TELETECH HOLDINGS INC
Form 10-Q
May 01, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

Yes R 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 þ No £

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

Large accelerated filer o	Accelerated filer þ
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 R

As of April 26, 2012, there were 55,464,125 shares of the registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2012 FORM 10-Q

TABLE OF CONTENTS

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of March 31, 2012 (unaudited) and December 31, 2011	1
	Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011 (unaudited)	2
	Consolidated Statement of Equity as of and for the three months ended March 31, 2012 (unaudited)	3
	Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011 (unaudited)	4
	Notes to the Unaudited Consolidated Financial Statements	5
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	36
Item 4.	Controls and Procedures	39
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 6.	Exhibits	41
Signatures		42
Exhibit Index		43

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

		March 31, 2012 (Unaudited)		December 31, 2011
ASSETS				
Current assets				
Cash and cash equivalents	$	172,761	$	156,371
Accounts receivable, net		244,212		243,636
Prepaids and other current assets		46,611		37,434
Deferred tax assets, net		19,886		22,994
Income tax receivable		5,856		17,847
Total current assets		489,326		478,282
Long-term assets				
Property, plant and equipment, net		98,645		100,321
Goodwill		74,069		70,844
Contract acquisition costs, net		2,624		2,866
Deferred tax assets, net		31,652		32,512
Other long-term assets		74,799		62,153
Total long-term assets		281,789		268,696
Total assets	$	771,115	$	746,978
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	$	20,793	$	27,555
Accrued employee compensation and benefits		70,019		71,500
Other accrued expenses		29,778		33,816
Income taxes payable		8,695		10,051
Deferred tax liabilities, net		1,832		912
Deferred revenue		13,546		15,895
Other current liabilities		5,161		10,282
Total current liabilities		149,824		170,011
Long-term liabilities				
Line of credit		85,000		64,000
Negative investment in deconsolidated subsidiary		76		76
Deferred tax liabilities, net		3,242		3,020
Deferred rent		7,516		6,729
Other long-term liabilities		45,229		32,895
Total long-term liabilities		141,063		106,720
Total liabilities		290,887		276,731
Commitments and contingencies (Note 10)				
Stockholders equity				
Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of March 31, 2012 and December 31, 2011		-		-
Common stock - $0.01 par value; 150,000,000 shares authorized; 55,678,427 and 56,635,319 shares outstanding as of March 31, 2012 and December 31, 2011, respectively		556		566
Additional paid-in capital		342,895		350,386

Treasury stock at cost: 26,373,826 and 25,416,934 shares as of March 31, 2012 and December 31, 2011, respectively		(373,440)		(357,267)
Accumulated other comprehensive income (loss)		10,707		(5,474)
Retained earnings		486,657		470,776
Noncontrolling interest		12,853		11,260
Total stockholders equity		480,228		470,247
Total liabilities and stockholders equity	$	771,115	$	746,978

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

1

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Revenue	$	292,654	$	280,979
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)		211,895		199,121
Selling, general and administrative		48,135		47,801
Depreciation and amortization		10,116		11,598
Restructuring charges, net		1,958		739
Impairment losses		1,800		230
Total operating expenses		273,904		259,489
Income from operations		18,750		21,490
Other income (expense)				
Interest income		760		666
Interest expense		(1,098)		(1,380)
Other income, net		258		444
Total other income (expense)		(80)		(270)
Income before income taxes		18,670		21,220
Provision for income taxes		(1,853)		(9,849)
Net income		16,817		11,371
Net income attributable to noncontrolling interest		(936)		(898)
Net income attributable to TeleTech stockholders	$	15,881	$	10,473
Other comprehensive income (loss)				
Net income	$	16,817	$	11,371
Foreign currency translation adjustment		8,751		5,091
Derivative valuation, gross		11,671		(2,287)
Derivative valuation, tax effect		(4,574)		830
Other		345		110
Total other comprehensive income		16,193		3,744
Total comprehensive income		33,010		15,115
Comprehensive income attributable to noncontrolling interest		(948)		(951)
Comprehensive income attributable to TeleTech stockholders	$	32,062	$	14,164
Weighted average shares outstanding				
Basic		56,493		57,190
Diluted		57,418		58,797
Net income per share attributable to TeleTech stockholders				
Basic	$	0.28	$	0.18
Diluted	$	0.28	$	0.18

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

(Amounts in thousands)

(Unaudited)

	Stockholders' Equity of the Company									
	Preferred Stock		Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total Equity
	Shares	Amount	Shares	Amount						
Balance as of December 31, 2011	-	$ -	56,635	$ 566	$ (357,267)	$ 350,386	$ (5,474)	$ 470,776	$ 11,260	$ 470,247
Net income	-	-	-	-	-	-	-	15,881	936	16,817
Acquisition of noncontrolling interest	-	-	-	-	-	-	-	-	1,365	1,365
Dividends distributed to noncontrolling interest	-	-	-	-	-	-	-	-	(720)	(720)
Foreign currency translation adjustments	-	-	-	-	-	-	8,739	-	12	8,751
Derivatives valuation, net of tax	-	-	-	-	-	-	7,097	-	-	7,097
Vesting of restricted stock units	-	-	436	4	6,079	(9,814)	-	-	-	(3,731)
Exercise of stock options	-	-	28	-	390	(48)	-	-	-	342
Excess tax benefit from equity-based awards	-	-	-	-	-	(1,017)	-	-	-	(1,017)
Equity-based compensation expense	-	-	-	-	-	3,388	-	-	-	3,388
Purchases of common stock	-	-	(1,421)	(14)	(22,642)	-	-	-	-	(22,656)
Other	-	-	-	-	-	-	345	-	-	345
Balance as of March 31, 2012	-	$ -	55,678	$ 556	$ (373,440)	$ 342,895	$ 10,707	$ 486,657	$ 12,853	$ 480,228

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

3

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities		
Net income	$ 16,817	$ 11,371
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,116	11,598
Amortization of contract acquisition costs	256	635
Amortization of debt issuance costs	153	228
Accretion expense	64	196
Provision for doubtful accounts	40	(208)
Loss (gain) on disposal of assets	110	-
Impairment losses	1,800	230
Deferred income taxes	(1,222)	5,361
Excess tax benefit from equity-based awards	(462)	(2,066)
Equity-based compensation expense	3,388	3,760
(Gain) loss on foreign currency derivatives	(299)	(35)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	3,031	11,627
Prepaids and other assets	(7,826)	(386)
Accounts payable and accrued expenses	(15,526)	(23,665)
Deferred revenue and other liabilities	4,224	5,962
Net cash provided by operating activities	14,664	24,608
Cash flows from investing activities		
Proceeds from grant for property, plant and equipment	110	-
Purchases of property, plant and equipment	(6,484)	(3,870)
Acquisitions, net of cash acquired of $1,373 and zero, respectively	(4,627)	-
Net cash used in investing activities	(11,001)	(3,870)
Cash flows from financing activities		
Proceeds from line of credit	248,550	258,900
Payments on line of credit	(227,550)	(179,400)
Proceeds from other debt	6,821	-
Payments on other debt	(655)	(537)
Dividends distributed to noncontrolling interest	(720)	(990)
Proceeds from exercise of stock options	342	1,750
Excess tax benefit from equity-based awards	462	2,066
Purchase of treasury stock	(22,656)	(33,829)
Payments of debt issuance costs	(419)	(22)
Net cash provided by financing activities	4,175	47,938
Effect of exchange rate changes on cash and cash equivalents	8,552	1,646
Increase in cash and cash equivalents	16,390	70,322
Cash and cash equivalents, beginning of period	156,371	119,385
Cash and cash equivalents, end of period	$ 172,761	$ 189,707
Supplemental disclosures		
Cash paid for interest	$ 873	$ 1,050
Cash paid for income taxes	$ 1,887	$ 11,860
Non-cash investing and financing activities		

Acquisition of equipment through installment purchase agreements	$	-	$	110
Recognition of asset retirement obligations	$	-	$	278
Landlord incentives credited to deferred rent	$	604	$	-

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) OVERVIEW AND BASIS OF PRESENTATION

Overview

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

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, its 80% interest in Peppers & Rogers Group (PRG) and its 80% interest in iKnowtion which was acquired on February 27, 2012 (see Note 2 for additional information). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of March 31, 2012, and the consolidated results of operations and comprehensive income and cash flows of the Company for the three months ended March 31, 2012 and 2011. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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, 2011.

Certain amounts for 2011 have been reclassified in the Consolidated Financial Statements to conform to the 2012 presentation.

Use of Estimates

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

5

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance in U.S. GAAP with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The amendment changes the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The FASB does not intend for the amendment to result in a change in the application of the requirements in the current authoritative guidance. The amendment became effective prospectively for the Company s interim period ended March 31, 2012. The adoption of this guidance did not have a material impact on its financial position, results of operations or cash flows.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one or two consecutive financial statements. The Company decided to present a single statement setting the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. The amendment became effective retrospectively for the Company s interim period ended March 31, 2012.

In December 2011, the FASB issued additional guidance related to the presentation of other comprehensive income. This guidance is intended to allow the FASB time to re-deliberate whether it is necessary to require entities to present the effects of reclassifications out of accumulated other comprehensive income in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This guidance defers the effective date of only those provisions in the other comprehensive income guidance that relate to the presentation of reclassification adjustments out of other comprehensive income and reinstates the previous requirements to present reclassification adjustments either on the face of the statement in which other comprehensive income is reported or to disclose them in a note to the financial statements. The amendments in this new guidance became effective at the same time as the amendments in the other comprehensive income guidance explained above. The Company s adoption of this standard did not have a material impact on the Company s financial position, results of operations or cash flows.

(2) ACQUISITIONS

OnState

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

The Company paid $3.1 million towards the purchase price with the remaining $0.2 million payable during the second quarter of 2012. The $0.2 million was included within Other accrued expenses in the accompanying Consolidated Balance Sheets as of March 31, 2012. The Company paid $0.1 million of acquisition related expenses as part of the OnState purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the three months ended March 31, 2012.

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 the valuation, thus are subject to revisions that may result in adjustments to the values presented below:

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

The software acquired will be amortized over four years as soon as the software is placed into service. The goodwill recognized from the OnState acquisition is primarily attributable to incorporating the acquired software into current technology platforms in addition to the acquisition of the employees who developed the acquired software. Since this acquisition is considered an asset acquisition for tax purposes, the goodwill and software will be deductible.

iKnowtion

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

The up-front cash consideration paid was $1.0 million. The Company is also obligated to pay a working capital adjustment equivalent to any acquired working capital from iKnowtion in excess of a working capital floor as defined in the purchase and sale agreement. As of March 31, 2012, the working capital adjustment was estimated to be $0.2 million, which will be paid during the second quarter of 2012 and was included in Other accrued expenses in the accompanying Consolidated Balance Sheets.

The Company is also obligated to make earn-out payments over the next four years if iKnowtion achieves specified earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined by the purchase and sale agreement. The Company expects iKnowtion to achieve the maximum EBITDA targets and has calculated the fair value of these contingent payments to be approximately $4.3 million. 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 10% and expected future value of payments of $4.8 million. The fair value of the contingent consideration was $4.3 million as of March 31, 2012, of which $1.1 million and $3.2 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

The fair value of the 20% noncontrolling interest in iKnowtion of $1.4 million is preliminary and based on an estimate of 20% of the total purchase price.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In the event iKnowtion meets certain EBITDA targets for calendar year 2015, the purchase and sale agreement requires TeleTech to purchase the remaining 20% interest in iKnowtion in 2016 for an amount equal to a multiple of iKnowtions s 2015 EBITDA as defined in the purchase and sale agreement. The preliminary fair value of this feature is minimal and included in the fair value of the noncontrolling interest as of March 31, 2012.

The Company paid $0.1 million of acquisition related expenses as part of the iKnowtion purchase. These costs were recorded in selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the three months ended March 31, 2012.

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

		Preliminary Estimates of Acquisition Date Fair Value
Cash	$	1,337
Accounts Receivable		1,792
Property, plant and equipment		161
Other assets		95
Customer relationships		1,640
Goodwill		1,996
		7,021
Accounts payable		12
Accrued expenses		19
Deferred rent		164
		195
Noncontrolling interest		1,365
Total purchase price	$	5,461

The iKnowtion customer relationships have an estimated useful life of 7 years. The goodwill recognized from the iKnowtion acquisition is primarily attributable to the acquired workforce of iKnowtion, expected synergies, and other factors. None of the goodwill is deductible for income tax purposes. The acquired goodwill and the operating results of iKnowtion are reported within the Customer Strategy Services segment from the date of acquisition.

eLoyalty

On May 28, 2011, the Company acquired certain assets and assumed certain liabilities of eLoyalty Corporation (eLoyalty), related to the Integrated Contract Solutions (ICS) business unit, and the eLoyalty trade name. The ICS business unit focuses on helping clients improve customer service business performance through the implementation of a variety of service centers. The ICS business unit generates revenue in three ways: (i) managed services that support and maintain clients customer service center environment over the long-term; (ii) consulting services that assist the customer in implementation and integration of a customer service center solution; and (iii) product resale through the sale of third party software and hardware. eLoyalty operates out of an office in Austin, TX with an additional administrative location in Chicago, IL and has approximately 160 employees.

The up-front cash consideration in the eLoyalty transaction was $40.9 million, subject to certain balance sheet adjustments of ($2.9) million as defined in the purchase and sale agreement, for a total purchase price of $38.0 million, all of which was paid by December 31, 2011.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

		Acquisition Date Fair Value
Cash	$	14
Accounts Receivable		7,702
Prepaid assets - cost deferrals		14,726
Property, plant and equipment		897
Other assets		869
Deferred tax asset		3,735
Customer relationships		11,700
Software		1,200
Noncompete agreements		900
Trade name		3,300
Consulting services backlog		500
Goodwill		18,516
		64,059
Accounts payable		2,156
Accrued expenses		1,211
Deferred revenue		22,525
Other		192
		26,084
Total purchase price	$	37,975

The customer relationship intangible asset is being amortized over 11 years. The goodwill recognized from the eLoyalty acquisition is attributable primarily to the assembled workforce of eLoyalty and significant opportunity for Company growth and marketing based on additional service offerings and capabilities. Since this acquisition is treated as an asset acquisition for tax purposes, the goodwill and associated intangible assets will be deductible for income tax purposes. The operating results of eLoyalty are reported within the Customer Technology Services segment from the date of acquisition.

The acquired businesses contributed revenues of $21.1 million and income from operations of $2.4 million to the Company for the quarter ended March 31, 2012.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(3) SEGMENT INFORMATION

Effective January 1, 2012, the Company completed certain changes focused on streamlining the organization to more closely align the Company s reporting structure with its products and services and to increase management accountability. Beginning in the first quarter of 2012, the Company will now report the following four segments:

- the Customer Management Services segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;

- the Customer Growth Services segment includes the technology-enabled sales and marketing business;

- the Customer Technology Services segment includes the hosted and managed technology offerings, including certain acquired assets of eLoyalty; and

- the Customer Strategy Services segment includes the customer experience strategy and data analytics offerings.

TeleTech revised previously reported segment information to conform to its new segments in effect as of January 1, 2012.

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):

Q1 2012

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 234,876	$ -	$ 234,876	$ 6,140	$ 45,422
Customer Growth Services	22,764	-	22,764	565	1,079
Customer Technology Services	26,484	(931)	25,553	787	3,635
Customer Strategy Services	10,362	(901)	9,461	350	885
Total segments	294,486	(1,832)	292,654	7,842	51,021
Corporate	-	-	-	2,274	(32,271)
Total	$ 294,486	$ (1,832)	$ 292,654	$ 10,116	$ 18,750

Q1 2011

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 246,073	$ -	$ 246,073	$ 8,431	$ 48,251
Customer Growth Services	22,143	-	22,143	785	2,982
Customer Technology Services	4,657	-	4,657	69	2,712
Customer Strategy Services	8,106	-	8,106	299	463
Total segments	280,979	-	280,979	9,584	54,408
Corporate	-	-	-	2,014	(32,918)
Total	$ 280,979	$ -	$ 280,979	$ 11,598	$ 21,490

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Capital Expenditures		
Customer Management Services	$ 2,178	$ 2,121
Customer Growth Services	369	106
Customer Technology Services	326	70
Customer Strategy Services	66	138
Corporate	3,545	1,435
Total	$ 6,484	$ 3,870

	March 31, 2012	December 31, 2011
Total Assets		
Customer Management Services	$ 479,624	$ 479,818
Customer Growth Services	46,388	50,950
Customer Technology Services	82,442	70,745
Customer Strategy Services	50,340	42,882
Corporate	112,321	102,583
Total	$ 771,115	$ 746,978

	March 31, 2012	December 31, 2011
Goodwill		
Customer Management Services	$ 20,691	$ 20,594
Customer Growth Services	24,439	24,439
Customer Technology Services	19,648	18,516
Customer Strategy Services	9,291	7,295
Total	$ 74,069	$ 70,844

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenue		
United States	$ 110,576	$ 84,629
Philippines	78,665	83,507
Latin America	47,896	55,598
Europe / Middle East / Africa	38,366	39,758
Canada	12,953	12,798
Asia Pacific	4,198	4,689
Total	$ 292,654	$ 280,979

(4) SIGNIFICANT CLIENTS and other concentrations

The Company did not have any clients that contributed in excess of 10% of total revenue for the three months ended March 31, 2012 or 2011.

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, 2012.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(5) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2011	Acquisitions	Impairments	Effect of Foreign Currency	March 31, 2012
Customer Management Services	$ 20,594	$ -	$ -	$ 97	$ 20,691
Customer Growth Services	24,439	-	-	-	24,439
Customer Technology Services	18,516	1,132	-	-	19,648
Customer Strategy Services	7,295	1,996	-	-	9,291
Total	$ 70,844	$ 3,128	$ -	$ 97	$ 74,069

The Company performs a goodwill impairment test on at least an annual basis. The Company conducts its annual goodwill impairment test during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended March 31, 2012, the Company assessed whether any such indicators of impairment existed and concluded that there were none.

(6) DERIVATIVES

Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company s exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company s exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company s policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company s creditworthiness. As of March 31, 2012, 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, 2012 and 2011 (amounts in thousands and net of tax):

	Three Months Ended March 31, 2012	2011
Aggregate unrealized net gain/(loss) at beginning of year	$ (5,852)	$ 7,091
Add: Net gain/(loss) from change in fair value of cash flow hedges	7,071	758
Less: Net (gain)/loss reclassified to earnings from effective hedges	26	(2,215)
Aggregate unrealized net gain/(loss) at end of period	$ 1,245	$ 5,634

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company s foreign exchange cash flow hedging instruments as of March 31, 2012 and December 31, 2011 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts unless noted otherwise.

As of March 31, 2012	Local Currency Notional Amount		U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	20,500	$	19,935	62.2 %	March 2014
Costa Rican Colon	1,250,000		2,415	100.0 %	August 2012
Philippine Peso	11,260,000		255,373(1)	48.3 %	December 2014
Mexican Peso (Forwards)	952,000		70,505	40.7 %	November 2014
Mexican Peso (Collars)	105,224		9,000(3)	100.0 %	December 2012
British Pound Sterling	7,484		11,832(2)	53.0 %	June 2014
		$	369,060		

As of December 31, 2011	Local Currency Notional Amount		U.S. Dollar Notional Amount
Canadian Dollar	25,750	$	25,137
Costa Rican Colon	2,000,000		3,874
Philippine Peso	13,304,000		301,361(1)
Mexican Peso (Forwards)	1,081,000		80,735
Mexican Peso (Collars)	140,298		12,000(4)
British Pound Sterling	8,808		13,822(2)
		$	436,929

(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, 2012 and December 31, 2011.

(2) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on March 31, 2012 and December 31, 2011.

(3) The Mexican peso collars include call options with a floor total of MXN 105.2 million and put options with a cap total of MXN (120.2 million) as of March 31, 2012.

(4) The Mexican peso collars include call options with a floor total of MXN 140.3 million and put options with a cap total of MXN (157.0 million) as of December 31, 2011.

The Company s interest rate swap arrangements as of March 31, 2012 and December 31, 2011 were as follows:

	Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement	Contract Maturity

						Date	Date
As of March 31, 2012	$	25 million	1 - month LIBOR	2.55	%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14	%	May 2012	May 2017
	$	40 million					
As of December 31, 2011	$	25 million	1 - month LIBOR	2.55	%	April 2012	April 2016
		15 million	1 - month LIBOR	3.14	%	May 2012	May 2017
	$	40 million					

13

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, 2012 and December 31, 2011 the total notional amount of the Company s forward contracts used as fair value hedges were $67.3 million and $49.8 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 bifurcates the embedded derivative features of the lease contracts and valued these features as foreign currency derivatives. During 2011, the Company amended its leases to remove the embedded derivative feature which reduced the fair value to zero as of December 31, 2011.

Derivative Valuation and Settlements

The Company s derivatives as of March 31, 2012 and December 31, 2011 were as follows (amounts in thousands):

	March 31, 2012			
	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	$ 4,237	$ -	$ 9	$ -
Other long-term assets	3,046	-	-	-
Other current liabilities	(2,135)	-	(38)	-
Other long-term liabilities	(377)	(2,535)	-	-
Total fair value of derivatives, net	$ 4,771	$ (2,535)	$ (29)	$ -

	December 31, 2011			
	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	$ 2,325	$ -	$ 12	$ -
Other long-term assets	1,119	-	-	-
Other current liabilities	(7,828)	-	(341)	-

Other long-term liabilities		(2,786)		(2,263)		-		-
Total fair value of derivatives, net	$	(7,170)	$	(2,263)	$	(329)	$	-

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, 2012 and 2011 were as follows (amounts in thousands):

	Three Months Ended March 31,			
	2012		**2011**	
	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 - effective portion, net of tax:	$ 7,234	$ (163)	$ 570	$ 188
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ (43)	$ -	$ 3,691	$ -
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - ineffective portion and amount excluded from effectiveness testing:				
Other income (expense), net	$ -	$ -	$ -	$ -

	Three Months Ended March 31,					
	2012			**2011**		
	Not Designated as Hedging Instruments			Not Designated as Hedging Instruments		
Derivative contracts:	Foreign Exchange		Leases	Foreign Exchange		Leases
Derivative classification:	Option and Forward Contracts	Fair Value	Embedded Derivative	Option and Forward Contracts	Fair Value	Embedded Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Operations:						
Costs of services	$ -	$ -	$ -	$ -	$ -	$ 44
Other income (expense), net	$ -	$ 2,169	$ -	$ -	$ 711	$ -

(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, 2012 and December 31, 2011 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.

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, 2012 and December 31, 2011, the Company had $85.0 million and $64.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the first quarter of 2012 outstanding borrowings accrued interest at an average rate of 1.6% 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, 2012, 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, 2012 and December 31, 2011 (amounts in thousands):

As of March 31, 2012

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**At Fair Value**
Cash flow hedges	$ -	$ 4,771	$ -	$ 4,771
Interest rate swaps	-	(2,535)	-	(2,535)
Fair value hedges	-	(29)	-	(29)
Total net derivative asset (liability)	$ -	$ 2,207	$ -	$ 2,207

As of December 31, 2011

	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	$ -	$ (7,170)	$ -	$ (7,170)
Interest rate swaps	-	(2,263)	-	(2,263)
Fair value hedges	-	(329)	-	(329)
Total net derivative asset (liability)	$ -	$ (9,762)	$ -	$ (9,762)

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, 2012 and December 31, 2011 (amounts in thousands):

As of March 31, 2012

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets			
Money market investments	$ -	$ 523	$ -
Derivative instruments, net	-	2,207	-
Total assets	$ -	$ 2,730	$ -
Liabilities			
Deferred compensation plan liability	$ -	$ (4,761)	$ -
Derivative instruments, net	-	-	-
Purchase price payable	-	-	(4,303)
Total liabilities	$ -	$ (4,761)	$ (4,303)

As of December 31, 2011

	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	$ -	$ 507	$ -
Derivative instruments, net			