

TELETECH HOLDINGS INC  
Form 10-Q  
August 03, 2016  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Form 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from        to

---

Commission File Number 001-11919

---

TeleTech Holdings, Inc.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

(Exact name of registrant as specified in its charter)

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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 27, 2016, there were 47,243,253 shares of the registrant's common stock outstanding.

---

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

JUNE 30, 2016 FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (unaudited)</u>	1
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>	2
<u>Consolidated Statement of Equity as of and for the six months ended June 30, 2016 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited)</u>	4
<u>Notes to the Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
<u>Item 6. Exhibits</u>	42
<u>SIGNATURES</u>	43
<u>EXHIBIT INDEX</u>	44



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)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 55,330	\$ 60,304
Accounts receivable, net	261,569	283,474
Prepays and other current assets	68,262	64,180
Income tax receivable	12,379	7,114
Total current assets	397,540	415,072
Long-term assets		
Property, plant and equipment, net	170,124	168,289
Goodwill	114,092	114,183
Deferred tax assets, net	48,021	52,082
Other intangible assets, net	46,845	51,215
Other long-term assets	45,526	42,486
Total long-term assets	424,608	428,255
Total assets	\$ 822,148	\$ 843,327
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 41,724	\$ 43,323
Accrued employee compensation and benefits	60,877	71,634
Other accrued expenses	22,216	33,160
Income tax payable	6,074	9,125
Deferred revenue	22,367	26,184
Other current liabilities	24,740	23,480
Total current liabilities	177,998	206,906
Long-term liabilities		
Line of credit	135,000	100,000
Deferred tax liabilities, net	3,496	3,333

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Deferred rent	11,821	11,791
Other long-term liabilities	69,634	76,349
Total long-term liabilities	219,951	191,473
Total liabilities	397,949	398,379
Commitments and contingencies (Note 10)		
Mandatorily redeemable noncontrolling interest	—	4,131
Stockholders' equity		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of June 30, 2016 and December 31, 2015	—	—
Common stock; \$0.01 par value; 150,000,000 shares authorized; 47,319,652 and 48,481,323 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	474	485
Additional paid-in capital	347,704	347,251
Treasury stock at cost: 34,732,601 and 33,570,930 shares as of June 30, 2016 and December 31, 2015, respectively	(566,980)	(533,744)
Accumulated other comprehensive income (loss)	(98,542)	(101,365)
Retained earnings	734,441	720,989
Noncontrolling interest	7,102	7,201
Total stockholders' equity	424,199	440,817
Total liabilities and stockholders' equity	\$ 822,148	\$ 843,327

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

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 305,105	\$ 310,223	\$ 617,515	\$ 635,744
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	226,768	223,617	458,108	456,601
Selling, general and administrative	44,774	47,376	90,274	97,613
Depreciation and amortization	17,221	15,680	34,950	31,043
Restructuring charges, net	114	198	202	1,007
Total operating expenses	288,877	286,871	583,534	586,264
Income from operations	16,228	23,352	33,981	49,480
Other income (expense)				
Interest income	263	364	429	681
Interest expense	(1,753)	(1,676)	(3,717)	(3,374)
Other income (expense), net	756	1,294	1,234	987
Total other income (expense)	(734)	(18)	(2,054)	(1,706)
Income before income taxes	15,494	23,334	31,927	47,774
Provision for income taxes	(2,952)	(7,841)	(7,480)	(12,246)
Net income	12,542	15,493	24,447	35,528
Net income attributable to noncontrolling interest	(926)	(797)	(1,606)	(2,060)
Net income attributable to TeleTech stockholders	\$ 11,616	\$ 14,696	\$ 22,841	\$ 33,468
Other comprehensive income (loss)				
Net income	\$ 12,542	\$ 15,493	\$ 24,447	\$ 35,528
Foreign currency translation adjustments	(9,484)	(6,062)	472	(17,345)
Derivative valuation, gross	(5,965)	(4,662)	3,614	(6,307)
Derivative valuation, tax effect	2,363	1,845	(1,737)	3,338
Other, net of tax	225	234	400	(2,361)
Total other comprehensive income (loss)	(12,861)	(8,645)	2,749	(22,675)
Total comprehensive income (loss)	(319)	6,848	27,196	12,853



Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Less: Comprehensive income attributable to noncontrolling interest	(792)	(731)	(1,532)	(1,537)
Comprehensive income (loss) attributable to TeleTech stockholders	\$ (1,111)	\$ 6,117	\$ 25,664	\$ 11,316
Weighted average shares outstanding				
Basic	47,873	48,325	48,120	48,347
Diluted	48,221	49,064	48,483	49,113
Net income per share attributable to TeleTech stockholders				
Basic	\$ 0.24	\$ 0.30	\$ 0.47	\$ 0.69
Diluted	\$ 0.24	\$ 0.30	\$ 0.47	\$ 0.68
Dividends paid per share outstanding	\$ 0.185	\$ —	\$ 0.185	\$ 0.180

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

(Amounts in thousands)

(Unaudited)

Stockholders' Equity of the Company

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total
	—	\$ —	48,481	\$ 485	\$ (533,744)	\$ 347,251	\$ (101,365)	\$ 720,989	\$ 7,201	\$ 4
	—	—	—	—	—	—	—	22,841	1,606	2
	—	—	—	—	—	—	—	(8,923)	—	(
	—	—	—	—	—	—	—	—	(1,710)	(
	—	—	—	—	—	—	—	(466)	—	(
	—	—	—	—	—	—	546	—	(74)	4
	—	—	—	—	—	—	1,877	—	—	1
	—	—	154	2	2,404	(4,425)	—	—	—	(
	—	—	29	—	458	(82)	—	—	—	3
	—	—	—	—	—	445	—	—	—	4

sed										
et										
sed										
tion	—	—	—	—	—	4,515	—	—	69	4
of										
stock	—	—	(1,344)	(13)	(36,098)	—	—	—	—	(
t of										
s of	—	—	—	—	—	—	400	—	10	4
2016	—	\$	— 47,320	\$ 474	\$ (566,980)	\$ 347,704	\$ (98,542)	\$ 734,441	\$ 7,102	\$ 4

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)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 24,447	\$ 35,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,950	31,043
Amortization of contract acquisition costs	334	537
Amortization of debt issuance costs	412	356
Imputed interest expense and fair value adjustments to contingent consideration	195	(123)
Provision for doubtful accounts	224	406
(Gain) loss on disposal of assets	(41)	(69)
Deferred income taxes	5,897	(341)
Excess tax benefit from equity-based awards	(521)	(409)
Equity-based compensation expense	4,584	5,278
(Gain) loss on foreign currency derivatives	62	2,600
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	23,945	9,191
Prepays and other assets	(14,544)	790
Accounts payable and accrued expenses	(21,442)	13,282
Deferred revenue and other liabilities	(5,476)	(12,556)
Net cash provided by operating activities	53,026	85,513
Cash flows from investing activities		
Proceeds from sale of long-lived assets	63	116
Purchases of property, plant and equipment	(27,743)	(29,505)
Investments in non-marketable equity investments	—	(9,000)
Acquisitions, net of cash acquired of zero and zero, respectively	(400)	(1,775)
Net cash used in investing activities	(28,080)	(40,164)
Cash flows from financing activities		
Proceeds from line of credit	1,186,500	1,185,200
Payments on line of credit	(1,151,500)	(1,170,200)
Payments on other debt	(1,214)	(1,720)
Payments of contingent consideration and hold back payments to acquisitions	(9,467)	(11,883)
Dividends paid to shareholders	(8,923)	(8,710)
Payments to noncontrolling interest	(2,202)	(2,657)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Purchase of mandatorily redeemable noncontrolling interest	(4,105)	—
Proceeds from exercise of stock options	371	432
Excess tax benefit from equity-based awards	521	409
Payments of debt issuance costs	(1,883)	(35)
Purchase of treasury stock	(36,111)	(12,254)
Net cash used in financing activities	(28,013)	(21,418)
Effect of exchange rate changes on cash and cash equivalents	(1,907)	(7,405)
(Decrease) increase in cash and cash equivalents	(4,974)	16,526
Cash and cash equivalents, beginning of period	60,304	77,316
Cash and cash equivalents, end of period	\$ 55,330	\$ 93,842
Supplemental disclosures		
Cash paid for interest	\$ 3,155	\$ 2,693
Cash paid for income taxes	\$ 13,705	\$ 7,761
Non-cash operating, investing and financing activities		
Acquisition of long-lived assets through capital leases	\$ 2,667	\$ 5,353
Acquisition of equipment through increase in accounts payable, net	\$ 289	\$ 2,625
Contract acquisition costs credited to accounts receivable	\$ 200	\$ —

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) OVERVIEW AND BASIS OF PRESENTATION

Summary of Business

TeleTech Holdings, Inc. 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 products and services allows us to design and deliver engaging, outcome-based customer experiences across numerous interaction channels. TeleTech’s 41,500 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, China, Costa Rica, Germany, Hong Kong, 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 100% interest in iKnowtion, LLC effective January 2016 (see Note 12). 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, 2016.

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.

During the three months ended June 30, 2015, an additional expense of \$1.75 million was recorded as an additional estimated tax liability that should have been recorded in prior periods related to ongoing discussions with relevant government authorities related to site compliance with tax advantaged status. The total amount of \$1.75 million should have been recorded as additional tax expense in the amount of \$466 thousand in 2012, \$406 thousand in 2013, \$645 thousand in 2014 and \$234 thousand in the first quarter of 2015.

During the three months ended June 30, 2015, the Company recorded an additional \$3.2 million loss related to foreign currency translation within Other comprehensive income (loss) that should have been recorded in 2014 and the three months ended March 31, 2015 to correct for an error in translating the financial results of Sofica Group AD, which the Company acquired on February 28, 2014. Of the \$3.2 million recorded, approximately \$1.7 million and \$1.5 million should have been recorded in the year ended December 31, 2014 and the three months ended March 31, 2015,

respectively. The Company also recorded an additional \$2.7 million loss to “Other, net of tax” within Other comprehensive income (loss) in the three months ended March 31, 2015 related to the annual actuarial analysis for the Company’s Philippines pension liability that should have been recorded in the fourth quarter of 2014.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the three months ended December 31, 2015, the Company recorded an additional \$2.9 million impairment to correct for an error in the goodwill impairment annual assessment and quarterly assessment for the WebMetro reporting unit. The Company should have recorded a \$2.3 million impairment in the three months ended December 31, 2014 and an additional \$0.6 million impairment in the three months ended September 30, 2015.

The Company has evaluated the aggregate impact of these adjustments and concluded that these adjustments were not material to the previously issued or current period 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, 2015.

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 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. The Company is currently determining its implementation approach and assessing the impact on the consolidated financial statements.

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. Beginning in 2016, the Company has applied the new guidance as applicable and the adoption of this standard did not have a material impact on its financial position, results of operations or related disclosures.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.

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 and early adoption is permitted. The Company is currently determining its implementation approach and assessing the impact on the consolidated statements and related disclosures.

(2)ACQUISITIONS

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 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 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 third quarter of 2015 and the fourth quarter of 2015, the Company recorded fair value adjustments of the contingent consideration of \$0.5 million,

\$0.8 million and \$(0.3) million, respectively, based on revised estimates noting higher or lower probability of exceeding the EBITDA targets (see Note 7). As of June 30, 2016, the fair value of the remaining contingent consideration was \$4.2 million, of which \$4.2 million was included in Other accrued expenses in the accompanying Consolidated Balance Sheets.

7

---

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 ranged from zero to \$7.5 million. Additionally, the purchase price included a \$1.0 million hold-back payment for contingencies, as defined in the stock purchase agreement, which was paid in the first quarter of 2016.

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). During the second quarter of 2015, the Company recorded a negative fair value adjustment for contingent consideration of \$0.5 million based on revised estimates noting lower profitability than initially estimated. As of June 30, 2016, all of the contingent consideration has been paid.

(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.

8

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Three Months Ended 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

Three Months Ended June 30, 2015

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income from Operations
Customer Management Services	\$ 219,316	\$ —	\$ 219,316	\$ 11,053	\$ 13,324
Customer Growth Services	30,570	—	30,570	1,523	2,122
Customer Technology Services	38,094	(7)	38,087	2,195	3,250
Customer Strategy Services	22,250	—	22,250	909	4,656
Total	\$ 310,230	\$ (7)	\$ 310,223	\$ 15,680	\$ 23,352

Six Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income from Operations
Customer Management Services	\$ 440,905	\$ (177)	\$ 440,728	\$ 24,133	\$ 23,934

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

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

Six Months Ended June 30, 2015

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 462,325	—	\$ 462,325	\$ 21,850	\$ 35,026
Customer Growth Services	56,526	—	56,526	3,008	2,148
Customer Technology Services	73,815	(14)	73,801	4,359	5,259
Customer Strategy Services	43,092	—	43,092	1,826	7,047
Total	\$ 635,758	\$ (14)	\$ 635,744	\$ 31,043	\$ 49,480

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Capital Expenditures				
Customer Management Services	\$ 9,260	\$ 12,569	\$ 21,238	\$ 22,016
Customer Growth Services	1,984	1,832	3,171	3,137
Customer Technology Services	1,280	1,786	3,013	4,068
Customer Strategy Services	270	280	321	284
Total	\$ 12,794	\$ 16,467	\$ 27,743	\$ 29,505

	June 30,	December
	2016	31, 2015
Total Assets		
Customer Management Services	\$ 489,177	\$ 512,100
Customer Growth Services	79,085	75,291
Customer Technology Services	160,139	159,850
Customer Strategy Services	93,747	96,086
Total	\$ 822,148	\$ 843,327

	June 30,	December
	2016	31, 2015
Goodwill		
Customer Management Services	\$ 22,106	\$ 22,009
Customer Growth Services	24,439	24,439
Customer Technology Services	42,863	42,709
Customer Strategy Services	24,684	25,026
Total	\$ 114,092	\$ 114,183

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

	Three		Six Months Ended June 30,	
	Months Ended June 30,		2016	2015
	2016	2015		



Revenue				
United States	\$ 166,249	\$ 157,740	\$ 340,827	\$ 329,393
Philippines	84,910	85,585	169,204	170,572
Latin America	29,164	37,623	59,322	78,177
Europe / Middle East / Africa	17,004	19,290	33,497	38,603
Asia Pacific	6,886	8,437	12,536	16,111
Canada	892	1,548	2,129	2,888
Total	\$ 305,105	\$ 310,223	\$ 617,515	\$ 635,744

#### (4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client that contributed in excess of 10% of total revenue for the six months ended June 30, 2016 and 2015. This client operates in the communications industry and is included in the CMS segment. This client contributed 10.7% and 11.5% of total revenue for the three months ended June 30, 2016 and 2015, respectively. This client contributed 10.2% and 10.9% of total revenue for the six months ended June 30, 2016 and 2015, respectively. This client had an outstanding receivable balance of \$27.4 million and \$29.2 million as of June 30, 2016 and 2015, respectively.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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, 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 June 30, 2016.

## (5)GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2015	Acquisitions / Adjustments	Impairments	Effect of Foreign Currency	June 30, 2016
Customer Management Services	\$ 22,009	\$ —	\$ —	\$ 97	\$ 22,106
Customer Growth Services	24,439	—	—	—	24,439
Customer Technology Services	42,709	154	—	—	42,863
Customer Strategy Services	25,026	—	—	(342)	24,684
Total	\$ 114,183	\$ 154	\$ —	\$ (245)	\$ 114,092

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, 2016, the Company assessed whether any such indicators of impairment existed and concluded there were none.

## (6)DERIVATIVES

## Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company's exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of

interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company's policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflects the Company's creditworthiness. As of June 30, 2016, 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, 2016 and 2015 (in thousands and net of tax):

	Three Months Ended		Six Months Ended	
	June 30,	2015	June 30,	2015
	2016		2016	
Aggregate unrealized net gain/(loss) at beginning of period	\$ (21,406)	\$ (18,497)	(26,885)	(18,345)
Add: Net gain/(loss) from change in fair value of cash flow hedges	(145)	(4,119)	8,887	(5,410)
Less: Net (gain)/loss reclassified to earnings from effective hedges	(3,457)	1,302	(7,010)	2,441
Aggregate unrealized net gain/(loss) at end of period	\$ (25,008)	\$ (21,314)	\$ (25,008)	\$ (21,314)

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company's foreign exchange cash flow hedging instruments as of June 30, 2016 and December 31, 2015 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the next 12 months	Contracts Maturing Through
As of June 30, 2016				
Philippine Peso	15,315,000	334,869 (1)	48.4 %	May 2021
Mexican Peso	2,467,000	155,861	28.7 %	May 2021
		\$ 490,730		

	Local Currency Notional Amount	U.S. Dollar Notional Amount
As of December 31, 2015		
Philippine Peso	16,362,000	361,571 (1)
Mexican Peso	2,637,000	173,124
		\$ 534,695

(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 June 30, 2016 and December 31, 2015.

The Company's interest rate swap arrangements as of June 30, 2016 and December 31, 2015 were as follows:

	Notional Amount	Variable Rate Received	Fixed Rate Paid	Contract Commencement Date	Contract Maturity Date
As of June 30, 2016:					
Swap 2	15 million \$ 15 million	1 - month LIBOR	3.14 %	May 2012	May 2017

As of December 31,  
2015:

Swap 1	\$ 25 million	1 - month LIBOR	2.55	%	April 2012	April 2016
Swap 2	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 June 30, 2016 and December 31, 2015 the total notional amounts of the Company's forward contracts used as fair value hedges were \$212.7 million and \$241.0 million, respectively.

12

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Derivative Valuation and Settlements

The Company's derivatives as of June 30, 2016 and December 31, 2015 were as follows (in thousands):

Designation:	June 30, 2016		Not Designated as Hedging Instruments Foreign Exchange Fair Value
	Designated as Hedging Instruments Foreign Exchange Cash Flow	Interest Rate Cash Flow	
Derivative contract type:			
Derivative classification:			
Fair value and location of derivative in the Consolidated Balance Sheet:			
Prepays and other current assets	\$ 63	\$ —	\$ 2,594
Other long-term assets	546	—	—
Other current liabilities	(20,196)	(352)	(288)
Other long-term liabilities	(22,794)	—	—
Total fair value of derivatives, net	\$ (42,381)	\$ (352)	\$ 2,306
Designation:	December 31, 2015		Not Designated as Hedging Instruments Foreign Exchange Fair Value
	Designated as Hedging Instruments Foreign Exchange Cash Flow	Interest Rate Cash Flow	
Derivative contract type:			
Derivative classification:			
Fair value and location of derivative in the Consolidated Balance Sheet:			
Prepays and other current assets	\$ 39	\$ —	\$ 2,489
Other long-term assets	66	—	—
Other current liabilities	(20,088)	(549)	(116)
Other long-term liabilities	(25,739)	(102)	—

Total fair value of derivatives, net	\$ (45,722)	\$ (651)	\$ 2,373
--------------------------------------	-------------	----------	----------

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 June 30, 2016 and 2015 were as follows (in thousands):

Designation:	Three Months Ended June 30,			
	2016		2015	
Derivative contract type:	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative classification:	Foreign Exchange	Interest Rate	Foreign Exchange	Interest Rate
	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Amount of gain or (loss) recognized in Other comprehensive income (loss) - effective portion, net of tax	\$ (3,399)	\$ (59)	\$ (1,453)	\$ 152
Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion:				
Revenue	\$ (5,860)	\$ —	\$ (2,505)	\$ —
Interest expense	—	(102)	—	(262)

Designation:	Three Months Ended June 30,			
	2016		2015	
Derivative contract type:	Not Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative classification:	Foreign Exchange	Forward Foreign Currencies	Foreign Exchange	Forward Foreign Currencies
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):				
Costs of services	\$ —	\$ —	\$ —	\$ —
Other income (expense), net	\$ —	\$ (3,923)	\$ —	\$ (2,416)



Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2016 and 2015 were as follows (in thousands):

Designation:	Six Months Ended June 30, 2016		2015	
	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	\$ (6,819)	\$ (192)	\$ (2,443)	\$ 301
Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion:				
Revenue	\$ (11,757)	\$ —	\$ (4,213)	\$ —
Interest expense	—	(331)	—	(519)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Designation: Derivative contract type:	Six Months Ended June 30,	
	2016	2015
Derivative classification:	Not Designated as Hedging Instruments	Not Designated as Hedging Instruments
	Foreign Exchange	Foreign Exchange
	Forward Fair Value	Forward Fair Value
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):		
Costs of services	\$ — \$ —	\$ — \$ —
Other income (expense), net	\$ — \$ 57	\$ — \$ (2,496)

## (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 June 30, 2016 and December 31, 2015 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.

Investments – The Company measures investments at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include market observable inputs, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. As of June 30, 2016, the investment, which consists of the Company’s first quarter 2015 \$9.0 million investment in CaféX Communication, Inc., continues to be recorded at \$9.0 million.

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 (as defined in Note 10), 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 June 30, 2016 and December 31, 2015, the Company had \$135.0 million and \$100.0 million, respectively, of borrowings outstanding under the Credit Agreement. During the second quarter of 2016 outstanding borrowings accrued interest at an average rate of 1.5% 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 June 30, 2016, 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 June 30, 2016 and December 31, 2015 (in thousands):

As of June 30, 2016

	Fair Value Measurements Using			At Fair Value
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$ —	\$ (42,381)	\$ —	\$ (42,381)
Interest rate swaps	—	(352)	—	(352)
Fair value hedges	—	2,306	—	2,306
Total net derivative asset (liability)	\$ —	\$ (40,427)	\$ —	\$ (40,427)

As of December 31, 2015

	Fair Value Measurements Using			At Fair Value
	Quoted Prices for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$ —	\$ (45,722)	\$ —	\$ (45,722)
Interest rate swaps	—	(651)	—	(651)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Fair value hedges	—	2,373	—	2,373
Total net derivative asset (liability)	\$ —	\$ (44,000)	\$ —	\$ (44,000)

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 June 30, 2016 and December 31, 2015 (in thousands):

As of June 30, 2016

	Fair Value Measurements Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other	Unobservable
	Identical Assets	Observable Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Assets			
Derivative instruments, net	\$ —	\$ —	\$ —
Total assets	\$ —	\$ —	\$ —
Liabilities			
Deferred compensation plan liability	\$ —	\$ (10,366)	\$ —
Derivative instruments, net	—	(40,427)	—
Contingent consideration	—	—	(4,206)
Total liabilities	\$ —	\$ (50,793)	\$ (4,206)

As of December 31, 2015

	Fair Value Measurements Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other	Unobservable
	Identical Assets	Observable Inputs	Inputs
	(Level 1)	(Level 2)	(Level 3)
Assets			
Derivative instruments, net	\$ —	\$ —	\$ —
Total assets	\$ —	\$ —	\$ —
Liabilities			
Deferred compensation plan liability	\$ —	\$ (9,821)	\$ —
Derivative instruments, net	—	(44,000)	—
Contingent consideration	—	—	(13,450)
Total liabilities	\$ —	\$ (53,821)	\$ (13,450)

Deferred Compensation Plan — The Company maintains a non-qualified deferred compensation plan structured as a Rabbi trust for certain eligible employees. Participants in the deferred compensation plan select from a menu of phantom investment options for their deferral dollars offered by the Company each year, which are based upon changes in value of complementary, defined market investments. The deferred compensation liability represents the combined values of market investments against which participant accounts are tracked.

Contingent Consideration — The Company recorded contingent consideration related to the acquisitions of iKnowtion, Sofica and rogenSi. These contingent payables were recognized at fair value using a discounted cash flow approach and a discount rate of 21.0%, 5.0% or 4.6%, respectively. The discount rates vary dependant on the specific risks of each acquisition including the country of operation, the nature of services and complexity of the acquired business, and other similar factors. These measurements were based on significant inputs not observable in the market. The Company will record interest expense each period using the effective interest method until the future value of these contingent payables reaches their expected future value of \$4.3 million. Interest expense related to all recorded contingent payables is included in Interest expense in the Consolidated Statements of Comprehensive Income (Loss).

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

During the second quarter of 2015, the Company recorded a fair value adjustment of the contingent consideration associated with the Sofica reporting unit within the CMS segment based on revised estimates reflecting Sofica earnings would be lower than revised estimates for 2015. Accordingly a \$0.5 million decrease in the payable was recorded as of June 30, 2015 and was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

During the third and fourth quarters of 2015, the Company recorded fair value adjustments of the contingent consideration associated with the rogenSi reporting unit within the CSS segment based on revised estimates reflecting rogenSi earnings would be higher and then lower than anticipated for 2015. Accordingly a \$0.5 million increase and a \$0.3 million decrease to the payable was recorded as of September 30, 2015 and December 31, 2015, respectively, and was included in Other income (expense) in the Consolidated Statements of Comprehensive Income (Loss).

A rollforward of the activity in the Company's fair value of the contingent consideration payable is as follows (in thousands):

	December 31, 2015	Acquisitions	Payments	Imputed Interest / Adjustments	June 30, 2016
iKnowtion	\$ 500	\$ —	\$ (500)	\$ —	\$ —
Sofica	3,153	—	(3,146)	(7)	—
rogenSi	9,797	—	(5,793)	202	4,206
Total	\$ 13,450	\$ —	\$ (9,439)	\$ 195	\$ 4,206

## (8)INCOME TAXES

The Company accounts for income taxes in accordance with the accounting literature for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. Quarterly, the Company assesses the likelihood that its net deferred tax assets will be recovered. Based on the weight of all available evidence, both positive and negative, the Company records a valuation allowance against deferred tax assets when it is more-likely-than-not that a future tax benefit will not be realized.

In accordance with ASC 740, the Company recorded a liability during the second quarter of 2015 of \$1.75 million and during the first quarter of 2016 of \$1.1 million, inclusive of penalties and interest, for uncertain tax positions. See



Note 1 for further information on these items.

During the second quarter of 2016, \$0.3 million of liability was released due to the closing of a statute of limitations.

As of June 30, 2016, the Company had \$48.0 million of gross deferred tax assets (after a \$10.0 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$44.5 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three and six months ended June 30, 2016 was 19.1% and 23.4%, respectively. The effective tax rate for the three and six months ended June 30, 2015 was 33.6% and 25.6%, respectively.

18

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company's U.S. income tax returns filed for the tax years ending December 31, 2012 to present remain open tax years. The Company has been notified of the intent to audit, or is currently under audit, of income taxes for rogenSi in Hong Kong for the tax year 2014, Canada for tax years 2009 and 2010 and New Zealand for tax year the 2013. Although the outcome of examinations by taxing authorities are always uncertain, it is the opinion of management that the resolution of these audits will not have a material effect on the Company's Consolidated Financial Statements. The Company has successfully closed their audit in the U.S. for the acquired entity Technology Solutions Group for the tax year 2012 (prior to acquisition), with no changes.

The Company has been granted "Tax Holidays" as an incentive to attract foreign investment by the governments of the Philippines and Costa Rica. Generally, a Tax Holiday is an agreement between the Company and a foreign government under which the Company receives certain tax benefits in that country, such as exemption from taxation on profits derived from export-related activities. In the Philippines, the Company has been granted multiple agreements with an initial period of four years and additional periods for varying years, expiring at various times between 2011 and 2020. The aggregate effect on income tax expense for the three months ended June 30, 2016 and 2015 was approximately \$1.0 million and \$1.4 million, respectively, which had a favorable impact on diluted net income per share of \$0.02 and \$0.03, respectively. The aggregate effect on income tax expense for the six months ended June 30, 2016 and 2015 was approximately \$3.4 million and \$3.7 million, respectively, which had a favorable impact on diluted net income per share of \$0.07 and \$0.08, respectively.

## (9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

## Restructuring Charges

During the three and six months ended June 30, 2016 and 2015, the Company continued restructuring activities primarily associated with reductions in the Company's capacity, workforce and related management in three of the segments to better align the capacity and workforce with current business needs.

A summary of the expenses recorded in Restructuring, net in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015, respectively, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reduction in force				
Customer Management Services	\$ (92)	\$ 39	\$ (4)	\$ 815
Customer Growth Services	—	—	—	—
Customer Technology Services	10	—	10	—

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Customer Strategy Services	10	159	10	192
Total	\$ (72)	\$ 198	\$ 16	\$ 1,007

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Facility exit charges				
Customer Management Services	\$ 153	\$ —	\$ 153	\$ —
Customer Growth Services	—	—	—	—
Customer Technology Services	33	—	33	—
Customer Strategy Services	—	—	—	—
Total	\$ 186	\$ —	\$ 186	\$ —

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

A rollforward of the activity in the Company's restructuring accruals is as follows (in thousands):

	Facility Exit Charges	Reduction in Force	Total
Balance as of December 31, 2015	\$ —	\$ 806	\$ 806
Expense	186	201	387
Payments	—	(252)	(252)
Change due to foreign currency	—	(66)	(66)
Change in estimates	—	(185)	(185)
Balance as of June 30, 2016	\$ 186	\$ 504	\$ 690

The remaining restructuring accruals are expected to be paid or extinguished during 2016 or 2017 and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

## Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain delivery centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of its asset group are estimated to be less than the asset group's carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three and six months ended June 30, 2016 and 2015, the Company recognized no losses related to leasehold improvement assets.

## (10) COMMITMENTS AND CONTINGENCIES

## Credit Facility

On February 11, 2016, the Company entered into a First Amendment to our June 3, 2013 Amended and Restated Credit Agreement and Amended and Restated Security Agreement (collectively the "Credit Agreement") for a senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders led by Wells Fargo Bank, National Association. The Credit Agreement provides for a secured revolving credit facility that matures on February 11, 2021 with an initial maximum aggregate commitment of \$900.0 million, and an accordion feature of up to \$1.2 billion in the aggregate, if certain conditions are satisfied.

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo's prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate ("LIBOR"); plus in each case a margin of 0% to 0.75 based on the Company's net leverage ratio. Eurodollar loans bear interest at LIBOR plus a margin of 1.0% to 1.75% based on the Company's net leverage ratio. Alternate currency loans bear interest at rates applicable to their respective currencies.

The Company is obligated to maintain a maximum net leverage ratio of 3.25 to 1.00, and a minimum Interest Coverage Ratio of 2.50 to 1.00.

20

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases, dividends and other strategic activities, such as the acquisitions described in Note 2. As of June 30, 2016 and December 31, 2015, the Company had borrowings of \$135.0 million and \$100.0 million, respectively, under its Credit Agreement, and its average daily utilization was \$342.2 million and \$323.5 million for the six months ended June 30, 2016 and 2015, respectively. After consideration for issued letters of credit under the Credit Agreement, totaling \$3.4 million, and current level of availability based on covenant calculations, the Company's remaining borrowing capacity was approximately \$420 million as of June 30, 2016. As of June 30, 2016, the Company was in compliance with all covenants and conditions under its Credit Agreement.

## Letters of Credit

As of June 30, 2016, outstanding letters of credit under the Credit Agreement totaled \$3.4 million and primarily guaranteed workers' compensation and other insurance related obligations. As of June 30, 2016, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled \$5.4 million.

## Legal Proceedings

From time to time, the Company has been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. The Company accrues for exposures associated with such legal actions to the extent that losses are deemed both probable and reasonably estimable. To the extent specific reserves have not been made for certain legal proceedings, their ultimate outcome, and consequently, an estimate of possible loss, if any, cannot reasonably be determined at this time.

Based on currently available information and advice received from counsel, the Company believes that the disposition or ultimate resolution of any current legal proceedings, except as otherwise specifically reserved for in its financial statements, will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

## (11)NONCONTROLLING INTEREST

The following table reconciles equity attributable to noncontrolling interest (in thousands):

	Six Months Ended June 30,	
	2016	2015
Noncontrolling interest, January 1	\$ 7,201	\$ 7,983
Net income attributable to noncontrolling interest	1,606	1,735

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Dividends distributed to noncontrolling interest	(1,710)	(2,025)
Foreign currency translation adjustments	(74)	(198)
Other	10	—
Equity-based compensation expense	69	90
Noncontrolling interest, June 30	\$ 7,102	\$ 7,585

(12)MANDATORILY REDEEMABLE NONCONTROLLING INTEREST

The Company held an 80% interest in iKnowtion until January 1, 2016 when the additional 20% was purchased. In the event iKnowtion met certain EBITDA targets for calendar year 2015, the purchase and sale agreement required 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 represented a contingent redemption feature which the Company determined was probable of being achieved.

Based on final EBITDA for 2015, the payment for the remaining 20% was completed in April 2016 for the value shown in the table below in accordance with the purchase and sale agreement.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company recorded the mandatorily redeemable noncontrolling interest at the redemption value based on the corresponding EBITDA multiples as prescribed in the purchase and sale agreement at the end of each reporting period. At the end of each reporting period the changes in the redemption value are recorded in retained earnings. Since the EBITDA multiples as defined in the purchase and sale agreement are below the current market multiple, the Company has determined that there is no preferential treatment to the noncontrolling interest shareholders resulting in no impact to earnings per share.

A rollforward of the mandatorily redeemable noncontrolling interest is included in the table below (in thousands).

	Six Months Ended June 30,	
	2016	2015
Mandatorily redeemable noncontrolling interest, January 1	\$ 4,131	\$ 2,814
Net income attributable to mandatorily redeemable noncontrolling interest	—	325
Working capital distributed to mandatorily redeemable noncontrolling interest	(492)	(632)
Change in redemption value	466	903
Purchase of mandatorily redeemable noncontrolling interest	(4,105)	—
Mandatorily redeemable noncontrolling interest, June 30	\$ —	\$ 3,410

## (13) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in the accumulated balance for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (in thousands):



	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
Accumulated other comprehensive income (loss) at December 31, 2014	\$ (33,352)	\$ (18,345)	\$ (577)	\$ (52,274)
Other comprehensive income (loss) before reclassifications	(17,147)	(5,410)	(2,815)	(25,372)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,441	454	2,895
Net current period other comprehensive income (loss)	(17,147)	(2,969)	(2,361)	(22,477)
Accumulated other comprehensive income (loss) at June 30, 2015	\$ (50,499)	\$ (21,314)	\$ (2,938)	\$ (74,751)
Accumulated other comprehensive income (loss) at December 31, 2015	\$ (71,196)	\$ (26,885)	\$ (3,284)	\$ (101,365)
Other comprehensive income (loss) before reclassifications	546	8,887	804	10,237
Amounts reclassified from accumulated other comprehensive income (loss)	—	(7,010)	(404)	(7,414)
Net current period other comprehensive income (loss)	546	1,877	400	2,823
Accumulated other comprehensive income (loss) at June 30, 2016	\$ (70,650)	\$ (25,008)	\$ (2,884)	\$ (98,542)

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents the classification and amount of the reclassifications from Accumulated other comprehensive income (loss) to the statement of comprehensive income (loss) (in thousands):

	For the Three Months Ended June 30,		Statement of
	2016	2015	Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	\$ (5,860)	\$ (2,506)	Revenue
Loss on interest rate swaps	(102)	(262)	Interest expense
Tax effect	2,505	1,467	Provision for income taxes
	\$ (3,457)	\$ (1,301)	Net income (loss)
Other			
Actuarial loss on defined benefit plan	\$ (224)	\$ (230)	Cost of services
Tax effect	22	22	Provision for income taxes
	\$ (202)	\$ (208)	Net income (loss)

	For the Six Months Ended June 30,		Statement of
	2016	2015	Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	\$ (11,757)	\$ (4,213)	Revenue
Loss on interest rate swaps	(331)	(519)	Interest expense
Tax effect	5,078	2,291	Provision for income taxes
	\$ (7,010)	\$ (2,441)	Net income (loss)
Other			
Actuarial loss on defined benefit plan	\$ (448)	\$ (504)	Cost of services
Tax effect	44	50	Provision for income taxes
	\$ (404)	\$ (454)	Net income (loss)

## (14) NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted shares for the periods indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares used in basic earnings per share calculation	47,873	48,325	48,120	48,347
Effect of dilutive securities:				
Stock options	10	397	14	392
Restricted stock units	324	321	335	358
Performance-based restricted stock units	14	21	14	16
Total effects of dilutive securities	348	739	363	766
Shares used in dilutive earnings per share calculation	48,221	49,064	48,483	49,113

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended June 30, 2016 and 2015, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the six months ended June 30, 2016 and 2015, options to purchase 0.1 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the three months ended June 30, 2016 and 2015, restricted stock units (“RSUs”) of 0.1 million and 0.3 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive. For the six months ended June 30, 2016 and 2015, RSUs of 0.2 million and 0.3 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

(15) EQUITY-BASED COMPENSATION PLANS

All equity-based awards to employees are recognized in the Consolidated Statements of Comprehensive Income (Loss) at the fair value of the award on the grant date. During the three and six months ended June 30, 2016 and 2015, the Company recognized total compensation expense of \$1.8 million and \$4.6 million and \$2.6 million and \$5.3 million, respectively. Of the total compensation expense, \$0.6 million and \$1.3 million was recognized in Cost of services and \$1.2 million and \$3.3 million was recognized in Selling, general and administrative during the three and six months ended June 30, 2016. During the three and six months ended June 30, 2015, the Company recognized compensation expense of \$0.5 million and \$1.1 million in Cost of Services and \$2.1 million and \$4.2 million, in Selling, general and administrative, respectively.

Restricted Stock Unit Grants

During the six months ended June 30, 2016 and 2015, the Company granted 91,405 and 169,252 RSUs, respectively, to new and existing employees, which vest in equal installments over four or five years. The Company recognized compensation expense related to RSUs of \$1.8 million and \$4.6 million for the three and six months ended June 30, 2016, respectively. The Company recognized compensation expense related to RSUs of \$2.5 million and \$5.1 million for the three and six months ended June 30, 2015, respectively. As of June 30, 2016, there was approximately \$21.2 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company’s equity plans.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“Litigation Reform Act”), relating to our future operations, expected financial condition and prospects, results of operation, continuation of client relationships, and other business matters that are based on our current expectations, assumptions, business strategy, and projections with respect to the future, and are not a guarantee of performance. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A, “Risk Factors.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “likely result,” and similar expressions. When we discuss our strategy, plans, goals, initiatives, or objectives, we are making forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Litigation Reform Act.

We caution you not to rely unduly on any forward-looking statements. Actual results may differ materially from what is expressed in the forward-looking statements, and you should review and consider carefully the risks, uncertainties and other factors that affect our business and may cause such differences, as outlined but are not limited to factors discussed in the “Risk Factors” section of our 2015 Annual Report on Form 10-K. The risk factors we wish for you to be aware of in particular include but are not limited to the risk inherent in the volatile and uncertain economic conditions, the fact that a large portion of our revenue is generated from a limited number of clients and the loss of one or more of these clients or a large portion of one client’s business could have adversely effect on our results of operations, the risk of client consolidation, the possibility that the current trend among clients to outsource their customer care may not continue, the competitiveness of our markets, the risk of information systems breach and related impact on our clients and their data, our geographic concentration, the risk inherent in the terms of our contracts that we do not always have the opportunity to negotiate, the risk related to our international footprint, how our foreign currency exchange risk can adversely impact our results of operations, the risk of changes in law that impact our business and our ability to comply with all the laws that relate to our operations, the risk related to the reliability of the information infrastructure that we use and our ability to deliver uninterrupted service to our clients, the risk of not being able to forecast demand for services accurately and the related impact on capacity utilization, our inability to attract and retain qualified and skilled personnel, impact of changing technologies on our services and solutions, the restrictive covenants contained in our credit facility that may impact our ability to execute our strategy and operate our business, the supply chain disruption related risk, the risk to innovation due to unforeseen intellectual property infringement, the risk related to our M&A activity and our ability to identify, acquire and properly integrate acquired businesses in accordance with our strategy, the controlling shareholder risk, and the volatility of our stock price that may result in loss of investment.

The forward-looking statements are based on information available as of the date that this Form 10-Q is filed with the United States Securities and Exchange Commission (“SEC”) and we undertake no obligation to update them, except as may be required by applicable laws. They are based on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct.



Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

TeleTech Holdings, Inc. ("TeleTech", "the Company", "we", "our" or "us") is a customer engagement management service provider that delivers integrated consulting, technology, growth and customer care solutions on a global scale. Our suite of products and services allows us to design and deliver engaging, outcome-based customer experiences across numerous interaction channels. Our solutions are supported by 41,500 employees delivering services in 24 countries from 73 delivery centers on six continents. Our revenue for the quarter ended June 30, 2016 was \$305 million.

Since our establishment in 1982, we have helped clients strengthen their customer relationships, brand recognition and loyalty through customer engagement solutions. We deliver thought leadership, technology and innovation that create customer strategies designed to differentiate our clients from their competition; data analytics that personalize interactions and increase customer value; and integration services that connect clients' customer relationship management ("CRM") system to a cloud-based collaboration platform, leading to customer interactions that are seamless and relevant.

Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments: Customer Management Services ("CMS"), Customer Growth Services ("CGS"), Customer Technology Services ("CTS") and Customer Strategy Services ("CSS"). Our integrated customer experience managed services platform differentiates the Company by combining strategic consulting, data analytics, process optimization, system design and integration, operational excellence, and technology solutions and services.

We have developed tailored expertise in the automotive, communications, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000 and serve approximately 300 global clients.

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying our traditional business process outsourcing services of our CMS segment into higher-value consulting, data analytics, digital marketing and technology-enabled services. Of the \$305.1 million in revenue we reported in the current period, approximately 30% or \$92.3 million came from the CGS, CTS and CSS segments (our "Emerging Segments"), focused on customer-centric strategy, growth and technology-based services, with the remainder of our revenue coming from our CMS contact center business.

Our strong balance sheet, cash flows from operations and access to debt and capital markets have historically provided us the financial flexibility to effectively fund our organic growth, capital expenditures, strategic acquisitions and incremental investments. Additionally, we continue to return capital to our shareholders via an ongoing stock repurchase program and regular semi-annual dividends. As of June 30, 2016, our cumulative authorized repurchase allowance was \$712.3 million, of which we repurchased 44.1 million shares for \$678.9 million. For the period from June 30, 2016 through July 27, 2016, we repurchased 204 thousand additional shares. The stock repurchase program does not have an expiration date.

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TeleTech's performance, cash flows, capital needs and liquidity factors. Given our cash flow generation and balance sheet strength, we believe cash dividends and early returns to shareholders through share repurchases, in balance with our investments in innovation and strategic acquisitions, align shareholder interests with the needs of the Company. The initial dividend

of \$0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. A second dividend of \$0.18 per common share was paid on October 14, 2015 to shareholders of record as of September 30, 2015. A third dividend of \$0.185 per common share was paid on April 15, 2016 to shareholders of record as of March 31, 2016.

#### Our Integrated Service Offerings and Business Segments

We have four operating and reportable segments, which provide an integrated set of services including:

26

---



## Table of Contents

### Customer Strategy Services

We typically begin by engaging our clients at a strategic level. Through our strategy, change management and analytics-driven consulting expertise, we help our clients design, build and execute their customer engagement strategies. We help our clients to better understand and predict their customers' behaviors and preferences along with their current and future economic value. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this segment involves instilling a high performance culture through management and leadership alignment and process optimization.

### Customer Technology Services

Once the design of the customer engagement is completed, our ability to architect, deploy and host or manage the client's customer management environment becomes a key enabler to achieving and sustaining the client's customer engagement vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer management environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients. Through our proprietary Humanify™ technology, we also provide data-driven context aware SaaS-based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

### Customer Management Services

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, email, e-commerce and social media to optimize the customer experience for our clients. In addition, we manage certain client back-office processes to enhance their customer-centric view of relationships and maximize operating efficiencies. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

### Customer Growth Services

We offer integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver approximately \$2 billion in client revenue annually via the acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and our proprietary Revana Analytic Multichannel Platform™. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications. As a result of our acquisition of the digital agency Web Metro, we have developed an integrated marketing-to-sales platform that links online searches to live sales through a closed loop, multichannel interface. This platform uses proprietary tools and methodology to capture and use more than 400 marketing and sales data points to engage with customers in relevant conversations.

Based on our clients' requirements, we provide our services on an integrated cross-business segment and on a discrete basis.



Table of Contents

We are currently providing services to clients in the following verticals for each segment:

CMS	CGS	CTS	CSS
Automotive	Automotive	Automotive	Automotive
Communication	Communication	Communication	Communication
Financial Services	Financial Services	Financial Services	Financial Services
Government	Healthcare	Government	Government
Healthcare	Media and Entertainment	Healthcare	Healthcare
Media and Entertainment	Technology	Media and Entertainment	Media and Entertainment
Retail	Travel and Transportation	Retail	Retail
Technology		Technology	Technology
		Travel and Transportation	

In the second quarter of 2016, our revenue decreased 1.6% to \$305.1 million over the same period in 2015 including a decrease of 2.7% or \$8.5 million due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real. This decrease in revenue is comprised of growth of 21% in the CGS segment offset by a decrease in the CMS segment primarily due to foreign currency fluctuations and lower volumes in the CSS segment due to decreases in our Middle East consulting business in connection with macro-economic trends. Revenue, adjusted for the \$8.5 million decrease related to foreign exchange, increased by \$3.4 million, or 1.1%, over the prior year.

Our second quarter 2016 income from operations decreased 30.5% to \$16.2 million or 5.3% of revenue, from \$23.4 million or 7.5% of revenue in the second quarter of 2015. This decrease is primarily due to lower capacity utilization, the adverse impact of foreign exchange fluctuations and lower CSS revenue. Income from operations in the second quarter of 2016 and 2015 included \$0.1 million and \$0.2 million of restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based in the U.S. and in other countries and spans five countries with 22,650 workstations, representing 63% of our global delivery capability. Revenue for our CMS and CGS segments that is provided in these offshore locations was \$104 million and represented 42% of our revenue for the second quarter of 2016, as compared to \$112 million and 44% of our revenue for 2015.

Our cash flow from operations and available credit allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At June 30, 2016, we had \$55.3 million of cash and cash equivalents, total debt of \$146.2 million, and a total debt to total capitalization ratio of 25.6%.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of June 30, 2016, the overall capacity utilization in our centers was 70%. The table below presents workstation data for all of our centers as of June 30, 2016 and 2015. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	June 30, 2016			June 30, 2015		
	Total		% In	Total		% In
	Production	In Use	Use	Production	In Use	Use
	Workstations			Workstations		
Total centers						
Sites open >1 year	34,914	24,270	70 %	30,018	23,222	77 %
Sites open <1 year	861	724	84 %	2,384	1,666	70 %
Total multi-client centers	35,775	24,994	70 %	32,402	24,888	77 %

The reduction in utilization in the second quarter of 2016 compared to the second quarter of 2015 is due to the fact that we have transitioned staff from existing sites in the Philippines to a dedicated Supersite for a large client and have not fully backfilled the utilization with new client work at the existing sites.

Table of Contents

While we continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue with our clients, some of our clients have regulatory pressures to bring the services onshore to the United States. In light of these trends we plan to continue to selectively retain and grow capacity and expand into new offshore markets, while maintaining appropriate capacity in the United States. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increases, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

## Recently Issued Accounting Pronouncements

Refer to Part I, Item I, Financial Statements, Note 1 to the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. For further information, please refer to the discussion of all critical accounting policies in Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2015.

## Results of Operations

Three months ended June 30, 2016 compared to three months ended June 30, 2015

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the three months ended June 30, 2016 and 2015 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

## Customer Management Services

	Three Months Ended June 30,				
	2016	2015	\$ Change	% Change	
Revenue	\$ 212,807	\$ 219,316	\$ (6,509)	(3.0)	%
Operating Income	8,339	13,324	(4,985)	(37.4)	%
Operating Margin	3.9 %	6.1 %			

The decrease in revenue for the Customer Management Services segment was attributable to a \$4.3 million net increase in client programs offset by program completions of \$3.1 million. Revenue was further impacted by a \$7.7 million reduction due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real.

The operating income as a percentage of revenue decreased to 3.9% in the second quarter of 2016 as compared to 6.1% in the prior period. The operating margin decreased due to an increased ratio of revenue generated from our onshore vs. offshore delivery centers, the adverse impact of foreign currency fluctuations and lower capacity utilization. Included in the operating income was amortization related to acquired intangibles of \$0.2 million and \$0.2 million for the quarters ended June 30, 2016 and 2015, respectively.

Table of Contents

## Customer Growth Services

	Three Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 36,893	\$ 30,570	\$ 6,323	20.7	%
Operating Income	3,482	2,122	1,360	64.1	%
Operating Margin	9.4 %	6.9 %			

The increase in revenue for the Customer Growth Services segment was due to an \$8.5 million increase in client programs offset by program completions of \$1.7 million and a \$0.5 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 9.4% in the second quarter of 2016 as compared to 6.9% in the prior period. This increase is attributable to the 20.7% revenue growth and increased efficiency in CGS' selling, general and administrative expenses. Included in the operating income was amortization related to acquired intangibles of \$0.7 million and \$0.7 million for the quarters ended June 30, 2016 and 2015, respectively.

## Customer Technology Services

	Three Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 37,350	\$ 38,087	\$ (737)	(1.9)	%
Operating Income	3,376	3,250	126	3.9	%
Operating Margin	9.0 %	8.5 %			

The revenue for the Customer Technology Services segment was relatively flat with increases for the Cisco offerings offset by decreases for the Avaya offerings.

The operating income as a percentage of revenue increased to 9.0% in the second quarter of 2016 as compared to 8.5% in the prior period. The improvement in operating income margin is attributable to significant improvements in the margins in CTS' CRM and Cloud services. The increase was offset by increases in the selling, general and administrative expenses. Included in the operating income was amortization related to acquired intangibles of \$1.1 million and \$1.0 million for the quarters ended June 30, 2016 and 2015, respectively.

## Customer Strategy Services

Three  
Months Ended June 30,

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	2016	2015	\$ Change	% Change	
Revenue	\$ 18,055	\$ 22,250	\$ (4,195)	(18.9)	%
Operating Income	1,031	4,656	(3,625)	(77.9)	%
Operating Margin	5.7 %	20.9 %			

The decrease in revenue for the Customer Strategy Services segment was most significantly related to declines in the Middle East consulting business consistent with the first quarter of 2016. The negative foreign exchange impact on revenue was \$0.3 million.

The operating income as a percentage of revenue was 5.7% in the second quarter of 2016 as compared to 20.9% in the prior period. The operating income decrease was related to the decline in revenue as well as planned investments in practice area and geographic expansion. Included in the operating income was amortization expense of \$0.7 million and \$0.9 million for the quarters ended June 30, 2016 and 2015, respectively.



Table of Contents

## Interest Income (Expense)

For the three months ended June 30, 2016 interest income decreased to \$0.3 million from \$0.4 million in the same period in 2015. Interest expense increased to \$1.8 million during 2016 from \$1.7 million during 2015 primarily due to higher outstanding balances on the Credit Facility.

## Income Taxes

The effective tax rate for the three months ended June 30, 2016 was 19.1%. This compares to an effective tax rate of 33.6% for the comparable period of 2015. The effective tax rate for the three months ended June 30, 2016 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without \$0.3 million of benefit related to uncertain tax positions, \$1.0 million of expense related to valuation allowances, \$0.1 million of expense related to tax rate changes, and \$0.7 million of expense related to return to provision adjustments, the Company's effective tax rate for the second quarter of 2016 would have been 9.1%.

## Results of Operations

Six months ended June 30, 2016 compared to six months ended June 30, 2015

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the six months ended June 30, 2016 and 2015 (in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

## Customer Management Services

	Six Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 440,728	\$ 462,325	\$ (21,597)	(4.7)	%
Operating Income	23,934	35,026	(11,092)	(31.7)	%
Operating Margin	5.4	% 7.6			%

The decrease in revenue for the Customer Management Services segment was attributable to a \$4.0 million net increase in client programs offset by program completions of \$9.0 million. Revenue was further impacted by a \$16.6 million reduction due to foreign currency fluctuations, primarily the Australian dollar and the Brazilian Real.

The operating income as a percentage of revenue decreased to 5.4% in the six months ended June 30, 2016 as compared to 7.6% in the prior period. The operating margin decrease is attributable to a shift in business mix to onshore vs. offshore, lower capacity utilization and the adverse impact of foreign exchange fluctuations. Included in the operating income was amortization related to acquired intangibles of \$0.4 million and \$0.5 million for the six months ended June 30, 2016 and 2015, respectively.

## Customer Growth Services

	Six Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 70,412	\$ 56,526	\$ 13,886	24.6	%
Operating Income	3,977	2,148	1,829	85.1	%
Operating Margin	5.6	% 3.8			%

The increase in revenue for the Customer Growth Services segment was due to a \$18.6 million increase in client programs offset by program completions of \$3.4 million and a \$1.3 million reduction due to foreign currency fluctuations.

Table of Contents

The operating income as a percentage of revenue increased to 5.6% in the six months ended June 30, 2016 as compared to 3.8% in the prior period. This increase was primarily driven by increased revenue and improvements in the efficiency of the selling, general and administrative expenses. Included in the operating income was amortization related to acquired intangibles of \$1.3 million and \$1.3 million for the six months ended June 30, 2016 and 2015, respectively.

## Customer Technology Services

	Six Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 72,618	\$ 73,801	\$ (1,183)	(1.6)	%
Operating Income	6,156	5,259	897	17.1	%
Operating Margin	8.5	7.1			%

The decrease in revenue for the Customer Technology Services segment was driven by increases for the Cisco offerings offset by decreases for the Avaya offerings.

The operating income as a percentage of revenue increased to 8.5% in the six months ended June 30, 2016 as compared to 7.1% in the prior period. The improvement in operating income margin is attributable to significant increases in the profitability of the CRM, Cloud, Managed Service and Consulting services offset by increases in the selling, general and administrative expenses. Included in the operating income was amortization related to acquired intangibles of \$2.3 million and \$2.0 million for the six months ended June 30, 2016 and 2015, respectively.

## Customer Strategy Services

	Six Months Ended June 30,		\$ Change	% Change	
	2016	2015			
Revenue	\$ 33,757	\$ 43,092	\$ (9,335)	(21.7)	%
Operating Income (Loss)	(86)	7,047	(7,133)	(101.2)	%
Operating Margin	(0.3)	16.4			%

The decrease in revenue for the Customer Strategy Services segment was most significantly related to the decrease in Middle East consulting business as well as some revenue volatility in other regions.

The operating loss as a percentage of revenue was (0.3)% in the six months ended June 30, 2016 as compared to income of 16.4% in the prior period. The operating margin decrease related to lower revenue as well as the planned investments in practice areas and geographic expansion. Included in the operating income was amortization expense of \$1.5 million and \$1.6 million for the six months ended June 30, 2016 and 2015, respectively.

## Interest Income (Expense)

For the six months ended June 30, 2016 interest income decreased to \$0.4 million from \$0.7 million in the same period in 2015. Interest expense increased to \$3.7 million during 2016 from \$3.4 million during 2015 primarily related to higher outstanding balances on the Credit Facility.

Other Income (Expense), Net

Included in the six months ended June 30, 2015 was a \$0.5 million benefit related to a fair value adjustment of the contingent consideration for one of our acquisitions (see Part 1, Item 1. Financial Statements, Note 7 to the Consolidated Financial Statements for further details).

## Table of Contents

### Income Taxes

The effective tax rate for the six months ended June 30, 2016 was 23.4%. This compares to an effective tax rate of 25.6% for the comparable period of 2015. The effective tax rate for the six months ended June 30, 2016 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without \$0.8 million of expense related to a reserve for uncertain tax positions, \$0.7 million of expense related to return to provision, and \$0.9 million of expense related to valuation allowances, the Company's effective tax rate for the six months ended June 30, 2016 would have been 15.9%.

### Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Credit Facility. During the quarter ended June 30, 2016, we generated positive operating cash flows of \$53.0 million. We believe that our cash generated from operations, existing cash and cash equivalents, and available credit will be sufficient to meet expected operating and capital expenditure requirements for the next 12 months.

We manage a centralized global treasury function in the United States with a focus on concentrating and safeguarding our global cash and cash equivalents. While the majority of our cash is held outside the U.S., we prefer to hold U.S. Dollars in addition to the local currencies of our foreign subsidiaries. We expect to use our offshore cash to support working capital and growth of our foreign operations. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners and utilization of diversified, high quality investments.

We have global operations that expose us to foreign currency exchange rate fluctuations that may positively or negatively impact our liquidity. We are also exposed to higher interest rates associated with our variable rate debt. To mitigate these risks, we enter into foreign exchange forward and option contracts and interest rate swaps through our cash flow hedging program. Please refer to Item 3. Quantitative and Qualitative Disclosures About Market Risk, Foreign Currency Risk, for further discussion.

The following discussion highlights our cash flow activities during the six months ended June 30, 2016 and 2015.

### Cash and Cash Equivalents

We consider all liquid investments purchased within 90 days of their original maturity to be cash equivalents. Our cash and cash equivalents totaled \$55.3 million and \$60.3 million as of June 30, 2016 and December 31, 2015, respectively. We diversify the holdings of such cash and cash equivalents considering the financial condition and stability of the counterparty institutions.

We reinvest our cash flows to grow our client base, expand our infrastructure, for investment in research and development, for strategic acquisitions, for the purchase of our outstanding stock and to pay dividends.

### Cash Flows from Operating Activities

For the six months ended June 30, 2016 and 2015, net cash flows provided by operating activities was \$53.0 million and \$85.5 million, respectively. The decrease was primarily due to \$15.3 million in cash paid for prepaid assets and a \$34.7 million increase in payments made for operating expenses, offset by a \$14.8 million increase in cash collected from accounts receivable.

Cash Flows from Investing Activities

For the six months ended June 30, 2016 and 2015, we reported net cash flows used in investing activities of \$28.1 million and \$40.2 million, respectively. The decrease was due to a \$1.8 million decrease in capital expenditures and the \$9.0 million investment made during the first six months of 2016.

33

---

Table of Contents

## Cash Flows from Financing Activities

For the six months ended June 30, 2016 and 2015, we reported net cash flows used in financing activities of \$28.0 million and \$21.4 million, respectively. The change in net cash flows from 2015 to 2016 was primarily due to a \$20.0 million increase in the Credit Facility, a decrease in the contingent consideration and hold-back acquisition payments, offset by a \$23.9 million increase in purchases of our outstanding common stock, and \$1.8 million paid for debt reissuance costs.

## Free Cash Flow

Free cash flow (see “Presentation of Non-GAAP Measurements” below for the definition of free cash flow) decreased for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 due to the decrease in cash flows provided by operating activities offset by an decrease in capital expenditures. Free cash flow was \$25.3 million and \$56.0 million for the six months ended June 30, 2016 and 2015, respectively.

## Presentation of Non-GAAP Measurements

## Free Cash Flow

Free cash flow is a non-GAAP liquidity measurement. We believe that free cash flow is useful to our investors because it measures, during a given period, the amount of cash generated that is available for debt obligations and investments other than purchases of property, plant and equipment. Free cash flow is not a measure determined by GAAP and should not be considered a substitute for “income from operations,” “net income,” “net cash provided by operating activities,” or any other measure determined in accordance with GAAP. We believe this non-GAAP liquidity measure is useful, in addition to the most directly comparable GAAP measure of “net cash provided by operating activities,” because free cash flow includes investments in operational assets. Free cash flow does not represent residual cash available for discretionary expenditures, since it includes cash required for debt service. Free cash flow also includes cash that may be necessary for acquisitions, investments and other needs that may arise.

The following table reconciles net cash provided by operating activities to free cash flow for our consolidated results (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net cash provided by operating activities	\$ 41,488	\$ 81,693	\$ 53,026	\$ 85,513
Less: Purchases of property, plant and equipment	12,794	16,467	27,743	29,505
Free cash flow	\$ 28,694	\$ 65,226	\$ 25,283	\$ 56,008

## Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of June 30, 2016 are summarized as follows (in thousands):

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility(1)	\$ 3,194	\$ 5,927	\$ 139,692	\$ —	\$ 148,813
Equipment financing arrangements	1,729	1,888	455	—	4,072
Contingent consideration	—	4,337	—	—	4,337
Purchase obligations	8,570	12,185	4,035	518	25,308
Operating lease commitments	34,947	45,387	22,287	25,999	128,620
Other debt	2,175	3,422	1,553	—	7,150
Total	\$ 50,615	\$ 73,146	\$ 168,022	\$ 26,517	\$ 318,300

---

(1) Includes estimated interest payments based on the weighted-average interest rate, unused commitment fees, current interest rate swap arrangements, and outstanding debt as of June 30, 2016.



## Table of Contents

- Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.
- Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.
- The contractual obligation table excludes our liabilities of \$4.6 million related to uncertain tax positions because we cannot reliably estimate the timing of cash payments.

Our outstanding debt is primarily associated with the use of funds under our Credit Agreement to fund working capital, repurchase our common stock, pay dividends, and for other cash flow needs across our global operations.

## Future Capital Requirements

We expect total capital expenditures in 2016 to be approximately 4.5% of revenue. Approximately 65% of these expected capital expenditures are to support growth in our business and 35% relate to the maintenance for existing assets. The anticipated level of 2016 capital expenditures is primarily driven by new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

The amount of capital required over the next 12 months will depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. We can provide no assurance that we will be able to raise additional capital upon commercially reasonable terms acceptable to us.

## Client Concentration

During the six months ended June 30, 2016, one of our clients represented 10.2% of our total revenue. Our five largest clients accounted for 35.9% and 36.3% of our consolidated revenue for the three months ended June 30, 2016 and 2015, respectively. Our five largest clients accounted for 35.5% and 36.3% of our consolidated revenue for the six months ended June 30, 2016 and 2015, respectively. We have experienced long-term relationships with our top five clients, ranging from 10 to 20 years, with the majority of these clients having completed multiple contract renewals with us. The relative contribution of any single client to consolidated earnings is not always proportional to the relative revenue contribution on a consolidated basis and varies greatly based upon specific contract terms. In addition, clients may adjust business volumes served by us based on their business requirements. We believe the risk of this concentration is mitigated, in part, by the long-term contracts we have with our largest clients. Although certain client contracts may be terminated for convenience by either party, we believe this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

The contracts with our five largest clients expire between 2017 and 2020. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, consolidated results of operations, or consolidated cash flows due to adverse changes in financial and commodity market prices and rates. Market risk also includes credit and non-performance risk by counterparties to our various financial instruments. We are exposed to market risk due to changes in interest rates and foreign currency exchange rates (as measured against the U.S. dollar); as well as credit risk associated with potential non-performance of our counterparty banks. These exposures are directly related to our normal operating and funding activities. We enter into derivative instruments to

manage and reduce the impact of currency exchange rate changes, primarily between the U.S. dollar/Canadian dollar, the U.S. dollar/Philippine peso, the U.S. dollar/Mexican peso, and the Australian dollar/Philippine peso. We enter into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. To mitigate against credit and non-

Table of Contents

performance risk, it is our policy to only enter into derivative contracts and other financial instruments with investment grade counterparty financial institutions and, correspondingly, our derivative valuations reflect the creditworthiness of our counterparties. As of the date of this report, we have not experienced, nor do we anticipate, any issues related to derivative counterparty defaults.

## Interest Rate Risk

We entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate, the Federal Funds rate, or LIBOR and, therefore, is affected by changes in market interest rates. As of June 30, 2016, we had \$135.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three and six months ended June 30, 2016, interest accrued at a rate of approximately 1.5% per annum. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would be a \$1.0 million of additional interest expense per \$100.0 million of outstanding borrowing under the Credit Agreement.

The Company's interest rate swap arrangements as of June 30, 2016 and December 31, 2015 were as follows:

	Notional Amount	Variable Rate Received	Fixed Rate Paid		Contract Commencement Date	Contract Maturity Date
As of June 30, 2016:						
Swap 2	15 million \$ 15 million	1 - month LIBOR	3.14	%	May 2012	May 2017
As of December 31, 2015:						
Swap 1	\$ 25 million	1 - month LIBOR	2.55	%	April 2012	April 2016
Swap 2	15 million \$ 40 million	1 - month LIBOR	3.14	%	May 2012	May 2017

## Foreign Currency Risk

Our subsidiaries in Bulgaria, Canada, Costa Rica, Mexico, and the Philippines use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. For the six months ended June 30, 2016 and 2015, revenue associated with this foreign exchange risk was 32% and 30% of our consolidated revenue, respectively.

In order to mitigate the risk of these non-functional foreign currencies weakening against the functional currencies of the servicing subsidiaries, which thereby decreases the economic benefit of performing work in these countries, we may hedge a portion, though not 100%, of the projected foreign currency exposure related to client programs served from these foreign countries through our cash flow hedging program. While our hedging strategy can protect us from adverse changes in foreign currency rates in the short term, an overall weakening of the non-functional foreign currencies would adversely impact margins in the segments of the servicing subsidiary over the long term.

### Cash Flow Hedging Program

To reduce our exposure to foreign currency exchange rate fluctuations associated with forecasted revenue in non-functional currencies, we purchase forward and/or option contracts to acquire the functional currency of the foreign subsidiary at a fixed exchange rate at specific dates in the future. We have designated and account for these derivative instruments as cash flow hedges for forecasted revenue in non-functional currencies.

While we have implemented certain strategies to mitigate risks related to the impact of fluctuations in currency exchange rates, we cannot ensure that we will not recognize gains or losses from international transactions, as this is part of transacting business in an international environment. Not every exposure is or can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts

Table of Contents

for which actual results may differ from the original estimate. Failure to successfully hedge or anticipate currency risks properly could adversely affect our consolidated operating results.

Our cash flow hedging instruments as of June 30, 2016 and December 31, 2015 are summarized as follows (in thousands). All hedging instruments are forward contracts, except as noted.

	Local Currency Notional Amount	U.S. Dollar Notional Amount		% Maturing in the next 12 months		Contracts Maturing Through
As of June 30, 2016						
Philippine Peso	15,315,000	334,869 (1)		48.4	%	May 2021
Mexican Peso	2,467,000	155,861		28.7	%	May 2021
		\$ 490,730				

	Local Currency Notional Amount	U.S. Dollar Notional Amount	
As of December 31, 2015			
Philippine Peso	16,362,000	361,571 (1)	
Mexican Peso	2,637,000	173,124	
		\$ 534,695	

---

<sup>(1)</sup> Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on June 30, 2016 and December 31, 2015.

The fair value of our cash flow hedges at June 30, 2016 was assets/(liabilities) (in thousands):

	June 30, 2016	Maturing in the Next 12 Months
Philippine Peso	(14,209)	(8,945)
Mexican Peso	(28,172)	(11,188)
	\$ (42,381)	\$ (20,133)

Our cash flow hedges are valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The increase in fair value from December 31, 2015 largely reflects a broad weakening in the U.S. dollar.

We recorded net losses of approximately \$11.8 million and \$4.2 million for settled cash flow hedge contracts and the related premiums for the six months ended June 30, 2016 and 2015, respectively. These losses were reflected in Revenue in the accompanying Consolidated Statements of Comprehensive Income (Loss). If the exchange rates between our various currency pairs were to increase or decrease by 10% from current period-end levels, we would incur a material gain or loss on the contracts. However, any gain or loss would be mitigated by corresponding increases or decreases in our underlying exposures.

Other than the transactions hedged as discussed above and in Part I, Item 1. Financial Statements, Note 6 to the Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in their respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the six months ended June 30, 2016 and 2015, approximately 21% and 23%, respectively, of revenue was derived from contracts denominated in currencies other than the U.S. Dollar. Our results from operations and revenue could be adversely affected if the U.S. Dollar strengthens significantly against foreign currencies.

Table of Contents

Fair Value of Debt and Equity Securities

We did not have any investments in marketable debt or equity securities as of June 30, 2016 or December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

This report includes the certifications of our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”) required by Rule 13a-14 of the Securities Exchange Act of 1934 (the “Exchange Act”). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended) are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including our CEO and CFO, to allow timely decisions regarding required disclosures.

Management of the Company, with the participation of its CEO and CFO, evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period. Based on that evaluation, as of the end of the period covered by this Form 10-Q, the Company’s CEO and CFO have concluded that the Company’s disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting.

At the year ended December 31, 2015, the Company identified material weaknesses in its internal control over financial reporting which continued to exist as of June 30, 2016. These material weaknesses are fully described in our Annual Report on Form 10-K for the year ended December 31, 2015.

While these material weaknesses did not result in errors that were material to our annual or interim financial statements, they could result in misstatements of our consolidated financial statements and disclosures which would result in material misstatement of our consolidated financial statements and disclosures which would not be prevented or detected.

Notwithstanding such material weaknesses in internal control over financial reporting, our CEO and CFO have concluded that our consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Inherent Limitations of Internal Controls

Our management, including the CEO and CFO, believes that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of internal control are met. Further, the design of internal controls must consider the benefits of controls relative to their costs. Inherent limitations within internal controls include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of controls. Over time, controls may become inadequate because of changes in

conditions or deterioration in the degree of compliance with associated policies or procedures. While the objective of the design of any system of controls is to provide reasonable assurance of the effectiveness of controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Thus, even effective internal control over financial reporting can only provide reasonable assurance of achieving their objectives. Therefore, because of the inherent limitations in cost effective internal controls, misstatements due to error or fraud may occur and may not be prevented or detected.



## Table of Contents

### Remediation Plan for Material Weakness

Building on its efforts during 2015 and the first quarter of 2016, our management, with the oversight of the Audit Committee of our board of directors, continued in the second quarter of 2016 to dedicate significant resources and efforts to improve our control environment and take steps to remediate the material weaknesses identified. While certain remedial actions have been completed, we continue to actively implement additional control procedures. The remediation efforts taken in 2016, outlined below, and previously taken in 2015, as outlined in our Annual Report on Form 10-K for the year ended December 31, 2015, are intended both to address the identified material weaknesses and to enhance our overall financial control environment.

### Remediation Actions for Control Environment:

- We hired additional personnel and established appropriate roles and responsibilities within our global finance and accounting organization to improve our knowledge and expertise over financial reporting. Since mid-year 2015, we have been actively upgrading key accounting leadership personnel in the United States, Philippines, and Mexico. Our focus is on upgrading personnel that have responsibilities for the knowledge of and technical expertise in US GAAP. In the last year we appointed a VP accounting operations, two assistant controllers with responsibility for our reporting segments, and additional technical accounting staff. We are also in the process of reviewing our financial reporting function and the need for additional senior staff with significant public company experience who will have accountability for all SEC reporting, US GAAP technical accounting issues, and Sarbanes-Oxley compliance.
- In addition, we engaged an independent third party expert to assist us in our review of our control structure, including a comprehensive risk assessment with respect to our internal controls, and to provide constructive recommendations for optimization of our controls and control environment, including our implementation of a periodic monitoring process for the design and operating effectiveness of our control activities. We are in the process of implementing these expert recommendations and upgrading our control structure. We anticipate that this upgrade will be completed in 2016, but we can provide no assurance as to the timing of when the material weaknesses will be remediated as a result of these changes.
- We have implemented a comprehensive training for our accounting managers designed to provide our personnel with knowledge, experience, and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. We plan to include a program of continuous education for our new staff and refresher courses for existing staff on a going forward basis.

### Remediation Actions for Account Reconciliations

- Beginning in the quarter ended September 30, 2015, we implemented enhanced control procedures over our reconciliation process.
- Beginning in the quarter ended December 31, 2015, we implemented additional balance sheet and income statement analytic controls designed to further enhance our controls and detect any material misstatements.

### Remediation Actions for Journal Entries

- We have reviewed our accounting system configuration and are implementing the necessary system controls to eliminate the ability for a user to create and post a journal entry.
- We have integrated our acquired companies onto our accounting system which has system controls to prevent a user from posting and approving their own journal entries.

### Remediation Actions for Revenue Processes

- We are optimizing our revenue accounting organization structure to improve our control environment including the establishment of a revenue quality assurance organization.



## Table of Contents

- We are implementing enhanced control procedures and additional controls over our revenue process including, but not limited to, system controls and specific transaction controls.

### Remediation for Impairment

- We engaged a third party expert to assist in our review of the completeness and accuracy of our valuation methodology and will continue to apply the enhancements in our valuation models on a going forward basis.
- We assessed, developed and are in the process of implementing specific guidance and procedures for the expected level of reviews to be performed in connection with valuation models that we use for impairment testing, including consideration of the data and assumptions used in these models.

These material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We are designing and implementing the measures described above with the goal of remediation of the control deficiencies we have identified and strengthening our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Part I, Item 1. Financial Statements, Note 10 to the Consolidated Financial Statements of this Form 10-Q is hereby incorporated by reference.

### ITEM 1A. RISK FACTORS

There were no material changes to the risk factors described in Item 1A. Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

Following is the detail of the issuer purchases made during the quarter ended June 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (In thousands)(1)
March 31, 2016				\$ 35,861
April 1, 2016 - April 31, 2016	157,500	\$ 27.72	157,500	\$ 31,495
May 1, 2016 - May 31, 2016	445,760	\$ 26.58	445,760	\$ 19,645
June 1, 2016 - June 30, 2016	408,923	\$ 27.30	408,923	\$ 33,480
Total	1,012,183		1,012,183	

---

(1) In November 2001, our Board of Directors (“Board”) authorized a stock repurchase program with the objective of increasing stockholder returns. The Board periodically authorizes additional increases to the program. The most recent Board authorization to purchase additional common stock occurred in June 2016, whereby the Board increased the program allowance by \$25.0 million. Since inception of the program through June 30, 2016, the Board has authorized the repurchase of shares up to a total value of \$712.3 million, of which we have purchased 44.1 million shares on the open market for \$678.9 million. As of June 30, 2016 the remaining amount authorized for repurchases under the program was approximately \$33.5 million. The stock repurchase program does not have an expiration date.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
10.82*	Employment Agreement between Judi Hand and TeleTech Services, Inc. effective as of July 1, 2016
10.83*	Employment Agreement between Martin DeGhetto and TeleTech Services, Inc. effective as of July 1, 2016
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (unaudited), (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the six months ended June 30, 2016 (unaudited), and (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited).



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TELETECH HOLDINGS, INC.  
(Registrant)

Date: August 3, 2016 By: /s/ Kenneth D. Tuchman  
Kenneth D. Tuchman  
Chairman and Chief Executive Officer

Date: August 3, 2016 By: /s/ Regina M. Paolillo  
Regina M. Paolillo  
Chief Financial Officer

Table of Contents

## EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.82*	Employment Agreement between Judi Hand and TeleTech Holdings, Inc. effective as of July 1, 2016
10.83*	Employment Agreement between Martin DeGhetto and TeleTech Services, Inc. effective as of July 1, 2016
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015 (unaudited), (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the six months ended June 30, 2016 (unaudited), and (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited).



