TELETECH HOLDINGS INC
Form 10-Q
August 07, 2017
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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 June 30, 2017

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	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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting	Emerging growth company

company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2017, there were 45,842,430 shares of the registrant's common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

JUNE 30, 2017 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)

(unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 77,910	$ 55,264
Accounts receivable, net	288,041	300,808
Prepaids and other current assets	67,080	59,905
Income tax receivable	7,703	7,035
Assets held for sale	8,969	10,715
Total current assets	449,703	433,727
Long-term assets		
Property, plant and equipment, net	160,321	151,037
Goodwill	166,874	129,648
Deferred tax assets, net	32,988	53,585
Other intangible assets, net	60,742	30,787
Other long-term assets	59,495	47,520
Total long-term assets	480,420	412,577
Total assets	$ 930,123	$ 846,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 36,022	$ 38,197
Accrued employee compensation and benefits	81,544	66,133
Other accrued expenses	23,911	14,830
Income tax payable	9,822	7,040
Deferred revenue	22,964	23,318
Other current liabilities	23,089	29,154
Liabilities held for sale	1,908	1,357
Total current liabilities	199,260	180,029
Long-term liabilities		

Line of credit	257,000	217,300
Deferred tax liabilities, net	137	160
Deferred rent	15,800	15,256
Other long-term liabilities	62,668	71,664
Total long-term liabilities	335,605	304,380
Total liabilities	534,865	484,409
Commitments and contingencies (Note 10)		
Mandatorily redeemable noncontrolling interest	—	—
Stockholders’ equity		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock; \$0.01 par value; 150,000,000 shares authorized; 45,694,081 and 46,113,693 shares outstanding as of June 30, 2017 and December 31, 2016, respectively	458	462
Additional paid-in capital	351,006	348,739
Treasury stock at cost: 36,358,172 and 35,938,560 shares as of June 30, 2017 and December 31, 2016, respectively	(618,452)	(603,262)
Accumulated other comprehensive income (loss)	(104,707)	(126,964)
Retained earnings	759,809	735,939
Noncontrolling interest	7,144	6,981
Total stockholders’ equity	395,258	361,895
Total liabilities and stockholders’ equity	\$ 930,123	\$ 846,304

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 (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	$ 353,429	$ 305,105	$ 691,706	$ 617,515
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	268,004	226,768	521,902	458,108
Selling, general and administrative	43,985	44,774	87,205	90,274
Depreciation and amortization	16,258	17,221	30,758	34,950
Restructuring and integration charges, net	3,593	114	3,762	202
Impairment losses	—	—	—	—
Total operating expenses	331,840	288,877	643,627	583,534
Income from operations	21,589	16,228	48,079	33,981
Other income (expense)				
Interest income	695	263	1,121	429
Interest expense	(2,912)	(1,753)	(5,230)	(3,717)
Other income (expense), net	1,197	756	2,157	1,234
Loss on assets held for sale	(3,178)	—	(3,178)	—
Total other income (expense)	(4,198)	(734)	(5,130)	(2,054)
Income before income taxes	17,391	15,494	42,949	31,927
Benefit from (provision for) income taxes	(1,597)	(2,952)	(6,988)	(7,480)
Net income	15,794	12,542	35,961	24,447
Net income attributable to noncontrolling interest	(1,100)	(926)	(2,022)	(1,606)
Net income attributable to TeleTech stockholders	$ 14,694	$ 11,616	$ 33,939	$ 22,841
Other comprehensive income (loss)				
Net income	$ 15,794	$ 12,542	$ 35,961	$ 24,447
Foreign currency translation adjustments	3,339	(9,484)	9,567	472
Derivative valuation, gross	7,517	(5,965)	21,492	3,614
Derivative valuation, tax effect	(3,038)	2,363	(8,829)	(1,737)
Other, net of tax	130	225	259	400

Total other comprehensive income (loss)	7,948	(12,861)	22,489	2,749
Total comprehensive income (loss)	23,742	(319)	58,450	27,196
Less: Comprehensive income attributable to noncontrolling interest	(1,240)	(792)	(2,254)	(1,532)
Comprehensive income (loss) attributable to TeleTech stockholders	$ 22,502	$ (1,111)	$ 56,196	$ 25,664
Weighted average shares outstanding				
Basic	45,662	47,873	45,805	48,120
Diluted	46,150	48,221	46,224	48,483
Net income per share attributable to TeleTech stockholders				
Basic	$ 0.32	$ 0.24	$ 0.74	$ 0.47
Diluted	$ 0.32	$ 0.24	$ 0.73	$ 0.47
Dividends declared per share outstanding	$ —	$ —	$ 0.22	$ 0.185

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		Treasury	Additional	Accumulated Other Comprehensive	Retained	Noncontrolling	
	Shares	Amount	Shares	Amount	Stock	Paid-in Capital	Income (Loss)	Earnings	interest	To
of 1,	—	$ —	46,114	$ 462	$ (603,262)	$ 348,739	$ (126,964)	$ 735,939	$ 6,981	$
	—	—	—	—	—	—	—	33,939	2,022	
o s are)	—	—	—	—	—	—	—	(10,069)	—	
o ng	—	—	—	—	—	—	—	—	(1,800)	
	—	—	—	—	—	—	9,335	—	232	
et	—	—	—	—	—	—	12,663	—	—	
ock	—	—	130	1	2,139	(4,016)	—	—	—	
s	—	—	60	1	993	1,156	—	—	—	
n d	—	—	—	—	—	—	—	—	—	
d on	—	—	—	—	—	5,127	—	—	(291)	
f ck	—	—	(610)	(6)	(18,322)	—	—	—	—	

f	—		—	—	—	—	—	259	—	—
of 17	—	$ —	45,694	$ 458	$ (618,452)	$ 351,006	$ (104,707)	$ 759,809	$ 7,144	$

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)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities		
Net income	$ 35,961	$ 24,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,758	34,950
Amortization of contract acquisition costs	809	334
Amortization of debt issuance costs	341	412
Imputed interest expense and fair value adjustments to contingent consideration	31	195
Provision for doubtful accounts	313	224
(Gain) loss on disposal of assets	12	(41)
Gain on sale of business	(30)	—
Impairment losses	—	—
Loss on held for sale assets	3,178	—
Deferred income taxes	5,901	5,897
Excess tax benefit from equity-based awards	(703)	(521)
Equity-based compensation expense	4,836	4,584
(Gain) loss on foreign currency derivatives	575	62
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	26,669	23,945
Prepaids and other assets	(22,656)	(14,544)
Accounts payable and accrued expenses	27,281	(19,423)
Deferred revenue and other liabilities	12,179	(5,476)
Net cash provided by operating activities	125,455	55,045
Cash flows from investing activities		
Proceeds from sale of long-lived assets	22	63
Purchases of property, plant and equipment, net of acquisitions	(29,589)	(27,743)
Proceeds from sale of business	250	—
Investments in non-marketable equity investments	(1,384)	—
Acquisitions, net of cash acquired of zero and zero, respectively	(79,574)	(400)
Net cash used in investing activities	(110,275)	(28,080)
Cash flows from financing activities		
Proceeds from line of credit	1,151,700	1,186,500
Payments on line of credit	(1,112,000)	(1,151,500)

Payments on other debt	(3,025)	(1,214)
Payments of contingent consideration and hold back payments to acquisitions	(435)	(9,467)
Dividends paid to shareholders	(10,069)	(8,923)
Payments to noncontrolling interest	(1,800)	(2,202)
Purchase of mandatorily redeemable noncontrolling interest	—	(4,105)
Proceeds from exercise of stock options	2,150	371
Tax payments related to issuance of restricted stock units	(1,876)	(2,019)
Excess tax benefit from equity-based awards	—	521
Payments of debt issuance costs	(3)	(1,883)
Purchase of treasury stock	(18,328)	(36,111)
Net cash used in financing activities	6,314	(30,032)
Effect of exchange rate changes on cash and cash equivalents	1,152	(1,907)
Increase (decrease) in cash and cash equivalents	22,646	(4,974)
Cash and cash equivalents, beginning of period	55,264	60,304
Cash and cash equivalents, end of period	$ 77,910	$ 55,330
Supplemental disclosures		
Cash paid for interest	$ 4,857	$ 3,155
Cash paid for income taxes	$ 5,905	$ 13,705
Non-cash operating, investing and financing activities		
Acquisition of long-lived assets through capital leases	$ 874	$ 2,667
Acquisition of equipment through increase in accounts payable, net	$ (1,274)	$ 289
Contract acquisition costs credited to accounts receivable	$ —	$ 200

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

Summary of Business

TeleTech Holdings, Inc. and its subsidiaries ("TeleTech" or the "Company") is a leading global provider of technology enabled customer experience services. The Company helps leading brands improve customer experiences and operational effectiveness through a unique combination of technological innovation and operational expertise. The Company's portfolio of solutions includes consulting, technology, operations and analytics to enable a seamless customer experience across every interaction channel and phase of the customer lifecycle. TeleTech's 48,000 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries across all the segments and via operations in the U.S., Australia, Belgium, Brazil, Bulgaria, Canada, China, Costa Rica, Germany, Hong Kong, Ireland, Lebanon, Macedonia, Mexico, New Zealand, the Philippines, Poland, Singapore, South Africa, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, and its 55% equity owned subsidiary Percepta, LLC. 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 state 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, 2017.

During the three months ended March 31, 2016, the Company recorded an additional tax expense of $1.1 million that should have been recorded in prior periods related to operations by an entity outside its country of incorporation. The total amount of $1.1 million should have been recorded as additional expense in the amount of $180 thousand in 2011, $123 thousand in 2012, $137 thousand in 2013, $358 thousand in 2014 and $301 thousand in 2015.

The Company has evaluated the impact of this adjustment and concluded that the adjustment was not material to the previously issued consolidated financial statements.

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, 2016.

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 the valuation allowance 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

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. While ASU-2014-09 was originally effective for fiscal years and interim periods within those years beginning after December 15, 2016, in August 2015, the FASB issued ASU 2015-14, “Deferral of Effective Date”, deferring the effective date by one year, to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 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. In June 2017, FASB issued ASU 2017-10, “Service Concession Arrangements”, which will be adopted along with the ASU 2014-09 guidance. The Company has assigned a project manager and team, has selected an external consulting company to assist through the project, is working through the project assessment phase, and is determining its implementation approach. As the Company has not yet completed the assessment, the Company has not made any conclusions regarding the potential impact to the financials.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases and making targeted changes to lessor accounting. The ASU also requires new disclosures regarding the amounts, timing, and uncertainty of cash flows arising from leases. The ASU is effective for interim and annual periods beginning on or after December 15, 2018 and early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently assessing the impact on the consolidated financial statements and related disclosures, evaluating software solutions and other tracking methods, and determining the implementation timeline.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting”, which amends the existing accounting standards related to stock-based compensation. The ASU simplifies several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for interim and annual periods beginning on or after December 15, 2016. Beginning with the first quarter of 2017, the Company has adopted the new guidance as applicable and this adoption did not have a material impact on its financial position, results of operation or related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows”. ASU 2016-15 is intended to reduce diversity in practice regarding how certain cash transactions are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning on or after December 15, 2017 and early adoption is permitted. The Company is currently assessing the impact on the consolidated statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other: Simplifying the Accounting for Goodwill Impairment”. ASU 2017-04 removes the need to complete Step 2 of any goodwill impairment test that has failed Step 1. The goodwill impairment will now be calculated as the amount by which a reporting unit’s carrying value exceeds its fair value. The ASU is effective for interim and annual periods beginning on or after December 15, 2019 and early adoption is permitted. The Company early adopted this standard as of January 1, 2017.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(2)ACQUISITIONS AND DIVESTITURES

Connextions

On April 3, 2017, the Company acquired all of the outstanding shares of Connextions, Inc., a health care customer service provider company, from OptumHealth Holdings, LLC. Connextions is being integrated into the health care vertical of the Customer Management Services ("CMS") segment of the Company. Connextions employed approximately 2,000 at several centers in the U.S.

The total cash paid at acquisition was $80 million. The purchase price is subject to customary representations and warranties, indemnities, and net working capital adjustment. In connection with the acquisition, the Company and OptumHealth (directly and through affiliates) also entered into long-term technology and customer services agreements, and into transition services agreements to facilitate the transfer of the business. The Company is required to pay an estimated $1.8 million additional for the working capital adjustment, which will be paid during the third quarter of 2017. Additionally, fair value adjustments related to the transition services agreements are expected to reduce the purchase price by $4.1 million resulting in a net estimated purchase price of $77.7 million.

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	$ —
Accounts receivable, net	15,959
Prepaid expenses	241
Other current assets	51
Property, plant and equipment	7,594
Customer relationships	32,500
Goodwill	36,772
	$ 93,117
Accounts payable	$ 1
Accrued employee compensation and benefits	346
Accrued expenses	386
Deferred tax liabilities	14,273
Deferred revenue	399
	$ 15,405

Total purchase price	$ 77,712

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

The Connextions customer relationships have been estimated based on the initial valuation and are amortized over an estimated useful life of 12 years. The goodwill recognized from the Connextions acquisition is estimated to be attributable, but not limited to, the acquired work force and expected synergies with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and the operating results of Connextions are reported within the CMS segment from the date of acquisition.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Atelka

On November 9, 2016, the Company acquired all of the outstanding shares of Atelka Enterprise Inc. (“Atelka”), a Canadian customer contact center management and business process outsourcing services company that serves Canadian telecommunications, logistics, and entertainment clients. This acquisition is an addition to the CMS segment. Atelka employed approximately 2,800 in Quebec, Ontario, New Brunswick and Prince Edward Island.

The total purchase price was $48.4 million ($65.0 CAD), including certain working capital adjustments, and consisted of $47.5 million in cash at closing and a $1.4 million hold-back payment for contingencies as defined in the sale and purchase agreement, which will be paid out in month 12 and month 24, if required.

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	$ 2,655
Accounts receivable, net	18,449
Prepaid expenses	615
Property, plant and equipment	3,161
Deferred tax assets, net	583
Customer relationships	10,500
Goodwill	20,330
	$ 56,293
Accounts payable	$ 1,199
Accrued employee compensation and benefits	2,418
Accrued expenses	2,597
Other	1,678
	$ 7,892
Total purchase price	$ 48,401

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

The Atelka customer relationships will be amortized over a useful life of 12 years. The goodwill recognized from the Atelka acquisition is estimated to be attributable, but not limited to, the acquired work force and expected synergies with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes.

The acquired goodwill and the operating results of Atelka are reported within the CMS segment from the date of acquisition.

rogenSi

In the third quarter of 2014, as an addition to the Customer Strategy Services ("CSS") segment, the Company acquired substantially all operating assets of rogenSi Worldwide PTY, Ltd., a global leadership, change management, sales, performance training and consulting company.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The total potential purchase price was $34.4 million, subject to certain working capital adjustments, and consisted of $18.1 million in cash at closing and an estimated $14.5 million in three earn-out payments, contingent on the acquired companies and TeleTech's CSS 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 was paid in the first quarter of 2016. The total contingent consideration possible per the sale and purchase agreement ranged from zero to $17.6 million and the earn-out payments were payable in early 2015, 2016 and 2017, based on July 1, 2014 through December 31, 2014, and full year 2015 and 2016 performance, respectively. As of December 31, 2016, the contingent consideration has been finalized and a total of $12.0 million was earned and paid.

The fair value of the contingent consideration was measured by applying a probability weighted discounted cash flow model 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 a 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. During the fourth quarter of 2014, the third quarter of 2015, the fourth quarter of 2015, and the third quarter of 2016, the Company recorded fair value adjustments of the contingent consideration of $0.5 million, $0.8 million, $(0.3) million, and $(4.3) million, respectively, based on revised estimates noting higher or lower probability of exceeding the EBITDA targets (see Note 7). As of September 30, 2016, the fair value of the remaining contingent consideration was reduced from $4.3 million to zero given the remote possibility of achieving targeted EBITDA for 2016. As of December 31, 2016, the payment was finalized at a value of zero and thus no additional expense was required.

Assets and Liabilities Held for Sale

During the third quarter of 2016, the Company determined that one business unit from the Customer Growth Services ("CGS") segment and one business unit from the Customer Strategy Services ("CSS") segment would be divested from the Company's operations. These business units met the criteria to be classified as held for sale. The Company had engaged a broker for one of the business units and is assessing potential buyers for both business units. The Company anticipates the transactions will be finalized during the next three to six months. The Company has taken into consideration the discounted cash flow models, management input based on early discussions with brokers and potential buyers, and third party evidence from similar transactions to complete the fair value analysis as there has not been a selling price determined at this point for either unit. For the two business units in CGS and CSS losses of $2.6 million and $2.7 million, respectively, were recorded as of September 30, 2016 in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss). As of June 30, 2017, for the business unit in CSS, this loss continues to be the best estimate and no additional charge has been recorded. For the business unit in CGS, based on further discussion and initial offers, management has determined that the estimated selling price assumed should be revised. Based on this and further analysis, an additional $3.2 million loss was recorded as of June 30, 2017 and included in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss).

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents information related to the major components of assets and liabilities that were classified as held for sale in the Consolidated Balance Sheet as of June 30, 2017.

	As of June 30, 2017
Cash	$ —
Accounts receivable, net	8,179
Allowance for doubtful accounts	(51)
Other assets	617
Property, plant and equipment	1,010
Deferred tax assets, net	—
Customer relationships	3,888
Goodwill	3,033
Other intangible assets	771
Allowance for reduction of assets held for sale	(8,478)
Total assets	$ 8,969
Accounts payable	$ 668
Accrued employee compensation and benefits	754
Accrued expenses	272
Other	214
Total liabilities	$ 1,908

Investments

CaféX

In the first quarter of 2015, the Company invested $9.0 million in CafeX Communications, Inc. ("CaféX") through the purchase of a portion of the Series B Preferred Stock of CaféX. CaféX is a provider of omni-channel web-based real time communication (WebRTC) solutions that enhance mobile applications and websites with in-app video communication and screen share technology to increase customer satisfaction and enterprise efficiency. TeleTech has deployed the CaféX technology as part of the TeleTech customer experience offerings within the CMS business segment and as part of its Humanify platform. At December 31, 2015, the Company owned 17.2% of the total equity of CaféX. During the fourth quarter of 2016, the Company invested an additional $4.3 million to purchase a portion of the Series C Preferred Stock; $3.2 million was paid in the fourth quarter of 2016 and $1.1 million was paid in the first quarter of 2017. At June 30, 2017, the Company owns 17.2% of the total equity of CaféX. The investment is accounted for under the cost method of accounting. The Company evaluates its investments for possible other-than-temporary impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company tested the investment in CaféX for impairment and concluded that the investment was not impaired at June 30, 2017 or December 31, 2016.

Divestitures

Technology Solutions Group ("TSG")

Effective June 30, 2017, the Company sold the Technology Solutions Group to SKC Communication Products, LLC for an upfront payment of $250 thousand and future contingent royalty payments over the next 3 years. TSG had been included in the CTS segment. During the second quarter of 2017, a $30 thousand gain, which included the write-off of $0.7 million of goodwill, was recorded and included in the Consolidated Statements of Comprehensive Income (Loss).

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(3)SEGMENT INFORMATION

The Company reports the following four segments:

- 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 system design consulting, customer experience technology product, implementation and integration consulting services, and management of clients' cloud and on-premise solutions; and
- the CSS segment provides professional services in customer experience strategy and operations, insights, system and operational process optimization, and culture development and knowledge management.

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

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

Three Months Ended June 30, 2017

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 269,056	$ —	$ 269,056	$ 13,146	$ 14,075
Customer Growth Services	32,403	—	32,403	754	2,321
Customer Technology Services	34,829	(31)	34,798	1,793	3,819
Customer Strategy Services	17,172	—	17,172	565	1,374
Total	$ 353,460	$ (31)	$ 353,429	$ 16,258	$ 21,589

Three Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 212,886	$ (79)	$ 212,807	$ 11,879	$ 8,339

Customer Growth Services	36,893	—	36,893	1,639	3,482
Customer Technology Services	37,479	(129)	37,350	2,855	3,376
Customer Strategy Services	18,055	—	18,055	848	1,031
Total	$ 305,313	$ (208)	$ 305,105	$ 17,221	$ 16,228

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Six Months Ended June 30, 2017

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 521,154	$ (19)	$ 521,135	$ 24,388	$ 34,671
Customer Growth Services	66,061	—	66,061	1,532	4,731
Customer Technology Services	70,679	(188)	70,491	3,605	6,876
Customer Strategy Services	34,019	—	34,019	1,233	1,801
Total	$ 691,913	$ (207)	$ 691,706	$ 30,758	$ 48,079

Six Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	$ 440,905	$ (177)	$ 440,728	$ 24,133	$ 23,934
Customer Growth Services	70,412	—	70,412	3,382	3,977
Customer Technology Services	72,849	(231)	72,618	5,730	6,156
Customer Strategy Services	33,757	—	33,757	1,705	(86)
Total	$ 617,923	$ (408)	$ 617,515	$ 34,950	$ 33,981

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Capital Expenditures				
Customer Management Services	$ 15,390	$ 9,260	$ 23,969	$ 21,238
Customer Growth Services	242	1,984	362	3,171
Customer Technology Services	1,645	1,280	4,845	3,013
Customer Strategy Services	277	270	413	321
Total	$ 17,554	$ 12,794	$ 29,589	$ 27,743

	June 30, 2017	December 31, 2016
Total Assets		
Customer Management Services	$ 698,333	$ 585,679
Customer Growth Services	60,480	71,540
Customer Technology Services	102,302	115,537
Customer Strategy Services	69,008	73,548
Total	$ 930,123	$ 846,304

	June 30, 2017	December 31, 2016
Goodwill		
Customer Management Services	$ 79,927	$ 42,589
Customer Growth Services	24,439	24,439
Customer Technology Services	40,839	41,500
Customer Strategy Services	21,669	21,120
Total	$ 166,874	$ 129,648

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
United States	$ 194,209	$ 166,249	$ 372,641	$ 340,827
Philippines	85,847	84,910	171,422	169,204
Latin America	31,823	29,164	64,940	59,322
Canada	18,466	892	37,098	2,129
Europe / Middle East / Africa	15,253	17,004	30,663	33,497
Asia Pacific	7,831	6,886	14,942	12,536
Total	$ 353,429	$ 305,105	$ 691,706	$ 617,515

(4)SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had no clients that contributed in excess of 10% of total revenue for the six months ended June 30, 2017. The Company had one client that contributed in excess of 10% of total revenue for the six months ended June 30, 3016. This client operates in the communications industry and is included in the CMS segment. This client contributed 9.6% and 10.2% of total revenue for the six months ended June 30, 2017 and 2016, respectively. The Company does have several other clients with revenue exceeding $100 million annually and the loss of one or more of these clients could have a material adverse effect on the Company's business, operating results, or financial condition.

To limit the Company's credit risk with its clients, management performs periodic credit evaluations, maintains allowances for uncollectible accounts and may require pre-payment for services from certain clients. Based on currently available information, management does not believe significant credit risk existed as of June 30, 2017.

(5)GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2016	Acquisitions / Adjustments	Impairments	Effect of Foreign Currency	June 30, 2017
Customer Management Services	$ 42,589	$ 36,221	$ —	$ 1,117	$ 79,927
Customer Growth Services	24,439	—	—	—	24,439
Customer Technology Services	41,500	(661)	—	—	40,839
Customer Strategy Services	21,120	—	—	549	21,669
Total	$ 129,648	$ 35,560	$ —	$ 1,666	$ 166,874

The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended June 30, 2017, the Company assessed whether any such indicators of impairment existed and concluded there were none.

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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 consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of June 30, 2017, 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 six months ended June 30, 2017 and 2016 (in thousands and net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Aggregate unrealized net gain/(loss) at beginning of period	$ (24,209)	$ (21,406)	$ (32,393)	$ (26,885)
Add: Net gain/(loss) from change in fair value of cash flow hedges	7,448	(145)	19,768	8,887
Less: Net (gain)/loss reclassified to earnings from effective hedges	(2,969)	(3,457)	(7,105)	(7,010)
Aggregate unrealized net gain/(loss) at end of period	$ (19,730)	$ (25,008)	$ (19,730)	$ (25,008)

The Company's foreign exchange cash flow hedging instruments as of June 30, 2017 and December 31, 2016 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

As of June 30, 2017	Local Currency Notional Amount	U.S. Dollar Notional Amount		% Maturing in the next 12 months		Contracts Maturing Through
Philippine Peso	12,065,000	252,775	(1)	30.0	%	August 2021

Mexican Peso	1,759,000	106,627	17.2	%	May 2021
		$ 359,402			

As of December 31, 2016	Local Currency Notional Amount	U.S. Dollar Notional Amount	
Philippine Peso	14,315,000	301,134	(1)
Mexican Peso	2,089,000	129,375	