TELETECH HOLDINGS INC
Form 10-Q
May 01, 2013
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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, 2013

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

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

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

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

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

As of April 25, 2013, there were 52,181,147 shares of the registrant s common stock outstanding.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2013 FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 170,551	$ 164,485
Accounts receivable, net	245,836	251,206
Prepaids and other current assets	62,583	58,702
Deferred tax assets, net	5,406	14,169
Income tax receivable	15,904	14,982
Total current assets	500,280	503,544
Long-term assets		
Property, plant and equipment, net	108,351	112,276
Goodwill	95,191	94,679
Contract acquisition costs, net	1,607	1,860
Deferred tax assets, net	43,086	35,429
Other long-term assets	98,980	99,385
Total long-term assets	347,215	343,629
Total assets	$ 847,495	$ 847,173
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 20,219	$ 23,494
Accrued employee compensation and benefits	62,354	71,621
Other accrued expenses	26,580	29,056
Income taxes payable	12,927	12,650
Deferred tax liabilities, net	323	341
Deferred revenue	27,224	26,892
Other current liabilities	8,098	7,351
Total current liabilities	157,725	171,405
Long-term liabilities		
Line of credit	115,000	108,000
Deferred tax liabilities, net	2,391	3,029
Deferred rent	8,707	8,589
Other long-term liabilities	50,064	55,813
Total long-term liabilities	176,162	175,431
Total liabilities	333,887	346,836
Commitments and contingencies (Note 10)		

Stockholders equity				
Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of March 31, 2013 and December 31, 2012				
Common stock - $0.01 par value; 150,000,000 shares authorized; 52,200,947 and 52,288,567 shares outstanding as of March 31, 2013 and December 31, 2012, respectively		521		522
Additional paid-in capital		345,158		350,714
Treasury stock at cost: 29,851,306 and 29,763,686 shares as of March 31, 2013 and December 31, 2012, respectively		(432,866)		(428,716)
Accumulated other comprehensive income		28,547		22,981
Retained earnings		558,752		540,791
Noncontrolling interest		13,496		14,045
Total stockholders equity		513,608		500,337
Total liabilities and stockholders equity	$	847,495	$	847,173

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,			
		2013		2012
Revenue	$	288,383	$	292,654
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)		208,232		211,895
Selling, general and administrative		45,747		48,135
Depreciation and amortization		10,555		10,116
Restructuring charges, net		851		1,958
Impairment losses				1,800
Total operating expenses		265,385		273,904
Income from operations		22,998		18,750
Other income (expense)				
Interest income		669		760
Interest expense		(1,865)		(1,098)
Other income (expense), net		(808)		258
Total other income (expense)		(2,004)		(80)
Income before income taxes		20,994		18,670
Provision for income taxes		(2,391)		(1,853)
Net income		18,603		16,817
Net income attributable to noncontrolling interest		(642)		(936)
Net income attributable to TeleTech stockholders	$	17,961	$	15,881
Other comprehensive income (loss)				
Net income	$	18,603	$	16,817
Foreign currency translation adjustment		3,134		8,751
Derivative valuation, gross		3,390		11,671
Derivative valuation, tax effect		(1,210)		(4,574)
Other, net of tax		162		345
Total other comprehensive income		5,476		16,193
Total comprehensive income		24,079		33,010
Comprehensive income attributable to noncontrolling interest		(552)		(948)
Comprehensive income attributable to TeleTech stockholders	$	23,527	$	32,062
Weighted average shares outstanding				

Basic		52,347		56,493
Diluted		53,217		57,418
Net income per share attributable to TeleTech stockholders				
Basic	$	0.34	$	0.28
Diluted	$	0.34	$	0.28

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

(Amounts in thousands)

(Unaudited)

	Stockholders Equity of the Company									
	Preferred Stock		Common Stock				Accumulated			
	Shares	Amount	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Other Comprehensive Income	Retained Earnings	Noncontrolling interest	Total Equity
Balance as of December 31, 2012		$	52,288	$ 522	$ (428,716)	$ 350,714	$ 22,981	$ 540,791	$ 14,045	$ 500,337
Net income								17,961	642	18,603
Dividends distributed to noncontrolling interest									(1,109)	(1,109)
Foreign currency translation adjustments							3,224		(90)	3,134
Derivatives valuation, net of tax							2,180			2,180
Vesting of restricted stock units			340	3	4,851	(8,813)				(3,959)
Exercise of stock options			59	1	844	(306)				539
Excess tax benefit from equity-based awards						414				414
Equity-based compensation expense						3,149			8	3,157
Purchases of common stock			(487)	(5)	(9,845)					(9,850)
Other							162			162
Balance as of March 31, 2013		$	52,200	$ 521	$ (432,866)	$ 345,158	$ 28,547	$ 558,752	$ 13,496	$ 513,608

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income	$ 18,603	$ 16,817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,555	10,116
Amortization of contract acquisition costs	255	256
Amortization of debt issuance costs	175	153
Imputed interest expense	346	64
Provision for doubtful accounts	76	40
Loss (gain) on disposal of assets	(107)	110
Impairment losses		1,800
Deferred income taxes	3,975	(1,222)
Excess tax benefit from equity-based awards	(800)	(462)
Equity-based compensation expense	3,191	3,388
(Gain) loss on foreign currency derivatives	(433)	(299)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	5,012	3,031
Prepaids and other assets	(7,630)	(7,826)
Accounts payable and accrued expenses	(19,399)	(15,526)
Deferred revenue and other liabilities	(7,325)	4,224
Net cash provided by operating activities	6,494	14,664
Cash flows from investing activities		
Proceeds from grant for property, plant and equipment		110
Purchases of property, plant and equipment, net of acquisitions	(4,105)	(6,484)
Acquisitions, net of cash acquired of $0 and $1,373, respectively		(4,627)
Net cash used in investing activities	(4,105)	(11,001)
Cash flows from financing activities		
Proceeds from line of credit	366,950	248,550
Payments on line of credit	(359,950)	(227,550)
Proceeds from other debt	3,709	6,821
Payments on other debt	(1,338)	(655)
Dividends distributed to noncontrolling interest	(1,109)	(720)
Proceeds from exercise of stock options	539	342
Excess tax benefit from equity-based awards	800	462
Purchase of treasury stock	(9,850)	(22,656)
Payments of debt issuance costs		(419)
Net cash (used in) provided by financing activities	(249)	4,175
Effect of exchange rate changes on cash and cash equivalents	3,926	8,552

Increase in cash and cash equivalents		6,066		16,390
Cash and cash equivalents, beginning of period		164,485		156,371
Cash and cash equivalents, end of period	$	170,551	$	172,761
Supplemental disclosures				
Cash paid for interest	$	1,048	$	873
Cash paid for income taxes	$	1,751	$	1,887
Non-cash investing and financing activities				
Landlord incentives credited to deferred rent	$		$	604

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

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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, which includes data-driven strategic consulting and marketing services, customer management, and 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, Spain, Thailand, South Africa, 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% interest in Percepta, LLC, its 80% interest in Peppers & Rogers Group (PRG) and its 80% interest in iKnowtion, LLC 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, 2013, and the consolidated results of operations and comprehensive income and cash flows of the Company for the three months ended March 31, 2013 and 2012. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(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.

As of March 31, 2013 the Company had paid $3.1 million towards the purchase price. The remaining purchase price will be paid out once the potential for covered losses has expired under the purchase agreement, which is expected to be in 2013. The $0.2 million was included within Other accrued expenses in the accompanying Consolidated Balance Sheets as of March 31, 2013. The Company paid $0.1 million of acquisition related expenses as part of the OnState purchase. These costs were recorded in Selling, general and administrative expenses in the accompanying Consolidated Statements of Comprehensive Income during the first quarter of 2012.

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

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

The software acquired will be amortized over four years once it is placed into service. The goodwill recognized from the OnState acquisition is primarily attributable to the synergies resulting from incorporating the acquired software into the Company s current technology platforms in addition to the acquisition of the employees who developed the acquired software. Since this acquisition is an asset acquisition for tax purposes, the goodwill of $1.1 million and software are deductible over their respective tax lives. The acquired goodwill of OnState is reported within the Customer Technology Services segment from the date of acquisition.

iKnowtion

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

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company is also obligated to make earn-out payments over the next four years if iKnowtion achieves specified earnings before interest, taxes, depreciation and amortization (EBITDA) targets, as defined by the purchase and sale agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 21% and expected future value of payments of $4.3 million. The $4.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with iKnowtion achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $2.9 million. As of March 31, 2013, the fair value of the contingent consideration was $3.8 million, of which $1.1 million and $2.7 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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

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. The fair value of the redemption feature is based on a comparison of EBITDA multiples and the EBITDA multiple to purchase the remaining 20% of iKnowtion approximates EBITDA multiples in the market for similar acquisitions.

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

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

	Acquisition Date Fair Value	
Cash	$	1,337
Accounts Receivable		1,792
Property, plant and equipment		161
Other assets		90
Customer relationships		1,400
Goodwill		447
		5,227

Accounts payable		18
Accrued expenses		19
Other		164
		201
Noncontrolling interest		941
Total purchase price	$	4,085

The iKnowtion customer relationships have an estimated useful life of 5 years. The goodwill recognized from the iKnowtion acquisition was attributable primarily to the acquired workforce of iKnowtion, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill will be 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.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Guidon

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

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

The Company is also obligated to make earn-out payments over the next two years if Guidon achieves specified EBITDA targets as defined in the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 21% and expected future value of payments of $2.8 million. The $2.8 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with Guidon achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $2.1 million. As of March 31, 2013, the fair value of the contingent consideration was $2.3 million, which was included in Other long-term liabilities in the accompanying Consolidated Balance Sheets.

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

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

		Acquisition Date Fair Value
Cash	$	376
Accounts Receivable		1,375
Property, plant and equipment		49
Other assets		228
Customer relationships		2,490
Goodwill		3,619
		8,137

Accounts payable		202
Accrued expenses		122
Other		65
		389
Total purchase price	$	7,748

The Guidon customer relationships have an estimated useful life of 5 years. The goodwill recognized from the Guidon acquisition was attributable primarily to the acquired workforce of Guidon, expected synergies, and other factors. The tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and the operating results of Guidon are reported within the Customer Strategy Services segment from the date of acquisition.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

TSG

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

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

The Company is also obligated to make earn-out payments over three years if TSG achieves specified EBITDA targets, as defined by the stock purchase agreement. The fair value of the contingent payments was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions included in the fair value calculation include a discount rate of 4.6% and expected future value of payments of $7.3 million. The $7.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with higher probability associated with TSG achieving the maximum EBITDA targets. As of the acquisition date, the fair value of the contingent payments was approximately $6.7 million. As of March 31, 2013 the fair value of the contingent consideration was $6.8 million which was included in Other long-term liabilities in the accompanying Consolidated Balance Sheets.

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

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

	Preliminary Estimate of Acquisition Date Fair Value	
Cash	$	1,995
Accounts receivable		4,871
Prepaid assets - cost deferrals		3,665
Property, plant and equipment		583
Other assets		1,886

Customer relationships		15,300
Noncompete agreements		2,300
Trade name		1,100
Consulting services backlog		800
Goodwill		19,421
		51,921
Accounts payable		3,091
Accrued expenses		1,539
Deferred revenue		7,295
		11,925
Total purchase price	$	39,996

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

The acquired businesses noted above contributed revenues of $13.1 million and $0.6 million and income from operations of $0.6 million and $0.1 million, inclusive of $0.9 million and $0.0 million of acquired intangible amortization, to the Company for the three months ended March 31, 2013 and 2012, respectively.

(3) SEGMENT INFORMATION

The Company reports the following four segments:

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

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

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

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

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

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

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

Quarter Ended March 31, 2012

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 234,876	$	$ 234,876	$ 8,160	$ 16,707
Customer Growth Services	22,764		22,764	800	(2,130)
Customer Technology Services	26,199	(647)	25,552	805	3,679
Customer Strategy Services	10,363	(901)	9,462	351	494
Total	$ 294,202	$ (1,548)	$ 292,654	$ 10,116	$ 18,750

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Capital Expenditures		
Customer Management Services	$ 2,286	$ 5,262
Customer Growth Services	316	546
Customer Technology Services	1,328	539
Customer Strategy Services	175	137
Total	$ 4,105	$ 6,484

	March 31, 2013	December 31, 2012
Total Assets		
Customer Management Services	$ 588,076	$ 588,627
Customer Growth Services	54,906	54,164
Customer Technology Services	149,416	148,043
Customer Strategy Services	55,097	56,339
Total	$ 847,495	$ 847,173

	March 31, 2013	December 31, 2012
Goodwill		
Customer Management Services	$ 20,322	$ 20,288
Customer Growth Services	24,439	24,439
Customer Technology Services	39,069	38,591
Customer Strategy Services	11,361	11,361
Total	$ 95,191	$ 94,679

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenue		
United States	$ 131,747	$ 110,576
Philippines	86,108	78,665
Latin America	45,028	47,896
Europe / Middle East / Africa	16,984	38,366
Canada	4,290	12,953
Asia Pacific	4,226	4,198
Total	$ 288,383	$ 292,654

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(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, 2013. This client contributed 11.9% and 9.4% of total revenue for the three months ended March 31, 2013 and 2012. This client had an outstanding receivable balance of $25.0 million and $21.5 million as of March 31, 2013 and 2012.

The loss of one or more of its significant clients could have a material adverse effect on the Company s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company s credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts and may require pre-payment for services. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk existed as of March 31, 2013.

(5) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2012	Acquisitions	Impairments	Effect of Foreign Currency	March 31, 2013
Customer Management Services	$ 20,288	$	$	$ 34	$ 20,322
Customer Growth Services	24,439				24,439
Customer Technology Services	38,591	478			39,069
Customer Strategy Services	11,361				11,361
Total	$ 94,679	$ 478	$	$ 34	$ 95,191

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.

As of December 2012, the Company had one reporting unit with goodwill of $7.3 million and a calculated fair value which exceeded its carrying value by 4%. At March 31, 2013, the Company updated its quantitative assessment of this reporting unit s fair value using an income based approach. Key assumptions used in the updated fair value calculation include, but are not limited to, a perpetuity growth rate of 7.0% based on the current inflation rate combined with the GDP growth rate for the reporting unit s geographical region and a discount rate of 25.5%, 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 are based on the Company s internal business plan and adjusted as appropriate for the Company s view of market participant assumptions. The current business plan assumes the occurrence of certain events in the future, such as realignment of operations and reduction of general and administrative costs. Significant differences in the outcome of 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. As of March 31, 2013, the updated fair value of this reporting unit continues to exceed its carrying value by 4%. The Company will continue to review the calculated fair value of this reporting unit until the fair value is substantially in excess of its carrying value.

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(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, 2013, the Company has not experienced, nor does it anticipate, any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated other comprehensive income (loss) for the three months ended March 31, 2013 and 2012 (amounts in thousands and net of tax):

	Three Months Ended March 31, 2013	2012
Aggregate unrealized net gain/(loss) at beginning of year	$ 9,559	$ (5,852)
Add: Net gain/(loss) from change in fair value of cash flow hedges	4,099	7,071
Less: Net (gain)/loss reclassified to earnings from effective hedges	(1,919)	26
Aggregate unrealized net gain/(loss) at end of period	$ 11,739	$ 1,245

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

As of March 31, 2013	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	20,750	$ 20,172	45.8%	June 2015
Philippine Peso	11,970,000	280,827(1)	41.5%	December 2016
Mexican Peso	1,130,000	80,569	50.6%	December 2015
British Pound Sterling	5,122	7,942(2)	76.6%	June 2014
New Zealand Dollar	199	150	100.0%	June 2013
		$ 389,660		

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

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

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

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

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

Fair Value Hedges

The Company enters into foreign exchange forward contracts to economically hedge against foreign currency exchange gains and losses on certain receivables and payables of the Company s foreign operations. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in earnings in Other income (expense), net. As of March 31, 2013 and December 31, 2012 the total notional amount of the Company s forward contracts used as fair value hedges were $212.2 million and $189.3 million, respectively.

Embedded Derivatives

In addition to hedging activities, the Company s foreign subsidiary in Argentina was party to U.S. dollar denominated lease contracts which the Company determined contain embedded derivatives. As such, the Company bifurcates the embedded derivative features of the lease contracts and valued these features as foreign currency derivatives. As of March 31, 2013 and December 31, 2012, the fair value of the embedded derivative was $0.2 million and $0.3 million, respectively, and was included in Other current liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheets as shown in the table below.

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Derivative Valuation and Settlements

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

	March 31, 2013			
	Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Leases Embedded**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Fair Value**	**Derivative**
Fair value and location of derivative in the Consolidated Balance Sheet:				
Prepaids and other current assets	$ 13,859	$	$ 237	$
Other long-term assets	8,480			
Other current liabilities	(238)	(1,111)	(355)	(157)
Other long-term liabilities	(67)	(1,703)		(52)
Total fair value of derivatives, net	$ 22,034	$ (2,814)	$ (118)	$ (209)

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

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The effects of derivative instruments on the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 were as follows (amounts in thousands):

	Three Months Ended March 31,			
	2013		2012	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contracts:	**Foreign Exchange**	**Interest Rate**	**Foreign Exchange**	**Interest Rate**
Derivative classification:	**Cash Flow**	**Cash Flow**	**Cash Flow**	**Cash Flow**
Amount of gain or (loss) recognized in other comprehensive income - effective portion, net of tax:	$ 4,178	$ (79)	$ 7,234	$ (163)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ 3,460	$	$ (43)	$
Interest Expense		(257)		