

TELETECH HOLDINGS INC

Form 10-Q

November 05, 2014

[Table of Contents](#)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-11919

TeleTech Holdings, Inc.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1291044
(I.R.S. Employer
Identification No.)

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

SEPTEMBER 30, 2014 FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 (unaudited)</u>	1
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2014 and 2013 (unaudited)</u>	2
<u>Consolidated Statement of Equity as of and for the nine months ended September 30, 2014 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (unaudited)</u>	4
<u>Notes to the Unaudited Consolidated Financial Statements</u>	5
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
<u>Item 4.</u>	
<u>Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	40
<u>Item 1A.</u>	
<u>Risk Factors</u>	40
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 6.</u>	
<u>Exhibits</u>	41
<u>SIGNATURES</u>	42
<u>EXHIBIT INDEX</u>	43

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)

(unaudited)

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

(Amounts in thousands, except per share amounts)

(Unaudited)

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

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

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders Equity**

(Amounts in thousands)

(Unaudited)

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

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

Table of Contents**TELETECH HOLDINGS, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(Amounts in thousands)

(Unaudited)

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

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

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 41,700 employees delivering services across 25 countries from 59 delivery centers on six continents.

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

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, its 80% interest in iKnowtion, LLC, and its 80% interest in Peppers & Rogers Group through the third quarter of 2013 when the final 20% interest was purchased (see Note 2). All intercompany balances and transactions have been eliminated in consolidation.

The unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact on the consolidated financial statements.

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

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

(2) ACQUISITIONS

rogenSi

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

The total purchase price was \$33.8 million, subject to certain working capital adjustments, and consists of \$17.5 million in cash at closing and \$14.5 million in three earn-out payments, contingent on the acquired companies and TeleTech's CSS business segment achieving certain agreed earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined in the sale and purchase agreement. Additionally, the estimated purchase price included a \$1.8 million hold-back payment for contingencies as defined in the sale and purchase agreement which will be paid in the first quarter of 2016, if required. The earn-out payments are payable in early 2015, 2016 and 2017, based on July 1, 2014 through

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

December 31, 2014, and full year 2015 and 2016 performance, respectively.

The fair value of the contingent consideration was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.6% and expected future value of payments of \$15.3 million. The \$15.3 million of expected future payments was calculated using probability weighted EBITDA assessment with the highest probability associated with rogenSi achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately \$14.5 million. As of September 30, 2014, the fair value of the contingent consideration was \$14.5 million, of which \$5.8 million and \$8.7 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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):

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

The estimates of fair value of identifiable assets acquired and liabilities assumed are preliminary, pending completion of a valuation, thus are subject to revisions that may result in adjustments to the values presented above.

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

Sofica

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

The estimated purchase price of \$14.2 million included \$9.4 million in cash consideration (including working capital adjustments) and \$3.8 million in earn-out payments, payable in 2015 and 2016, contingent on Sofica achieving specified EBITDA targets, as defined by the stock purchase agreement. Additionally, the estimated purchase price includes a \$1.0 million hold-back payment for contingencies as defined in the stock purchase agreement which will be paid in the second quarter of 2016, if required.

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

The fair value of the contingent consideration was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 5.0% and expected future value of payments of \$4.0 million. The \$4.0 million of expected future payments was calculated using a probability weighted EBITDA assessment with the highest probability associated with Sofica achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately \$3.8 million. During the third quarter of 2014, the Company recorded a fair value adjustment of the contingent consideration of \$1.8 million based on revised estimates noting higher probability of exceeding the EBITDA targets (see Note 7). As of September 30, 2014, the fair value of the contingent consideration was \$5.7 million, of which \$2.8 million and \$2.9 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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

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

The estimates of fair value of identifiable assets acquired and liabilities assumed are preliminary, pending completion of a valuation, thus are subject to revisions that may result in adjustments to the values presented above.

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

WebMetro

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

Financial Impact of Acquired Businesses

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

Peppers & Rogers Group

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

(3) SEGMENT INFORMATION

The Company reports the following four segments:

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

- the CMS segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
- the CGS segment provides technology-enabled sales and marketing solutions that support revenue generation across the customer lifecycle, including sales advisory, search engine optimization, digital demand generation, lead qualification, and acquisition sales, growth and retention services;
- the CTS segment includes operational and design consulting, systems integration, and cloud and on-premise managed services, the requirements needed to design, deliver and maintain best-in-class multichannel customer engagement platforms; and
- the CSS segment provides professional services in customer experience strategy, customer intelligence analytics, system and operational process optimization, and culture development and knowledge management.

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

Table of Contents

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

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

Three Months Ended September 30, 2014

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

Three Months Ended September 30, 2013

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

Nine Months Ended September 30, 2014

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Nine Months Ended September 30, 2013

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

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

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

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

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

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

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

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The loss of one or more of its significant clients could have a material adverse effect on the Company's business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company's credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of September 30, 2014.

Table of Contents

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

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

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

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

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

During the quarter ended September 30, 2014, the Company assessed whether any indicators of impairment existed for any of the reporting units and concluded there were none.

(6) DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company's exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company's policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of September 30, 2014, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013 (in thousands and net of tax):

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

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

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

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on September 30, 2014 and December 31, 2013.

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

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

**Notional
Amount**

**Variable Rate
Received**

**Fixed Rate
Paid**