>interest         |                                    |                           |                             |                    |                       |                           |                      | (990)                      | (990)           |
| Foreign currency<br>translation<br>adjustments                    |                                    |                           |                             |                    |                       | 4,993                     |                      | 53                         | 5,046           |
| Derivatives<br>valuation, net of<br>tax                           |                                    |                           |                             |                    |                       | (1,457)                   |                      |                            | (1,457)         |
| Vesting of<br>restricted stock<br>units issued out<br>of treasury |                                    | 397                       | 4                           | 5,430              | (10,119)              |                           |                      |                            | (4,685)         |
| Exercise of stock<br>options                                      |                                    | 211                       | 2                           | 2,866              | (1,118)               |                           |                      |                            | 1,750           |
| Excess tax<br>benefit from<br>equity-based<br>awards              |                                    |                           |                             |                    |                       | 1,388                     |                      |                            | 1,388           |
| Equity-based<br>compensation<br>expense                           |                                    |                           |                             |                    |                       | 3,760                     |                      |                            | 3,760           |
| Purchases of<br>common stock                                      |                                    | (1,609)                   | (16)                        | (33,813)           |                       |                           |                      |                            | (33,829)        |
| Other   |                                    |                           |                             |                    |                       |                           | 110                  |                            | 110             |
| <b>Balance as of<br/>March 31, 2011</b>                           | \$                                 | 56,874                    | \$569                       | \$(348,463)        | \$343,068             | \$ 23,980                 | \$407,075            | \$ 11,053                  | \$437,282       |

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



**Table of Contents**

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

|  | <b>Three Months Ended March</b> |             |
|--|---------------------------------|-------------|
|  | <b>31,</b>                      |             |
|  | <b>2011</b>                     | <b>2010</b> |
| <b>Cash flows from operating activities</b>                                      |                                 |             |
| Net income   | \$ 11,371                       | \$ 14,042   |
| Adjustment to reconcile net income to net cash provided by operating activities: |                                 |             |
| Depreciation and amortization  | 11,598                          | 12,724      |
| Amortization of contract acquisition costs                                       | 635                             | 928         |
| Amortization of debt issuance costs and other                                    | 228                             | 149         |
| Provision for doubtful accounts  |                                 | 304         |
| Gain on disposal of assets   | (208)                           | (49)        |
| Impairment losses  | 230                             |             |
| Deferred income taxes  | 5,361                           | 1,564       |
| Excess tax benefit from equity-based awards                                      | (678)                           |             |
| Equity-based compensation expense  | 3,760                           | 3,188       |
| (Gain)/loss on foreign currency derivatives                                      | (35)                            | 60          |
| Changes in assets and liabilities:   |                                 |             |
| Accounts receivable  | 11,627                          | 15,016      |
| Prepays and other assets   | (1,774)                         | 5,519       |
| Accounts payable and accrued expenses  | (23,665)                        | 9,242       |
| Deferred revenue and other liabilities   | 6,158                           | (11,255)    |
| Net cash provided by operating activities  | 24,608                          | 51,432      |
| <b>Cash flows from investing activities</b>                                      |                                 |             |
| Purchases of property, plant and equipment                                       | (3,870)                         | (6,608)     |
| Net cash used in investing activities  | (3,870)                         | (6,608)     |
| <b>Cash flows from financing activities</b>                                      |                                 |             |
| Proceeds from line of credit   | 258,900                         | 215,150     |
| Payments on line of credit   | (179,400)                       | (215,150)   |
| Payments on capital lease obligations and equipment financing                    | (537)                           | (951)       |
| Dividends distributed to noncontrolling interest                                 | (990)                           | (1,260)     |
| Proceeds from exercise of stock options  | 1,750                           | 814         |
| Excess tax benefit from equity-based awards                                      | 2,066                           | 108         |
| Purchase of treasury stock   | (33,829)                        | (19,568)    |
| Payments of debt issuance costs  | (22)                            |             |
| Net cash provided by (used in) financing activities                              | 47,938                          | (20,857)    |
| Effect of exchange rate changes on cash and cash equivalents                     | 1,646                           | 507         |

|  |            |            |
|--|------------|------------|
| Increases in cash and cash equivalents                           | 70,322     | 24,474     |
| Cash and cash equivalents, beginning of period                   | 119,385    | 109,424    |
| Cash and cash equivalents, end of period                         | \$ 189,707 | \$ 133,898 |
| <b>Supplemental disclosures</b>                                  |            |            |
| Cash paid for interest   | \$ 1,050   | \$ 802     |
| Cash paid for income taxes                                       | \$ 11,860  | \$ 1,197   |
| <b>Non-cash investing and financing activities</b>               |            |            |
| Acquisition of equipment through installment purchase agreements | \$         | \$ 186     |

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

**Table of Contents**

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

**(1) OVERVIEW AND BASIS OF PRESENTATION**

**Overview**

TeleTech Holdings, Inc. and its subsidiaries ( TeleTech or the Company ) serve their clients through the primary businesses of Business Process Outsourcing ( BPO ), which provides outsourced business process, customer management, hosted technology, consulting and marketing services for a variety of industries via operations in the U.S., Argentina, Australia, Belgium, Brazil, Canada, China, Costa Rica, England, Germany, Ghana, Kuwait, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa, Spain, Turkey and the United Arab Emirates.

**Basis of Presentation**

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, and its 80% interest in Peppers & Rogers Group ( PRG ) which was acquired on November 30, 2010 (see Note 2 for additional information). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. ( GAAP ), pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of March 31, 2011, and the consolidated results of operations of the Company for the three months ended March 31, 2011 and 2010, and the cash flows of the Company for the three months ended March 31, 2011 and 2010. Operating results for the three months ended March 31, 2010 included a \$2.0 million reduction to revenue for disputed service delivery issues which occurred in 2009. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010.

**Use of Estimates**

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

**Recently Issued Accounting Pronouncements**

Effective January 1, 2011, the Company adopted new revenue guidance that requires an entity to apply the relative selling price allocation method in order to estimate a selling price for all units of accounting, including delivered items when vendor-specific objective evidence or acceptable third-party evidence does not exist. The adoption of this standard did not have a material impact on the Company s results of operations, financial position, or cash flows.

**Table of Contents**

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

In December 2010, the FASB issued new guidance related to goodwill impairment testing. The new guidance clarifies the requirements of when to perform step 2 of impairment testing for goodwill for reporting units with zero or negative carrying amounts. The Company adopted this guidance on January 1, 2011 and it did not have a material impact on the Company's results of operations, financial position, or cash flows because the Company has not historically had or expected to have a reporting unit with goodwill and a zero or negative carrying amount.

**(2) ACQUISITIONS**

*Peppers & Rogers Group*

On November 30, 2010, the Company acquired an 80% interest in Peppers & Rogers Group. PRG is a leading global management consulting firm specializing in customer-centric strategies for Global 1000 companies and is recognized as a leading authority on customer-based strategies with a deep understanding of the most powerful levers that drive customer loyalty and business results. PRG currently operates offices on six continents across the globe, including headquarters in Norwalk, Connecticut, and Istanbul, Turkey, along with regional offices in Belgium, Germany, United Arab Emirates, South Africa, Lebanon and Kuwait. PRG has 130 employees.

The up-front cash consideration paid was \$15.0 million, subject to working capital adjustments on the date of acquisition as defined in the purchase and sale agreement. The working capital adjustment is approximately \$8.3 million and is included in Other accrued expenses in the accompanying Consolidated Balance Sheets as of March 31, 2011. An additional \$5.0 million payment is due on March 1, 2012. This \$5.0 million payment was recognized at fair value using a discounted cash flow approach with a discount rate of 18.4%. This measurement is based on significant inputs not observable in the market, which are deemed to be Level 3 inputs. The fair value on the date of acquisition was approximately \$4.4 million and was included in Other long-term liabilities in the Consolidated Balance Sheets as of December 31, 2010. The fair value as of March 31, 2011 was \$4.7 million. This value will be accreted up to the \$5.0 million payment using the effective interest rate method.

The purchase and sale agreement includes a contingent consideration arrangement that requires additional consideration to be paid in 2013 if PRG achieves a specified fiscal year 2012 earnings before interest, taxes depreciation and amortization ( EBITDA ) target. The range of the undiscounted amounts the Company could pay under the contingent consideration agreement is between zero and \$5.0 million. The fair value of the contingent consideration recognized on the acquisition date was zero and was estimated by applying the income approach. This measure is based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include (i) a discount rate of 30.6% percent and (ii) probability adjusted level of EBITDA between \$9.0 million and \$12.6 million. The fair value of the 20% noncontrolling interest of \$6.0 million in PRG was estimated by applying a market approach. This fair value measurement is based on significant inputs not observable in the market (Level 3 inputs). The fair value estimates are based on assumed financial multiples of companies deemed similar to PRG, and assumed adjustments because of the lack of control or lack of marketability that market participants would consider when estimating fair value of the noncontrolling interest in PRG.

The purchase and sale agreement also included an option for the Company to acquire the remaining 20% interest in PRG exercisable in 2015 for a period of one year, with a one year extension (the Initial Exercise Period ). If the Company does not acquire the remaining 20% of PRG pursuant to its call option during the Initial Exercise Period, PRG has an option to purchase the Company's 80% interest in PRG. The exercise price is based on a multiple of EBITDA as defined in the purchase and sale agreement.

**Table of Contents**

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

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

|                               | <b>Preliminary<br/>Estimates of<br/>Acquisition<br/>Date<br/>Fair Value</b> |
|-------------------------------|---|
| Cash                          | \$ 2,202  |
| Accounts Receivable           | 16,893  |
| Property, plant and equipment | 360   |
| Other assets                  | 843   |
| Customer relationships        | 9,300   |
| Trade name                    | 6,400   |
| Goodwill                      | 7,251   |
|                               | \$ 43,249   |
| Accounts payable              | \$ 1,515  |
| Accrued expenses              | 2,890   |
| Deferred tax liability        | 3,690   |
| Deferred revenue              | 598   |
| Line of credit                | 571   |
| Other                         | 260   |
|                               | \$ 9,524  |
| Noncontrolling interest       | \$ 6,000  |
| Total purchase price          | \$ 27,725   |

The goodwill recognized is attributable primarily to the assembled workforce of PRG, expected synergies, and other factors. None of the goodwill is deductible for income tax purposes. The operating results of PRG are reported within the International BPO segment from the date of acquisition.

*eLoyalty*

On March 17, 2011, we entered into a definitive agreement with eLoyalty Corporation to acquire certain assets and assume certain liabilities of the business unit that provides consulting, systems integration and the ongoing management and support of telephony, data and converged Voice over Internet Protocol customer management environments. Under the terms of the agreement, the Company has agreed to pay \$40.9 million net of certain closing adjustments.

Completion of the transaction is subject to eLoyalty shareholder approval as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2011.



Table of Contents

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

**(3) SEGMENT INFORMATION**

The Company's BPO business provides outsourced business process, consulting, technology services and customer management services for a variety of industries through global delivery centers and represents 100% of total annual revenue. The Company's North American BPO segment is comprised of sales to all clients based in North America (encompassing the U.S. and Canada), while the Company's International BPO segment is comprised of sales to all clients based in countries outside of North America.

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

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

|                                      | <b>Three Months Ended</b> |                   |
|--------------------------------------|---------------------------|-------------------|
|                                      | <b>March 31,</b>          |                   |
|                                      | <b>2011</b>               | <b>2010</b>       |
| <b>Revenue</b>                       |                           |                   |
| North American BPO                   | \$ 192,049                | \$ 207,942        |
| International BPO                    | 88,930                    | 63,584            |
| <b>Total</b>                         | <b>\$ 280,979</b>         | <b>\$ 271,526</b> |
| <br>                                 |                           |                   |
| <b>Income (loss) from operations</b> |                           |                   |
| North American BPO                   | \$ 17,568                 | \$ 19,788         |
| International BPO                    | 3,922                     | (481)             |
| <b>Total</b>                         | <b>\$ 21,490</b>          | <b>\$ 19,307</b>  |

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

|                               | <b>Three Months Ended</b> |                   |
|-------------------------------|---------------------------|-------------------|
|                               | <b>March 31,</b>          |                   |
|                               | <b>2011</b>               | <b>2010</b>       |
| <b>Revenue</b>                |                           |                   |
| United States                 | \$ 84,629                 | \$ 101,105        |
| Philippines                   | 83,507                    | 70,970            |
| Latin America                 | 55,598                    | 48,002            |
| Europe / Middle East / Africa | 39,758                    | 32,022            |
| Canada                        | 12,798                    | 14,779            |
| Asia Pacific                  | 4,689                     | 4,648             |
| <b>Total</b>                  | <b>\$ 280,979</b>         | <b>\$ 271,526</b> |

**(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS**

The Company did not have any clients that contributed in excess of 10% of total revenue for the three months ended March 31, 2011 or 2010.

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 exists as of March 31, 2011.

**Table of Contents**

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

**(5) GOODWILL**

Goodwill consisted of the following (amounts in thousands):

|                    | <b>December<br/>31,<br/>2010</b> | <b>Acquisitions</b> | <b>Impairments</b> | <b>Effect<br/>of<br/>Foreign<br/>Currency</b> | <b>March<br/>31,<br/>2011</b> |
|--------------------|----------------------------------|---------------------|--------------------|---|-------------------------------|
| North American BPO | \$ 35,885                        | \$                  | \$                 | \$  | \$ 35,885                     |
| International BPO  | 16,822                           |                     |                    | 60  | 16,882                        |
| Total              | \$ 52,707                        | \$                  | \$                 | \$ 60   | \$ 52,767                     |

The Company performs a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test in the fourth quarter each year, or more frequently if indicators of impairment exist. During the quarter ended March 31, 2011, the Company assessed whether any such indicators of impairment existed and concluded that 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 March 31, 2011, the Company has not experienced, nor does it anticipate any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three months ended March 31, 2011 and 2010 (amounts in thousands and net of tax):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>Aggregate unrealized net gain/(loss) at beginning of year</b>     | \$ 7,091                                | \$ 4,468    |
| Add: Net gain/(loss) from change in fair value of cash flow hedges   | 758                                     | 3,889       |
| Less: Net (gain)/loss reclassified to earnings from effective hedges | (2,215)                                 | (927)       |
| <b>Aggregate unrealized net gain/(loss) at end of period</b>         | \$ 5,634                                | \$ 7,430    |

**Table of Contents**

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

The Company's foreign exchange cash flow hedging instruments as of March 31, 2011 and December 31, 2010 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

| <b>As of March 31, 2011</b> | <b>Local<br/>Currency<br/>Notional<br/>Amount</b> | <b>U.S.<br/>Dollar<br/>Notional<br/>Amount</b> | <b>%<br/>Maturing in<br/>the Next 12<br/>Months</b> | <b>Contracts<br/>Maturing<br/>Through<br/>December</b> |
|-----------------------------|---|--|---|--|
| Canadian Dollar             | 11,400  | \$ 10,216                                      | 100.0%  | 2011   |
| Philippine Peso             | 12,059,000  | 271,523 <sup>(1)</sup>                         | 54.8%   | December<br>2014                                       |
| Mexican Peso                | 604,500   | 46,669   | 68.7%   | December<br>2012                                       |
| British Pound Sterling      | 5,140   | 8,121 <sup>(2)</sup>                           | 73.7%   | December<br>2012                                       |
|                             |   | \$ 336,529                                     |   |  |

| <b>As of December 31, 2010</b> | <b>Local<br/>Currency<br/>Notional<br/>Amount</b> | <b>U.S.<br/>Dollar<br/>Notional<br/>Amount</b> |
|--------------------------------|---|--|
| Canadian Dollar                | 10,200  | \$ 8,493                                       |
| Philippine Peso                | 7,731,000   | 169,364 <sup>(1)</sup>                         |
| Mexican Peso                   | 311,500   | 22,383   |
| British Pound Sterling         | 4,647   | 7,231 <sup>(2)</sup>                           |
|                                |   | \$ 207,471                                     |

<sup>(1)</sup> Includes contracts to purchase Philippine pesos in exchange for Australian dollars and New Zealand dollars which are translated into equivalent U.S. dollars on March 31, 2011 and December 31, 2010.

<sup>(2)</sup> Includes contracts to purchase British pounds sterling in exchange for Euros, which are translated into equivalent U.S. dollars on March 31, 2011 and December 31, 2010.

The Company's interest rate swap arrangement as of March 31, 2011 and December 31, 2010 were as follows:

|                         | <b>Notional<br/>Amount</b> | <b>Variable<br/>Rate<br/>Received</b> | <b>Fixed<br/>Rate<br/>Paid</b> | <b>Contract<br/>Commencement<br/>Date</b> | <b>Contract<br/>Maturity<br/>Date</b> |
|-------------------------|----------------------------|---------------------------------------|--------------------------------|---|---------------------------------------|
| As of March 31, 2011    | \$25<br>million            | 1 - month<br>LIBOR                    | 2.55%                          | April 2012                                | April<br>2016                         |
| As of December 31, 2010 |                            |                                       |                                |   |                                       |

**Fair Value Hedges**

The Company enters into foreign exchange forward contracts to 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, as well as the offsetting gain or loss on the hedged asset or liability, are recognized in earnings in Other income (expense), net. As of March 31, 2011 and December 31, 2010 the total notional amount of the Company's forward contracts used as fair value hedges were \$37.0 million and \$93.3 million, respectively.

**Embedded Derivatives**

In addition to hedging activities, the Company's foreign subsidiary in Argentina is party to U.S. dollar denominated lease contracts that the Company has determined contain embedded derivatives. As such, the Company bifurcates the embedded derivative features of the lease contracts and values these features as foreign currency derivatives.

**Table of Contents**

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

**Derivative Valuation and Settlements**

The Company's derivatives as of March 31, 2011 and December 31, 2010 were as follows (amounts in thousands):

|  | <b>March 31, 2011</b> |               |                           |                |
|--|-----------------------|---------------|---------------------------|----------------|
|  | Designated as Hedging |               | Not Designated as Hedging |                |
|  | Instruments           |               | Instruments               |                |
|  | Foreign               | Interest      | Foreign                   |                |
| Derivative contracts:  | Exchange              | Rate          | Exchange                  | Leases         |
| Derivative classification:   | Cash Flow             | Cash Flow     | Fair Value                | Embedded       |
| Fair value and location of derivative in the Consolidated Balance Sheet: |                       |               |                           | Derivative     |
| Prepays and other current assets   | \$ 8,620              | \$            | \$ 32                     | \$             |
| Other long-term assets   | 2,452                 | 314           |                           |                |
| Other current liabilities  | (1,245)               |               | (41)                      | (56)           |
| Other long-term liabilities  | (527)                 |               |                           | (39)           |
| <b>Total fair value of derivatives, net</b>                              | <b>\$ 9,300</b>       | <b>\$ 314</b> | <b>\$ (9)</b>             | <b>\$ (95)</b> |

|  | <b>December 31, 2010</b> |           |                           |                 |
|--|--------------------------|-----------|---------------------------|-----------------|
|  | Designated as Hedging    |           | Not Designated as Hedging |                 |
|  | Instruments              |           | Instruments               |                 |
|  | Foreign                  | Interest  | Foreign                   |                 |
| Derivative contracts:  | Exchange                 | Rate      | Exchange                  | Leases          |
| Derivative classification:   | Cash Flow                | Cash Flow | Fair Value                | Embedded        |
| Fair value and location of derivative in the Consolidated Balance Sheet: |                          |           |                           | Derivative      |
| Prepays and other current assets   | \$ 10,602                | \$        | \$ 783                    | \$              |
| Other long-term assets   | 2,081                    |           |                           |                 |
| Other current liabilities  | (677)                    |           | (58)                      | (105)           |
| Other long-term liabilities  | (104)                    |           |                           | (34)            |
| <b>Total fair value of derivatives, net</b>                              | <b>\$ 11,902</b>         | <b>\$</b> | <b>\$ 725</b>             | <b>\$ (139)</b> |

The effect of derivative instruments on the Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 was as follows (amounts in thousands):

|  | <b>Three Months Ended March 31,</b> | <b>2011</b>           | <b>2010</b>           |
|--|-------------------------------------|-----------------------|-----------------------|
|  | Designated as Hedging               | Designated as Hedging | Designated as Hedging |

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

|   | Instruments                      |                            | Instruments                      |                            |
|---|----------------------------------|----------------------------|----------------------------------|----------------------------|
|   | Foreign<br>Exchange<br>Cash Flow | Interest Rate<br>Cash Flow | Foreign<br>Exchange<br>Cash Flow | Interest Rate<br>Cash Flow |
| Derivative contracts:<br>Derivative classification:<br>Amount of gain or (loss) recognized in other<br>comprehensive income effective portion, net of<br>tax:                                     | \$ 570                           | \$ 188                     | \$3,889                          | \$                         |
| Amount and location of net gain or<br>(loss) reclassified from accumulated OCI to<br>income effective portion:<br>Revenue   | \$3,691                          | \$                         | \$1,520                          | \$                         |
| Amount and location of net gain or<br>(loss) reclassified from accumulated OCI to<br>income ineffective portion and amount excluded<br>from effectiveness testing:<br>Other income (expense), net | \$                               | \$                         | \$                               | \$                         |

11

**Table of Contents**

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

|  | <b>Three Months Ended March 31,</b>          |               |            |  |            |            |
|--|--|---------------|------------|--|------------|------------|
|  | <b>2011</b>                                  |               |            | <b>2010</b>                                  |            |            |
|  | Not Designated as Hedging<br>Instruments     |               |            | Not Designated as Hedging<br>Instruments     |            |            |
| Derivative contracts:  | Foreign Exchange<br>Option<br>and<br>Forward | Leases        | Leases     | Foreign Exchange<br>Option<br>and<br>Forward | Leases     | Leases     |
|  | Contracts                                    | Fair<br>Value | Derivative | Contracts                                    | Fair Value | Derivative |
| Derivative classification:<br>Amount and location of net<br>gain or (loss) recognized in the<br>Consolidated Statement of<br>Operations: |  |               |            |  |            |            |
| Costs of services  | \$   | \$            | \$ 44      | \$   | \$         | \$107      |
| Other income (expense), net  | \$   | \$711         | \$         | \$4  | \$1,136    | \$         |

**(7) FAIR VALUE**

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

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

The following presents information as of March 31, 2011 and December 31, 2010 of the Company's assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

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

*Debt* - The Company's debt consists primarily of the Company's Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company's leverage ratio calculation (as defined in the Credit Agreement). As of March 31, 2011, the Company had \$79.5 million of borrowings outstanding under the Credit Agreement. During the first quarter of 2011 outstanding borrowings accrued interest at an average rate of 1.9% per annum, excluding unused commitment fees.

*Derivatives* - Net derivative assets (liabilities) measured at fair value on a recurring basis.

The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of March 31, 2011, credit risk did not materially change the fair value of the Company's derivative contracts.



Table of Contents

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

The following is a summary of the Company's fair value measurements for its net derivative assets (liabilities) as of March 31, 2011 and December 31, 2010 (amounts in thousands):

**As of March 31, 2011**

|  | Fair Value Measurements Using                                  |   |   | At Fair Value |
|--|--|---|---|---------------|
|  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |               |
| Cash flow hedges                       | \$   | \$  | 9,614                                     | \$ 9,614      |
| Fair value hedges                      |  |   | (9)                                       | (9)           |
| Embedded derivatives                   |  |   | (95)                                      | (95)          |
| Total net derivative asset (liability) | \$   | \$  | 9,510                                     | \$ 9,510      |

**As of December 31, 2010**

|  | Fair Value Measurements Using                                  |   |   | At Fair Value |
|--|--|---|---|---------------|
|  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |               |
| Cash flow hedges                       | \$   | \$  | 11,902                                    | \$ 11,902     |
| Fair value hedges                      |  |   | 725                                       | 725           |
| Embedded derivatives                   |  |   | (139)                                     | (139)         |
| Total net derivative asset (liability) | \$   | \$  | 12,488                                    | \$ 12,488     |

The following is a summary of the Company's fair value measurements as of March 31, 2011 and December 31, 2010 (amounts in thousands):

**As of March 31, 2011**

Fair Value Measurements Using  
Significant

|                                      | <b>Quoted<br/>Prices<br/>in<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--------------------------------------|---|--|--|
| <b>Assets</b>                        |   |  |  |
| Money market investments             | \$  | \$ 18,245  | \$   |
| Derivative instruments, net          |   | 9,510  |  |
| <b>Total assets</b>                  | <b>\$</b>   | <b>\$ 27,755</b>   | <b>\$</b>                                    |
| <b>Liabilities</b>                   |   |  |  |
| Deferred compensation plan liability | \$  | \$ (4,066)   | \$   |
| Purchase price payable               |   |  | (4,685)                                      |
| <b>Total liabilities</b>             | <b>\$</b>   | <b>\$ (4,066)</b>  | <b>\$ (4,685)</b>                            |

Table of Contents

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

As of December 31, 2010

|                                      | Fair Value Measurements Using   |   |  |
|--------------------------------------|---|---|--|
|                                      | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>                        |   |   |  |
| Money market investments             | \$  | \$ 19,668   | \$   |
| Derivative instruments, net          |   | 12,488  |  |
| <b>Total assets</b>                  | \$  | \$ 32,156   | \$   |
| <b>Liabilities</b>                   |   |   |  |
| Deferred compensation plan liability | \$  | \$ (3,781)  | \$   |
| Purchase price payable               |   |   | (4,506)  |
| <b>Total liabilities</b>             | \$  | \$ (3,781)  | \$ (4,506)   |

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

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

*Purchase Price Payable* The Company has a future payable related to the purchase of PRG discussed in Note 2. As part of the PRG acquisition, the Company will pay \$5.0 million on March 1, 2012. This payment was recognized at fair value using a discounted cash flow approach and a discount rate of 18.4%. This measurement is based on significant inputs not observable in the market. The Company will record accretion expense each period using the effective interest rate method until the payable reaches \$5.0 million on March 1, 2012.

**(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.

**Table of Contents**

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

In 2005, the Company, through its Canadian subsidiary, recorded a Canadian income tax receivable related to a refund of tax it considered probable of collecting. The potential refund related to income subjected to double taxation by the United States and originally reported to and assessed by Canada in 2001 and 2002. The Company, through the Competent Authorities of the United States and Canada requested relief from the double taxation through the Mutual Agreement procedure found in Article IX of the U.S. - Canada Income Tax Convention (the Treaty). At December 31, 2010, the Company continued to believe that collection of the Canadian income tax receivable was more likely than not. On February 20, 2011 the Company received notice that the Canada Revenue Agency (CRA) would not consider the Company's request for relief (please refer to Footnote 12 to the Company's Consolidated Financial Statements included in the Company's 2010 Annual Report on Form 10-K.) As of March 31, 2011 the Company can no longer conclude that collection of the Canadian income tax receivable is more likely than not and therefore derecognized the Canadian income tax receivable of \$9.0 million through a charge to income tax expense. The Company continues to believe in the merits of its claim and that the CRA abused its discretion in refusing TeleTech Canada's request for relief from double taxation. As such, the Company is exploring and intends to vigorously pursue any available remedies in response to the CRA decision.

Also in the quarter the Company recognized a U.S. tax refund claim of \$10.2 million and established a corresponding reserve for uncertain tax positions of \$7.3 million. The net benefit of \$2.9 million is a reduction to income tax expense. This refund claim relates to previously disallowed deductions included in the Company's amended 2002 U.S. Income Tax return. The Company and the Appeals branch of the IRS are scheduled to mediate this issue in May 2011. If a settlement is reached with the IRS during mediation, or the Company comes to a change in judgment based on new information, it is possible that the settlement or new judgment of this uncertain tax position will be different than the \$2.9 million benefit recorded in the first quarter.

As of March 31, 2011, the Company had \$43.7 million of deferred tax assets (after a \$22.1 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$38.4 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three months ended March 31, 2011 and 2010 was 46.4% and 26.5%, respectively.

The Company is currently under audit of income taxes and payroll related taxes in the Philippines for 2008. Although the outcome of examinations by taxing authorities are always uncertain, it is the opinion of management that the resolution of these audits will not have a material effect on the Company's Consolidated Financial Statements.

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

**Restructuring Charges**

During the three months ended March 31, 2011 and 2010, the Company undertook a number of restructuring activities primarily associated with reductions in the Company's capacity and workforce in both the North American BPO and International BPO segments to better align the capacity and workforce with current business needs.

**Table of Contents**

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

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, respectively, is as follows (amounts in thousands):

|                             | <b>Three Months Ended<br/>March 31,</b> |                 |
|-----------------------------|---|-----------------|
|                             | <b>2011</b>                             | <b>2010</b>     |
| North American BPO          |   |                 |
| Reduction in force          | \$ 522                                  | \$ 1,357        |
| Facility exit charges       | 7                                       |                 |
| Revision of prior estimates |   | (5)             |
| <b>Total</b>                | <b>\$ 529</b>                           | <b>\$ 1,352</b> |

|                             | <b>Three Months Ended<br/>March 31,</b> |               |
|-----------------------------|---|---------------|
|                             | <b>2011</b>                             | <b>2010</b>   |
| International BPO           |   |               |
| Reduction in force          | \$ 210                                  | \$ 117        |
| Facility exit charges       |   |               |
| Revision of prior estimates |   |               |
| <b>Total</b>                | <b>\$ 210</b>                           | <b>\$ 117</b> |

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

|  | <b>Closure of<br/>Delivery<br/>Centers</b> | <b>Reduction<br/>in<br/>Force</b> | <b>Total</b>    |
|--|--|-----------------------------------|-----------------|
| <b>Balance as of December 31, 2010</b> | \$ 695                                     | \$ 8,267                          | \$ 8,962        |
| Expense                                | 7  | 732                               | 739             |
| Payments                               | (142)                                      | (3,656)                           | (3,798)         |
| Reversals                              |  |                                   |                 |
| <b>Balance as of March 31, 2011</b>    | <b>\$ 560</b>                              | <b>\$ 5,343</b>                   | <b>\$ 5,903</b> |

The remaining reduction in force accrual is expected to be paid during 2011, with the remaining accrual for the closure of delivery centers to be paid or extinguished no later than 2012.

**Impairment Losses**

The Company evaluated the recoverability of its leasehold improvement assets at certain delivery centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than the asset group's carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed

discount rates. During the three months ended March 31, 2011, the Company recognized impairment losses related to leasehold improvement assets of \$0.2 million in its International BPO segment. During the three months ended March 31, 2010, the Company recognized no impairment loss.

**Table of Contents**

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

**(10) COMMITMENTS AND CONTINGENCIES****Credit Facility**

On October 1, 2010, the Company entered into a credit agreement (the Credit Agreement ) with a syndicate of lenders led by KeyBank National Association, Wells Fargo Bank, National Association, Bank of America, N.A., BBVA Compass, and JPMorgan Chase Bank, N.A. The Credit Agreement amends and restates in its entirety the Company's prior credit facility entered into during 2006. The five-year, \$350.0 million revolving credit facility with expanded foreign borrower and multi-currency flexibility also includes a \$150.0 million accordion provision providing an option to increase the aggregate commitment to \$500.0 million.

We primarily utilize our Credit Agreement to fund working capital, general operating purposes, stock repurchases and other strategic purposes, such as the acquisitions described in Note 2. As of March 31, 2011 and December 31, 2010, we had borrowings of \$79.5 million and zero, respectively, under our Credit Agreement, and our average three-month intra-quarter utilization was \$71.3 million and \$58.6 million for the three months ended March 31, 2011 and 2010, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$4.6 million, our remaining borrowing capacity was \$265.9 million as of March 31, 2011. As of March 31, 2011, we were in compliance with all covenants and conditions under our Credit Agreement.

**Letters of Credit**

As of March 31, 2011, outstanding letters of credit under the Credit Agreement totaled \$4.6 million and primarily guaranteed workers' compensation and other insurance related obligations. As of March 31, 2011, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled \$1.2 million.

**Guarantees**

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

**Legal Proceedings**

From time to time, we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations.

**(11) COMPREHENSIVE INCOME**

The following table sets forth comprehensive income (loss) for the periods indicated (amounts in thousands):

|  | <b>Three Months Ended</b> |                  |
|--|---------------------------|------------------|
|  | <b>March 31,</b>          |                  |
|  | <b>2011</b>               | <b>2010</b>      |
| Net income   | \$ 11,371                 | \$ 14,042        |
| Foreign currency translation adjustment                      | 5,091                     | 1,456            |
| Derivatives valuation, net of tax                            | (1,457)                   | 2,962            |
| Other  | 110                       | (253)            |
| <b>Total comprehensive income</b>                            | <b>\$ 15,115</b>          | <b>\$ 18,207</b> |
| Comprehensive income attributable to noncontrolling interest | (951)                     | (633)            |
| <b>Comprehensive income attributable to TeleTech</b>         | <b>\$ 14,164</b>          | <b>\$ 17,574</b> |



**Table of Contents**

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

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| Noncontrolling interest, January 1                 | \$ 11,092                 | \$ 5,478    |
| Net income attributable to noncontrolling interest | 898                       | 755         |
| Dividends distributed to noncontrolling interest   | (990)                     | (1,260)     |
| Foreign currency translation adjustments           | 53                        | (122)       |
| Noncontrolling interest, March 31                  | \$ 11,053                 | \$ 4,851    |

**(12) NET INCOME PER SHARE**

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2011</b>               | <b>2010</b> |
| <b>Shares used in basic earnings per share calculation</b>    | 57,190                    | 61,877      |
| Effect of dilutive securities:                                |                           |             |
| Stock options   | 951                       | 1,011       |
| Restricted stock units  | 656                       | 595         |
| Total effects of dilutive securities                          | 1,607                     | 1,606       |
| <b>Shares used in dilutive earnings per share calculation</b> | 58,797                    | 63,483      |

For the three months ended March 31, 2011 and 2010, options to purchase 0.1 million and 0.2 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the three months ended March 31, 2011 and 2010, restricted stock units ( RSUs ) of 0.5 million and 0.7 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

**(13) EQUITY-BASED COMPENSATION PLANS**

All equity based awards to employees are recognized in the Consolidated Statements of Operations at the fair value of the award on the grant date.

**Stock Options**

As of March 31, 2011, there was approximately \$10,000 of total unrecognized compensation cost (including the impact of expected forfeitures) related to unvested option arrangements granted under the Company's equity plans. The Company recognizes compensation expense straight line over the vesting term of the option grant. The Company recognized compensation expense related to stock options of approximately \$14,000 and \$130,000 for the three months ended March 31, 2011 and 2010, respectively.

**Restricted Stock Unit Grants**

During the three months ended March 31, 2011 and 2010, the Company granted 489,500 and 1,008,500 RSUs, respectively, to new and existing employees, which vest in equal installments over four years. The Company

recognized compensation expense related to RSUs of \$3.7 million and \$3.1 million for the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011, there was approximately \$41.3 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company's equity plans.

**Table of Contents**

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

As of March 31, 2011 and 2010, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified revenue and operating income performance targets. The Company determined that it was not probable these performance targets would be met; therefore no expense was recognized for the three months ended March 31, 2011 or 2010. The Company did not achieve the operating income performance targets in 2010, thus the 2010 performance RSUs were cancelled.

**(14) DECONSOLIDATION OF A SUBSIDIARY**

On December 22, 2008, Newgen Results Corporation ( Newgen ), a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. The consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners and under legal reorganization or bankruptcy control rests with the Bankruptcy Court. Accordingly, the Company deconsolidated Newgen as of December 22, 2008.

On September 9, 2010, Newgen settled a legal claim for \$3.6 million that was paid for by the Company on behalf of Newgen. As a result of the legal settlement, the Company recognized a \$5.9 million gain in Other income (expense), net and a \$2.3 million expense in Provision for income taxes during the year 2010.

As of March 31, 2011, the Company's negative investment in Newgen was \$0.1 million as presented in the accompanying Consolidated Balance Sheets.

The following condensed financial statements of Newgen have been prepared to show the remaining liabilities subject to compromise by the Bankruptcy Court to be reported separately from the liabilities not subject to compromise (pre and post rent settlement). All liabilities included in the condensed financial statements below (amounts in thousands) are subject to compromise as of March 31, 2011 and represent the current estimate of the amount of known or potential pre-petition claims that are subject to final settlement. Such claims remain subject to future adjustments.

|   | <b>March<br/>31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> | <b>December<br/>22,<br/>2008</b> |
|---|-------------------------------|----------------------------------|----------------------------------|
| Total current assets                        | \$ 127                        | \$ 127                           | \$ 1,700                         |
| Total long-term asset                       |                               |                                  | 3,110                            |
| Total assets                                | \$ 127                        | \$ 127                           | \$ 4,810                         |
| Total current liabilities                   | \$ 203                        | \$ 203                           | \$ 3,931                         |
| Total long-term liabilities                 |                               |                                  | 5,744                            |
| Total liabilities                           | 203                           | 203                              | 9,675                            |
| Total stockholders' deficit                 | (76)                          | (76)                             | (4,865)                          |
| Total liabilities and stockholders' deficit | \$ 127                        | \$ 127                           | \$ 4,810                         |

**Table of Contents**

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

**Introduction**

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010. Except for historical information, the discussion below contains certain forward looking statements that involve risks and uncertainties. The projections and statements contained in these forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward looking statements.

All statements not based on historical fact are forward looking statements that involve substantial risks and uncertainties. In accordance with the Private Securities Litigation Reform Act of 1995, the following are important factors that could cause our actual results to differ materially from those expressed or implied by such forward looking statements, including but not limited to the following: achieving estimated revenue from new, renewed and expanded client business as volumes may not materialize as forecasted, especially due to the global economic slowdown; achieving profit improvement in our International Business Process Outsourcing ( BPO ) operations; the ability to close and ramp new business opportunities that are currently being pursued or that are in the final stages with existing and/or potential clients; our ability to execute our growth plans, including sales of new products; the possibility of lower revenue or price pressure from our clients experiencing a business downturn or merger in their business; greater than anticipated competition in the BPO services market, causing adverse pricing and more stringent contractual terms; risks associated with losing or not renewing client relationships, particularly large client agreements, or early termination of a client agreement; the risk of losing clients due to consolidation in the industries we serve; consumers concerns or adverse publicity regarding our clients' products; our ability to find cost effective locations, obtain favorable lease terms and build or retrofit facilities in a timely and economic manner; risks associated with business interruption due to weather, fires, pandemic, or terrorist related events; risks associated with attracting and retaining cost effective labor at our delivery centers; the possibility of asset impairments and restructuring charges; risks associated with changes in foreign currency exchange rates; economic or political changes affecting the countries in which we operate; changes in accounting policies and practices promulgated by standard setting bodies; and new legislation or government regulation that adversely impacts our tax obligations, health care costs or the BPO and customer management industry.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included elsewhere in this report. These factors are not intended to represent a complete list of all risks and uncertainties inherent in our business and should be read in conjunction with the more detailed cautionary statements included in our 2010 Annual Report on Form 10-K under the caption Item 1A. Risk Factors, in our other Securities and Exchange Commission filings and in our press releases.

**Table of Contents****Executive Summary**

TeleTech is one of the largest and most geographically diverse global providers of business process outsourcing solutions. We have a 29-year history of designing, implementing and managing critical business processes that drive commerce and differentiate the customer experience to deliver increased brand loyalty, satisfaction and retention. We provide a fully integrated suite of technology-enabled customer-centric services that span strategic professional services, revenue generation, front and back office processes, cloud-based fully hosted BPO delivery center environments and learning innovation services. We help the Global 1000, which are the world's largest companies based on market capitalization, optimize their customers' experience, grow revenue, increase operating efficiencies, improve quality and lower costs by designing, implementing and managing their critical business processes. We have developed deep vertical industry expertise and support more than 275 business process outsourcing programs serving approximately 100 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries. As globalization of the world's economy continues to accelerate, businesses are increasingly competing on a large-scale basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled worldwide labor force. As a result of these developments, we believe that companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position while increasing shareholder value through improved productivity and profitability.

In 2011, our first quarter revenue increased 3.5% to \$281.0 million over the year-ago period, which included an increase of 2.5%, or \$6.7 million, due to fluctuations in foreign currency rates. Our first quarter 2011 income from operations increased 11.3% to \$21.5 million, or 7.6% of revenue, from \$19.3 million, or 7.1% of revenue, in the year-ago period. This revenue increase was due to an increase in existing client volumes, new BPO programs, and additional revenue generation and consultative revenue. Income from operations for the first quarter of 2011 and 2010 included \$1.0 million and \$1.5 million of restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based both in North America and in other countries. Our offshore delivery capacity spans five countries with 21,700 workstations and currently represents 71% of our global delivery capabilities. Revenue from services provided in these offshore locations was \$132 million and represented 47% of our total revenue for the first quarter of 2011.

Our strong financial position due to our cash flow from operations allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At March 31, 2011, we had \$189.7 million of cash and cash equivalents and a total debt to total capitalization ratio of 15.8%.

**Our Future Growth Goals and Strategy**

Our objective is to become the world's largest, most technologically advanced and innovative provider of customer-centric BPO solutions. Companies within the Global 1000 are our primary client targets due to their size, global reach, focus on outsourcing and desire for a BPO provider who can quickly and efficiently offer an end-to-end suite of fully-integrated, globally scalable solutions. We have developed, and continue to invest in, a broad set of technological and geographical capabilities designed to serve this growing client need. These investments include our recently completed acquisition of a majority interest in Peppers & Rogers Group to further enhance our professional services capabilities. In addition, we have begun to offer cloud-based hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative business process services across our targeted industries.

**Table of Contents**

Our business strategy to increase revenue, profitability and our industry position includes the following elements:  
Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

Seek a provider that can deliver strategic consulting and operational execution around customer-centric strategies;

Focus on providers who can offer fully integrated revenue generation solutions;

Adopt or increase BPO services;

Consolidate outsourcing providers with those that have a solid financial position, adequate capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;

Modify their approach to outsourcing based on total value delivered versus the lowest priced provider;

Create focused revenue generation capabilities in targeted market segments;

Better integrate front- and back-office processes; and

Take advantage of cost efficiencies through the adoption of cloud-based technology solutions.  
Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on end-to-end offerings in targeted industries, such as healthcare, retail and financial services, where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning innovation services and our hosted TeleTech OnDemand™ capabilities;

Continue to improve our operating margins through selective profit improvement initiatives;

Increase asset utilization of our globally diverse delivery centers by winning more back office opportunities and providing the services during non-peak hours with minimal incremental investment;

Scale our work from home initiative to increase operational flexibility; and

Selectively pursue acquisitions that extend our capabilities, geographic reach and/or industry expertise.

**Table of Contents**

**Business Overview**

Our BPO business provides outsourced business process and customer management services along with strategic consulting for a variety of industries through global delivery centers. Our North American BPO segment is comprised of sales to all clients based in North America (encompassing the U.S. and Canada), while our International BPO segment is comprised of sales to all clients based in all countries outside of North America.

*BPO Services*

The BPO business generates revenue based primarily on the amount of time our associates or consultants devote to a client's program. We primarily focus on large global corporations in the following industries: automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and wireline and wireless telecommunications. Revenue is recognized as services are provided. The majority of our revenue is from multi-year contracts and we expect this trend to continue. However, we do provide certain client programs on a short-term basis.

We have historically experienced annual attrition of existing client programs of approximately 6% to 12% of our revenue. Attrition of existing client programs during the first three months of 2011 was 8%.

The BPO industry is highly competitive. We compete primarily with the in-house business processing operations of our current and potential clients. We also compete with certain third-party BPO providers. Our ability to sell our existing services or gain acceptance for new products or services is challenged by the competitive nature of the industry. There can be no assurance that we will be able to sell services to new clients, renew relationships with existing clients, or gain client acceptance of our new products.

Our ability to renew or enter into new multi-year contracts, particularly large complex opportunities, is dependent upon the macroeconomic environment in general and the specific industry environments in which our clients operate. A continued weakening of the U.S. or the global economy could lengthen sales cycles or cause delays in closing new business opportunities.

Our potential clients typically obtain bids from multiple vendors and evaluate many factors in selecting a service provider, including, among others, the scope of services offered, the service record of the vendor and price. We generally price our bids with a long-term view of profitability and, accordingly, we consider all of our fixed and variable costs in developing our bids. We believe that our competitors, at times, may bid business based upon a short-term view, as opposed to our longer-term view, resulting in a lower price bid. While we believe that our clients' perceptions of the value we provide results in our being successful in certain competitive bid situations, there are often situations where a potential client may prefer a lower cost.

Our industry is labor intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. An improvement in the local or global economies where our delivery centers are located could lead to increased labor related costs. In addition, our industry experiences high personnel turnover, and the length of training time required to implement new programs continues to increase due to increased complexities of our clients' businesses. This may create challenges if we obtain several significant new clients or implement several new, large scale programs and need to recruit, hire and train qualified personnel at an accelerated rate.

To some extent our profitability is influenced by the number of new client programs entered into within the period. For new programs we defer revenue related to initial training ( Training Revenue ) when training is billed as a separate component from production rates. Consequently, the corresponding training costs associated with this revenue, consisting primarily of labor and related expenses ( Training Costs ), are also deferred. In these circumstances, both the Training Revenue and Training Costs are amortized straight-line over the life of the contract. In situations where Training Revenue is not billed separately, but rather included in the production rates, there is no deferral as all revenue is recognized over the life of the contract and the associated training expenses are expensed as incurred.

**Table of Contents**

As of March 31, 2011, we had deferred start-up Training Revenue, net of Training Costs, of \$5.8 million that will be recognized into our income from operations over the remaining life of the corresponding contracts (\$2.9 million will be recognized within the next 12 months).

We may have difficulties managing the timeliness of launching new or expanded client programs and the associated internal allocation of personnel and resources. This could cause slower than anticipated revenue growth and/or higher than expected costs primarily related to hiring, training and retaining the required workforce, either of which could adversely affect our operating results.

Quarterly, we review our capacity utilization and projected demand for future capacity. In conjunction with these reviews, we may decide to consolidate or close under performing delivery centers, including those impacted by the loss of a client program, in order to maintain or improve targeted utilization and margins. In addition, because clients may request that we serve their customers from international delivery centers with lower prevailing labor rates, in the future we may decide to close one or more of our delivery centers, even though it is generating positive cash flow, because we believe the future profits from conducting such work outside the current delivery center may more than compensate for the one-time charges related to closing the facility.

Our profitability is influenced by our ability to increase capacity utilization in our delivery centers. We attempt to minimize the financial impact resulting from idle capacity when planning the development and opening of new delivery centers or the expansion of existing delivery centers. As such, management considers numerous factors that affect capacity utilization, including anticipated expirations, reductions, terminations, or expansions of existing programs and the potential size and timing of new client contracts that we expect to obtain.

We continue to win new business with both new and existing clients. To respond more rapidly to changing market demands, to implement new programs and to expand existing programs, we may be required to commit to additional capacity prior to the contracting of additional business, which may result in idle capacity. This is largely due to the significant time required to negotiate and execute large, complex BPO client contracts and the difficulty of predicting specifically when new programs will launch.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of March 31, 2011, the overall capacity utilization in our multi-client centers was 76%. The table below presents workstation data for our multi-client centers as of March 31, 2011 and 2010. Dedicated and managed centers (2,540 and 3,189 workstations as of March 31, 2011 and 2010, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

|                            | March 31, 2011                      |        |             | March 31, 2010                      |        |             |
|----------------------------|-------------------------------------|--------|-------------|-------------------------------------|--------|-------------|
|                            | Total<br>Production<br>Workstations | In Use | % In<br>Use | Total<br>Production<br>Workstations | In Use | % In<br>Use |
| Multi-client centers       |                                     |        |             |                                     |        |             |
| Sites open <1 year         | 397                                 | 193    | 49%         | 181                                 | 89     | 49%         |
| Sites open >1 year         | 27,637                              | 21,057 | 76%         | 31,332                              | 21,389 | 68%         |
| Total multi-client centers | 28,034                              | 21,250 | 76%         | 31,513                              | 21,478 | 68%         |

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



**Table of Contents**

**Recently Issued Accounting Pronouncements**

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

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of its financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. Below is a discussion of the policies that we believe may involve a high degree of judgment and complexity and have changed from our most recent annual financial statement filing.

*Revenue Recognition*

The Company recognizes revenue when evidence of an arrangement exists, the delivery of service has occurred, the fee is fixed or determinable and collection is reasonably assured. The BPO inbound and outbound service fees are based on either a per minute, per hour, per transaction or per call basis. Certain client programs provide for adjustments to monthly billings based upon whether we achieve, exceed or fail certain performance criteria. Adjustments to monthly billings consist of contractual bonuses/penalties, holdbacks and other performance based contingencies. Revenue recognition is limited to the amount that is not contingent upon delivery of future services or meeting other specified performance conditions.

Revenue also consists of services for agent training, program launch, software modification, consulting and cloud based hosting. These service offerings may contain multiple element arrangements whereby the Company determines if those service offerings represent separate units of accounting. To identify separate units of accounting the Company takes into consideration if the delivered item has value to the customer on a standalone basis, if there is objective and reliable evidence of fair value of the undelivered items, if there is a general right of return on the delivered item, and if delivery of the undelivered item is considered probable and in the Company's control. If those deliverables are determined to be separate units of accounting, revenue is recognized as services are provided. If those deliverables are not determined to be separate units of accounting, revenue for the delivered services are bundled into one unit of accounting and recognized over the life of the arrangement or at the time all services and deliverables have been delivered and satisfied. The amount of revenue recognized for each unit of accounting is based on the relative fair value of the element. Fair value is determined by vendor specific objective evidence ( VSOE ) or best estimate of selling price, which is based on the price charged when each element is sold separately. If the Company cannot objectively determine or estimate the fair value of any undelivered element included in a multiple-element arrangement, the Company defers revenue until all elements are delivered and services have been performed.

Periodically, the Company will make certain expenditures related to acquiring contracts or provide up-front discounts for future services. These expenditures are capitalized as Contract Acquisition Costs and amortized in proportion to the expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these costs is recorded as a reduction to revenue.

**Table of Contents**

**Explanation of Key Metrics and Other Items**

*Cost of Services*

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

*Selling, General and Administrative*

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

*Restructuring Charges, Net*

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

*Interest Expense*

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

*Other Income*

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

*Other Expense*

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

**Presentation of Non GAAP Measurements**

*Free Cash Flow*

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

**Table of Contents**

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Net cash provided by operating activities  | \$24,608                                | \$51,432    |
| Purchases of property, plant and equipment | 3,870                                   | 6,608       |
| Free cash flow                             | \$20,738                                | \$44,824    |

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

**Table of Contents****Results of Operations****Three months ended March 31, 2011 compared to three months ended March 31, 2010**

The following table is presented to facilitate an understanding of our Management's Discussion and Analysis of Financial Condition and Results of Operations and presents our results of operations by segment for the three months ended March 31, 2011 and 2010 (amounts in thousands). We allocate to each segment its portion of corporate operating expenses. All inter-company transactions between the reported segments for the periods presented have been eliminated.

|  | Three Months Ended March 31, |              | Three Months Ended March 31, |              | \$ Change   | % Change |
|--|------------------------------|--------------|------------------------------|--------------|-------------|----------|
|  | 2011                         | % of Revenue | 2010                         | % of Revenue |             |          |
| <b>Revenue</b>                             |                              |              |                              |              |             |          |
| North American BPO                         | \$ 192,049                   |              | \$ 207,942                   |              | \$ (15,893) | -7.6%    |
| International BPO                          | 88,930                       |              | 63,584                       |              | 25,346      | 39.9%    |
|  | \$ 280,979                   |              | \$ 271,526                   |              | \$ 9,453    | 3.5%     |
| <b>Cost of services</b>                    |                              |              |                              |              |             |          |
| North American BPO                         | \$ 133,214                   | 69.4%        | \$ 144,777                   | 69.6%        | \$ (11,563) | -8.0%    |
| International BPO                          | 65,907                       | 74.1%        | 49,841                       | 78.4%        | 16,066      | 32.2%    |
|  | \$ 199,121                   | 70.9%        | \$ 194,618                   | 71.7%        | \$ 4,503    | 2.3%     |
| <b>Selling, general and administrative</b> |                              |              |                              |              |             |          |
| North American BPO                         | \$ 32,316                    | 16.8%        | \$ 32,075                    | 15.4%        | \$ 241      | 0.8%     |
| International BPO                          | 15,485                       | 17.4%        | 11,333                       | 17.8%        | 4,152       | 36.6%    |
|  | \$ 47,801                    | 17.0%        | \$ 43,408                    | 16.0%        | \$ 4,393    | 10.1%    |
| <b>Depreciation and amortization</b>       |                              |              |                              |              |             |          |
| North American BPO                         | \$ 8,460                     | 4.4%         | \$ 9,950                     | 4.8%         | \$ (1,490)  | -15.0%   |
| International BPO                          | 3,138                        | 3.5%         | 2,774                        | 4.4%         | 364         | 13.1%    |
|  | \$ 11,598                    | 4.1%         | \$ 12,724                    | 4.7%         | \$ (1,126)  | -8.8%    |
| <b>Restructuring charges, net</b>          |                              |              |                              |              |             |          |
| North American BPO                         | \$ 529                       | 0.3%         | \$ 1,352                     | 0.7%         | \$ (823)    | -60.9%   |
| International BPO                          | 210                          | 0.2%         | 117                          | 0.2%         | 93          | 79.5%    |
|  | \$ 739                       | 0.3%         | \$ 1,469                     | 0.5%         | \$ (730)    | -49.7%   |
| <b>Impairment losses</b>                   |                              |              |                              |              |             |          |
| North American BPO                         | \$ (38)                      | 0.0%         | \$                           | 0.0%         | \$ (38)     | -100.0%  |
| International BPO                          | 268                          | 0.3%         |                              | 0.0%         | 268         | 100.0%   |

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

|                                      |            |       |            |       |            |        |
|--------------------------------------|------------|-------|------------|-------|------------|--------|
|                                      | \$ 230     | 0.1%  | \$         | 0.0%  | \$ 230     | 100.0% |
| <b>Income (loss) from operations</b> |            |       |            |       |            |        |
| North American BPO                   | \$ 17,568  | 9.1%  | \$ 19,788  | 9.5%  | \$ (2,220) | -11.2% |
| International BPO                    | 3,922      | 4.4%  | (481)      | -0.8% | 4,403      | 915.4% |
|                                      | \$ 21,490  | 7.6%  | \$ 19,307  | 7.1%  | \$ 2,183   | 11.3%  |
| <b>Other income (expense), net</b>   | \$ (270)   | -0.1% | \$ (211)   | -0.1% | \$ (59)    | -28.0% |
| <b>Provision for income taxes</b>    | \$ (9,849) | -3.5% | \$ (5,054) | -1.9% | \$ (4,795) | -94.9% |

28

**Table of Contents***Revenue*

Revenue for the North American BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 was \$192.0 million and \$207.9 million, respectively. The decrease in revenue for the North American BPO segment was due to a net decrease in short-term government programs of \$18.4 million, along with program completions of \$18.8 million, offset by net increases in client programs of \$18.3 million, and a \$3.0 million increase due to realized gains on cash flow hedges and positive changes in foreign exchange translation.

Revenue for the International BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 was \$88.9 million and \$63.6 million, respectively. The increase in revenue for the International BPO segment was due to net increases in client programs of \$24.0 million and positive changes in foreign exchange translation of \$3.7 million, offset by program completions of \$2.4 million.

Our offshore delivery capacity represented 71% of our global delivery capabilities at March 31, 2011. Revenue from services provided in these offshore locations was \$132 million and represented 47% of our total revenue in the first quarter of 2011, as compared to \$123 million or 45% of total revenue in the first quarter of 2010. Factors that may impact our ability to maintain our offshore operating margins include potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

*Cost of Services*

Cost of services for the North American BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 was \$133.2 million and \$144.8 million, respectively. Cost of services as a percentage of revenue in the North American BPO segment was relatively unchanged compared to the prior year. In absolute dollars the decrease was due to a \$4.3 million decrease in employee related expenses due to lower volumes in existing client programs and program terminations, a \$2.7 million decrease for rent and related expenses, a \$1.8 million decrease in training expenses, a \$1.6 million decrease in telecommunication expenses, a \$0.9 million decrease in technology costs, and a \$0.3 million net decrease in other expenses.

Cost of services for the International BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 was \$65.9 million and \$49.8 million, respectively. Cost of services increased in absolute dollars while decreasing as a percentage of revenue compared to the prior year. In absolute dollars the increase was due to a \$16.1 million increase in employee related expenses due to a net increase in existing client volumes and new programs.

*Selling, General and Administrative*

Selling, general and administrative expenses for the North American BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 were \$32.3 million and \$32.1 million, respectively. The expenses increased in both absolute dollars and as a percentage of revenue. The increase in absolute dollars reflected an increase in employee related expenses of \$1.6 million due to an increase in incentive and equity compensation expense offset by a \$0.8 million decrease in telecommunication expenses, and a \$0.6 million net decrease in other expenses.

Selling, general and administrative expenses for the International BPO segment for the three months ended March 31, 2011 as compared to the same period in 2010 were \$15.5 million and \$11.3 million, respectively. The expenses increased in absolute dollars while decreasing as a percentage of revenue. The increase in absolute dollars reflected an increase in salary related expenses of \$3.4 million related partially to the acquisition of PRG, and an increase in employee related expenses of \$0.8 million due to an increase in incentive and equity compensation expense.

**Table of Contents***Depreciation and Amortization*

Depreciation and amortization expense on a consolidated basis for the three months ended March 31, 2011 and 2010 was \$11.6 million and \$12.7 million, respectively. For the North American BPO segment, the depreciation expense decreased in both absolute value and as a percentage of revenue as compared to the prior year. This decrease in value was due to restructuring activities and delivery center closures which have better aligned our capacity to our operational needs and asset impairments recorded during 2010, resulting in the reduction of long-lived assets utilized, thereby reducing depreciation expense. For the International BPO segment, the depreciation expense increased in absolute value while decreasing as a percentage of revenue as compared to the prior year. The increase related to additional amortization expense of customer relationships from our acquisition of PRG.

*Restructuring Charges*

During the three months ended March 31, 2011, we recorded a net \$0.7 million of severance related restructuring charges compared to \$1.5 million in the same period in 2010. During both 2011 and 2010, we undertook reductions in both our North American BPO and International BPO segments to better align our capacity and workforce with the current business needs.

*Impairment Losses*

During the three months ended March 31, 2011, we recorded \$0.2 million of impairment charges compared to no impairment charges in the same period in 2010. These impairment charges relate to the reduction of the net book value of certain leasehold improvements in the International BPO segment.

*Other Income (Expense)*

For the three months ended March 31, 2011, interest income increased slightly to \$0.7 million from \$0.6 million in the same period in 2010 primarily due to higher cash and cash equivalent balances. Interest expense increased to \$1.4 million during 2011 from \$0.8 million during 2010. This increase is due to a higher outstanding balance on our credit facility.

*Income Taxes*

The effective tax rate for the three months ended March 31, 2011 was 46.4%. This compares to an effective tax rate of 26.5% in the same period of 2010. The effective tax rate for the three months ended March 31, 2011 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without the (i) \$9.1 million expense related to the adverse decision by the Canada Revenue Agency regarding the Company's request for relief from double taxation, (ii) the \$2.9 million benefit related to the Company's change in judgment concerning settlement of U.S. tax refund claims and (iii) \$0.3 million in other discrete items recognized during the quarter, the Company's effective tax rate for the first quarter would have been 18.8%.

**Liquidity and Capital Resources**

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Credit Agreement, dated October 1, 2010 (the "Credit Agreement"). During the quarter ended March 31, 2011, we generated positive operating cash flows of \$24.6 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

We manage a centralized global treasury function in the United States with a particular focus on concentrating and safeguarding our global cash and cash equivalent reserves. While we generally prefer to hold U.S. Dollars, we maintain adequate cash in the functional currency of our foreign subsidiaries to support local operating costs. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners, and utilization of low-risk investments.

**Table of Contents**

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

We primarily utilize our Credit Agreement to fund working capital, general operating purposes, stock repurchases and other strategic purposes, such as the acquisitions described in Note 2 of our financial statements. As of March 31, 2011 and December 31, 2010, we had borrowings of \$79.5 million and zero, respectively, under our Credit Agreement, and our average three-month intra-quarter utilization was \$71.3 million and \$58.6 million for the three months ended March 31, 2011 and 2010, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$4.6 million, our remaining borrowing capacity was \$265.9 million as of March 31, 2011. As of March 31, 2011, we were in compliance with all covenants and conditions under our Credit Agreement.

The amount of capital required over the next 12 months will also depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions as described in Note 2 of our financial statements or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. There can be no assurance that additional financing will be available at all, or on terms favorable to us.

The following discussion highlights our cash flow activities during the three months ended March 31, 2011 and 2010.

*Cash and Cash Equivalents*

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled \$189.7 million and \$119.3 million as of March 31, 2011 and December 31, 2010, respectively.

*Cash Flows from Operating Activities*

We reinvest our cash flows from operating activities in our business for strategic acquisitions or in the purchase of our outstanding stock. For the three months ended March 31, 2011 and 2010, net cash flows provided by operating activities was \$24.6 million and \$51.4 million, respectively. The decrease was primarily due to the payment of taxes of \$11.9 million, accounts payable of \$4.3 million, and other accrued liabilities of \$11.4 million.

*Cash Flows from Investing Activities*

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the three months ended March 31, 2011 and 2010, we reported net cash flows used in investing activities of \$3.9 million and \$6.6 million, respectively. The decrease was due to reduced capital expenditures during the first three months of 2011 due to a limited need for additional capacity.

*Cash Flows from Financing Activities*

For the three months ended March 31, 2011 and 2010, we reported net cash flows provided by (used in) financing activities of \$47.9 million and (\$20.9) million, respectively. The change in net cash flows from 2010 to 2011 was primarily due to a \$79.5 million net increase in proceeds received from our line of credit offset by an increase of \$14.3 million in purchases of our outstanding common stock.

*Free Cash Flow*

Free cash flow (see Presentation of Non GAAP Measurements for definition of free cash flow) decreased for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 due to the decrease in cash flows provided by operating activities. Free cash flow was \$20.7 million and \$44.8 million for the three months ended March 31, 2011 and 2010, respectively.

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

Future maturities of our outstanding debt as of March 31, 2011 are summarized as follows (amounts in thousands):

|                                  | <b>Less than<br/>1 Year</b> | <b>1 to 3<br/>Years</b> | <b>3 to 5<br/>Years</b> | <b>Over 5<br/>Years</b> | <b>Total</b>      |
|----------------------------------|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------|
| Credit agreement <sup>(1)</sup>  | \$ 2,201                    | \$ 4,402                | \$ 82,801               | \$                      | \$ 89,404         |
| Capital lease obligations        | 1,362                       | 161                     |                         |                         | 1,523             |
| Equipment financing arrangements | 682                         | 604                     | 4                       |                         | 1,290             |
| Purchase obligations             | 21,322                      | 14,620                  |                         |                         | 35,942            |
| Operating lease commitments      | 25,395                      | 32,970                  | 11,895                  | 5,316                   | 75,576            |
| <b>Total</b>                     | <b>\$ 50,962</b>            | <b>\$ 52,757</b>        | <b>\$ 94,700</b>        | <b>\$ 5,316</b>         | <b>\$ 203,735</b> |

<sup>(1)</sup> Includes estimated interest payments based on the weighted-average interest rate and debt outstanding as of March 31, 2011 and unused commitment fees.

Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.

Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.

The contractual obligation table excludes our liabilities of \$0.5 million related to uncertain tax positions because we cannot reliably estimate the timing of cash payments.

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

*Future Capital Requirements*

We expect total capital expenditures in 2011 to be approximately \$40 million. Approximately 65% of these expected capital expenditures are related to the opening and/or growth of our delivery platform and 35% relates to the maintenance capital required for existing assets and internal technology projects. The anticipated level of 2011 capital expenditures is primarily dependent upon new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

We may consider restructurings, dispositions, mergers, acquisitions and other similar transactions. Such transactions could include the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures, or the incurrence, assumption, or refinancing of indebtedness and could be material to the consolidated financial condition and consolidated results of our operations. Our capital expenditures requirements could also increase materially in the event of acquisitions or joint ventures. In March 2011 we entered into a definitive agreement with eLoyalty Corporation to acquire certain assets and assume certain liabilities of the business unit that provides consulting, systems integration and the ongoing management and support of telephony, data and converged Voice over Internet Protocol customer management environments for \$40.9 million net of certain closing adjustments. We anticipate closing this transaction in the second quarter of 2011. In addition, as of March 31, 2011, we were authorized to purchase an additional \$61.5 million of common stock under our stock repurchase program (see Part II Item 2 of this Form 10-Q). The stock repurchase program does not have an expiration date.

The launch of large client contracts may result in short-term negative working capital because of the time period between incurring the costs for training and launching the program and the beginning of the accounts receivable collection process. As a result, periodically we may generate negative cash flows from operating activities.

**Table of Contents****Debt Instruments and Related Covenants**

We discuss debt instruments and related covenants in Note 13 of the Notes to the Consolidated Financial Statements in our 2010 Annual Report on Form 10 K. As of March 31, 2011, we were in compliance with all covenants under the Credit Agreement and had approximately \$265.9 million in available borrowing capacity. We had \$79.5 million of outstanding borrowings and \$4.6 million of letters of credit outstanding under our Credit Agreement as of March 31, 2011. Based upon average outstanding borrowings during the three months ended March 31, 2011, interest accrued at a rate of approximately 1.9% per annum.

**Client Concentration**

Our five largest clients accounted for 39.1% and 38.8% of our consolidated revenue for the three months ended March 31, 2011 and 2010, respectively. We have experienced long-term relationships with our top five clients, ranging from four to 15 years, with the majority of these clients having completed multiple contract renewals with TeleTech. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis and varies greatly based upon specific contract terms. In addition, clients may adjust business volumes served by us based on their business requirements. We believe the risk of this client concentration is mitigated, in part, by the long term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

The contracts with our five largest clients expire between 2011 and 2012. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Interest Rate Risk**

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of March 31, 2011, we had \$79.5 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the first quarter of 2011, interest accrued at a rate of approximately 1.9% per annum. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would not have been a material impact to our consolidated financial position or results of operations.

**Table of Contents**

The Company's interest rate swap arrangements as of March 31, 2011 and December 31, 2010 were as follows:

|                         | <b>Notional Amount</b> | <b>Variable Rate Received</b> | <b>Fixed Rate Paid</b> | <b>Contract Commencement Date</b> | <b>Contract Maturity Date</b> |
|-------------------------|------------------------|-------------------------------|------------------------|-----------------------------------|-------------------------------|
| As of March 31, 2011    | \$25 million           | 1 - month LIBOR               | 2.55%                  | April 2012                        | April 2016                    |
| As of December 31, 2010 |                        |                               |                        |                                   |                               |

**Foreign Currency Risk**

Our subsidiaries in Argentina, Canada, Costa Rica, Mexico, and the Philippines use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. For the three months ended March 31, 2011 and 2010, revenue associated with this foreign exchange risk was 33% and 36% of our consolidated revenue, respectively.

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

**Cash Flow Hedging Program**

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

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

Our cash flow hedging instruments as of March 31, 2011 and December 31, 2010 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

| <b>As of March 31, 2011</b> | <b>Local Currency Notional Amount</b> | <b>U.S. Dollar Notional Amount</b> | <b>% Maturing in the Next 12 Months</b> | <b>Contracts Maturing Through</b> |
|-----------------------------|---------------------------------------|------------------------------------|---|-----------------------------------|
| Canadian Dollar             | 11,400                                | \$ 10,216                          | 100.0%                                  | December 2011                     |
| Philippine Peso             | 12,059,000                            | 271,523 <sup>(1)</sup>             | 54.8%                                   | December 2014                     |
| Mexican Peso                | 604,500                               | 46,669                             | 68.7%                                   | December 2012                     |
| British Pound Sterling      | 5,140                                 | 8,121 <sup>(2)</sup>               | 73.7%                                   | December 2012                     |

\$ 336,529

34

---

**Table of Contents**

| <b>As of December 31, 2010</b> | <b>Local<br/>Currency<br/>Notional<br/>Amount</b> | <b>U.S. Dollar<br/>Notional<br/>Amount</b> |
|--------------------------------|---|--|
| Canadian Dollar                | 10,200  | \$ 8,493                                   |
| Philippine Peso                | 7,731,000   | 169,364 <sup>(1)</sup>                     |
| Mexican Peso                   | 311,500   | 22,383                                     |
| British Pound Sterling         | 4,647   | 7,231 <sup>(2)</sup>                       |
|                                |   | \$ 207,471                                 |

(1) Includes contracts to purchase Philippine pesos in exchange for Australian dollars and New Zealand dollars which are translated into equivalent U.S. dollars on March 31, 2011 and December 31, 2010.

(2) Includes contracts to purchase British pounds sterling in exchange for Euros, which are translated into equivalent U.S. dollars on March 31, 2011 and December 31, 2010.

The fair value of our cash flow hedges at March 31, 2011 was (assets/(liabilities)) (amounts in thousands):

|                        | <b>March<br/>31,<br/>2011</b> | <b>Maturing in<br/>the<br/>Next 12<br/>Months</b> |
|------------------------|-------------------------------|---|
| Canadian Dollar        | \$ 1,497                      | \$ 1,497  |
| Philippine Peso        | 4,995                         | 3,268   |
| Mexican Peso           | 2,730                         | 2,518   |
| British Pound Sterling | 78                            | 92  |
|                        | \$ 9,300                      | \$ 7,375  |

Our cash flow hedges are valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The year over year change in fair value largely reflects the recent global economic conditions which resulted in high foreign exchange volatility and an overall weakening in the U.S. dollar.

We recorded a net gain of \$3.7 million and \$1.5 million for settled cash flow hedge contracts and the related premiums for the three months ended March 31, 2011 and 2010, respectively. These gains are reflected in Revenue in the accompanying Consolidated Statements of Operations. If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding gains or losses in our underlying exposures.

Other than the transactions hedged as discussed above and in Note 6 to the accompanying Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in the respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the three months ended March 31, 2011 and 2010, approximately 32% and 24%, respectively of revenue was derived from contracts denominated in currencies other than the U.S. dollar. Our results from operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

**Fair Value of Debt and Equity Securities**

We did not have any investments in debt or equity securities as of March 31, 2011.

35

---

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

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

**Evaluation of Disclosure Controls and Procedures**

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

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of the Chief Executive Officer and Interim Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2011 to provide such reasonable assurance.

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

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations.

**ITEM 1A. RISK FACTORS**

There are no material changes to the risk factors as previously reported in our 2010 Annual Report on Form 10-K for the year ended December 31, 2010.

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

Following is the detail of the issuer purchases made during the quarter ended March 31, 2011:

| <b>Period</b>                        | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share<br/>(or Unit)</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Approximate<br/>Dollar Value of<br/>Shares that<br/>May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs (in<br/>thousands)<sup>1</sup></b> |
|--------------------------------------|---|---|---|--|
| January 1, 2011 - January 31, 2011   | 754,600   | \$ 20.87  | 754,600   | \$ 29,607  |
| February 1, 2011 - February 28, 2011 | 482,329   | \$ 22.12  | 482,329   | \$ 18,936  |
| March 1, 2011 - March 31, 2011       | 372,432   | \$ 19.89  | 372,432   | \$ 61,527  |
| <b>Total</b>                         | <b>1,609,361</b>                                    |   | <b>1,609,361</b>  |  |

- (1) In November 2001, our Board of Directors ( Board ) authorized a stock repurchase program with the objective of increasing stockholder returns. The Board periodically authorizes additional increases to the program. The most recent Board authorization to purchase additional common stock occurred in March 2011, whereby the Board increased the program allowance by \$50.0 million. Since inception of the program through March 31, 2011, the Board has authorized the repurchase of shares up to a total value of \$462.3 million, of which we have purchased 30.4 million shares on the open market for \$400.8 million. As of March 31, 2011 the remaining amount authorized for repurchases under the program is approximately \$61.5 million. The stock repurchase program does not have an expiration date.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. RESERVED****ITEM 5. OTHER INFORMATION**

None

**Table of Contents****ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>  |
|--------------------|---|
| 31.1               | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)         |
| 31.2               | Certification of Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 32.1               | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)         |
| 32.2               | Certification of Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 101.INS*           | XBRL Instance Document  |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document  |

\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010, (iii) Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the three months ended March 31, 2011 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

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

TELETECH HOLDINGS, INC.  
(Registrant)

Date: May 3, 2011

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

Date: May 3, 2011

By: /s/ John R. Troka, Jr.  
John R. Troka, Jr.  
Interim Chief Financial Officer

**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>  |
|--------------------|---|
| 31.1               | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)         |
| 31.2               | Certification of Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 32.1               | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)         |
| 32.2               | Certification of Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) |
| 101.INS*           | XBRL Instance Document  |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document  |

\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010, (iii) Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the three months ended March 31, 2011 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.