TELETECH HOLDINGS INC
Form 10-Q
October 30, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

Yes x No £

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

Yes x No £

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

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

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

Yes o No x

As of October 24, 2013, there were 50,424,066 shares of the registrant s common stock outstanding.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

SEPTEMBER 30, 2013 FORM 10-Q

TABLE OF CONTENTS

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)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 144,903	$ 164,485
Accounts receivable, net	245,080	251,206
Prepaids and other current assets	58,987	58,702
Deferred tax assets, net	8,672	14,169
Income tax receivable	9,367	14,982
Total current assets	467,009	503,544
Long-term assets		
Property, plant and equipment, net	120,111	112,276
Goodwill	98,695	94,679
Contract acquisition costs, net	2,077	1,860
Deferred tax assets, net	46,720	35,429
Other long-term assets	103,757	99,385
Total long-term assets	371,360	343,629
Total assets	$ 838,369	$ 847,173
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 35,719	$ 23,494
Accrued employee compensation and benefits	67,982	71,621
Other accrued expenses	26,365	29,056
Income taxes payable	4,504	12,650
Deferred tax liabilities, net	300	341
Deferred revenue	33,609	26,892
Other current liabilities	10,519	7,351
Total current liabilities	178,998	171,405
Long-term liabilities		
Line of credit	118,000	108,000
Deferred tax liabilities, net	2,277	3,029
Deferred rent	9,826	8,589
Other long-term liabilities	57,897	55,813
Total long-term liabilities	188,000	175,431
Total liabilities	366,998	346,836
Commitments and contingencies (Note 10)		

Stockholders equity				
Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of September 30, 2013 and December 31, 2012				
Common stock - $0.01 par value; 150,000,000 shares authorized; 50,496,816 and 52,288,567 shares outstanding as of September 30, 2013 and December 31, 2012, respectively		504		522
Additional paid-in capital		354,501		350,714
Treasury stock at cost: 31,555,437 and 29,763,686 shares as of September 30, 2013 and December 31, 2012, respectively		(473,318)		(428,716)
Accumulated other comprehensive income (loss)		(7,886)		22,981
Retained earnings		588,710		540,791
Noncontrolling interest		8,860		14,045
Total stockholders equity		471,371		500,337
Total liabilities and stockholders equity	$	838,369	$	847,173

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Revenue	$ 296,995	$ 286,268	$ 875,070	$ 867,720
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	208,648	201,766	625,689	622,782
Selling, general and administrative	50,165	43,845	142,080	137,689
Depreciation and amortization	11,463	10,695	33,281	31,040
Restructuring charges, net	758	2,440	4,181	20,694
Impairment losses		161	1,205	2,958
Total operating expenses	271,034	258,907	806,436	815,163
Income from operations	25,961	27,361	68,634	52,557
Other income (expense)				
Interest income	938	780	2,182	2,235
Interest expense	(1,799)	(2,129)	(5,567)	(4,810)
Loss on deconsolidation of subsidiary			(3,655)	
Other income (expense), net	427	97	1,503	(227)
Total other income (expense)	(434)	(1,252)	(5,537)	(2,802)
Income before income taxes	25,527	26,109	63,097	49,755
(Provision for) benefit from income taxes	(6,358)	3,611	(12,603)	3,030
Net income	19,169	29,720	50,494	52,785
Net income attributable to noncontrolling interest	(1,526)	(1,291)	(2,575)	(3,152)
Net income attributable to TeleTech stockholders	$ 17,643	$ 28,429	$ 47,919	$ 49,633
Other comprehensive income (loss)				
Net income	$ 19,169	$ 29,720	$ 50,494	$ 52,785
Foreign currency translation adjustment	(1,708)	7,358	(18,191)	10,607
Derivative valuation, gross	(1,440)	7,260	(21,851)	21,650
Derivative valuation, tax effect	412	(2,906)	8,620	(8,480)
Other, net of tax	152	298	451	933
Total other comprehensive income (loss)	(2,584)	12,010	(30,971)	24,710
Total comprehensive income	16,585	41,730	19,523	77,495

Comprehensive income attributable to noncontrolling interest	(1,642)	(1,357)	(2,471)	(3,265)
Comprehensive income attributable to TeleTech stockholders	$ 14,943	$ 40,373	$ 17,052	$ 74,230
Weighted average shares outstanding				
Basic	50,732	54,093	51,643	55,233
Diluted	51,678	54,905	52,499	55,991
Net income per share attributable to TeleTech stockholders				
Basic	$ 0.35	$ 0.53	$ 0.93	$ 0.90
Diluted	$ 0.34	$ 0.52	$ 0.91	$ 0.89

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

(Amounts in thousands)

(Unaudited)

	Stockholders Equity of the Company									
	Preferred Stock		Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount						
Balance as of December 31, 2012		$	52,288	$ 522	$ (428,716)	$ 350,714	$ 22,981	$ 540,791	$ 14,045	$ 500,337
Net income								47,919	2,575	50,494
Dividends distributed to noncontrolling interest									(3,420)	(3,420)
Purchases of outstanding noncontrolling interest						3,715			(4,140)	(425)
Deconsolidation of a subsidiary									(121)	(121)
Foreign currency translation adjustments							(18,087)		(104)	(18,191)
Derivatives valuation, net of tax							(13,231)			(13,231)
Vesting of restricted stock units			400	4	5,717	(9,866)				(4,145)
Exercise of stock options			90	1	1,285	(430)				856
Excess tax benefit from equity-based awards						644				644
Equity-based compensation expense						9,724			25	9,749
Purchases of common stock			(2,281)	(23)	(51,604)					(51,627)
Other							451			451
Balance as of September 30, 2013		$	50,497	$ 504	$ (473,318)	$ 354,501	$ (7,886)	$ 588,710	$ 8,860	$ 471,371

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities		
Net income	$ 50,494	$ 52,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,281	31,040
Amortization of contract acquisition costs	753	763
Amortization of debt issuance costs	488	531
Imputed interest expense	933	600
Provision for doubtful accounts	412	490
(Gain) loss on disposal of assets	(94)	180
Impairment losses	1,205	2,958
Deferred income taxes	5,467	2,134
Excess tax benefit from equity-based awards	(1,074)	(1,005)
Equity-based compensation expense	9,842	10,310
Gain on foreign currency derivatives	(75)	(574)
Loss on deconsolidation of subsidiary, net of cash of $897 and zero, respectively	2,758	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	709	1,091
Prepaids and other assets	(11,241)	(30,893)
Accounts payable and accrued expenses	(14,020)	(15,696)
Deferred revenue and other liabilities	(3,225)	8,697
Net cash provided by operating activities	76,613	63,411
Cash flows from investing activities		
Proceeds from grant for property, plant and equipment		110
Proceeds from sale of long-lived assets		450
Purchases of property, plant and equipment, net of acquisitions	(31,832)	(33,259)
Acquisitions, net of cash acquired of $6,423 and $1,373, respectively	(8,956)	(4,809)
Net cash used in investing activities	(40,788)	(37,508)
Cash flows from financing activities		
Proceeds from line of credit	1,114,050	857,650
Payments on line of credit	(1,104,050)	(833,650)
Proceeds from other debt	3,709	8,014
Payments on other debt	(4,293)	(2,783)
Dividends distributed to noncontrolling interest	(3,420)	(1,440)
Proceeds from exercise of stock options	856	1,135
Excess tax benefit from equity-based awards	1,074	1,005
Purchase of treasury stock	(51,627)	(55,211)
Payments of debt issuance costs	(1,800)	(432)

Net cash used in financing activities		(45,501)		(25,712)
Effect of exchange rate changes on cash and cash equivalents		(9,906)		13,815
(Decrease) increase in cash and cash equivalents		(19,582)		14,006
Cash and cash equivalents, beginning of period		164,485		156,371
Cash and cash equivalents, end of period	$	144,903	$	170,377
Supplemental disclosures				
Cash paid for interest	$	3,271	$	3,168
Cash paid for income taxes	$	12,329	$	13,213
Non-cash investing and financing activities				
Purchases of equipment through financing agreements	$		$	6,100
Acquisition of equipment through increase in accounts payable	$	3,803	$	396
Landlord incentives credited to deferred rent	$	1,016	$	1,723
Contract acquisition costs credited to accounts receivable	$	1,000	$	

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) is a geographically diverse global provider of technology-enabled, fully-integrated customer experience management solutions for Global 1000 clients and their customers. A global provider of data-driven, technology-enabled business process outsourcing, technology integration, consulting and customer management, and hosted and managed technology services. TeleTech s 39,000 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries via operations in the U.S., Argentina, Australia, Belgium, Brazil, Canada, China, Costa Rica, France, Germany, Ghana, Italy, Lebanon, Mexico, New Zealand, the Philippines, Singapore, South Africa, Spain, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% interest in Percepta, LLC, and its 80% interest in iKnowtion, LLC. 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 and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

These unaudited Consolidated Financial Statements should be read in conjunction with the Company s audited Consolidated Financial Statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including the valuation allowance for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts and valuation of goodwill, long-lived and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ materially from these estimates under different assumptions or conditions. In the three months ended June 30, 2012, the Company recorded a change in estimate which resulted in a decrease of $4.6 million to employee related expenses in connection with an authoritative ruling in Spain related to the legally required cost of living adjustment for employees salaries for the years 2010, 2011 and 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued new accounting guidance that improves the reporting of reclassifications out of accumulated other comprehensive income. This new guidance requires entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income when applicable or to cross-reference the reclassifications with other disclosures that provide additional detail about the reclassifications made when the reclassifications are not made to net income. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2012. The Company s adoption of this guidance did not have a material impact on the Company s financial position, results of operations, or cash flows since it was an enhancement to current required disclosures.

(2) ACQUISITONS

Peppers & Rogers Group

On September 18, 2013, the Company acquired the remaining 20% interest in Peppers & Rogers Group (PRG) for $425 thousand. The buy-out accelerated TeleTech s rights pursuant to the sale and purchase agreement to acquire the remaining portion of the business in 2015. All future earn-out payment entitlements tied to the PRG s performance as a part of TeleTech s Customer Strategy Services segment have been extinguished with this transaction.

WebMetro

On August 9, 2013, the Company acquired 100% of the stock of WebMetro. WebMetro is a digital marketing agency that provides online direct marketing services. WebMetro has offices in San Dimas and Los Angeles, California and Modiin, Israel and has approximately 90 employees.

The expected total purchase price was $16.4 million, subject to an up and down dollar for dollar working capital adjustment equivalent to any acquired working capital from WebMetro against an agreed working capital level as defined in the stock purchase agreement. This adjustment will be determined during the fourth quarter of 2013.

The Company is also obligated to make earn-out payments over the next two years if WebMetro achieves specified earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined by the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 5.3% and expected future value of payments of $1.4 million. The $1.4 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with WebMetro achieving the smaller EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $1.3 million. As of September 30, 2013, the fair value of the contingent consideration was $1.3 million, of which $0.2 million and $1.1 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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 as of the acquisition date (in thousands). The estimates of fair value of identifiable assets acquired and liabilities assumed, are preliminary, pending completion of a valuation, thus are subject to revisions that may result in adjustments to the values presented below:

		Preliminary Estimate of Acquisition Date Fair Value
Cash	$	6,423
Accounts receivable, net		3,692
Other assets		215
Property, plant and equipment		887
Customer relationships		6,120
Software		3,700
Goodwill		5,042
		26,079
Accounts payable		7,232
Accrued expenses		422
Customer deposits		1,316
Capital lease obligation		444
Other		274
		9,688
Total purchase price	$	16,391

The WebMetro customer relationships and software have an estimated useful life of six years and four years, respectively. The goodwill recognized from the WebMetro acquisition was attributable primarily to the acquired workforce of WebMetro, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of WebMetro are reported within the Customer Growth Services segment from the date of acquisition.

OnState

On January 1, 2012, the Company entered into an asset purchase agreement with OnState Communications Corporation (OnState) to acquire 100% of its assets and assume certain of its liabilities for total cash consideration of $3.3 million. OnState provides hosted business process outsourcing solutions to a variety of small businesses. OnState was headquartered in Boston, MA with a minimal employee base.

As of September 30, 2013, the Company paid $3.1 million towards the purchase price. The remaining purchase price of $0.2 million will be paid out once the potential for covered losses has expired per the purchase agreement, which is expected to be in early 2014. The remaining purchase price of $0.2 million was included within Other accrued expenses in the accompanying Consolidated Balance Sheets as of September 30, 2013. The Company paid $0.1 million of acquisition related expenses as part of the OnState purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the first quarter of 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

		Acquisition Date Fair Value
Cash	$	36
Accounts Receivable		68
Property, plant and equipment		33
Software		2,100
Goodwill		1,132
		3,369
Accounts payable		93
Total purchase price	$	3,276

The software acquired will be amortized over four years once it is placed into service. The goodwill recognized from the OnState acquisition is primarily attributable to the synergies resulting from incorporating the acquired software into the Company s current technology platforms in addition to the acquisition of the employees who developed the acquired software. Since this acquisition is an asset acquisition for tax purposes, the goodwill and software are deductible over their respective tax lives. The acquired goodwill of OnState is reported within the Customer Technology Services segment from the date of acquisition.

iKnowtion

On February 27, 2012, the Company acquired an 80% interest in iKnowtion, LLC (iKnowtion). iKnowtion integrates proven marketing analytics methodologies and business consulting capabilities to help clients improve their return on marketing expenditures in such areas as demand generation, share of wallet, and channel mix optimization. iKnowtion is located in Boston, MA and has approximately 40 employees.

The up-front cash consideration paid was $1.0 million. The Company was also obligated to pay a working capital adjustment equivalent to any acquired working capital from iKnowtion in excess of a working capital floor as defined in the purchase and sale agreement. The working capital adjustment was $0.2 million and was paid during the second quarter of 2012.

The Company is also obligated to make earn-out payments over the next four years if iKnowtion achieves specified earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined by the purchase and sale agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of

21% and expected future value of payments of $4.3 million. The $4.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with iKnowtion achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $2.9 million. As of September 30, 2013, $1.1 million of contingent consideration has been paid and the fair value of the remaining contingent consideration was $3.0 million, of which $1.1 million and $1.9 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The fair value of the 20% noncontrolling interest in iKnowtion at the date of acquisition was $0.9 million and was estimated based on a 20% interest of the fair value of a 100% interest in iKnowtion and was discounted for a lack of control at a rate of 23.1%.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In the event iKnowtion meets certain EBITDA targets for calendar year 2015, the purchase and sale agreement requires TeleTech to purchase the remaining 20% interest in iKnowtion in 2016 for an amount equal to a multiple of iKnowtions s 2015 EBITDA as defined in the purchase and sale agreement. These terms represent a contingent redemption feature. The fair value of the redemption feature is based on a comparison of EBITDA multiples and the EBITDA multiple to purchase the remaining 20% of iKnowtion approximates EBITDA multiples in the market for similar acquisitions.

The Company paid $0.1 million of acquisition related expenses as part of the iKnowtion purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the months ended June 30, 2012.

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

		Acquisition Date Fair Value
Cash	$	1,337
Accounts Receivable		1,792
Property, plant and equipment		161
Other assets		90
Customer relationships		1,400
Goodwill		447
		5,227
Accounts payable		18
Accrued expenses		19
Other		164
		201
Noncontrolling interest		941
Total purchase price	$	4,085

The iKnowtion customer relationships have an estimated useful life of five years. The goodwill recognized from the iKnowtion acquisition was attributable primarily to the acquired workforce of iKnowtion, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of iKnowtion are reported within the Customer Strategy Services segment from the date of acquisition.

Guidon

On October 4, 2012, the Company acquired 100% of the stock of Guidon Performance Solutions (Guidon) parent company. Guidon provides operational consulting services and designs solutions for operational and cultural transformation for global clients. Guidon is located in Mesa, AZ and has approximately 25 employees.

The up-front cash consideration paid was $5.6 million. The Company was also obligated to pay a working capital adjustment equivalent to any acquired working capital from Guidon in excess of a working capital floor defined in the stock purchase agreement. The working capital payment was less than $0.1 million and was paid during the fourth quarter of 2012.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company is also obligated to make earn-out payments over the next two years if Guidon achieves specified EBITDA targets as defined in the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 21% and expected future value of payments of $2.8 million. The $2.8 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with Guidon achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $2.1 million. As of September 30, 2013, the fair value of the contingent consideration was $2.5 million, of which $1.4 million and $1.1 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The Company paid $0.1 million of acquisition related expenses as part of the Guidon purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income for the year ended December 31, 2012.

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

	Acquisition Date Fair Value
Cash	$ 376
Accounts Receivable	1,375
Property, plant and equipment	49
Other assets	228
Customer relationships	2,490
Goodwill	3,619
	8,137
Accounts payable	202
Accrued expenses	122
Other	65
	389
Total purchase price	$ 7,748

The Guidon customer relationships have an estimated useful life of five years. The goodwill recognized from the Guidon acquisition was attributable primarily to the acquired workforce of Guidon, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of Guidon are reported within the Customer Strategy Services segment from the date of acquisition.

TSG

On December 31, 2012, the Company acquired a 100% interest in Technology Solutions Group, Inc. (TSG). TSG designs and implements custom communications systems for a variety of business types and sizes. TSG is located in Aurora, IL and has approximately 90 employees.

The up-front cash consideration paid was $32.7 million. The Company was also obligated to pay a working capital adjustment equivalent to any acquired working capital from TSG in excess of a working capital floor as defined in the stock purchase agreement. The working capital adjustment was $0.6 million and was paid during the second quarter of 2013.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company is also obligated to make earn-out payments over three years if TSG achieves specified EBITDA targets, as defined by the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 4.6% and expected future value of payments of $7.3 million. The $7.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with TSG achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $6.7 million. As of September 30, 2013 the fair value of the contingent consideration was $6.9 million of which $2.4 million and $4.5 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The Company paid $0.1 million of acquisition related expenses as part of the TSG purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the year ended December 31, 2012.

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

		Preliminary Estimate of Acquisition Date Fair Value
Cash	$	1,995
Accounts receivable		4,871
Prepaid assets - cost deferrals		3,665
Property, plant and equipment		583
Other assets		1,886
Customer relationships		15,300
Noncompete agreements		2,300
Trade name		1,100
Consulting services backlog		800
Goodwill		19,421
		51,921
Accounts payable		3,091
Accrued expenses		1,539
Deferred revenue		7,295
		11,925
Total purchase price	$	39,996

11

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The TSG customer relationships have an estimated useful life of 10 years. The goodwill recognized from the TSG acquisition was attributable primarily to the acquired workforce of TSG, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are deductible for income tax purposes. The acquired goodwill and the operating results of TSG are reported within the Customer Technology Services segment from the date of acquisition.

The acquired businesses noted above contributed revenues of $19.4 million and $47.1 million and income from operations of $2.7 million and $4.9 million, inclusive of $1.2 million and $2.9 million of acquired intangible amortization, to the Company for the three and nine months ended September 30, 2013, respectively. The acquired businesses noted above contributed revenues of $2.2 million and $4.9 million and income from operations of $0.4 million and $0.8 million, inclusive of $0.1 million and $0.2 million of acquired intangible amortization, to the Company for the three and nine months ended September 30, 2012, respectively.

(3) SEGMENT INFORMATION

The Company reports the following four segments:

- the Customer Management Services segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
- the Customer Growth Services segment includes the technology-enabled sales and marketing business, including certain acquired assets of the digital marketing business of WebMetro;
- the Customer Technology Services segment includes the system integration and hosted and managed technology offerings, including certain acquired assets of TSG; and
- the Customer Strategy Services segment includes the customer experience strategy and data analytics offerings.

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

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

Three Months Ended September 30, 2013

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

Three Months Ended September 30, 2012

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 224,041	$	$ 224,041	$ 8,349	$ 21,001
Customer Growth Services	28,200		28,200	1,201	2,487
Customer Technology Services	25,219	(2,876)	22,343	794	3,054
Customer Strategy Services	11,913	(229)	11,684	351	819
Total	$ 289,373	$ (3,105)	$ 286,268	$ 10,695	$ 27,361

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Nine Months Ended September 30, 2013

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

Nine Months Ended September 30, 2012

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 688,318	$	$ 688,318	$ 24,811	$ 38,438
Customer Growth Services	75,373		75,373	2,899	1,409
Customer Technology Services	76,570	(3,719)	72,851	2,286	11,089
Customer Strategy Services	32,623	(1,445)	31,178	1,044	1,621
Total	$ 872,884	$ (5,164)	$ 867,720	$ 31,040	$ 52,557

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Capital Expenditures				
Customer Management Services	$ 15,108	$ 11,752	$ 25,504	$ 27,171
Customer Growth Services	1,274	2,385	2,025	3,428
Customer Technology Services	1,642	1,346	3,930	2,216
Customer Strategy Services	148	298	373	444
Total	$ 18,172	$ 15,781	$ 31,832	$ 33,259

	September 30, 2013	December 31, 2012
Total Assets		
Customer Management Services	$ 547,320	$ 588,627
Customer Growth Services	85,924	54,164
Customer Technology Services	155,466	148,043
Customer Strategy Services	49,659	56,339
Total	$ 838,369	$ 847,173

	September 30, 2013	December 31, 2012
Goodwill		
Customer Management Services	$ 19,981	$ 20,288
Customer Growth Services	29,481	24,439
Customer Technology Services	39,146	38,591
Customer Strategy Services	10,087	11,361
Total	$ 98,695	$ 94,679

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenue				
United States	$ 137,205	$ 119,572	$ 401,294	$ 342,005
Philippines	89,206	83,299	263,365	245,301
Latin America	43,343	47,914	132,673	142,069
Europe / Middle East / Africa	18,929	22,164	52,551	93,614
Asia Pacific	4,504	4,955	13,087	13,126
Canada	3,808	8,364	12,100	31,605
Total	$ 296,995	$ 286,268	$ 875,070	$ 867,720

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the three and nine months ended September 30, 2013. This client contributed 11.5% and 9.8% of total revenue for the three months ended September 30, 2013 and 2012. This client contributed 11.7% and 9.7% for the nine months ended September 30, 2013 and 2012. This client had an outstanding receivable balance of $29.3 million and $25.8 million as of September 30, 2013 and 2012.

The loss of one or more of its significant clients could have a material adverse effect on the Company s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company s credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of September 30, 2013.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (amounts in thousands):

	December 31, 2012	Acquisitions	Impairments	Deconsolidation of Subsidiary	Effect of Foreign Currency	September 30, 2013
Customer Management Services	$ 20,288	$	$	$	$ (307)	$ 19,981
Customer Growth Services	24,439	5,042				29,481
Customer Technology Services	38,591	478			77	39,146
Customer Strategy Services	11,361			(1,274)		10,087
Total	$ 94,679	$ 5,520	$	$ (1,274)	$ (230)	$ 98,695

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

As of December 2012 and March 31, 2013, the Company had one reporting unit with goodwill of $7.3 million and a calculated fair value which exceeded its carrying value by 4%.

During the three months ended June 30, 2013, the Company reorganized the reporting structure of the Customer Strategy Services segment, which is included in the above reporting unit, which necessitated an interim impairment analysis. Therefore, the Company tested the following assets of this reporting unit for impairment: indefinite-lived intangible assets, definite-lived long-lived assets and goodwill. There were no other indicators of impairment in any of the remaining reporting units as of June 30, 2013.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The indefinite-lived intangible asset evaluated for impairment consisted of the PRG trade name. The Company calculated the fair value of the trade name using a relief from royalty method based on forecasted revenues sold under the trade name using significant inputs not observable in the market (Level 3 inputs). The valuation assumptions included an estimated royalty rate of 6.0%, a discount rate specific to the trade name of 38.0% and a perpetuity growth rate of 7.0%. Based on the calculated fair value of $5.3 million, the Company recorded impairment expense of $1.1 million in the three months ended June 30, 2013. Changes in the outcome of some or all of these assumptions may impact the calculated fair value of the trade name resulting in a different amount of impairment.

Definite-lived long-lived assets consisted of fixed assets and an intangible asset related to the PRG customer relationships. The Company determined that the undiscounted future cash flows would be sufficient to cover the net book value all definite-lived long-lived assets.

For the goodwill impairment analysis, the Company calculated the fair value of the PRG reporting unit and compared that to the updated carrying value after the above impairments were recorded and determined that the fair value was not in excess of its carrying value. Key assumptions used in the fair value calculation for goodwill impairment testing include, but were not limited to, a perpetuity growth rate of 7.0% based on the then current inflation rate combined with the GDP growth rate for the reporting unit s geographical region and a discount rate of 26.0%, which is equal to the reporting unit s equity risk premium adjusted for its size and company specific risk factors. Estimated future cash flows under the income approach were based on the Company s internal business plan excluding the results of the deconsolidated subsidiary and adjusted as appropriate for the Company s view of market participant assumptions. The current business plan assumes the occurrence of certain events, such as continued realignment of operations and reduction of general and administrative costs. Significant differences in the outcome of some or all of these assumptions could impact the calculated fair value of this reporting until resulting in a different outcome to goodwill impairment in a future period.

Since the fair value of the reporting unit was not in excess of its carrying value, the Company calculated the implied fair value of goodwill and compared that value to the carrying value of goodwill. Implied fair value of goodwill is equal to the fair value of the reporting unit less the recorded value of any net assets and the fair value of intangible assets. Upon completing this assessment, the Company determined that the implied fair value of goodwill significantly exceeded the carrying value of goodwill by over 50%; therefore, there was no impairment of goodwill as of June 30, 2013.

During the quarter ended September 30, 2013, the Company assessed whether any indicators of impairment existed for any of the reporting units and concluded there were none.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(6) DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company s exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company s exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company s policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company s creditworthiness. As of September 30, 2013, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands and net of tax):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Aggregate unrealized net gain (loss) at beginning of period	$ (2,644)	$ 2,964	$ 9,559	$ (5,852)
Add: Net gain/(loss) from change in fair value of cash flow hedges	(630)	4,945	(9,332)	14,040
Less: Net (gain)/loss reclassified to earnings from effective hedges	(398)	(591)	(3,899)	(870)
Aggregate unrealized net gain (loss) at end of period	$ (3,672)	$ 7,318	$ (3,672)	$ 7,318

The Company s foreign exchange cash flow hedging instruments as of September 30, 2013 and December 31, 2012 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts unless noted otherwise.

As of September 30, 2013	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	12,750	$ 12,415	70.6%	June 2015
Philippine Peso	15,835,000	372,909(1)	37.8%	December 2017
Mexican Peso	2,056,000	147,144	34.5%	December 2017
British Pound Sterling	2,508	4,217(2)	100.0%	June 2014
New Zealand Dollar	300	235	100.0%	March 2014

$	536,920

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of December 31, 2012	Local Currency Notional Amount		U.S. Dollar Notional Amount
Canadian Dollar	7,750	$	7,407
Philippine Peso	11,710,000		271,970(1)
Mexican Peso	1,320,500		94,530
British Pound Sterling	3,518		5,575(2)
New Zealand Dollar	398		300
		$	379,782

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on September 30, 2013 and December 31, 2012.

(2) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on September 30, 2013 and December 31, 2012.

The Company s interest rate swap arrangements as of September 30, 2013 and December 31, 2012 were as follows:

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of September 30, 2013	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				
As of December 31, 2012	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				

Fair Value Hedges

The Company enters into foreign exchange forward contracts to economically hedge against foreign currency exchange gains and losses on certain receivables and payables of the Company s foreign operations. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in earnings in Other income (expense), net. As of September 30, 2013 and December 31, 2012 the total notional amount of the Company s forward contracts used as fair value hedges were $247.2 million and $189.3 million, respectively.

Embedded Derivatives

In addition to hedging activities, the Company s foreign subsidiary in Argentina was party to U.S. dollar denominated lease contracts which the Company determined contain embedded derivatives. As such, the Company bifurcated the embedded derivative features of the lease contracts and valued these features as foreign currency derivatives. As of September 30, 2013 and December 31, 2012, the fair value of the embedded derivative was $0.1 million and $0.3 million, respectively, and was included in Other current liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheets as shown in the table below.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Derivative Valuation and Settlements

The Company s derivatives as of September 30, 2013 and December 31, 2012 were as follows (amounts in thousands):

	September 30, 2013			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases Embedded**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	**Derivative**
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 4,607	$	$ 20	$
Other long-term assets	2,971			
Other current liabilities	(3,155)	(1,029)	(430)	(147)
Other long-term liabilities	(8,159)	(1,258)		
Total fair value of derivatives, net	$ (3,736)	$ (2,287)	$ (410)	$ (147)

	December 31, 2012			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases Embedded**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	**Derivative**
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 11,421	$	$ 11	$
Other long-term assets	7,619			
Other current liabilities	(157)	(1,032)	(476)	(59)
Other long-term liabilities	(65)	(1,955)		(219)
Total fair value of derivatives, net	$ 18,818	$ (2,987)	$ (465)	$ (278)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income for the three months ended September 30, 2013 and 2012 were as follows (amounts in thousands):

	Three Months Ended September 30,			
	2013		2012	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contracts:	Foreign Exchange	Interest Rate	Foreign Exchange	Interest Rate
Derivative classification:	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	$ (476)	$ (154)	$ 5,331	$ (386)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ 917	$	$ 1,367	$
Interest Expense		(264)		(381)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - ineffective portion and amount excluded from effectiveness testing:				
Other income (expense), net	$	$	$	$

	Three Months Ended September 30,					
	2013			2012		
	Not Designated as Hedging Instruments			Not Designated as Hedging Instruments		
	Foreign Exchange		Leases	Foreign Exchange		Leases
Derivative contracts:	Option and Forward		Embedded	Option and Forward		Embedded
Derivative classification:	Contracts	Fair Value	Derivative	Contracts	Fair Value	Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):						
Costs of services	$	$	$ 18	$	$	$ 7
Other income (expense), net	$	$ (2,373)	$	$	$ 544	$

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2013 and 2012 were as follows (amounts in thousands):

	Nine Months Ended September 30,			
	2013		2012	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Interest Rate**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Cash Flow**	**Cash Flow**
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax	$ (9,254)	$ (78)	$ 14,902	$ (862)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ 7,227	$	$ 2,016	$
Interest Expense		(778)		(564)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - ineffective portion and amount excluded from effectiveness testing:				
Other income (expense), net	$	$	$	$

	Nine Months Ended September 30,					
	2013			2012		
	Not Designated as Hedging Instruments			Not Designated as Hedging Instruments		
	Foreign Exchange		Leases	Foreign Exchange		Leases
Derivative contracts:	**Option and Forward**		**Embedded**	**Option and Forward**		**Embedded**
Derivative classification:	**Contracts**	**Fair Value**	**Derivative**	**Contracts**	**Fair Value**	**Derivative**
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):						
Costs of services	$	$	$ 131	$	$	$ 259
Other income (expense), net	$	$ (3,620)	$	$	$ 4,399	$

(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 September 30, 2013 and December 31, 2012 for the Company s assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Debt - The Company s debt consists primarily of the Company s Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company s leverage ratio calculation (as defined in the Credit Agreement). As of September 30, 2013 and December 31, 2012, the Company had $118.0 million and $108.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the three and nine months ended September 30, 2013 outstanding borrowings accrued interest at an average rate of 1.4% and 1.5% per annum, respectively, excluding unused commitment fees. The amounts recorded in the accompanying balance sheets approximate fair value due to the variable nature of the debt.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of September 30, 2013, credit risk did not materially change the fair value of the Company s derivative contracts.

The following is a summary of the Company s fair value measurements for its net derivative assets (liabilities) as of September 30, 2013 and December 31, 2012 (amounts in thousands):

As of September 30, 2013

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**At Fair Value**
Cash flow hedges	$	$ (3,736)	$	$ (3,736)
Interest rate swaps		(2,287)		(2,287)
Embedded derivatives		(147)		(147)
Fair value hedges		(410)		(410)
Total net derivative asset (liability)	$	$ (6,580)	$	$ (6,580)

As of December 31, 2012

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**At Fair Value**
Cash flow hedges	$	$ 18,818	$	$ 18,818
Interest rate swaps		(2,987)		(2,987)
Fair value hedges		(465)		(465)
Embedded derivatives		(278)		(278)
Total net derivative asset (liability)	$	$ 15,088	$	$ 15,088

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following is a summary of the Company s fair value measurements as of September 30, 2013 and December 31, 2012 (amounts in thousands):

As of September 30, 2013

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	$	$ 240	$
Derivative instruments, net			
Total assets	$	$ 240	$
Liabilities			
Deferred compensation plan liability	$	$ (6,191)	$
Derivative instruments, net		(6,580)	
Purchase price payable			(13,779)
Total liabilities	$	$ (12,771)	$ (13,779)

As of December 31, 2012

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	$	$ 350	$
Derivative instruments, net		15,088	
Total assets	$	$ 15,438	$
Liabilities			
Deferred compensation plan liability	$	$ (5,305)	$
Purchase price payable			(12,533)
Total liabilities	$	$ (5,305)	$ (12,533)

Money Market Investments The Company invests in various well-diversified money market funds which are managed by financial institutions. These money market funds are not publicly traded, but have historically been highly liquid. The value of the money market funds are determined by the banks based upon the funds net asset values (NAV). 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.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Purchase Price Payable The Company recorded purchase price payables related to the acquisitions of iKnowtion, Guidon, TSG and WebMetro. These purchase price payables were recognized at fair value using a discounted cash flow approach and a discount rate of 21.0%, 21.0%, 4.6%, or 5.3%, respectively. These measurements were based on significant inputs not observable in the market. The Company will record interest expense each period using the effective interest method until the future value of these purchase price payables reaches their expected future value of $14.8 million. Interest expense related to all recorded purchase price payables is included in Interest expense in the Consolidated Statements of Comprehensive Income.

(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.

As of September 30, 2013, the Company had $55.3 million of gross deferred tax assets (after a $21.3 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of $52.8 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability which the Company believes is more-likely-than-not to occur.

The effective tax rate for the three and nine months ended September 30, 2013 was 24.9% and 20.0%, respectively. The effective tax rate during these periods in 2013 was influenced by the distribution of earnings in international jurisdictions currently under an income tax holiday and the $5.4 million and $1.8 million, respectively, in restructuring and impairment expenses and the income tax benefit related to these incremental expenses. The effective tax rate for the three and nine months ended September 30, 2012 was (13.8)% and (6.1)%, respectively. The effective tax rate during these periods in 2012 was influenced by the distribution of earnings in international jurisdictions currently under an income tax holiday, the $2.6 million and $23.7 million in restructuring and impairment expenses and their related income tax benefit, the benefit related to Australia transfer pricing and the release of an uncertain tax position.

The Company s U.S. income tax returns filed for the tax years ending December 31, 2010 to present, remain open tax years subject to IRS audit. The Company is currently under audit of income taxes in Canada. Although the outcome of examinations by taxing authorities are always uncertain, it is the opinion of management that the resolution of these audits will not have a material effect on the Company s Consolidated Financial Statements.

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three and nine months ended September 30, 2013 and 2012, the Company undertook a number of restructuring activities primarily associated with reductions in the Company s capacity and workforce in its Customer Management Services, Customer Technology Services and Customer Strategy Services segments to better align the capacity and workforce with current business needs.

During the second quarter of 2012, the Company made the decision to cease operations in Spain and terminated the contracts with its clients. The Company notified the employees and commenced severance procedures as required under Spanish law. The Company recorded $14.7 million of severance and $0.4 million of center closure expenses for the year ended December 31, 2012. As of the third quarter of 2013, $14.9 million was paid and the remaining $0.2 million was included in Other accrued expenses in the Consolidated Balance Sheets as of September 30, 2013.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, respectively, is as follows (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Reduction in force				
Customer Management Services	$ 628	$ 2,678	$ 3,614	$ 20,642
Customer Growth Services	7	62	7	198
Customer Technology Services	73	5	73	60
Customer Strategy Services			189	
Total	$ 708	$ 2,745	$ 3,883	$ 20,900

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Facility exit charges				
Customer Management Services	$ 50	$ (305)	$ 298	$ (206)
Customer Growth Services				
Customer Technology Services				
Customer Strategy Services				
Total	$ 50	$ (305)	$ 298	$ (206)

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

	Closure of Delivery Centers	Reduction in Force	Total
Balance as of December 31, 2012	$	$ 4,079	$ 4,079
Expense	298	4,098	4,396
Payments	(298)	(5,762)	(6,060)
Change in estimates		(215)	(215)
Balance as of September 30, 2013	$	$ 2,200	$ 2,200

The remaining restructuring accruals are expected to be paid during 2013 and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain delivery centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than the asset group s carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three and nine months ended September 30, 2013, the Company recognized zero and $0.1 million, respectively, of losses related to leasehold improvement assets in the Customer Management Services segment. During the three and nine months ended September 30, 2012, the Company recognized $0.2 million and $1.2 million, respectively of losses related to leasehold improvement assets in the Customer Management Services segment.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the second quarter of 2013, the Company recorded an impairment charge of $1.1 million related to the PRG trade name intangible asset within the Customer Strategy Services segment. See Note 5 for further information. This expense was included in the Impairment losses in the Consolidated Statements of Comprehensive Income.

During the first quarter of 2012, the Company rebranded its Direct Alliance Corporation (DAC) subsidiary to RevanaTM, thus the $1.8 million DAC trade name was impaired as of March 31, 2012. This expense was included in the Impairment losses in the Consolidated Statements of Comprehensive Income.

(10) COMMITMENTS AND CONTINGENCIES

Credit Facility

On June 3, 2013, the Company entered into a $700.0 million, five-year, multi-currency revolving credit facility (the Credit Agreement) with a syndicate of lenders which includes an accordion feature that permits the Company to request an increase in total commitments up to $1.0 billion, under certain conditions. Wells Fargo Securities, LLC, KeyBank National Association, Bank of America Merrill Lynch, BBVA Compass and HSBC Bank USA, National Association served as Joint Lead Arrangers. The Credit Agreement amends and restates in its entirety the Company s prior credit facility entered into during 2010 and amended in 2012.

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

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo s prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate (LIBOR), in each case adding a margin based upon the Company s leverage ratio. Eurodollar loans bear interest based upon LIBOR, plus a margin based upon the Company s leverage ratio. Alternate loans bear interest at rates applicable to their respective currencies. Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans. Commitment fees are payable to the Lenders in an amount equal to the unused portion of the credit facility and are based upon the Company s leverage ratio.

Indebtedness under the Credit Agreement is guaranteed by certain of the Company s present and future domestic subsidiaries. Indebtedness under the Credit Agreement and the related guarantees are secured by security interests (subject to permitted liens) in the U.S. accounts receivable and cash of the Company and certain of its domestic subsidiaries and may be secured by tangible assets of the Company and such domestic subsidiaries if borrowings by foreign subsidiaries exceed $100.0 million and the leverage ratio is greater than 3.00 to 1.00. The Company also pledged 65% of the voting stock and 100% of the non-voting stock of certain of the Company s material foreign subsidiaries and may pledge 65% of the voting stock and 100% of the non-voting stock of the Company s other foreign subsidiaries.

The Credit Agreement, which includes customary financial covenants, may be used for general corporate purposes, including working capital, purchases of treasury stock and acquisition financing. As of September 30, 2013, the Company was in compliance with all financial covenants.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2. As of September 30, 2013 and December 31, 2012, the Company had borrowings of $118.0 million and $108.0 million, respectively, under its credit facilities, and its average daily utilization was $240.9 million and $144.4 million for the nine months ended September 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, the Company s remaining borrowing capacity was $578.5 million as of September 30, 2013.

Letters of Credit

As of September 30, 2013, outstanding letters of credit under the Credit Agreement totaled $3.5 million and primarily guaranteed workers compensation and other insurance related obligations. As of September 30, 2013, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled $0.6 million.

Guarantees

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

Legal Proceedings

From time to time, the Company has been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for legal actions 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 currently available information and advice received from counsel, as appropriate, the Company believes that the disposition or ultimate resolution of such legal actions will not have a material adverse effect on its financial position, cash flows or results of operations. During the quarter ended September 30, 2013, there were no material changes to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2012.

(11) NONCONTROLLING INTEREST

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

	Nine Months Ended September 30, 2013	2012
Noncontrolling interest, January 1	$ 14,045	$ 11,260
Acquisition of noncontrolling interest		941
Net income attributable to noncontrolling interest	2,575	3,152
Dividends distributed to noncontrolling interest	(3,420)	(1,440)
Deconsolidation of a subsidiary	(121)	
Purchase of remaining interest in subsidiary	(4,140)	
Foreign currency translation adjustments	(104)	113
Equity-based compensation expense	25	
Noncontrolling interest, September 30	$ 8,860	$ 14,026

On September 18, 2013, the Company acquired the remaining 20% interest in Peppers & Rogers Group for $425 thousand. In connection with this transaction the remaining Noncontrolling interest balance of $4.1 million was reclassified to Additional paid-in-capital in the Consolidated Balance Sheet as of September 30, 2013.

(12) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

In 2013, the Company adopted new accounting guidance that requires an entity to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The following table presents changes in the accumulated balance for each component of other

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
Accumulated other comprehensive income (loss) at December 31, 2012	$ 15,673	$ 9,559	$ (2,251)	$ 22,981
Other comprehensive income before reclassifications	(18,087)	(9,332)	4	(27,415)
Amounts reclassified from accumulated other comprehensive income (loss)		(3,899)	447	(3,452)
Net current period other comprehensive income (loss)	(18,087)	(13,231)	451	(30,867)
Accumulated other comprehensive income (loss) at September 30, 2013	$ (2,414)	$ (3,672)	$ (1,800)	$ (7,886)
Accumulated other comprehensive income (loss) at December 31, 2011	$ 3,156	$ (5,852)	$ (2,778)	$ (5,474)
Other comprehensive income (loss) before reclassifications	10,494	14,040	277	24,811
Amounts reclassified from accumulated other comprehensive income (loss)		(870)	656	(214)
Net current period other comprehensive income (loss)	10,494	13,170	933	24,597
Accumulated other comprehensive income (loss) at September 30, 2012	$ 13,650	$ 7,318	$ (1,845)	$ 19,123

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

	For the Three Months Ended September 30, 2013	2012	Statement of Comprehensive Income (Loss) Classification
Derivative valuation			
Gain on foreign currency forward exchange contracts	$ 917	$ 1,367	Revenue
Loss on interest rate swaps	(264)	(380)	Interest expense
Tax effect	(255)	(396)	Provision for income taxes

	$	398	$	591	Net income (loss)
Other					
Actuarial loss on defined benefit plan	$	(156)	$	(235)	Cost of services
Tax effect		9		13	Provision for income taxes
	$	(147)	$	(222)	Net income (loss)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	For the Nine Months Ended September 30, 2013	2012	Statement of Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	$ 7,227	$ 2,016	Revenue
Loss on interest rate swaps	(778)	(564)	Interest expense
Tax effect	(2,550)	(582)	Provision for income taxes
	$ 3,899	$ 870	Net income (loss)
Other			
Actuarial loss on defined benefit plan	$ (473)	$ (695)	Cost of services
Tax effect	26	39	Provision for income taxes
	$ (447)	$ (656)	Net income (loss)

(13) NET INCOME PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Shares used in basic earnings per share calculation	50,732	54,093	51,643	55,233
Effect of dilutive securities:				
Stock options	425	377	412	378
Restricted stock units	521	435	444	380
Performance-based restricted stock units				
Total effects of dilutive securities	946	812	856	758
Shares used in dilutive earnings per share calculation	51,678	54,905	52,499	55,991

For the three months ended September 30, 2013 and 2012, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti dilutive. For the nine months ended September 30, 2013 and 2012, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the three months ended September 30, 2013 and 2012, restricted stock units (RSUs) of 0.2 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. For the nine months ended September 30, 2013 and 2012, RSUs of 0.2 million and 0.8 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(14) EQUITY-BASED COMPENSATION PLANS

All equity based awards to employees are recognized in the Consolidated Statements of Comprehensive Income at the fair value of the award on the grant date. During the three and nine months ended September 30, 2013 and 2012, the Company recognized total compensation expense of $3.3 million and $9.8 million and $3.4 million and $10.3 million, respectively. Of the total compensation expense, $0.6 million and $1.6 million was recognized in Cost of services and $2.7 million and $8.3 million was recognized in Selling, general and administrative during the three and nine months ended September 30, 2013. During the three and nine months ended September 30, 2012, the Company recognized total compensation expense of $0.5 million and $1.5 million in Cost of services and $2.9 million and $8.8 million was recognized in Selling, general and administrative.

Stock Options

As of September 30, 2013, there was approximately $0.4 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to unvested option arrangements granted under the Company s equity plans. The Company recognizes compensation expense straight line over the vesting term of the option grant. The Company recognized compensation expense related to stock options of approximately $0.1 million and $0.1 million for the three months ended September 30, 2013 and 2012, respectively. The Company recognized compensation expense related to stock options of approximately $0.3 million and $0.4 million for the nine months ended September 30, 2013 and 2012, respectively.

Restricted Stock Unit Grants

During the nine months ended September 30, 2013 and 2012, the Company granted 755,835 and 637,042 RSUs, respectively, to new and existing employees, which vest in equal installments over four or five years. The Company recognized compensation expense related to RSUs of $3.1 million and $9.4 million for the three and nine months ended September 30, 2013, respectively. The Company recognized compensation expense related to RSUs of $3.3 million and $9.9 million for the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, there was approximately $28.6 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company s equity plans.

As of September 30, 2013 and 2012, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified revenue and operating income performance targets. The Company determined that it was not probable these performance targets would be met; therefore, no expense was recognized for the three and nine months ended September 30, 2013 or 2012.

(15) DECONSOLIDATION OF SUBSIDIARY

During the second quarter of 2013, the Company concluded that it no longer had controlling influence over Peppers & Rogers Gulf WLL (PRG Kuwait), a once consolidated subsidiary in the Customer Strategy Services segment, because the Company was no longer confident that it could exercise its beneficial ownership rights. Upon deconsolidation of PRG Kuwait, the Company wrote off all PRG Kuwait assets and liabilities resulting in a loss of $3.7 million which was recorded in Loss on deconsolidation of subsidiary in the Consolidated Statements of Comprehensive Income. The $3.7 million loss included $1.3 million of goodwill allocated to PRG Kuwait immediately prior to deconsolidation based on PRG Kuwait s relative fair value of the Customer Strategy Services segment. The retained noncontrolling interest was recorded at fair value which was determined to be zero as the Company does not believe it will recognize any financial benefit from this interest.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10 K for the year ended December 31, 2012. Except for historical information, the discussion below contains certain forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect, intend, project, would, could, should, seeks, or scheduled to and othe similar meaning. We intend the forward-looking statements throughout this Form 10-Q and the information incorporated by reference to be covered by the safe harbor provisions for forward-looking statements. Important risks, uncertainties and other factors that could cause the actual results to materially differ from those contemplated by the forward-looking statements include but are not limited to:

- U.S. and global economic conditions;
- our ability to develop new clients and retain existing clients;
- the impact of client consolidations;
- geographic concentration of our business activities;
- unauthorized disclosure of sensitive or confidential client and customer data;
- fluctuations in customer demand and our capacity utilization;
- service interruptions, security threats or other disruptions at our facilities relating to our computer and telecommunications equipment and software systems;
- negotiated provisions in our contracts, including fee structures, early termination provisions and increased costs;

- compliance with credit facility covenant restrictions, and our ability to obtain financing and manage counterparty credit risks from financial institutions;
- risks associated with conducting business operations in foreign countries;
- fluctuations in foreign currency exchange rates;
- compliance with laws and the impact of pending legislation and regulations or changes in existing federal, state, local or foreign laws and regulations;
- our ability to maintain and improve the cost efficiency of our operations, including labor costs;
- movement for delivery center workers to unionize, and possible related impacts on labor costs, especially outside of the United States;
- intense competition in the business process outsourcing industry;
- disruptions in the supply chain of the Customer Technology Services segment;
- our ability to develop and protect our intellectual property and contractual rights and avoid infringement;
- our ability to attract and retain personnel;
- our ability to grow our operations and the integration of businesses acquired through joint ventures or acquisitions;

Table of Contents

- the effects of a natural disaster, terrorist attack, health epidemic or other emergencies;
- ownership by our senior management of a majority of our common stock;
- failures of our controls and procedures and internal controls over financial reporting; and
- other risks and uncertainties affecting our business described in this Quarterly Report on Form 10-Q, under the captions Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012, in our other SEC filings and in our press releases.

The forward-looking statements are based on information available as of the date of this Form 10-Q and on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct. We assume no obligation to update any forward-looking statements to reflect actual results, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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

Executive Summary

TeleTech is a large and geographically diverse global provider of technology-enabled, fully-integrated customer experience management solutions. We have a 31-year history of helping our clients maximize the value of their brand through the design and delivery of exceptional customer experiences. Our end-to-end offering originates with the design of data-rich customer-centric strategies which are then enabled by a suite of technologies and operations that allow for effective management and growth of the economic value of our client s customer relationships.

We have developed deep vertical industry expertise and serve more than 250 global clients in the automotive, communications, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000, which are the world s largest companies based on market capitalization, due to their size, global reach and desire for a partner who can quickly and globally scale a suite of fully-integrated services. We typically enter into long-term relationships which provide us with a more predictable revenue stream. Although most of our contracts can be terminated for convenience with reasonable notices, our relationships with our top five clients have ranged from seven to 17 years with the majority of these clients having completed multiple contract renewals with us.

To further improve our competitive position and stay ahead of a rapidly changing market for our services, we continue to invest in new growth areas. We believe our commitment to innovation will enable us to remain strategically relevant to our clients and to grow and diversify our revenue into higher margin, more technology-enabled services. Of the $297.0 million in revenue we reported in the third quarter of 2013, approximately 27% or $80.0 million came from customer-centric consulting strategy, growth or technology-based services with the remainder coming from our traditional customer management services.

We believe our track record of innovation, operational excellence, financial strength and ability to deliver on the business goals of our clients represent our strongest competitive advantages and have been significant contributors to our client retention rate of 92% for the combination of our Customer Management Services and Customer Growth Services segments during the first nine months of 2013.

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

Table of Contents

Consistent with our growth and diversification strategy, we have in the past and may in the future acquire additional companies, products or technologies. In 2013, we completed the acquisition of WebMetro in August, completed the buy-out of a 20% interest in Peppers & Rogers Group in September, and potential additional acquisitions are planned for the remainder of 2013. During 2012, we completed four acquisitions including OnState Communications Corporation and iKnowtion LLC (iKnowtion) in the first quarter of 2012, and Guidon Performance Solutions (Guidon) and Technology Solutions Group, Inc. (TSG) in the fourth quarter of 2012. We have included the financial results of the business combinations in our consolidated results of operations beginning on the respective acquisition dates in their applicable segments.

Our Market Opportunity

We believe that our revenue will grow over the long-term as global demand for our services is fueled by the following trends:

- *Increasing focus on the customer experience to sustain competitive advantage.* The ability to sustain a competitive advantage based on price or product differentiation has significantly narrowed given the speed of technological innovation. As customers become more connected and widely broadcast their experiences across a variety of social networking channels, the quality of the experience is having a profound impact on brand loyalty and business performance. We believe customers are increasingly shaping their attitudes, behaviors and willingness to recommend or stay with a brand on the totality of their experience, including not only the superiority of the product or service but more importantly on the quality of their ongoing service interactions. Given the strong correlation between high customer satisfaction and improved profitability, we believe more companies are increasingly focused on selecting third-party partners, such as TeleTech, who can deliver a data-driven, fully-integrated solution that increases the lifetime value of each customer relationship versus merely reducing costs.

- *Increasing percentage of companies consolidating their customer experience requirements with the most capable partners who can deliver measurable business outcomes by offering a fully-integrated, technology-rich solution.* The proliferation of mobile communication technologies and devices along with customers increased access to information and heightened expectations are driving the need for companies to implement enabling technologies that ensure customers have the best experience regardless of the device, location or media they choose. These two-way interactions need to be received or delivered seamlessly via the customer channel of choice and include voice, email, chat, SMS text, intelligent self serve, virtual agents and the social web. We believe companies will continue to consolidate to third-party partners, such as TeleTech, who have demonstrated expertise in increasing brand value by delivering a holistic, fully-integrated customer-centric solution that spans strategy to execution versus the time, expense and often failed returns resulting from linking together a series of point solutions from different providers.

- *Focus on speed-to-market by companies launching new products or entering new geographic locations*. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for partners that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies select us because of our extensive operating history, established global footprint, financial strength to invest in ongoing technological innovation and the ability to quickly scale infrastructure and large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Future Growth Strategy

We aim to grow our revenue and profitability by focusing on higher margin, technology-enabled services that drive a superior customer experience. To that end we plan to:

- Accelerate investment in both vertical sales leadership and our technology-enabled services and platforms;

Table of Contents

- Build deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;

- Pursue new clients who lead their respective industries and who are committed to the customer experience as a differentiator;

- Target additional, accretive acquisitions that further complement and expand our integrated solutions; and

- Build on our heritage of technology innovation through the creation of proprietary new intellectual property and bring new capabilities to the market that previously did not exist.

As we further develop and scale our strategic business segments, we are continually evaluating ways to maximize stockholder value, which could include, among other things, the sale, merger or spin-off of equity interests in our subsidiaries or the disposition of business units, in whole or in part.

Our Business Segments

Based on the requirements of our clients, we provide our services both on a fully-integrated and discrete basis.

Design Customer Strategy Services

We typically begin by engaging our clients at a strategic level. Through our data-driven management consulting expertise we help our clients design and build their customer experience strategies. We improve our clients ability to better understand and predict their customers behaviors and preferences along with their current and future economic value so that they can deploy resources to achieve the greatest return. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this practice involves instilling a high performance culture through a lean management framework. This process optimization capability enables the client to align and cascade the recommended initiatives to ensure accountability and transparency for the ultimate achievement and sustainability of future results.

Enable Customer Technology Services

Once the design of the customer experience is completed, our ability to architect, deploy and host or manage the client s customer management environments becomes a key enabler to achieving and sustaining the client s customer experience vision. Given the proliferation of mobile communication technologies and devices, we enable our clients operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer management environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients.

Manage Customer Management Services

We redesign and manage clients front-to-back office processes to deliver just-in-time, personalized, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, e-mail, ecommerce and social media to optimize the customer experience for our clients. In addition, we manage certain back-office processes for our clients to enhance their ability to obtain a customer-centric view of their relationships and maximize operating efficiencies. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Table of Contents

Grow   Customer Growth Services

We offer fully integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver approximately $1 billion in client revenue annually via the acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and our proprietary Revana Analytic Multichannel PlatformTM. This platform continuously aggregates individual customer information across all channels into one holistic view to ensure more relevant and personalized communications. These communications are dynamically triggered to send the right message to the right customer at the right time via their preferred communication channel. The ability of our sales associates to be backed by a highly scalable, technology-enabled platform that delivers smarter, more targeted digital marketing messages over email, social networks, mobile, web, SMS text, voice and chat results in higher conversion rates at a lower overall cost for our clients.

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

Business Overview

In the third quarter of 2013, our revenue increased 3.7% to $297.0 million over the same period in 2012, despite a decrease of 2.4% or $6.9 million due to foreign currency fluctuations. Revenue adjusted for the $6.9 million decrease related to foreign exchange, $1.2 million of lost revenue due to a typhoon in the Philippines and a $5.2 million decrease related to the exit of our business in Spain increased by $24.0 million over the prior year quarter. This increase was due to organic growth and revenue from recent acquisitions. Our third quarter 2013 income from operations decreased (5.1)% to $26.0 million, or 8.7% of revenue, from $27.4 million, or 9.6% of revenue, in the third quarter of 2012. This decrease was primarily due to a $2.3 million negative impact from foreign currency fluctuations, $1.1 million additional amortization of intangibles related to the acquisitions, $0.8 million negative impact from the lost revenue due to a typhoon, and investments in sales and research and development. These decreases were offset by increases in our capacity utilization and income related to our acquisitions. Income from operations for the third quarter 2013 and 2012 included an aggregate $0.8 million and $2.6 million of expenses related to restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based in North America and in other countries. Our offshore delivery capacity spans five countries with 17,900 workstations and currently represents 64% of our global delivery capabilities. Revenue from services provided in these offshore locations was $123 million and represented 50% of our revenue for the third quarter of 2013, as compared to $122 million and 48% of total revenue for the third quarter of 2012, with both years excluding revenue from the five acquisitions.

Our cash flow from operations and available credit allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows and borrowings. At September 30, 2013, we had $144.9 million of cash and cash equivalents and a total debt to total capitalization ratio of 22.0%.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of September 30, 2013, the overall capacity utilization in our multi client centers was 79%. The table below presents workstation data for our multi client centers as of September 30, 2013 and 2012. Dedicated and managed centers (4,145 and 2,611 workstations as of September 30, 2013 and 2012, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

Table of Contents

	September 30, 2013			September 30, 2012		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
Multi-client centers						
Sites open <1 year	1,317	449	34%	1,048	810	77%
Sites open >1 year	22,368	18,258	82%	24,311	18,646	77%
Total multi-client centers	23,685	18,707	79%	25,359	19,456	77%

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

Recently Issued Accounting Pronouncements

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

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of its financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. For further information, please refer to the discussion of all critical accounting policies in Note 1 of the Notes to the Consolidated Financial Statement in our Annual Report on Form 10-K for the year ended December 31, 2012.

Explanation of Key Metrics and Other Items

Cost of Services

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

Selling, General and Administrative

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

Restructuring Charges, Net

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

Table of Contents

Interest Expense

Interest expense includes interest expense, accretion of deferred acquisition costs 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.

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

	Three Months Ended September 30,	Nine Months Ended September 30,

		2013		2012		2013		2012
Net cash provided by operating activities	$	36,402	$	14,754	$	76,613	$	63,411
Less: Purchases of property, plant and equipment		18,172		15,781		31,832		33,149
Free cash flow	$	18,230	$	(1,027)	$	44,781	$	30,262

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

Results of Operations

Three months ended September 30, 2013 compared to three months ended September 30, 2012

The tables included in the following sections are presented to facilitate an understanding of Management s Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the three months ended September 30, 2013 and 2012 (amounts in thousands). All inter company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Three Months Ended September 30,						
		2013		2012		$ Change	% Change
Revenue	$	217,035	$	224,041	$	(7,006)	-3.1%
Operating Income		17,944		21,001		(3,057)	-14.6%

Table of Contents

The change in revenue for the Customer Management Services segment was attributable to a $14.9 million net increase in client programs offset by program completions of $9.1 million. Revenue was further impacted by a $6.4 million reduction due to foreign currency fluctuations, a $5.2 million reduction related to the exit of our business in Spain, and $1.2 million in lost revenue due to a typhoon.

The operating income as a percentage of revenue decreased to 8.3% in the third quarter of 2013 as compared to 9.4% in the third quarter of 2012. The decrease in margin was primarily due to a $2.9 million adverse impact from foreign currency fluctuations, a $0.8 million negative impact due to lost revenue from a typhoon, and investments in sales and research and development. During the third quarters of 2013 and 2012, we recorded $0.6 million and $2.7 million, respectively, in restructuring charges in various locations to better align our capacity and workforce with current business needs.

Customer Growth Services

	Three Months Ended September 30, 2013	2012	$ Change	% Change
Revenue	$ 25,893	$ 28,200	$ (2,307)	-8.2%
Operating Income	588	2,487	(1,899)	-76.4%

The change in revenue for the Customer Growth Services segment was due to the acquisition of WebMetro in August 2013 offset by program completions of $4.3 million and net decreases in client programs.

The operating income as a percentage of revenue decreased to 2.3% in the third quarter of 2013 as compared to 8.8% in the third quarter of 2012. This decrease was due to net declines in client volumes, changes in pricing, and the cost of ramping multiple clients. Included in the operating income was amortization related to acquired intangibles of $0.5 million and $0.2 million for the quarters ended September 30, 2013 and 2012, respectively.

Customer Technology Services

	Three Months Ended September 30, 2013	2012	$ Change	% Change
Revenue	$ 40,649	$ 22,343	$ 18,306	81.9%
Operating Income	5,165	3,054	2,111	69.1%

The increase in revenue for the Customer Technology Services segment was related to organic growth for eLoyalty and Technology Solutions Group, Inc. (TSG) in consulting and managed services and the acquisition of TSG on December 31, 2012.

The operating income as a percentage of revenue decreased to 12.7% in the third quarter of 2013 as compared to 13.7% in the third quarter of 2012. This decrease was related to an increase of $0.7 million, or 1.7%, in amortization expense related to the acquisition of TSG, offset by income from the increased organic revenue and the acquisition of TSG. Included in the operating income was amortization related to acquired intangibles of $1.0 million and $0.4 million for the quarters ended September 30, 2013 and 2012, respectively.

Customer Strategy Services

	Three Months Ended September 30, 2013	2012	$ Change	% Change
Revenue	$ 13,418	$ 11,684	$ 1,734	14.8%
Operating Income	2,264	819	1,445	176.4%

The increase in revenue for the Customer Strategy Services segment was related to a combination of growth in operational consulting, analytics and learning innovations revenue, and the acquisition of Guidon Performance Solutions in October 2012.

Table of Contents

The operating income as a percentage of revenue increased to 16.9% in the third quarter of 2013 as compared to 7.0% in the third quarter of 2012. The increase was related to the increases in revenue discussed above. Included in the operating income was amortization expense of $0.4 million and $0.3 million for the quarters ended September 30, 2013 and 2012, respectively.

Interest Income (Expense)

For the three months ended September 30, 2013 interest income increased slightly to $0.9 million from $0.8 million in the comparable period in 2012. Interest expense decreased to $1.8 million during 2013 from $2.1 million during 2012.

Income Taxes

The effective tax rate for the three months ended September 30, 2013 was 24.9%. This compares to an effective tax rate of (13.8)% for the comparable period in 2012. The effective tax rate for the three months ended September 30, 2013 was influenced by a reduction in earnings in international jurisdictions currently under an income tax holiday compared to other jurisdictions and the distribution of income between the U.S. and international tax jurisdictions to more earnings in the U.S. jurisdiction. Without a $0.3 million benefit related to restructuring charges, $0.3 million of additional expense related to changes in the valuation allowance, $0.3 million of expenses related to return to provision adjustments and $0.4 million of expense related to other discrete items recognized during the quarter, our effective tax rate for the third quarter would have been 21.3%. The effective tax rate for the three months ended September 30, 2012 was influenced by earnings in international jurisdictions currently under an income tax holiday, a $7.6 million benefit related to Australia transfer pricing, and a $1.4 million benefit for the release of uncertain tax positions.

Results of Operations

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

The tables included in the following sections are presented to facilitate an understanding of Management s Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the nine months ended September 30, 2013 and 2012 (amounts in thousands). All inter company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	$ Change	% Change
Revenue	$ 660,258	$ 688,318	$ (28,060)	-4.1%

Operating Income	55,140	38,438	16,702	43.5%

The change in revenue for the Customer Management Services segment was attributable to a $55.3 million net increase in client programs offset by program completions of $43.3 million. Revenue was further impacted by a $2.9 million reduction due to foreign currency fluctuations, a $35.9 million reduction related to the exit of our business in Spain, and $1.2 million in lost revenue due to a typhoon.

The operating income as a percentage of revenue increased to 8.4% for the nine months ended September 30, 2013 as compared to 5.6% for the comparable period in 2012. This increase in margin was primarily due to the exit of our business in Spain as described above, the reduction of restructuring expenses noted below and the improvement in utilization of our capacity. These increases were offset by a $3.7 million adverse impact from foreign currency fluctuations and a $0.8 million negative impact due to lost revenue from a typhoon. During the nine months ended September 30, 2013 and 2012, we recorded $3.9 million and $6.4 million, respectively, in restructuring charges in various locations to better align our capacity and workforce with current business needs. In addition, during 2012, we recorded $14.0 million in restructuring charges and $0.4 million in impairment charges as a result of our decision to exit Spain. These items were offset during 2012 in part by a $4.6 million accrual release for salaries expense due to an authoritative ruling in Spain related to the legally required cost of living adjustments for our employees salaries.

Table of Contents

Customer Growth Services

	Nine Months Ended September 30, 2013	2012	$ Change	% Change
Revenue	$ 71,148	$ 75,373	$ (4,225)	-5.6%
Operating Income	1,244	1,409	(165)	-11.7%

The change in revenue for the Customer Growth Services segment was due to the combination of net increases in client programs and the acquisition of WebMetro in August 2013 of $13.2 million, offset by program completions of $17.5 million.

The operating income as a percentage of revenue remained relatively flat at 1.7% for the nine months ended September 30, 2013 as compared to 1.9% for the comparable period in 2012. Increases in income were primarily driven by a $1.8 million charge related to the impairment of trade-name intangible asset due to the rebranding of our Direct Alliance subsidiary to Revana during the first quarter of 2012. There were also operational improvements and a shift in program mix to additional outcome-based higher margin programs. These increases were offset by net declines in client volumes, changes in pricing, the cost of ramping multiple clients and increases in amortization expense related to WebMetro. Included in the operating income was amortization related to acquired intangibles of $0.9 million and $0.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Customer Technology Services

	Nine Months Ended September 30, 2013	2012	$ Change	% Change
Revenue	$ 110,855	$ 72,851	$ 38,004	52.2%
Operating Income	13,882	11,089	2,793	25.2%

The increase in revenue for the Customer Technology Services segment was related to organic growth for eLoyalty and TSG in consulting and managed services and the acquisition of TSG on December 31, 2012.

The operating income as a percentage of revenue decreased to 12.5% for the nine months ended September 30, 2013 as compared to 15.2% for the comparable period in 2012. This decrease was related to investments to integrate TSG, increases in sales and marketing expenses, and a $2.0 million increase in amortization expense related to TSG. Included in the operating income was amortization related to acquired intangibles of $3.0 million and $1.4 million for the nine months ended September 30, 2013 and 2012, respectively.

Customer Strategy Services

	Nine Months Ended September 30, 2013	2012	$ Change	% Change

Revenue	$ 32,809	$ 31,178	$ 1,631	5.2%
Operating Income	(1,632)	1,621	(3,253)	-200.7%

The increase in revenue for the Customer Strategy Services segment was related to a combination of growth in operational consulting, analytics and learning innovations revenue, and the acquisitions of iKnowtion, LLC and Guidon Performance Solutions.

Table of Contents

The segment incurred an operating loss as a percentage of revenue of (5.0)% in the first nine months of 2013 as compared to income of 5.2% in the prior period. This decrease was primarily related to the impairment charges of $1.1 million recorded as a result of the deconsolidation of a subsidiary in the second quarter of 2013 (see Notes 15 and 5 of the Notes to the Consolidated Financial Statements for further details). The decrease was also related to the full integration of the businesses comprising the Customer Strategy Services segment, including their leadership, consultants, the services portfolio and infrastructure, and a consolidation of their geographies personnel realignment. Included in the operating income was amortization expense related to acquired intangibles of $1.2 million and $0.8 million for the nine months ended September 30, 2013 and 2012, respectively.

Interest Income (Expense)

For the nine months ended September 30, 2013 and 2012, interest income was flat at $2.2 million. Interest expense increased to $5.6 million during the nine months ended September 30, 2013 from $4.8 million for the comparable period in 2012, due to higher average borrowings on our credit facility and additional accretion of deferred acquisition costs.

Other Income (Expense), Net

Included in the nine months ended September 30, 2013, was a $3.7 million charge related to the deconsolidation of a subsidiary (see Note 15 of the Notes to the Consolidated Financial Statements for further details).

Income Taxes

The effective tax rate for the nine months ended September 30, 2013 was 20.0%. This compares to an effective tax rate of (6.1)% for the comparable period in 2012. The effective tax rate for the nine months ended September 30, 2013 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without a $0.2 million benefit related to changes in the valuation allowance, a $1.8 million benefit related to restructuring charges, a $0.8 million benefit related to return to provision adjustments, and $0.3 million in expenses related to other discrete items recognized during the period, the Company s effective tax rate for the nine months ended September 30, 2013 would have been 20.9%. The effective tax rate for the nine months ended September 30, 2012 was influenced by earnings in international jurisdictions currently under an income tax holiday and a $8.6 million tax benefit associated with the $23.7 million in restructuring and impairment charges which influenced the distribution of pre-tax income between the U.S. and international tax jurisdictions, a $7.6 million benefit related to Australia transfer pricing, and a $1.4 million benefit for the release of uncertain tax positions.

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 June 3, 2013 (the Credit Agreement). During the nine months ended September 30, 2013, we generated positive operating cash flows of $76.6 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 focus on concentrating and safeguarding our global cash and cash equivalents. While the majority of our cash is held offshore, we prefer to hold U.S. Dollars in addition to the local currencies of our foreign subsidiaries. We expect to use our offshore cash to support working capital and growth of our foreign operations. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners and utilization of diversified, high quality investments.

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

We primarily utilize our Credit Agreement to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2 of the Notes to Consolidated Financial Statements. As of September 30, 2013 and December 31, 2012, we had borrowings of $118.0 million and $108.0 million, respectively, under our Credit Agreement, and our average daily utilization was $240.9 million and $144.4 million for the nine months ended September 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, our remaining borrowing capacity was $578.5 million as of September 30, 2013. As of September 30, 2013, we were in compliance with all covenants and conditions under our Credit Agreement.

The following discussion highlights our cash flow activities during the nine months ended September 30, 2013 and 2012.

Cash and Cash Equivalents

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled $144.9 million and $164.5 million as of September 30, 2013 and December 31, 2012, respectively. We diversify the holdings of such cash and cash equivalents considering the financial condition and stability of the counterparty institutions.

We reinvest our cash flows to grow our client base, and expand our infrastructure, and for investment in research and development, strategic acquisitions and the purchase of our outstanding stock.

Cash Flows from Operating Activities

For the nine months ended September 30, 2013 and 2012, net cash flows provided by operating activities were $76.6 million and $63.4 million, respectively. The $13.2 million increase is attributable to a $19.7 million decrease in spend on prepaid and other assets, a $4.2 million increase in cash related net income and a $1.7 million decrease in cash spent on operating activities offset by a $11.9 million decrease in cash received from prepayments from customers and a $0.4 million decrease in collections of accounts receivable.

Cash Flows from Investing Activities

For the nine months ended September 30, 2013 and 2012, we reported net cash flows used in investing activities of $40.8 million and $37.5 million, respectively. The increase of $3.3 million was due to a $4.1 million increase in spending on acquisitions offset by a $1.4 million decrease in spend on capital expenditures.

Cash Flows from Financing Activities

For the nine months ended September 30, 2013 and 2012, we reported net cash flows used in financing activities of $45.5 million and $25.7 million, respectively. The $19.8 million increase in net cash flows used from 2012 to 2013 was primarily due to a $14.0 million decrease in net borrowings from our line of credit, and a reduction of $3.6 million in purchases of our outstanding common stock offset by a $5.8 million increase in net payments on other debt, a $1.4 million increase in payments for debt issuance costs and a $2.0 million increase in distributions made to noncontrolling interest.

Free Cash Flow

Free cash flow, a non-GAAP measurement (see Presentation of Non GAAP Measurements for definition of free cash flow) decreased for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 due to the increase in cash flows provided by operating activities and the decrease in cash spent on capital expenditures between periods. Free cash flow was $44.8 million and $30.3 million for the nine months ended September 30, 2013 and 2012, respectively.

Table of Contents

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of September 30, 2013 are summarized as follows (amounts in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility(1)	$ 3,416	$ 6,684	$ 122,225	$	$ 132,325
Equipment financing arrangements	72				72
Contingent consideration	5,164	9,071			14,235
Purchase obligations	16,851	11,109	1		27,961
Operating lease commitments	22,442	42,402	27,004	5,331	97,179
Other debt	5,494	4,628	1,171		11,293
Total	$ 53,439	$ 73,894	$ 150,401	$ 5,331	$ 283,065

(1) Includes estimated interest payments based on the weighted-average interest rate, unused commitment fees, current interest rate swap arrangements, and outstanding debt as of September 30, 2013.

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

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

- The contractual obligation table excludes our liabilities of $0.5 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, repurchase our common stock, and other cash flow needs across our global operations.

Future Capital Requirements

We expect total capital expenditures in 2013 to be within the range of $50 to $60 million. Approximately 70% of these expected capital expenditures are to support growth in our business and 30% relate to the maintenance of existing assets. The anticipated level of 2013 capital expenditures is primarily driven by new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

The amount of capital required over the next 12 months will depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. We can provide no assurance that we will be able to raise additional capital upon commercially reasonable terms acceptable to us.

Debt Instruments and Related Covenants

On June 3, 2013, we entered into a $700.0 million, five-year, multi-currency revolving credit facility (the Credit Agreement) with a syndicate of lenders which includes an accordion feature that permits us to request an increase in total commitments up to $1.0 billion, under certain conditions. Wells Fargo Securities, LLC, KeyBank National Association, Bank of America Merrill Lynch, BBVA Compass and HSBC Bank USA, National Association served as Joint Lead Arrangers. The Credit Agreement amends and restates in its entirety our prior credit facility entered into during 2010 and amended in 2012.

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

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo s prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate (LIBOR), in each case adding a margin based upon our leverage ratio. Eurodollar loans bear interest based upon LIBOR, plus a margin based upon our leverage ratio. Alternate loans bear interest at rates applicable to their respective currencies. Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans. Commitment fees are payable to the Lenders in an amount equal to the unused portion of the credit facility and are based upon our leverage ratio.

Indebtedness under the Credit Agreement is guaranteed by certain of our present and future domestic subsidiaries. Indebtedness under the Credit Agreement and the related guarantees are secured by security interests (subject to permitted liens) in the U.S. accounts receivable and cash of our Company and certain of its domestic subsidiaries and may be secured by tangible assets of our Company and such domestic subsidiaries if borrowings by foreign subsidiaries exceed $100.0 million and the leverage ratio is greater than 3.00 to 1.00. We also pledged 65% of the voting stock and 100% of the non-voting stock of certain of our Company s material foreign subsidiaries and may pledge 65% of the voting stock and 100% of the non-voting stock of our Company s other foreign subsidiaries.

The Credit Agreement includes customary financial covenants, and as of September 30, 2013 we were in compliance with all financial covenants.

We primarily utilize our credit facilities to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2 of the accompanying financial statements. As of September 30, 2013 and December 31, 2012, we had borrowings of $118.0 million and $108.0 million, respectively, under our credit facilities, and our average daily utilization was $240.9 million and $144.4 million for the nine months ended September 30, 2013 and 2012, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, our remaining borrowing capacity was $578.5 million as of September 30, 2013.

Client Concentration

During the nine months ended September 30, 2013, one of our clients represented 11.7% of our total revenue. Our five largest clients accounted for 40.9% and 39.7% of our consolidated revenue for the three months ended September 30, 2013 and 2012, respectively. Our five largest clients accounted for 40.8% and 38.0% of our consolidated revenue for the nine months ended September 30, 2013 and 2012, respectively. We have experienced long-term relationships with our top five clients, ranging from seven to 17 years, with the majority of these clients having completed multiple contract renewals with us. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis and varies greatly based upon specific contract terms. In addition, clients may adjust business volumes served by us based on their business requirements. We believe the risk of this concentration is mitigated, in part, by the long term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, we believe this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

Table of Contents

The contracts with our five largest clients expire between 2014 and 2016. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of September 30, 2013, we had $118.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three and nine months ended September 30, 2013, interest accrued at a rate of approximately 1.4% and 1.5% per annum, respectively. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would not have been a material impact to our consolidated financial position or results of operations.

The Company s interest rate swap arrangements as of September 30, 2013 and December 31, 2012 were as follows:

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of September 30, 2013	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				
As of December 31, 2012	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				

Table of Contents

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 nine months ended September 30, 2013 and 2012, revenue associated with this foreign exchange risk was 32% and 37% of our consolidated revenue, respectively.

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

Cash Flow Hedging Program

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

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

Our cash flow hedging instruments as of September 30, 2013 and December 31, 2012 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

As of September 30, 2013	Local Currency Notional Amount		U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	12,750	$	12,415	70.6%	June 2015
Philippine Peso	15,835,000		372,909(1)	37.8%	December 2017
Mexican Peso	2,056,000		147,144	34.5%	December 2017
British Pound Sterling	2,508		4,217(2)	100.0%	June 2014
New Zealand Dollar	300		235	100.0%	March 2014
		$	536,920		

Table of Contents

As of December 31, 2012	Local Currency Notional Amount		U.S. Dollar Notional Amount
Canadian Dollar	7,750	$	7,407
Philippine Peso	11,710,000		271,970(1)
Mexican Peso	1,320,500		94,530
British Pound Sterling	3,518		5,575(2)
New Zealand Dollar	398		300
		$	379,782

---

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on September 30, 2013 and December 31, 2012.

(2) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on September 30, 2013 and December 31, 2012.

The fair value of our cash flow hedges at September 30, 2013 was (assets/(liabilities)) (amounts in thousands):

		September 30, 2013		Maturing in the Next 12 Months
Canadian Dollar	$	(128)	$	(93)
Philippine Peso		(5,688)		(696)
Mexican Peso		2,074		2,234
British Pound Sterling		142		142
New Zealand Dollar		(135)		(135)
	$	(3,735)	$	1,452

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 decrease in fair value from September 30, 2013 largely reflects a broad strengthening in the U.S. dollar.

We recorded a net gain of approximately $7.2 million and $2.0 million for settled cash flow hedge contracts and the related premiums for the nine months ended September 30, 2013 and 2012, respectively. These gains were reflected in Revenue in the accompanying Consolidated Statements of Comprehensive Income. If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding increases or decreases in our underlying exposures.

Other than the transactions hedged as discussed above and in Note 6 of the Notes to Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in their respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the nine months ended September 30, 2013 and 2012, approximately 22% and 26%, 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 September 30, 2013 or December 31, 2012.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

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

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2013 to provide such reasonable assurance.

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we have been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for legal actions 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 currently available information and advice received from counsel, as appropriate, we believe that the disposition or ultimate resolution of such legal actions will not have a material adverse effect on our financial position, cash flows or results of operations. During the quarter ended September 30, 2013, there were no material changes to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Following is the detail of the issuer purchases made during the quarter ended September 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)(1)
June 30, 2013				$ 19,434
July 1, 2013 - July 31, 2013	541,432	$ 23.73	541,432	$ 6,586
August 1, 2013 - August 31, 2013	180,550	$ 24.92	180,550	$ 27,087
September 1, 2013 - September 30, 2013	135,364	$ 24.29	135,364	$ 23,800
Total	857,346		857,346	

(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 August 2013, whereby the Board increased the program allowance by $25.0 million. Since inception of the program through September 30, 2013, the Board has authorized the repurchase of shares up to a total value of $587.3 million, of which we have purchased 39.5 million shares on the open market for $563.5 million. As of September 30, 2013 the remaining amount authorized for repurchases under the program is approximately $23.8 million. The stock repurchase program does not have an expiration date.

Table of Contents

ITEM 6. EXHIBITS

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

---

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012 (unaudited), (iv) Consolidated Statements of Stockholders Equity as of and for the nine months ended September 30, 2013 (unaudited), and (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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: October 30, 2013	By:	/s/ Kenneth D. Tuchman Kenneth D. Tuchman Chairman and Chief Executive Officer
Date: October 30, 2013	By:	/s/ Regina M. Paolillo Regina M. Paolillo Chief Financial Officer

Table of Contents

EXHIBIT INDEX

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

* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012 (unaudited), (iv) Consolidated Statements of Stockholders Equity as of and for the nine months ended September 30, 2013 (unaudited), and (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.