TELETECH HOLDINGS INC
Form 10-Q
May 05, 2014
Table of Contents

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 March 31, 2014

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

As of April 30, 2014, there were 49,433,810 shares of the registrant s common stock outstanding.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2014 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)

	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 120,377	$ 158,017
Accounts receivable, net	249,351	236,099
Prepaids and other current assets	57,602	52,332
Deferred tax assets, net	13,283	11,905
Income tax receivable	8,748	11,198
Total current assets	449,361	469,551
Long-term assets		
Property, plant and equipment, net	132,789	126,719
Goodwill	110,553	102,743
Contract acquisition costs, net	1,327	1,642
Deferred tax assets, net	40,069	42,791
Other intangible assets, net	56,394	54,812
Other long-term assets	41,447	44,084
Total long-term assets	382,579	372,791
Total assets	$ 831,940	$ 842,342
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 40,695	$ 32,031
Accrued employee compensation and benefits	63,698	80,130
Other accrued expenses	40,216	31,659
Income taxes payable	1,648	6,066
Deferred tax liabilities, net	38	590
Deferred revenue	27,985	28,799
Other current liabilities	13,940	11,512
Total current liabilities	188,220	190,787
Long-term liabilities		
Line of credit	100,000	100,000
Deferred tax liabilities, net	2,103	2,281
Deferred rent	9,040	9,635
Other long-term liabilities	60,799	63,648
Total long-term liabilities	171,942	175,564
Total liabilities	360,162	366,351

Commitments and contingencies (Note 10)				
Mandatorily redeemable noncontrolling interest		2,462		2,509
Stockholders equity				
Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of March 31, 2014 and December 31, 2013				
Common stock - $0.01 par value; 150,000,000 shares authorized; 49,714,740 and 50,352,881 shares outstanding as of March 31, 2014 and December 31, 2013, respectively		497		503
Additional paid-in capital		352,568		356,381
Treasury stock at cost: 32,337,513 and 31,699,372 shares as of March 31, 2014 and December 31, 2013, respectively		(494,133)		(477,399)
Accumulated other comprehensive income (loss)		(24,602)		(20,586)
Retained earnings		626,895		606,502
Noncontrolling interest		8,091		8,081
Total stockholders equity		469,316		473,482
Total liabilities and stockholders equity	$	831,940	$	842,342

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 March 31, 2014	Three Months Ended March 31, 2013
Revenue	$ 302,221	$ 288,383
Operating expenses		
Cost of services (exclusive of depreciation and amortization presented separately below)	213,787	208,232
Selling, general and administrative	50,367	45,747
Depreciation and amortization	13,170	10,555
Restructuring charges, net	540	851
Total operating expenses	277,864	265,385
Income from operations	24,357	22,998
Other income (expense)		
Interest income	511	669
Interest expense	(1,690)	(1,865)
Other income (expense), net	1,001	(808)
Total other income (expense)	(178)	(2,004)
Income before income taxes	24,179	20,994
Provision for income taxes	(2,876)	(2,391)
Net income	21,303	18,603
Net income attributable to noncontrolling interest	(1,085)	(642)
Net income attributable to TeleTech stockholders	$ 20,218	$ 17,961
Other comprehensive income (loss)		
Net income	$ 21,303	$ 18,603
Foreign currency translation adjustments	(1,723)	3,134
Derivative valuation, gross	(3,917)	3,390
Derivative valuation, tax effect	1,382	(1,210)
Other, net of tax	276	162
Total other comprehensive (loss) income	(3,982)	5,476
Total comprehensive income	17,321	24,079
Comprehensive income attributable to noncontrolling interest	(992)	(552)
Comprehensive income attributable to TeleTech stockholders	$ 16,329	$ 23,527
Weighted average shares outstanding		
Basic	50,045	52,347

Diluted		50,973		53,217
Net income per share attributable to TeleTech stockholders				
Basic	$	0.40	$	0.34
Diluted	$	0.40	$	0.34

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							
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total Equity
Balance as of December 31, 2013		$	50,353	$ 503	$ (477,399)	$ 356,381	$ (20,586)	$ 606,502	$ 8,081	$ 473,482
Net income								20,218	957	21,175
Dividends distributed to noncontrolling interest									(990)	(990)
Adjustments to redemption value of mandatorily redeemable noncontrolling interest								175		175
Foreign currency translation adjustments							(1,758)		35	(1,723)
Derivatives valuation, net of tax							(2,534)			(2,534)
Vesting of restricted stock units			246	3	3,678	(7,434)				(3,753)
Exercise of stock options			3		45	(33)				12
Excess tax benefit from equity-based awards						527				527
Equity-based compensation expense						3,127			8	3,135
Purchases of common stock			(887)	(9)	(20,457)					(20,466)
Other							276			276
Balance as of March 31, 2014		$	49,715	$ 497	$ (494,133)	$ 352,568	$ (24,602)	$ 626,895	$ 8,091	$ 469,316

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)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Cash flows from operating activities		
Net income	$ 21,303	$ 18,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,170	10,555
Amortization of contract acquisition costs	358	255
Amortization of debt issuance costs	170	175
Imputed interest expense and fair value adjustments to contingent consideration	200	346
Provision for doubtful accounts	113	76
Gain on disposal of assets		(107)
Deferred income taxes	990	3,975
Excess tax benefit from equity-based awards	(788)	(800)
Equity-based compensation expense	3,160	3,191
Gain on foreign currency derivatives	(634)	(433)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(8,092)	5,012
Prepaids and other assets	1,618	(7,630)
Accounts payable and accrued expenses	(10,817)	(19,399)
Deferred revenue and other liabilities	(7,214)	(7,325)
Net cash provided by operating activities	13,537	6,494
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	135	
Purchases of property, plant and equipment, net of acquisitions	(15,095)	(4,105)
Acquisitions, net of cash acquired of $812 and zero, respectively	(8,160)	
Net cash used in investing activities	(23,120)	(4,105)
Cash flows from financing activities		
Proceeds from line of credit	632,900	366,950
Payments on line of credit	(632,900)	(359,950)
Proceeds from other debt		3,709
Payments on other debt	(1,525)	(1,338)
Payments of purchase price payables	(2,189)	
Dividends paid to noncontrolling interest	(990)	(1,109)
Proceeds from exercise of stock options	12	539
Excess tax benefit from equity-based awards	788	800
Purchase of treasury stock	(20,466)	(9,850)
Net cash used in financing activities	(24,370)	(249)
Effect of exchange rate changes on cash and cash equivalents	(3,687)	3,926
(Decrease) increase in cash and cash equivalents	(37,640)	6,066

Cash and cash equivalents, beginning of period		158,017		164,485
Cash and cash equivalents, end of period	$	120,377	$	170,551
Supplemental disclosures				
Cash paid for interest	$	982	$	1,048
Cash paid for income taxes	$	2,834	$	1,751
Non-cash investing and financing activities				
Acquisition of equipment through increase in accounts payable	$	941	$	
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

Summary of Business

TeleTech Holdings, Inc. (TeleTech or the Company) is a leading provider of customer strategy, analytics-driven and technology-enabled customer engagement management solutions with 41,000 employees delivering services across 25 countries from 54 delivery centers on five continents.

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

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, its 80% interest in iKnowtion, LLC, and its 80% interest in Peppers & Rogers Group through the third quarter of 2013 when the final 20% interest was repurchased (see additional information in Note 2). 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, 2014.

These unaudited Consolidated Financial Statements should be read in conjunction with the Company s audited Consolidated Financial Statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including valuation allowances for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts, 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.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance that changes the criteria for reporting a discontinued operation. According to the new guidance, only disposals of a component that represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results is a discontinued operation. The new guidance also requires expanded disclosures about discontinued operations and disposals of a significant part of an entity that does not qualify for discontinued operations reporting. The new standard is effective beginning January 1, 2015 with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously-issued financial statements. The adoption of this guidance will be dependent on any future disposal transactions.

(2) ACQUISITIONS

Sofica

In the first quarter of 2014, the Company acquired 100% interest in Sofica Group, a Bulgarian joint stock company (Sofica). Sofica provides customer lifecycle management and other business process outsourcing services across multiple channels in multiple sites in over 18 languages.

The total purchase price of $14.5 million, consisted of $9.0 million in up-front cash consideration (inclusive of a working capital adjustment) and earn-out payments payable in 2015 and 2016, if Sofica 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 22% and expected future value of payments of $4.0 million. The $4.0 million of expected future payments was calculated using a bell curve probability weighted EBITDA assessment with the highest probability associated with Sofica achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent payments was approximately $3.4 million. As of March 31, 2014, the fair value of the contingent consideration was $3.4 million, of which $2.0 million and $1.4 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	$	812
Accounts receivable		3,267
Other assets		599
Property, plant and equipment		491
Customer relationships		3,591
Goodwill		7,329
		16,089
Accounts payable		50
Accrued employee compensation and benefits		630
Accrued expenses		519
Other		393
		1,592
Total purchase price	$	14,497

The Sofica customer relationships have an estimated useful life of five years. The goodwill recognized from the Sofica acquisition was attributable primarily to the acquired workforce of Sofica, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill are not deductible for income tax purposes. The acquired goodwill and the operating results of Sofica are reported within the Customer Management Services segment from the date of acquisition.

Other Acquisitions

WebMetro

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

The total purchase price was $17.8 million, including $15.3 million in up-front cash consideration (inclusive of a working capital adjustment) and earn-out payments payable in 2014 and 2015, if WebMetro 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 include a discount rate of 5.3% and expected future value of payments of $2.6 million. The $2.6 million of expected future payments was calculated using a bell curve probability weighted EBITDA assessment with the highest probability associated with WebMetro achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent payments was approximately $2.5 million. During the first quarter of 2014, the first earn-out payment was completed. As of March 31, 2014, the fair value of the contingent consideration was $1.7 million which was included in Other accrued expenses in the accompanying Consolidated Balance Sheets, respectively. The fair value is higher than the fair value recorded on the acquisition date because WebMetro exceeded expected earnings.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.

Peppers & Rogers Group

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

The acquired businesses noted above contributed revenues of $4.8 million and income from operations of $0.3 million, inclusive of $0.6 million of acquired intangible amortization, to the Company for the three months ended March 31, 2014.

(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 provides technology-enabled sales and marketing solutions that support revenue generation across the customer lifecycle, including sales advisory, search engine optimization, digital demand generation, lead qualification, and acquisition sales, growth and retention services;
- the Customer Technology Services segment includes operational and design consulting, systems integration, and cloud and on-premise managed services, the requirements needed to design, deliver and maintain best-in-class multichannel customer engagement platforms; and
- the Customer Strategy Services segment provides professional services in customer experience strategy, customer intelligence analytics, system and operational process optimization, and culture development and knowledge management.

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

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

Quarter Ended March 31, 2014

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 227,924	$	$ 227,924	$ 9,465	$ 20,823
Customer Growth Services	28,905		28,905	1,556	1,770
Customer Technology Services	32,779	(3)	32,776	1,715	311
Customer Strategy Services	12,616		12,616	434	1,453
Total	$ 302,224	$ (3)	$ 302,221	$ 13,170	$ 24,357

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Quarter Ended March 31, 2013

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 222,889	$ (307)	$ 222,582	$ 7,862	$ 20,731
Customer Growth Services	22,856		22,856	697	1,276
Customer Technology Services	33,646	(84)	33,562	1,516	2,898
Customer Strategy Services	9,930	(547)	9,383	480	(1,907)
Total	$ 289,321	$ (938)	$ 288,383	$ 10,555	$ 22,998

	Three Months Ended March 31, 2014	2013
Capital Expenditures		
Customer Management Services	$ 9,912	$ 2,286
Customer Growth Services	380	316
Customer Technology Services	4,631	1,328
Customer Strategy Services	172	175
Total	$ 15,095	$ 4,105

	March 31, 2014	December 31, 2013
Total Assets		
Customer Management Services	$ 546,007	$ 554,015
Customer Growth Services	87,897	86,416
Customer Technology Services	152,103	157,040
Customer Strategy Services	45,933	44,871
Total	$ 831,940	$ 842,342

	March 31, 2014	December 31, 2013
Goodwill		
Customer Management Services	$ 27,279	$ 19,819
Customer Growth Services	30,128	30,128
Customer Technology Services	42,709	42,709
Customer Strategy Services	10,437	10,087
Total	$ 110,553	$ 102,743

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Revenue		
United States	$ 146,469	$ 131,747
Philippines	86,666	86,108
Latin America	42,046	45,028
Europe / Middle East / Africa	19,217	16,984
Asia Pacific	6,400	4,226
Canada	1,423	4,290
Total	$ 302,221	$ 288,383

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the three months ended March 31, 2014. This client operates in the communications industry and is included in the Customer Management Services segment. This client contributed 11.6% and 11.9% of total revenue for the three months ended March 31, 2014 and 2013. This client had an outstanding receivable balance of $30.4 million and $25.0 million as of March 31, 2014 and 2013.

The loss of one or more of its significant clients could have a material adverse effect on the Company s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company s credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of March 31, 2014.

(5) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2013	Acquisitions/ Adjustments	Impairments	Effect of Foreign Currency	March 31, 2014
Customer Management Services	$ 19,819	$ 7,329	$	$ 131	$ 27,279
Customer Growth Services	30,128				30,128
Customer Technology Services	42,709				42,709
Customer Strategy Services	10,087	350			10,437
Total	$ 102,743	$ 7,679	$	$ 131	$ 110,553

The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended March 31, 2014, the Company assessed whether any such indicators of impairment existed and concluded there were none.

(6) DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company s exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company s exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company s policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets considers, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company s creditworthiness. As of March 31, 2014, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three months ended March 31, 2014 and 2013 (amounts in thousands and net of tax):

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended March 31, 2014	2013
Aggregate unrealized net gain/(loss) at beginning of year	$ (8,352)	$ 9,559
Add: Net gain/(loss) from change in fair value of cash flow hedges	(3,649)	4,099
Less: Net (gain)/loss reclassified to earnings from effective hedges	1,115	(1,919)
Aggregate unrealized net gain/(loss) at end of period	$ (10,886)	$ 11,739

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

As of March 31, 2014	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	6,000	$ 5,857	87.5%	June 2015
Philippine Peso	16,416,000	382,668(1)	37.7%	December 2018
Mexican Peso	2,356,500	168,458	29.9%	December 2018
British Pound Sterling	600	926	100.0%	June 2014
		$ 557,909		

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

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on March 31, 2014 and December 31, 2013.

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

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

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of March 31, 2014	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
and December 31, 2013		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 March 31, 2014 and December 31, 2013 the total notional amount of the Company s forward contracts used as fair value hedges were $229.5 million and $204.5 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 December 31, 2013, the fair value of the embedded derivative was $0.1 million and was included in Other current liabilities in the accompanying Consolidated Balance Sheets as shown in the table below. As of March 31, 2014, the lease had expired and thus the embedded derivative value was reduced to zero.

Derivative Valuation and Settlements

The Company s derivatives as of March 31, 2014 and December 31, 2013 were as follows (amounts in thousands):

	March 31, 2014			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases Embedded Derivative**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 2,368	$	$ 142	$
Other long-term assets	2,529			
Other current liabilities	(8,346)	(1,045)	(319)	
Other long-term liabilities	(12,069)	(943)		

Total fair value of derivatives, net	$	(15,518)	$	(1,988)	$	(177)	$	

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

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 March 31, 2014 and 2013 were as follows (amounts in thousands):

	Three Months Ended March 31,			
	2014		2013	
	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:	$ (3,592)	$ (57)	$ 4,178	$ (79)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ (1,570)	$	$ 3,460	$
Interest Expense		(258)		(257)

	Three Months Ended March 31,					
	2014			2013		
	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:						
Costs of services	$	$	$	$	$	$ (69)
Other income (expense), net	$	$ 619	$	$	$ 1,438	$

(7) FAIR VALUE

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following presents information as of March 31, 2014 and December 31, 2013 of the Company s assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Debt - The Company s debt consists primarily of the Company s Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company s leverage ratio calculation (as defined in the Credit Agreement). As of March 31, 2014 and December 31, 2013, the Company had $100.0 million and $100.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the first quarter of 2014 outstanding borrowings accrued interest at an average rate of 1.2% per annum, 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 March 31, 2014, credit risk did not materially change the fair value of the Company s derivative contracts.

The following is a summary of the Company s fair value measurements for its net derivative assets (liabilities) as of March 31, 2014 and December 31, 2013 (amounts in thousands):

As of March 31, 2014

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**At Fair Value**
Cash flow hedges	$	$ (15,518)	$	$ (15,518)
Interest rate swaps		(1,988)		(1,988)
Fair value hedges		(177)		(177)
Total net derivative asset (liability)	$	$ (17,683)	$	$ (17,683)

As of December 31, 2013

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

	Identical Assets (Level 1)	(Level 2)	Inputs (Level 3)	At Fair Value
Cash flow hedges	$	$ (11,485)	$	$ (11,485)
Interest rate swaps		(2,152)		(2,152)
Fair value hedges		(718)		(718)
Embedded derivatives		(116)		(116)
Total net derivative asset (liability)	$	$ (14,471)	$	$ (14,471)

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 March 31, 2014 and December 31, 2013 (amounts in thousands):

As of March 31, 2014

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	$	$ 240	$
Derivative instruments, net			
Total assets	$	$ 240	$
Liabilities			
Deferred compensation plan liability	$	$ (7,650)	$
Derivative instruments, net		(17,683)	
Purchase price payable			(22,509)
Total liabilities	$	$ (25,333)	$ (22,509)

As of December 31, 2013

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Money market investments	$	$ 240	$
Derivative instruments, net			
Total assets	$	$ 240	$
Liabilities			
Deferred compensation plan liability	$	$ (6,829)	$
Derivative instruments, net		(14,471)	
Purchase price payable			(21,748)
Total liabilities	$	$ (21,300)	$ (21,748)

Money Market Investments The Company invests in various well-diversified money market funds which are managed by financial institutions. These money market funds are not publicly traded, but have historically been highly liquid. The value of the money market funds are determined by the banks based upon the funds net asset values (NAV). 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, WebMetro and Sofica. 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%, 5.3% or 22.0%, respectively. The discount rates vary dependant on the specific risks of each acquisition including the country of operation, the nature of services and complexity of the acquired business, and other similar factors. 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 $23.9 million. Interest expense related to all recorded purchase price payables is included in Interest expense in the Consolidated Statements of Comprehensive Income.

A rollforward of the activity in the Company s fair value of the purchase price payable is as follows (amounts in thousands):

	December 31, 2013	Acquisitions	Payments	Imputed Interest / Adjustments	March 31, 2014
iKnowtion	$ 3,470	$	$ (1,400)	$ 69	$ 2,139
Guidon	2,637		(1,426)	39	1,250
TSG	12,933			79	13,012
WebMetro	2,708			(35)	2,673
Sofica		3,435			3,435
Total	$ 21,748	$ 3,435	$ (2,826)	$ 152	$ 22,509

Subsequent to March 31, 2014, an additional $6.3 million of payments were completed in accordance with the acquisition agreements.

(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.

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

As of March 31, 2014, the Company had $53.3 million of gross deferred tax assets (after a $9.9 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of $51.2 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three months ended March 31, 2014 and 2013 was 11.9% and 11.4%, respectively.

The Company s U.S. income tax returns filed for the tax years ending December 31, 2009 to present remain open tax years. The Company has been notified of the intent to audit, or is currently under audit, of income taxes in the U.S. for tax years 2009, 2011 and 2012, Canada for tax years 2009 and 2010 and the Netherlands for tax year 2010. 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.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three months ended March 31, 2014 and 2013, the Company undertook restructuring activities primarily associated with reductions in the Company s capacity and workforce in several of its segments to better align the capacity and workforce with current business needs.

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013, respectively, is as follows (amounts in thousands):

	Three Months Ended March 31, 2014	2013
Reduction in force		
Customer Management Services	$ 511	$ 694
Customer Growth Services	29	
Customer Technology Services		
Customer Strategy Services		157
Total	$ 540	$ 851

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, 2013	$	$ 1,353	$ 1,353
Expense		540	540
Payments		(628)	(628)
Changes in estimates			
Balance as of March 31, 2014	$	$ 1,265	$ 1,265

The remaining restructuring accruals are expected to be paid or extinguished during 2014 and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain delivery centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of its asset group are estimated to be less than the asset group s carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three months ended March 31, 2014 and 2013, the Company recognized no losses related to leasehold improvement assets.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(10) COMMITMENTS AND CONTINGENCIES

Credit Facility

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

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

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases and other strategic activities, such as the acquisitions described in Note 2. As of March 31, 2014 and December 31, 2013, the Company had borrowings of $100.0 million and $100.0 million, respectively, under its Credit Agreement, and its average daily utilization was $270.9 million and $219.6 million for the three months ended March 31, 2014 and 2013, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, the Company s remaining borrowing capacity was $596.5 million as of March 31, 2014. As of March 31, 2014, the Company was in compliance with all covenants and conditions under its Credit Agreement.

From time-to-time, the Company has unsecured, uncommitted lines of credit to support working capital for a few foreign subsidiaries. As of March 31, 2014 and 2013, no foreign loans were outstanding.

Letters of Credit

As of March 31, 2014, outstanding letters of credit under the Credit Agreement totaled $3.5 million and primarily guaranteed workers compensation and other insurance related obligations. As of March 31, 2014, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled $0.9 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. The Company accrues for exposures associated with such legal actions to the extent that losses are deemed both probable and estimable. To the extent specific reserves have not been made for certain legal proceedings, their ultimate outcome, and consequently, an estimate of possible loss, if any, cannot reasonably be determined at this time.

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

(11) NONCONTROLLING INTEREST

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

	Three Months Ended March 31, 2014		2013	
Noncontrolling interest, January 1	$	8,081	$	14,045
Net income attributable to noncontrolling interest		957		642
Dividends distributed to noncontrolling interest		(990)		(1,109)
Foreign currency translation adjustments		35		(90)
Equity based compensation expense		8		8
Noncontrolling interest, March 31	$	8,091	$	13,496

(12) MANDATORILY REDEEMABLE NONCONTROLLING INTEREST

The Company holds an 80% interest in iKnowtion. In the event iKnowtion meets certain EBITDA targets for calendar year 2015, the purchase and sale agreement requires TeleTech to purchase the remaining 20% interest in iKnowtion in 2016 for an amount equal to a multiple of iKnowtion s 2015 EBITDA as defined in the purchase and sale agreement. These terms represent a contingent redemption feature which the Company determined is probable of being achieved.

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

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

	Three months ended March 31, 2014		Three months ended March 31, 2013	
Mandatorily redeemable noncontrolling interest, January 1	$	2,509	$	1,067
Net income attributable to mandatorily redeemable noncontrolling interest		128		41
Dividends distributed to mandatorily redeemable noncontrolling interest				
Change in redemption value		(175)		
Mandatorily redeemable noncontrolling interest, March 31	$	2,462	$	1,108

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(13) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in the accumulated balance for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (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, 2013	$ (10,581)	$ (8,352)	$ (1,653)	$ (20,586)
Other comprehensive (loss) income before reclassifications	(1,758)	(3,649)	187	(5,220)
Amounts reclassified from accumulated other comprehensive income		1,115	89	1,204
Net current period other comprehensive income	(1,758)	(2,534)	276	(4,016)
Accumulated other comprehensive income (loss) at March 31, 2014	$ (12,339)	$ (10,886)	$ (1,377)	$ (24,602)
Accumulated other comprehensive income (loss) at December 31, 2012	$ 15,673	$ 9,559	$ (2,251)	$ 22,981
Other comprehensive income before reclassifications	3,224	4,099	14	7,337
Amounts reclassified from accumulated other comprehensive income		(1,919)	148	(1,771)
Net current period other comprehensive income	3,224	2,180	162	5,566
Accumulated other comprehensive income (loss) at March 31, 2013	$ 18,897	$ 11,739	$ (2,089)	$ 28,547

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

	For the Three Months Ended	Statement of Comprehensive Income

	March 31, 2014	March 31, 2013	Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	$ (1,570)	$ 3,460	Revenue
Loss on interest rate swaps	(258)	(257)	Interest expense
Tax effect	713	(1,284)	Provision for income taxes
	$ (1,115)	$ 1,919	Net income
Other			
Actuarial loss on defined benefit plan	$ (95)	$ (157)	Cost of services
Tax effect	6	9	Provision for income taxes
	$ (89)	$ (148)	Net (loss)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(14) 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 March 31,	
	2014	**2013**
Shares used in basic earnings per share calculation	50,045	52,347
Effect of dilutive securities:		
Stock options	411	391
Restricted stock units	517	479
Performance-based restricted stock units		
Total effects of dilutive securities	928	870
Shares used in dilutive earnings per share calculation	50,973	53,217

For the three months ended March 31, 2014 and 2013, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti dilutive. For the three months ended March 31, 2014 and 2013, restricted stock units (RSUs) of 0.3 million and 0.4 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

(15) 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 months ended March 31, 2014 and 2013, the Company recognized total compensation expense of $3.2 million and $3.2 million, respectively. Of the total compensation expense, $0.6 million and $0.5 million was recognized in Cost of services and $2.6 million and $2.7 million was recognized in Selling, general and administrative.

Stock Options

As of March 31, 2014, there was approximately $0.2 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 March 31, 2014 and 2013, respectively.

Restricted Stock Unit Grants

During the three months ended March 31, 2014 and 2013, the Company granted 164,000 and 122,000 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 $3.0 million and $3.1 million for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, there was approximately $25.3 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company s equity plans.

As of March 31, 2014 and 2013, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified revenue and operating income performance targets. The Company determined that it was not probable these performance targets would be met; therefore no expense was recognized for the three months ended March 31, 2014 or 2013.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(16) DECONSOLIDATION OF SUBSIDIARY

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

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

The forward-looking statements are based on information available as of the date that this Form 10-Q is filed with the United States Securities and Exchange Commission (SEC) and we undertake no obligation to update them, except as may be required by applicable laws. They are based on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct.

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

RESULTS OF OPERATIONS

Executive Summary

TeleTech Holdings, Inc. is a leading provider of customer strategy, analytics-driven and technology-enabled customer engagement management solutions with 41,000 employees delivering services across 25 countries from 54 delivery centers on five continents. Our revenue for the quarter ended March 31, 2014 was $302 million.

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

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

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

Table of Contents

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

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying our traditional business process outsourcing into high-margined analytics and technology-enabled services. Of the $302 million in revenue we reported in the current period, approximately 25% or $74 million came from our consulting, technology and accretive acquisitions.

Consistent with our growth and diversification strategy, we continue to invest in technology differentiation, analytics, cloud computing, digital marketing, and geographic footprint. In 2014, we acquired Sofica, a customer lifecycle management and business process outsourcing company. In 2013, we acquired WebMetro, a digital marketing agency, and completed the buy-out of a 20% interest in Peppers & Rogers Group, our global strategic consulting business.

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

Business Overview

In the first quarter of 2014, our revenue increased 4.8% to $302.2 million over the same period in 2013 despite a decrease of 4.7% or $13.7 million due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real. Revenue, adjusted for the $13.7 million decrease related to foreign exchange, increased by $27.5 million, or 10.1%, over the prior year. This increase was primarily due to organic growth. Our first quarter 2014 income from operations increased 5.9% to $24.4 million or 8.1% of revenue, from $23.0 million or 8.0% of revenue in the first quarter of 2013. This increase is due to organic revenue growth, the benefits of increased capacity utilization, and income from the recent acquisitions. These were partially offset by a $3.8 million negative impact from foreign currency fluctuations, $0.8 million additional amortization of intangibles related to the acquisitions, and investments in sales and research and development. Income from operations in the first quarter of 2014 and 2013 included $0.5 million and $0.9 million of restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based in North America and in other countries, and spans four countries with 18,400 workstations and representing 63% of our global delivery capability. Revenue from services provided in these offshore locations was $114 million and represented 44% of our revenue for the first quarter of 2014, as compared to $123 million and 49% of our revenue for 2013, with both years excluding revenue from the acquisitions completed outside the CMS and CGS segments.

Our cash flow from operations and available credit allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At March 31, 2014, we had $120.4 million of cash and cash equivalents, total debt of $108.4 million, and a total debt to total capitalization ratio of 18.8%.

Table of Contents

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of March 31, 2014, the overall capacity utilization in our multi-client centers was 82%. The table below presents workstation data for our multi-client centers as of March 31, 2014 and 2013. Dedicated and Managed Centers (5,056 and 3,124 workstations, at March 31, 2014 and 2013, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

	March 31, 2014			March 31, 2013		
	Total Production Workstations	**In Use**	**% In Use**	**Total Production Workstations**	**In Use**	**% In Use**
Multi-client centers						
Sites open <1 year	2,166	1,793	83%	495	401	81%
Sites open >1 year	22,040	18,142	82%	23,376	18,408	79%
Total multi-client centers	24,206	19,935	82%	23,871	18,809	79%

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 our 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, 2013.

Table of Contents

Results of Operations

Three months ended March 31, 2014 compared to three months ended March 31, 2013

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 March 31, 2014 and 2013 (amounts in thousands). All inter company transactions between the reported segments for the periods presented have been eliminated.

Customer Management Services

	Three Months Ended March 31, 2014	2013	$ Change	% Change
Revenue	$ 227,924	$ 222,582	$ 5,342	2.4%
Operating Income	20,823	20,731	92	0.4%
Operating Margin	9.1%	9.3%		

The change in revenue for the Customer Management Services segment was attributable to a $25.7 million net increase in client programs offset by program completions of $7.6 million. Revenue was further impacted by a $12.8 million reduction due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real.

The operating income as a percentage of revenue decreased slightly to 9.1% in the first quarter of 2014 as compared to 9.3% in the prior period. Adjusted for the negative $3.6 million of foreign currency impact, the operating income margin increased on operational efficiencies and lower restructuring charges of $0.5 million in the first quarter of 2014 as compared to $0.7 million in the first quarter of 2013.

Customer Growth Services

	Three Months Ended March 31, 2014	2013	$ Change	% Change
Revenue	$ 28,905	$ 22,856	$ 6,049	26.5%
Operating Income	1,770	1,276	494	38.7%
Operating Margin	6.1%	5.6%		

The change in revenue for the Customer Growth Services segment was due to the combination of a net increase in client programs and the acquisition of WebMetro in August 2013 of $7.8 million in an aggregate amount, offset by program completions of $1.2 million, and a $0.6 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 6.1% in the first quarter of 2014 as compared to 5.6% in the prior period. This increase was primarily driven by program operational improvements and a shift in program mix to additional outcome-based higher margin programs. Included in the operating income was amortization related to acquired intangibles of $0.7 million and $0.2 million for the quarters ended March 31, 2014 and 2013, respectively.

Customer Technology Services

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	$ Change	% Change
Revenue	$ 32,776	$ 33,562	$ (786)	(2.3)%
Operating Income	311	2,898	(2,587)	(89.3)%
Operating Margin	0.9%	8.6%		

Revenue for the Customer Technology Services segment remained flat between the two periods. While the consulting, cloud and managed service solutions revenue each grew greater than 12%, the product sales and system integration volumes were down due to the timing of sales pipeline conversions.

Table of Contents

The operating income as a percentage of revenue decreased to 0.9% in the first quarter of 2014 as compared to 8.6% in the prior period. The decrease was due to the decline in product and systems integration revenue as well as increased investment in sales and research and development. Included in the operating income was amortization related to acquired intangibles of $1.2 million and $1.0 million for the quarters ended March 31, 2014 and 2013, respectively.

Customer Strategy Services

	Three Months Ended March 31, 2014	2013	$ Change	% Change
Revenue	$ 12,616	$ 9,383	$ 3,233	34.5%
Operating Income	1,453	(1,907)	3,360	176.2%
Operating Margin	11.5%	(20.3)%		

The change in revenue for the Customer Strategy Services segment was related to organic growth in operational consulting and analytics and learning innovations revenue.

The operating income as a percentage of revenue increased to 11.5% in the first quarter of 2014 as compared to a loss of (20.3)% in the prior period. The increase was related to the increases in revenue noted above and the full integration of the businesses comprising the segment which allowed for additional revenue as well as cost savings based on the realignment. Included in the operating income was amortization expense of $0.4 million and $0.4 million for the quarters ended March 31, 2014 and 2013, respectively.

Interest Income (Expense)

For the three months ended March 31, 2014, interest income decreased slightly to $0.5 million from $0.7 million in the comparable period in 2013. Interest expense decreased to $1.7 million during 2014 from $1.9 million during 2013 primarily due to lower interest rates on our Credit Facility borrowings.

Income Taxes

The effective tax rate for the three months ended March 31, 2014 was 11.9%. This compares to an effective tax rate of 11.4% for the comparable period of 2013. The effective tax rate for the three months ended March 31, 2014 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 $0.6 million benefit related to changes in the valuation allowance, a $0.2 million benefit related to restructuring charges, a $1.2 million benefit related to the lapse of statute of limitations in Canada, and $0.2 million of benefit related to other discrete items recognized during the quarter, the Company s effective tax rate for the first quarter would have been 20.4%.

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 quarter ended March 31, 2014, we generated positive operating cash flows of $13.5 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.

Table of Contents

We have global operations that expose us to foreign currency exchange rate fluctuations that may positively or negatively impact our liquidity. We are also exposed to higher interest rates associated with our variable rate debt. To mitigate these risks, we enter into foreign exchange forward and option contracts and interest rate swaps through our cash flow hedging program. Please refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Foreign Currency Risk, for further discussion.

The Credit Agreement provides for a secured revolving Credit Facility that matures on June 3, 2018 with an initial maximum aggregate commitment of $700 million and includes an accordion feature that permits us to request an increase in total commitments up to $1.0 billion, under certain conditions. 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 March 31, 2014 and December 31, 2013, we had borrowings of $100.0 million and $100.0 million, respectively, under our Credit Agreement, and our average daily utilization was $270.9 million and $219.6 million for the three months ended March 31, 2014 and 2013, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling $3.5 million, our remaining borrowing capacity was $596.5 million as of March 31, 2014. As of March 31, 2014, we were in compliance with all covenants and conditions under our Credit Agreement.

The following discussion highlights our cash flow activities during the three months ended March 31, 2014 and 2013.

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 $120.4 million and $158.0 million as of March 31, 2014 and December 31, 2013, 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, expand our infrastructure, for investment in research and development, strategic acquisitions and the purchase of our outstanding stock.

Cash Flows from Operating Activities

For the three months ended March 31, 2014 and 2013, net cash flows provided by operating activities was $13.5 million and $6.5 million, respectively. The increase was primarily due to a $8.6 million decrease in payments made for operating expenses and a $9.2 million decrease in cash spent on prepaids and other assets offset by a $13.1 million decrease in cash collected from accounts receivable.

Cash Flows from Investing Activities

For the three months ended March 31, 2014 and 2013, we reported net cash flows used in investing activities of $23.1 million and $4.1 million, respectively. The decrease was due to increased spending on acquisitions of $8.2 million along with a $11.0 million increase in capital expenditures during the first three months of 2014.

Cash Flows from Financing Activities

For the three months ended March 31, 2014 and 2013, we reported net cash flows used in financing activities of $24.4 million and $0.2 million, respectively. The change in net cash flows from 2013 to 2014 was primarily due to a $7.0 million decrease in net borrowings from our line of credit, a $3.7 million decrease in proceeds from other debt, an increase of $10.6 million in purchases of our outstanding common stock and an increase of $2.2 million related to the payment of purchase price payables related to our acquisitions.

Table of Contents

Free Cash Flow

Free cash flow (see Presentation of Non GAAP Measurements for the definition of free cash flow) increased for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 due to the increase in cash flows provided by operating activities offset partially by a decrease in capital expenditures. Free cash flow was $(1.6) million and $2.4 million for the three months ended March 31, 2014 and 2013, respectively.

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 March 31,			
	2014		2013	
Net cash provided by operating activities	$	13,537	$	6,494
Less: Purchases of property, plant and equipment		15,095		4,105
Free cash flow	$	(1,558)	$	2,389

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

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of March 31, 2014 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)	$ 2,640	$ 5,019	$ 102,350	$	$ 110,009
Equipment financing arrangements	4				4
Contingent consideration	15,526	8,336			23,862
Purchase obligations	23,874	28,391			52,265
Operating lease commitments	21,523	48,777	25,934	4,647	100,881
Other debt	3,938	3,462	781		8,181
Total	$ 67,505	$ 93,985	$ 129,065	$ 4,647	$ 295,202

(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 March 31, 2014.

Table of Contents

- 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 2014 to be within the range of $55 to $65 million. Approximately 70% of these expected capital expenditures are to support growth in our business and 30% relate to the maintenance for existing assets. The anticipated level of 2014 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.

Client Concentration

During the three months ended March 31, 2014, one of our clients represented 11.6% of our total revenue. Our five largest clients accounted for 37.6% and 40.7% of our consolidated revenue for the three months ended March 31, 2014 and 2013, respectively. We have experienced long-term relationships with our top five clients, ranging from seven to 18 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.

The contracts with our five largest clients expire between 2014 and 2017. 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.

Table of Contents

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 March 31, 2014, we had $100.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three months ended March 31, 2014, interest accrued at a rate of approximately 1.2% per annum. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would not have been a material impact to our consolidated financial position or results of operations.

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

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of March 31, 2014	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
and December 31, 2013		15 million	1 - month LIBOR	3.14%	May 2012	May 2017
	$	40 million				

Foreign Currency Risk

Our subsidiaries in Canada, Costa Rica, Mexico, and the Philippines use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. For the three months ended March 31, 2014 and 2013, revenue associated with this foreign exchange risk was 32% and 33% 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.

Table of Contents

Cash Flow Hedging Program

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

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

Our cash flow hedging instruments as of March 31, 2014 and December 31, 2013 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

As of March 31, 2014	**Local Currency Notional Amount**		**U.S. Dollar Notional Amount**	**% Maturing in the Next 12 Months**	**Contracts Maturing Through**
Canadian Dollar	6,000	$	5,857	87.5%	June 2015
Philippine Peso	16,416,000		382,668(1)	37.7%	December 2018
Mexican Peso	2,356,500		168,458	29.9%	December 2018
British Pound Sterling	600		926	100.0%	June 2014
		$	557,909		

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

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on March 31, 2014 and December 31, 2013.

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

The fair value of our cash flow hedges at March 31, 2014 was assets/(liabilities) (amounts in thousands):

	March 31, 2014	Maturing in the Next 12 Months
Canadian Dollar	$ (451)	$ (405)
Philippine Peso	(17,951)	(7,476)
Mexican Peso	2,811	1,830
British Pound Sterling	73	73
	$ (15,518)	$ (5,978)

Table of Contents

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 December 31, 2013 largely reflects a broad strengthening in the U.S. dollar.

We recorded net (losses)/gains of $(1.6) million and $3.5 million for settled cash flow hedge contracts and the related premiums for the three months ended March 31, 2014 and 2013, respectively. These (losses)/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 in the accompanying 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 three months ended March 31, 2014 and 2013, approximately 23% and 22%, respectively, of revenue was derived from contracts denominated in currencies other than the U.S. Dollar. Our results from operations and revenue could be adversely affected if the U.S. Dollar strengthens significantly against foreign currencies.

Fair Value of Debt and Equity Securities

We did not have any investments in debt or equity securities as of March 31, 2014 or December 31, 2013.

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 March 31, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of March 31, 2014 to provide such reasonable assurance.

Table of Contents

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 March 31, 2014 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. Except as otherwise provided below, during the quarter ended March 31, 2014 there were no material changes to the legal proceedings described in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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, 2013.

34

Table of Contents

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

Issuer Purchases of Equity Securities

Following is the detail of the issuer purchases made during the quarter ended March 31, 2014:

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)
December 31, 2013				$ 18,895
January 1, 2014 - January 31, 2014	228,314	$ 23.09	228,314	$ 13,624
February 1, 2014 - February 28, 2014	322,200	$ 22.00	322,200	$ 31,541
March 1, 2014 - March 31, 2014	336,890	$ 24.05	336,890	$ 23,438
Total	887,404		887,404	

(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 February 2014, whereby the Board increased the program allowance by $25.0 million. Since inception of the program through March 31, 2014, the Board has authorized the repurchase of shares up to a total value of $612.3 million, of which we have purchased 40.6 million shares on the open market for $588.9 million. As of March 31, 2014 the remaining amount authorized for repurchases under the program was approximately $23.4 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 March 31, 2014 (unaudited) and December 31, 2013, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013 (unaudited), (iv) Consolidated Statements of Stockholders Equity as of and for the three months ended March 31, 2014 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 (unaudited). Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

		TELETECH HOLDINGS, INC. (Registrant)
Date: May 5, 2014	By:	/s/ Kenneth D. Tuchman Kenneth D. Tuchman Chairman and Chief Executive Officer
Date: May 5, 2014	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 March 31, 2014 (unaudited) and December 31, 2013, (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013 (unaudited), (iv) Consolidated Statements of Stockholders Equity as of and for the three months ended March 31, 2014 (unaudited), and (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 (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.