TELETECH HOLDINGS INC
Form 10-Q
May 11, 2015
Table of Contents

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, 2015

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 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 May 4, 2015, there were 48,444,321 shares of the registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2015 FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 65,714	$ 77,316
Accounts receivable, net	295,719	276,432
Prepaids and other current assets	66,609	64,702
Deferred tax assets, net	22,783	22,501
Income tax receivable	4,638	4,532
Total current assets	455,463	445,483
Long-term assets		
Property, plant and equipment, net	150,017	150,212
Goodwill	127,588	128,705
Deferred tax assets, net	30,035	31,512
Other intangible assets, net	56,528	59,905
Other long-term assets	44,852	36,658
Total long-term assets	409,020	406,992
Total assets	$ 864,483	$ 852,475
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 31,785	$ 37,019
Accrued employee compensation and benefits	69,492	70,069
Other accrued expenses	32,969	34,430
Income taxes payable	9,298	10,141
Deferred tax liabilities, net	34	-
Deferred revenue	29,440	29,887
Other current liabilities	17,610	17,085
Total current liabilities	190,628	198,631
Long-term liabilities		
Line of credit	126,000	100,000
Deferred tax liabilities, net	2,866	4,675
Deferred rent	9,589	8,956
Other long-term liabilities	77,248	74,149
Total long-term liabilities	215,703	187,780
Total liabilities	406,331	386,411
Commitments and contingencies (Note 10)		
Mandatorily redeemable noncontrolling interest	3,411	2,814
Stockholders equity		

Preferred stock - $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of March 31, 2015 and December 31, 2014		-		-
Common stock - $0.01 par value; 150,000,000 shares authorized; 48,366,272 and 48,452,852 shares outstanding as of March 31, 2015 and December 31, 2014, respectively		484		485
Additional paid-in capital		355,779		356,792
Treasury stock at cost: 33,685,981 and 33,599,401 shares as of March 31, 2015 and December 31, 2014, respectively		(530,818)		(527,595)
Accumulated other comprehensive income (loss)		(66,020)		(52,274)
Retained earnings		687,497		677,859
Noncontrolling interest		7,819		7,983
Total stockholders equity		454,741		463,250
Total liabilities and stockholders equity	$	864,483	$	852,475

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

1

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Revenue	$	325,521	$	302,221
Operating expenses				
Cost of services		232,984		213,787
Selling, general and administrative		50,237		50,367
Depreciation and amortization		15,363		13,170
Restructuring charges, net		809		540
Total operating expenses		299,393		277,864
Income from operations		26,128		24,357
Other income (expense)				
Interest income		317		511
Interest expense		(1,698)		(1,690)
Other income (expense), net		(307)		1,001
Total other income (expense)		(1,688)		(178)
Income before income taxes		24,440		24,179
Provision for income taxes		(4,405)		(2,876)
Net income		20,035		21,303
Net income attributable to noncontrolling interest		(1,263)		(1,085)
Net income attributable to TeleTech stockholders	$	18,772	$	20,218
Other comprehensive income (loss)				
Net income	$	20,035	$	21,303
Foreign currency translation adjustments		(11,283)		(1,723)
Derivative valuation, gross		(1,645)		(3,917)
Derivative valuation, tax effect		1,493		1,382
Other, net of tax		(2,595)		276
Total other comprehensive income (loss)		(14,030)		(3,982)
Total comprehensive income (loss)		6,005		17,321
Less: Comprehensive income attributable to noncontrolling interest		(806)		(992)
Comprehensive income attributable to TeleTech stockholders	$	5,199	$	16,329
Weighted average shares outstanding				
Basic		48,370		50,045
Diluted		49,158		50,973
Net income per share attributable to TeleTech stockholders				
Basic	$	0.39	$	0.40
Diluted	$	0.38	$	0.40

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

(Amounts in thousands)

(Unaudited)

Stockholders Equity of the Company

	Preferred Stock		Common Stock				Accumulated Other			
	Shares	**Amount**	**Shares**	**Amount**	**Treasury Stock**	**Additional Paid-in Capital**	**Comprehensive Income (Loss)**	**Retained Earnings**	**Noncontrolling interest**	**Total Equity**
Balance as of December 31, 2014	-	$ -	48,453	$ 485	$ (527,595)	$ 356,792	$ (52,274)	$ 677,859	$ 7,983	$ 463,250
Net income	-	-	-	-	-	-	-	18,772	1,090	19,862
Dividends to shareholders	-	-	-	-	-	-	-	(8,710)	-	(8,710)
Adjustments to redemption value of mandatorily redeemable noncontrolling interest	-	-	-	-	-	-	-	(424)	-	(424)
Dividends distributed to noncontrolling interest		-	-	-	-	-	-	-	(990)	(990)
Foreign currency translation adjustments	-	-	-	-	-	-	(10,999)	-	(284)	(11,283)
Derivatives valuation, net of tax	-	-	-	-	-	-	(152)	-	-	(152)
Vesting of restricted stock units	-	-	159	2	2,456	(3,766)	-	-	-	(1,308)
Exercise of stock options	-	-	15	-	233	1	-	-	-	234
Excess tax benefit from equity-based awards	-	-	-	-	-	111	-	-	-	111
Equity-based compensation expense	-	-	-	-	-	2,641	-	-	20	2,661
Purchases of common stock	-	-	(261)	(3)	(5,912)	-	-	-	-	(5,915)
Other, net of tax	-	-	-	-	-	-	(2,595)	-	-	(2,595)
Balance as of March 31, 2015	-	$ -	48,366	$ 484	$ (530,818)	$ 355,779	$ (66,020)	$ 687,497	$ 7,819	$ 454,741

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$ 20,035	$ 21,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,363	13,170
Amortization of contract acquisition costs	281	358
Amortization of debt issuance costs	178	170
Imputed interest expense and fair value adjustments to contingent consideration	209	200
Provision for doubtful accounts	53	113
Gain on disposal of assets	(35)	-
Impairment losses	-	-
Deferred income taxes	(1,479)	990
Excess tax benefit from equity-based awards	(409)	(788)
Equity-based compensation expense	2,690	3,160
Gain on foreign currency derivatives	87	(634)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(24,821)	(8,092)
Prepaids and other assets	1,849	1,618
Accounts payable and accrued expenses	(7,583)	(10,817)
Deferred revenue and other liabilities	(2,598)	(7,214)
Net cash provided by operating activities	3,820	13,537
Cash flows from investing activities		
Proceeds from sale of long lived assets	-	135
Purchases of property, plant and equipment, net of acquisitions	(13,038)	(15,095)
Investment in securities	(9,000)	-
Acquisitions, net of cash acquired of zero and $812, respectively	(102)	(8,160)
Net cash used in investing activities	(22,140)	(23,120)
Cash flows from financing activities		
Proceeds from line of credit	573,800	632,900
Payments on line of credit	(547,800)	(632,900)
Payments on other debt	(778)	(1,525)
Payments of contingent consideration related to acquisitions	(1,000)	(2,189)
Dividends paid to shareholders	(8,710)	-
Payments to noncontrolling interest	(990)	(990)
Proceeds from exercise of stock options	234	12
Excess tax benefit from equity-based awards	409	788
Purchase of treasury stock	(5,915)	(20,466)
Net cash used in financing activities	9,250	(24,370)
Effect of exchange rate changes on cash and cash equivalents	(2,532)	(3,687)
Decrease in cash and cash equivalents	(11,602)	(37,640)
Cash and cash equivalents, beginning of period	77,316	158,017
Cash and cash equivalents, end of period	$ 65,714	$ 120,377

Supplemental disclosures

Cash paid for interest	$	1,340	$	982
Cash paid for income taxes	$	2,803	$	2,834
Non-cash investing and financing activities				
Acquisition of equipment through increase in accounts payable	$	1,704	$	941
Contract acquisition costs credited to accounts receivable	$	-	$	1,000

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

Summary of Business

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) is a customer engagement management services provider, delivering integrated consulting, technology, growth and customer care solutions on a global scale. Our suite of product and service capabilities allows us to design and deliver enhanced, value-driven customer experiences across numerous communication channels. TeleTech s 44,000 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries via operations in the U.S., Australia, Belgium, Brazil, Bulgaria, Canada, Costa Rica, Germany, Ireland, Israel, 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, its 55% equity owned subsidiary Percepta, LLC, and its 80% interest in iKnowtion, 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 present fairly the consolidated financial position of the Company and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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, 2014.

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.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs . ASU 2015-03 requires all costs incurred in connection with the issuance of debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. This ASU is effective for interim and annual periods beginning on or after December 15, 2015 and early adoption is permitted. The Company is evaluating when it will adopt the standard but does not expect the adoption of this standard to have a material impact on its financial position, results of operation or related disclosures.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(2) ACQUISITIONS & INVESTMENTS

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.

The total purchase price was $34.4 million, subject to certain working capital adjustments, and consists 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 will be paid in the first quarter of 2016, if required. The total contingent consideration possible per the sale and purchase agreement ranges from zero to $17.6 million and the earn-out payments are payable in early 2015, 2016 and 2017, based on July 1, 2014 through December 31, 2014, and full year 2015 and 2016 performance, respectively.

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 Company recorded a fair value adjustment of the contingent consideration of $0.5 million based on revised estimates noting higher probability of exceeding the EBITDA targets (see Note 7). As of March 31, 2015, the fair value of the contingent consideration was $15.3 million, of which $11.3 million and $4.0 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

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

	Preliminary Estimate of Acquisition Date

		Fair Value
Cash	$	2,670
Accounts receivable, net		6,417
Other assets		2,880
Property, plant and equipment		578
Deferred tax assets, net		449
Customer relationships		9,348
Goodwill		20,927
		43,269
Accounts payable		708
Accrued employee compensation and benefits		2,203
Accrued expenses		1,146
Other		4,843
		8,900
Total purchase price	$	34,369

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

The rogenSi customer relationships have been estimated based on similar acquisitions and are amortized over an estimated useful life of five years. The goodwill recognized from the rogenSi acquisition is estimated to be attributable, but not limited to, the acquired workforce and expected synergies within CSS. 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 rogenSi are reported, as its own reporting unit, within the CSS segment from the date of acquisition.

Sofica

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

The purchase price of $14.2 million included $9.4 million in cash consideration (including working capital adjustments) and an estimated $3.8 million in earn-out payments, payable in 2015 and 2016, contingent on Sofica achieving specified EBITDA targets, as defined by the stock purchase agreement. The total contingent consideration possible per the stock purchase agreement ranges from zero to $7.5 million. Additionally, the purchase price includes a $1.0 million hold-back payment for contingencies as defined in the stock purchase agreement which will be paid in the second quarter of 2016, if required.

The fair value of the contingent consideration was measured based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 5.0% and expected future value of payments of $4.0 million. The $4.0 million of expected future payments was calculated using a probability weighted EBITDA assessment with the highest probability associated with Sofica achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately $3.8 million. During the third and fourth quarters of 2014, the Company recorded fair value adjustments of the contingent consideration of $1.8 million and $0.6 million, respectively based on revised estimates noting higher probability of exceeding the EBITDA targets (see Note 7). As of March 31, 2015, the fair value of the contingent consideration was $6.4 million, of which $3.6 million and $2.8 million were included in Other accrued expenses and Other long-term liabilities in the accompanying Consolidated Balance Sheets, respectively.

Financial Impact of Acquired Businesses

The acquired businesses purchased in 2014 noted above contributed revenues of $12.6 million and income from operations of $1.1 million, inclusive of $0.7 million of acquired intangible amortization, to the Company for the three months ended March 31, 2015.

Investments

Café X

In the first quarter of 2015, the Company invested $9.0 million in CafeX Communications, Inc. (CafeX) through the purchase of a portion of the Series B Preferred Stock of CafeX. After the transaction, the Company owns 17.3% of the total equity of CafeX. 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 anticipates deploying the CafeX technology as part of the TeleTech customer experience offerings within the CMS business segment and as part of its Humanify platform.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(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 operational and design consulting, systems integration, and cloud and on-premise managed services, the requirements needed to design, deliver and maintain best-in-class multichannel customer engagement platforms; and
- the CSS segment provides professional services in customer experience strategy, customer intelligence analytics, system and operational process optimization, and culture development and knowledge management.

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

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

Quarter Ended March 31, 2015										
		Gross Revenue		Intersegment Sales		Net Revenue		Depreciation & Amortization		Income (Loss) from Operations
Customer Management Services	$	243,009	$	-	$	243,009	$	10,797	$	21,702
Customer Growth Services		25,956		-		25,956		1,485		26
Customer Technology Services		35,721		(7)		35,714		2,164		2,009
Customer Strategy Services		20,842		-		20,842		917		2,391
Total	$	325,528	$	(7)	$	325,521	$	15,363	$	26,128
Quarter Ended March 31, 2014										

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Capital Expenditures		
Customer Management Services	$ 9,447	$ 9,912
Customer Growth Services	1,305	380
Customer Technology Services	2,282	4,631
Customer Strategy Services	4	172
Total	$ 13,038	$ 15,095

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

		March 31, 2015		December 31, 2014
Total Assets				
Customer Management Services	$	533,622	$	514,957
Customer Growth Services		83,240		88,394
Customer Technology Services		158,822		159,441
Customer Strategy Services		88,799		89,683
Total	$	864,483	$	852,475

		March 31, 2015		December 31, 2014
Goodwill				
Customer Management Services	$	25,410	$	25,871
Customer Growth Services		30,395		30,395
Customer Technology Services		42,709		42,709
Customer Strategy Services		29,074		29,730
Total	$	127,588	$	128,705

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

	Three Months Ended March 31,			
		2015		2014
United States	$	171,653	$	146,469
Philippines		84,987		86,666
Latin America		40,554		42,046
Europe / Middle East / Africa		19,313		19,217
Asia Pacific		7,674		6,400
Canada		1,340		1,423
Total Revenue	$	325,521	$	302,221

(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, 2015 and 2014. This client operates in the communications industry and is included in the Customer Management Services segment. This client contributed 10.9% and 11.6% of total revenue for the three months ended March 31, 2015 and 2014, respectively. This client had an outstanding receivable balance of $37.6 million and $32.3 million as of March 31, 2015 and 2014, respectively.

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, 2015.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(5) GOODWILL

Goodwill consisted of the following (in thousands):

	December 31, 2014	Acquisitions/ Adjustments	Impairments	Effect of Foreign Currency	March 31, 2015
Customer Management Services	$ 25,871	$ -	$ -	$ (461)	$ 25,410
Customer Growth Services	30,395	-	-	-	30,395
Customer Technology Services	42,709	-	-	-	42,709
Customer Strategy Services	29,730	68	-	(724)	29,074
Total	$ 128,705	$ 68	$ -	$ (1,185)	$ 127,588

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

The Company concluded that goodwill for all reporting units was not impaired at December 1, 2014. While no impairment indicators were identified, due to the small margin of fair value in excess of carrying value for two reporting units, Revana (approximately 6.0%) and WebMetro (approximately 11%), these reporting units remain at considerable risk for future impairment if projected operating results are not met or other inputs into the fair value measurement change.

At March 31, 2015, the Company updated its quantitative assessment of these reporting units fair value using an income based approach. The determination of fair value requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term growth rates for the businesses, the useful lives over which the cash flows will occur and determination of appropriate discount rates (based in part on the Company s weighted average cost of capital). Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. As of March 31, 2015, the updated fair values continue to exceed the carrying values for Revana (approximately 12%) and WebMetro (approximately 17%). The Company will continue to review the calculated fair value of these reporting units until the fair value is substantially in excess of its carrying value.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(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, 2015, the Company had 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, 2015 and 2014 (in thousands and net of tax):

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Aggregate unrealized net gain/(loss) at beginning of year	$ (18,345)	$ (8,352)
Add: Net gain/(loss) from change in fair value of cash flow hedges	(1,291)	(3,649)
Less: Net (gain)/loss reclassified to earnings from effective hedges	1,139	1,115
Aggregate unrealized net gain/(loss) at end of period	$ (18,497)	$ (10,886)

The Company s foreign exchange cash flow hedging instruments as of March 31, 2015 and December 31, 2014 are summarized as follows (in thousands). All hedging instruments are forward contracts.

As of March 31, 2015	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	750	$ 719	100.0 %	June 2015
Philippine Peso	17,063,000	386,570(1)	36.8 %	February 2020
Mexican Peso	2,528,000	176,073	28.5 %	February 2020
		$ 563,362		

As of December 31, 2014	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	1,500	$ 1,441

Philippine Peso	17,428,000		398,046(1)
Mexican Peso	2,532,000		179,089
New Zealand Dollar	490		381
		$	578,957

(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, 2015 and December 31, 2014.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company s interest rate swap arrangements as of March 31, 2015 and December 31, 2014 were as follows:

		Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of March 31, 2015	$	25 million	1 - month LIBOR	2.55%	April 2012	April 2016
and December 31, 2014		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, 2015 and December 31, 2014 the total notional amount of the Company s forward contracts used as fair value hedges were $262.6 million and $242.5 million, respectively.

Derivative Valuation and Settlements

The Company s derivatives as of March 31, 2015 and December 31, 2014 were as follows (in thousands):

		March 31, 2015				
Designation:		Designated as Hedging Instruments				Not Designated as Hedging Instruments
Derivative contract type:		Foreign Exchange		Interest Rate		Foreign Exchange
Derivative classification:		Cash Flow		Cash Flow		Fair Value
Fair value and location of derivative in the Consolidated Balance Sheet:						
Prepaids and other current assets	$	1,758	$	-	$	904
Other long-term assets		228		-		-
Other current liabilities		(13,394)		(971)		(197)
Other long-term liabilities		(19,534)		(339)		-
Total fair value of derivatives, net	$	(30,942)	$	(1,310)	$	707

	December 31, 2014		
Designation:	Designated as Hedging Instruments		Not Designated as Hedging Instruments
Derivative contract type:	Foreign Exchange	Interest Rate	Foreign Exchange
Derivative classification:	Cash Flow	Cash Flow	Fair Value
Fair value and location of derivative in the Consolidated Balance Sheet:			
Prepaids and other current assets	$ 192	$ -	$ 797
Other long-term assets	389	-	-
Other current liabilities	(12,680)	(988)	(5)
Other long-term liabilities	(17,070)	(452)	-
Total fair value of derivatives, net	$ (29,169)	$ (1,440)	$ 792

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014 were as follows (in thousands):

	Three Months Ended March 31,			
	2015		2014	
Designation:	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange	Interest Rate	Foreign Exchange	Interest Rate
Derivative classification:	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Amount of gain or (loss) recognized in other comprehensive income (loss) - effective portion, net of tax:	$ 1,220	$ (71)	$ (3,592)	$ (57)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income - effective portion:				
Revenue	$ (1,708)	$ -	$ (1,570)	$ -
Interest Expense	-	(257)	-	(258)

	Three Months Ended March 31,			
	2015		2014	
Designation:	Not Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange		Foreign Exchange	
Derivative classification:	Forward Contracts	Fair Value	Forward Contracts	Fair Value
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income:				
Costs of services	$ -	$ -	$ -	$ -
Other income (expense), net	$ -	$ 80	$ -	$ 619

(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, 2015 and December 31, 2014 for the Company s assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Debt - The Company s debt consists primarily of the Company s Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company s leverage ratio calculation (as defined in the Credit Agreement). As of March 31, 2015 and December 31, 2014, the Company had $126.0 million and $100.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the first quarter of 2015 outstanding borrowings accrued interest at an average rate of 1.2% per annum, excluding unused commitment fees. The amounts recorded in the accompanying Balance Sheets approximate fair value due to the variable nature of the debt.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of March 31, 2015, 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, 2015 and December 31, 2014 (in thousands):

As of March 31, 2015

	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	$ -	$ (30,942)	$ -	$ (30,942)
Interest rate swaps	-	(1,310)	-	(1,310)
Fair value hedges	-	707	-	707
Total net derivative asset (liability)	$ -	$ (31,545)	$ -	$ (31,545)

As of December 31, 2014

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**At Fair Value**
Cash flow hedges	$ -	$ (29,169)	$ -	$ (29,169)
Interest rate swaps	-	(1,440)	-	(1,440)
Fair value hedges	-	792	-	792
Total net derivative asset (liability)	$ -	$ (29,817)	$ -	$ (29,817)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following is a summary of the Company s fair value measurements as of March 31, 2015 and December 31, 2014 (in thousands):

As of March 31, 2015

	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			
Derivative instruments, net	$ -	$ -	$ -
Total assets	$ -	$ -	$ -
Liabilities			
Deferred compensation plan liability			