

TELETECH HOLDINGS INC

Form 10-Q

October 28, 2009

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 September 30, 2009

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

84-1291044

(I.R.S. Employer Identification No.)

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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

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

Yes 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 Smaller reporting company
(Do not check if a smaller reporting company)

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 October 21, 2009, there were 62,327,577 shares of the registrant's common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
September 30, 2009 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 September 30, 2009 (unaudited) and December 31, 2008</u>	1
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008 (unaudited)</u>	2
<u>Consolidated Statement of Equity as of and for the nine months ended September 30, 2009 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008 (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>	21
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	39
<u>Item 4. Controls and Procedures</u>	42
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
<u>Item 3. Defaults Upon Senior Securities</u>	44
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	44
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	45
<u>SIGNATURES</u>	46
<u>EXHIBIT INDEX</u>	47
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 114,889	\$ 87,942
Accounts receivable, net	201,613	236,997
Prepays and other current assets	39,466	31,279
Deferred tax assets, net	15,091	30,328
Income tax receivables	23,687	18,342
Total current assets	394,746	404,888
Property, plant and equipment, net	132,486	157,747
Goodwill	45,148	44,150
Contract acquisition costs, net	9,034	7,591
Deferred tax assets, net	28,205	31,504
Other noncurrent assets	19,133	23,062
Total assets	\$ 628,752	\$ 668,942
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 19,165	\$ 26,214
Accrued employee compensation and benefits	78,252	71,919
Other accrued expenses	21,817	18,887
Income taxes payable	16,887	19,168
Deferred tax liabilities, net	115	
Deferred revenue	14,066	12,867
Other current liabilities	11,380	31,044
Total current liabilities	161,682	180,099
Line of credit		80,800
Grant advances	1,129	1,824
Negative investment in deconsolidated subsidiary	4,865	4,865
Deferred tax liabilities, net		
Other noncurrent liabilities	30,299	40,460
Total liabilities	197,975	308,048

Commitments and contingencies (Note 10)**Equity**

Preferred stock \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of September 30, 2009 and December 31, 2008		
Common stock \$0.01 par value; 150,000,000 shares authorized; 62,329,115 and 63,816,379 shares outstanding as of September 30, 2009 and December 31, 2008, respectively	623	638
Treasury stock at cost: 19,725,331 and 18,238,066 shares as of September 30, 2009 and December 31, 2008, respectively	(247,605)	(228,596)
Additional paid-in capital	343,502	341,887
Accumulated other comprehensive income (loss)	2,417	(33,020)
Retained earnings	326,689	274,974
Total stockholders' equity	425,626	355,883
Noncontrolling interest	5,151	5,011
Total equity	430,777	360,894
Total liabilities and equity	\$ 628,752	\$ 668,942

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue	\$ 281,524	\$ 349,110	\$ 887,066	\$ 1,074,162
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	194,609	252,666	626,500	788,599
Selling, general and administrative	42,565	51,157	136,061	148,387
Depreciation and amortization	15,664	14,998	43,534	45,782
Restructuring charges, net	703	2,015	5,014	4,657
Impairment losses		1,033	4,587	1,033
Total operating expenses	253,541	321,869	815,696	988,458
Income from operations	27,983	27,241	71,370	85,704
Other income (expense)				
Interest income	579	1,327	2,091	3,801
Interest expense	(466)	(1,595)	(2,629)	(4,649)
Other, net	332	(509)	2,108	(1,520)
Total other income (expense)	445	(777)	1,570	(2,368)
Income before income taxes	28,428	26,464	72,940	83,336
Provision for income taxes	(6,971)	(5,368)	(18,479)	(20,697)
Net income	21,457	21,096	54,461	62,639
Net income attributable to noncontrolling interest	(935)	(936)	(2,746)	(2,992)
Net income attributable to TeleTech shareholders	\$ 20,522	\$ 20,160	\$ 51,715	\$ 59,647
Weighted average shares outstanding				
Basic	62,159	68,217	63,051	69,373
Diluted	63,832	69,508	64,122	70,922

**Net income per share attributable to TeleTech
shareholders**

Basic	\$ 0.33	\$ 0.30	\$ 0.82	\$ 0.86
Diluted	\$ 0.32	\$ 0.29	\$ 0.81	\$ 0.84

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

2

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statement of Equity
(Amounts in thousands)
(Unaudited)

	Preferred Stock Shares	Common Stock Shares	Treasury Stock	Additional Paid-in Capital	Accumulated		Non- controlling interest	Total Equity	
					Other Comprehensive Income (Loss)	Retained Earnings			
Balance as of December 31, 2008	\$	63,816	\$638	\$(228,596)	\$341,887	\$ (33,020)	\$274,974	\$ 5,011	\$360,894
Net income							51,715	2,746	54,461
Dividends distributed to noncontrolling interest								(2,790)	(2,790)
Foreign currency translation adjustments						13,805		184	13,989
Derivatives valuation, net of tax						21,632			21,632
Vesting of restricted stock units		189	2	2,370	(3,033)				(661)
Exercise of stock options		436	4	5,468	(1,246)				4,226
Excess tax benefit from equity-based awards					(3,066)				(3,066)
Equity-based compensation expense					8,960				8,960
Purchases of common stock		(2,112)	(21)	(26,847)					(26,868)
Balance as of September 30, 2009	\$	62,329	\$623	\$(247,605)	\$343,502	\$ 2,417	\$326,689	\$ 5,151	\$430,777

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)

	Nine Months Ended	
	September 30,	
	2009	2008
Cash flows from operating activities		
Net income	\$ 54,461	\$ 62,639
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43,534	45,782
Amortization of contract acquisition costs	2,457	1,625
Provision for doubtful accounts	1,298	780
Loss on disposal of assets	1,558	65
Impairment losses	4,587	1,033
Deferred income taxes	5,569	(38)
Excess tax benefit from equity-based awards	(3,066)	(997)
Equity-based compensation expense	8,960	7,889
(Gain) loss on foreign currency derivatives	(189)	675
Other	514	
Changes in assets and liabilities:		
Accounts receivable	39,781	15,034
Prepays and other assets	(609)	(10,472)
Accounts payable and accrued expenses	(4,540)	15,412
Deferred revenue and other liabilities	(1,637)	(14,128)
Net cash provided by operating activities	152,678	125,299
Cash flows from investing activities		
Purchases of property, plant and equipment	(19,092)	(51,728)
Settlement of foreign currency contracts for net investment hedging	(1,727)	
Payment for contract acquisition costs	(3,900)	(763)
Net cash used in investing activities	(24,719)	(52,491)
Cash flows from financing activities		
Proceeds from line of credit	716,060	779,170
Payments on line of credit	(796,860)	(735,870)
Payments on capital lease obligations and equipment financing	(1,229)	(1,203)
Payments of debt refinancing fees		(1,105)
Dividends distributed to non-controlling interest	(2,790)	(1,428)
Proceeds from exercise of stock options	4,226	2,933
Purchase of treasury stock	(26,868)	(73,842)
Net cash used in financing activities	(107,461)	(31,345)
Effect of exchange rate changes on cash and cash equivalents	6,449	(9,546)

Increase in cash and cash equivalents	26,947	31,917
Cash and cash equivalents, beginning of period	87,942	91,239
Cash and cash equivalents, end of period	\$ 114,889	\$ 123,156
Supplemental disclosures		
Cash paid for interest	\$ 2,269	\$ 3,822
Cash paid for income taxes	\$ 18,765	\$ 19,191
Non-cash investing and financing activities		
Acquisition of equipment through installment purchase agreements	\$ 3,294	\$
Recognition of asset retirement obligations	\$ 63	\$

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

Overview

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) serve their clients through the primary business of Business Process Outsourcing (BPO), which provides outsourced business process, customer management and marketing services for a variety of industries via operations in the U.S., Argentina, Australia, Brazil, Canada, China, Costa Rica, England, Germany, Malaysia, Mexico, New Zealand, Northern Ireland, the Philippines, Scotland, South Africa and Spain.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries and its 55% equity ownership in Percepta, LLC. On December 22, 2008, as discussed in Note 2, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. According to the authoritative guidance, consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008.

The accompanying unaudited Consolidated Financial Statements do not include all of the disclosures required by accounting principles generally accepted in the U.S. (GAAP), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited Consolidated Financial Statements do reflect all adjustments (consisting only of normal recurring entries) which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of September 30, 2009, and the consolidated results of operations of the Company for the three and nine months ended September 30, 2009 and 2008, and the cash flows of the Company for the nine months ended September 30, 2009 and 2008. Operating results for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The Company has evaluated all subsequent events through October 28, 2009, the date the financial statements were issued.

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, 2008.

Effective January 1, 2009, the Financial Accounting Standards Board (FASB) amended the accounting guidance for non-controlling interests which changed the accounting for and reporting of minority interest (now called noncontrolling interest) in a subsidiary in the Company s consolidated financial statements. Upon adoption, certain prior period amounts have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on the Company s previously reported financial position or results of operations. Refer to Note 11 for additional information on the adoption of this amended guidance.

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, valuation of long-lived assets, self-insurance reserves, litigation and restructuring reserves, and allowance for doubtful accounts. 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 from these estimates under different assumptions or conditions.

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. The new guidance changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for the Company beginning January 1, 2009. The adoption of this pronouncement did not have a material impact on the Company's results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted new accounting guidance for accounting for transfers of financial assets that concludes that a transferor and transferee should not separately account for a transfer of a financial asset and a related repurchase financing unless the two transactions have a valid and distinct business or economic purpose for being entered into separately and the repurchase financing does not result in the initial transferor regaining control over the financial asset. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or cash flows.

Effective January 1, 2009, the Company adopted new accounting guidance on disclosures about derivative instruments and hedging activities. The new guidance provides disclosure requirements related to (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The new disclosures are expanded to include more tables and discussion about the qualitative aspects of the Company's hedging strategies. Effective in the second quarter of 2009, the Company adopted guidance requiring fair value disclosures be made on a quarterly basis, and providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. As the guidance requires only additional disclosures, adoption did not affect the Company's results of operations, financial position, or cash flows.

Effective in the second quarter of 2009, the Company adopted new accounting guidance regarding determining fair value when the volume and level of activity for the asset or liability have significantly decreased and when transactions are not orderly. This new guidance provides guidelines for making fair value measurements more consistent with the principles presented in existing fair value guidance. The new guidance reaffirms the objective of fair value measurement is to reflect how much an asset would be sold for in an orderly transaction at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. This new guidance did not have a material impact on the Company's results of operations, financial position or cash flows. In the second quarter of 2009, TeleTech adopted new accounting guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The new guidance is intended to bring greater consistency to the timing of impairment recognition and to provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. It also requires increased and timelier disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. This new guidance did not have a material impact on the Company's results of operations, financial position or cash flows.

Effective in the second quarter of 2009, the Company adopted new accounting guidance regarding general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The new guidance requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. See Note 1, "Basis of Presentation" for the related disclosures. The adoption

of the new guidance did not have a material impact on the Company's results of operations, financial position or cash flows.

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification or ASC). The Codification is the single source of authoritative Generally Accepted Accounting Principles (GAAP) in the United States to be applied by all nongovernmental U.S. entities. The Codification is effective for interim and annual periods ending after September 15, 2009, or as of July 1, 2009 for TeleTech. The adoption of the Codification did not have an impact on the Company s results of operations, financial position, or cash flows.

In June 2009, the FASB issued a new financial accounting statement that will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to the transferred financial assets. The new statement eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. The standard is effective for TeleTech beginning January 1, 2010. The Company does not expect that the new statement will have a material impact on its results of operations, financial position, or cash flows.

In June 2009, the FASB issued a new financial accounting statement that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The standard is effective for TeleTech beginning January 1, 2010. The Company does not expect that the new statement will have a material impact on its results of operations, financial position, or cash flows.

In September 2009, the FASB issued new revenue guidance that requires an entity to apply the relative selling price allocation method in order to estimate a selling price for all units of accounting, including delivered items when vendor-specific objective evidence or acceptable third-party evidence does not exist. The new guidance is effective for revenue arrangements entered into or materially modified beginning on or after June 15, 2010 and shall be applied on a prospective basis. Earlier application is permitted as of the beginning of an entity s fiscal year. The Company is assessing the potential impact the new guidance will have on its results of operations, financial position, or cash flows.

(2) DECONSOLIDATION OF A SUBSIDIARY

On December 22, 2008, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. According to the authoritative literature, a consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Under these rules, legal reorganization or bankruptcy represents conditions that can preclude consolidation as control rests with the Bankruptcy Court, rather than the majority owner. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008. As a result, the Company has reflected its negative investment of \$4.9 million on the Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following condensed financial statements of Newgen Results Corporation have been prepared in accordance with the accounting guidance for reporting by entities who are in reorganization under the bankruptcy codes, which requires the liabilities subject to compromise by the Bankruptcy Court to be reported separately from the liabilities not subject to compromise. All liabilities included in the condensed financial statements below are subject to compromise and represent the current estimate of the amount of known or potential pre-petition claims that are subject to final settlement. Such claims remain subject to future adjustments. Amounts below are stated in thousands.

	September 30, 2009	December 31, 2008	December 22, 2008
Total current assets	\$ 1,700	\$ 1,700	\$ 1,700
Total noncurrent assets	2,379	2,379	3,110
Total assets	4,079	4,079	4,810
Total current liabilities	\$ 7,886	\$ 7,886	\$ 3,931
Total noncurrent liabilities			5,744
Total liabilities	7,886	7,886	9,675
Total stockholders' deficit	(3,807)	(3,807)	(4,865)
Total liabilities and stockholders' deficit	\$ 4,079	\$ 4,079	\$ 4,810

(3) SEGMENT INFORMATION

The Company's BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers and represents 100% of total annual revenue. In September 2007, the Company sold substantially all the assets and certain liabilities of its Database Marketing and Consulting business. Effective January 1, 2009, the Company completed certain organizational changes focused on streamlining the structure of its organization to more closely align the Company's reporting structure with its client base and increase management accountability. Beginning in the first quarter of 2009, the Company's North American BPO segment is comprised of sales to all clients based in North America (encompassing the U.S. and Canada), while the Company's International BPO is comprised of sales to all clients based in countries outside of North America. TeleTech revised previously reported segment information to conform to its new segments in effect as of January 1, 2009.

The Database Marketing and Consulting segment, of which the Company sold substantially all the assets and liabilities in September 2007, provided outsourced database management, direct marketing and related customer acquisitions and retention services for automobile dealerships and manufacturers in North America. On December 22, 2008, as discussed in Note 2, Newgen Results Corporation, which comprised the Database Marketing and Consulting segment, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008.

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue				
North American BPO	\$ 215,949	\$ 245,945	\$ 674,827	\$ 776,856
International BPO	65,575	103,165	212,239	297,306
Database Marketing and Consulting				
Total	\$ 281,524	\$ 349,110	\$ 887,066	\$ 1,074,162
Income (loss) from operations				
North American BPO	\$ 30,882	\$ 20,337	\$ 84,623	\$ 81,206
International BPO	(2,899)	6,969	(13,253)	4,922
Database Marketing and Consulting		(65)		(424)
Total	\$ 27,983	\$ 27,241	\$ 71,370	\$ 85,704

	September		December	
	30,		31,	
	2009		2008	
Assets				
North American BPO		\$ 426,557		\$ 483,187
International BPO		202,195		185,755
Database Marketing and Consulting				
Total		\$ 628,752		\$ 668,942

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue				
United States	\$ 98,504	\$ 93,794	\$ 310,055	\$ 304,012
Philippines	78,634	75,802	235,724	212,305
Latin America	47,513	79,953	152,378	239,167
Europe	25,380	39,798	86,127	115,693
Canada	18,783	36,206	66,610	123,836
Asia Pacific	4,581	22,663	20,845	77,687

Africa	8,129	894	15,327	1,462
Total	\$ 281,524	\$ 349,110	\$ 887,066	\$ 1,074,162

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client, T-Mobile, that contributed in excess of 10% of total revenue for the three months ended September 30, 2009. This client contributed 10.3% and 9.6% of total revenue for the three and nine months ended September 30, 2009, respectively, and had \$27.9 million outstanding in accounts receivable at September 30, 2009. For the three and nine months ended September 30, 2008, the Company had one client, Sprint Nextel, which contributed 12.0% and 13.9%, respectively, of total revenue and had \$20.4 million outstanding in accounts receivable at December 31, 2008.

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 ongoing credit evaluations of its clients and maintains allowances for uncollectible accounts. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk exists as of September 30, 2009.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(5) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2008	Acquisitions	Impairments	Effect of Foreign Currency	September 30, 2009
North American BPO	\$ 35,885	\$	\$	\$	\$ 35,885
International BPO	8,265			998	9,263
Total	\$ 44,150	\$	\$	998	\$ 45,148

The Company performs a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test in the fourth quarter each year, or more frequently if indicators of impairment exist. During the quarter ended September 30, 2009, the Company assessed whether any such indicators of impairment exist, and concluded there were no indicators of impairment.

(6) DERIVATIVES**Cash Flow Hedges**

The Company enters into foreign exchange forward and option contracts to reduce its exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue. 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 reflect the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflect the Company's creditworthiness. As of September 30, 2009, 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 and loss in derivative valuation in Accumulated Other Comprehensive Income (Loss) for the three and nine months ended September 30, 2009 and 2008 (amounts in thousands and net of tax):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Aggregate unrealized net (loss) gain at beginning of period	\$ (5,754)	\$ (1,279)	\$ (21,180)	\$ 21,417
Net gain (loss) from change in fair value of cash flow hedges	4,074	(6,042)	11,467	(22,398)
Net gain (loss) reclassified to earnings from effective hedges	(2,132)	881	(10,165)	7,221
Aggregate unrealized net gain (loss) at end of period	\$ 452	\$ (8,202)	\$ 452	\$ (8,202)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The Company's cash flow hedging instruments as of September 30, 2009 and December 31, 2008 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

As of September 30, 2009	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through December 2011 December 2010 February 2011 May 2010 September 2011 February 2010 March 2011
Canadian Dollar	21,900	\$ 18,101	67.1%	
Canadian Dollar Call Options	27,000	24,097	81.1%	
Philippine Peso	4,480,906	95,450 ¹	88.6%	
Argentine Peso	28,250	7,881 ²	100.0%	
Mexican Peso	494,000	37,139	80.9%	
South African Rand	57,500	5,230	100.0%	
British Pound Sterling	1,796	3,195 ³	71.4%	
		\$ 191,093		
As of December 31, 2008	Local Currency Notional Amount	U.S. Dollar Notional Amount		
Canadian Dollar	88,300	\$ 77,865		
Canadian Dollar Call Options	44,400	39,305		
Philippine Peso	6,656,909	150,418 ¹		
Argentine Peso	102,072	29,054 ²		
Mexican Peso	856,500	70,530		
South African Rand	92,000	8,399		
British Pound Sterling	1,725	2,537 ³		
		\$ 378,108		

- (1) Includes contracts to purchase Philippine pesos in exchange for New Zealand

dollars,
Australian
dollars and
British pound
sterling, which
are translated
into equivalent
U.S. dollars on
September 30,
2009 and
December 31,
2008.

(2) Includes
contracts to
purchase
Argentine pesos
in exchange for
Euros, which
are translated
into equivalent
U.S. dollars on
September 30,
2009 and
December 31,
2008.

(3) Includes
contracts to
purchase British
pound sterling
in exchange for
Euros, which
are translated
into equivalent
U.S. dollars on
September 30,
2009 and
December 31,
2008.

Hedge of Net Investment

In 2008, the Company entered into a foreign exchange forward contract to hedge its net investment in a foreign operation which was settled in May 2009. Changes in fair value of the Company's net investment hedge are recorded in the cumulative translation adjustment in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheets offsetting the change in the cumulative translation adjustment attributable to the hedged portion of the Company's net investment in the foreign operation. Gains and losses from the settlements of the Company's net investment hedge remain in Accumulated Other Comprehensive Income (Loss) until partial or complete liquidation of the applicable net investment. A loss of \$1.2 million from the settlements of net investment hedges is recorded in Accumulated Other Comprehensive Income (Loss) as of September 30, 2009.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Fair Value Hedges

The Company enters into foreign exchange forward contracts to hedge against translation 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, as well as the offsetting gain or loss on the hedged asset or liability, are recognized in earnings in the same line item, Other, net. As of September 30, 2009, the total notional amount of the Company's forward contracts used as fair value hedges was \$34.3 million.

Embedded Derivatives

In addition to hedging activities, the Company's foreign subsidiaries in Argentina and Mexico are parties to U.S. dollar denominated lease contracts which the Company has determined contain embedded derivatives. As such, the Company bifurcates the embedded derivative features of the lease contracts and values these features as foreign currency derivatives.

Derivative Valuation and Settlements

The Company's derivatives as of September 30, 2009 and December 31, 2008 were as follows (amounts in thousands):

	September 30, 2009				
	Designated as hedging instruments		Not designated as hedging instruments		
Derivative contracts:	Foreign Exchange	Foreign Exchange	Foreign Exchange	Foreign Exchange	Leases
			Option and Forward		Embedded
Derivative classification:	Cash Flow	Net Investment	Contracts	Fair Value	Derivative
Fair value and location of derivative in the Consolidated Balance Sheet:					
Prepays and other current assets	\$ 6,733	\$	\$ 179	\$ 31	\$ 15
Other noncurrent assets	2,257				
Other current liabilities	(7,170)		(86)	(184)	(121)
Other noncurrent liabilities	(90)				(396)
Total fair value of derivatives, net	\$ 1,730	\$	\$ 93	\$ (153)	\$ (502)

December 30, 2008

	Designated as hedging instruments		Not designated as hedging instruments		
	Foreign Exchange	Foreign Exchange	Foreign Exchange	Foreign Exchange	Leases
Derivative contracts:			Option and Forward		Embedded
Derivative classification:			Contracts		Derivative

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	Cash Flow	Net Investment		Fair Value	
Fair value and location of derivative in the Consolidated Balance Sheet:					
Prepays and other current assets	\$ 1,926	\$	\$	\$	\$
Other noncurrent assets	2,297				9
Other current liabilities	(30,757)	(113)		(44)	(130)
Other noncurrent liabilities	(6,555)				(1,355)
Total fair value of derivatives, net	\$ (33,089)	\$ (113)	\$	\$ (44)	\$ (1,476)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The effect of derivative instruments on the Consolidated Statements of Operations and Other Comprehensive Income (Loss) for the three months ended September 30, 2009 and 2008 were as follows (amounts in thousands):

	Three Months Ended September 30,			
	2009		2008	
	Designated as hedging instruments		Designated as hedging instruments	
	Foreign Exchange	Foreign Exchange Net	Foreign Exchange	Foreign Exchange Net
Derivative contracts:	Cash Flow	Investment	Cash Flow	Investment
Derivative classification:				
Amount of gain or (loss) recognized in other comprehensive income effective portion, net of tax:	\$ 4,074	\$	\$ (6,042)	\$
Amount and location of net gain or (loss) reclassified from accumulated OCI to income effective portion:				
Revenue	\$ (3,496)	\$	\$ 1,445	\$
Amount and location of net gain or (loss) reclassified from accumulated OCI to income ineffective portion and amount excluded from effectiveness testing:				
Other, net	\$	\$	\$	\$

	Three Months Ended September 30,					
	2009			2008		
	Not designated as hedging instruments			Not designated as hedging instruments		
	Foreign Exchange Option and Forward Contracts	Fair Value	Leases Embedded Derivative	Foreign Exchange Option and Forward Contracts	Fair Value	Leases Embedded Derivative
Derivative contracts:						
Derivative classification:						
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Operations:						
Cost of services	\$	\$	\$ 97	\$	\$	\$ (297)
Other, net	60	319		169		

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The effect of derivative instruments on the Consolidated Statements of Operations and Other Comprehensive Income (Loss) for the nine months ended September 30, 2009 and 2008 were as follows (amounts in thousands):

	Nine Months Ended September 30,				
	2009		2008		
	Designated as hedging instruments		Designated as hedging instruments		
	Foreign Exchange	Foreign Exchange Net	Foreign Exchange	Foreign Exchange Net	
Derivative contracts:					
Derivative classification:	Cash Flow	Investment	Cash Flow	Investment	
Amount of gain or (loss) recognized in other comprehensive income effective portion, net of tax:	\$ 11,467	\$ (1,727)	\$(22,398)	\$	
Amount and location of net gain or (loss) reclassified from accumulated OCI to income effective portion:					
Revenue	\$(16,664)	\$	\$ 11,838	\$	
Amount and location of net gain or (loss) reclassified from accumulated OCI to income ineffective portion and amount excluded from effectiveness testing:					
Other, net	\$	\$	\$	\$	
	Nine Months Ended September 30,				
	2009		2008		
	Not designated as hedging instruments		Not designated as hedging instruments		
	Foreign Exchange Option and Forward Contracts	Fair Value	Leases Embedded Derivative	Foreign Exchange Option and Forward Contracts Fair Value	Leases Embedded Derivative
Derivative contracts:					
Derivative classification:					
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Operations:					
Cost of services	\$	\$	\$975	\$	\$ (675)
Other, net	(73)	(638)		1,014	
(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. |

On January 1, 2009, the Company adopted a newly issued accounting standard for fair value measurements of all non-financial assets and liabilities recognized on a non-recurring basis. Adoption of this standard did not have a significant impact on the Company's results of operations, financial position or cash flows.

The following presents information as of September 30, 2009 of the Company's assets and liabilities required to be measured at fair value on a recurring basis, as well as the fair value hierarchy used to determine their fair value.

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Debt The Company's debt is reflected in the accompanying balance sheets at amortized cost. Debt consists primarily of the Company's Credit Facility, 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 Facility agreement). As of September 30, 2009, the Company had no borrowings outstanding under the Company's Credit Facility. Based upon average outstanding borrowings during the third quarter of 2009, the Company's average borrowing rate was approximately 1.2% per annum.

Derivatives Net derivative assets (liabilities) measured at fair value on a recurring basis included the following as of September 30, 2009 (amounts in thousands):

	Fair Value Measurements Using			At Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$	\$ 1,730	\$	\$ 1,730
Fair value hedges		(153)		(153)
Embedded derivatives		(502)		(502)
Option and Forward Contracts		93		93
Total net derivative asset (liability)	\$	\$ 1,168	\$	\$ 1,168

The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of September 30, 2009, credit risk did not materially change the fair value of the Company's foreign currency forward and option contracts.

Money Market Investments The Company invests in various well-diversified money market funds which are managed by financial institutions. These money market funds are not publicly traded, but have historically been highly liquid. The value of the money market funds is determined by the banks based upon the funds' net asset values (NAV). All of the money market funds currently permit daily investments and redemptions at a \$1.00 NAV.

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.

The following is a summary of the Company's fair value measurements as of September 30, 2009 (amounts in thousands):

Fair Value Measurements Using
Quoted Prices
Significant

	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets			
Money market investments	\$	\$ 6,408	\$
Derivative instruments		1,168	
Total assets	\$	\$ 7,576	\$
Liabilities			
Deferred compensation plan liability	\$	\$ (3,032)	\$
Total liabilities	\$	\$ (3,032)	\$

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

(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. When circumstances warrant, the Company assesses the likelihood that its net deferred tax assets will more likely than not be recovered from future projected taxable income.

The Company has protested one issue to the appeals branch of the Internal Revenue Service for an administrative resolution arising from a federal tax audit for which no tax benefit has been recorded. The Company has been notified of the intent to audit, or is currently under audit of income taxes in Brazil, Malaysia, the Philippines and the United Kingdom for various open tax years. 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.

As of September 30, 2009, the Company had \$48.4 million of deferred tax assets (after a \$35.4 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$43.2 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability. During the third quarter 2009, the Company recorded \$2.9 million of valuation allowance in the U.S. and international tax jurisdictions for deferred tax assets that do not meet the more than likely standard for recoverability.

The effective tax rate for the three and nine months ended September 30, 2009 was 24.5% and 25.3%, respectively. The effective tax rate for the three and nine months ended September 30, 2008 was 20.3% and 24.8%, respectively.

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three and nine months ended September 30, 2009, the Company undertook a number of restructuring activities primarily associated with reductions in the Company's capacity and workforce in both the North American and International BPO segments to better align the capacity and workforce with current business needs.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

A summary of the expenses recorded for the three and nine months ended September 30, 2009 and 2008, respectively, is as follows (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
North American BPO				
Reduction in force	\$ 552	\$ 603	\$ 4,120	\$ 731
Facility exit charges	115	885	587	885
Revision of prior estimates	(239)		(1,374)	
Total	\$ 428	\$ 1,488	\$ 3,333	\$ 1,616

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
International BPO				
Reduction in force	\$ 263	\$ 527	\$ 1,513	\$ 3,098
Facility exit charges	12		168	
Revision of prior estimates				
Total	\$ 275	\$ 527	\$ 1,681	\$ 3,098

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Database Marketing and Consulting				
Reduction in force	\$	\$	\$	\$ 8
Facility exit charges				
Revision of prior estimates				(65)
Total	\$	\$	\$	\$ (57)

During the three months ended September 30, 2009, the Company determined that \$0.2 million of previously recorded restructuring expense will not be paid and was thus reversed.

During the nine months ended September 30, 2009, the Company determined that \$0.7 million of previously recorded restructuring expense will be reimbursed from the primary client in the delivery centers being closed, and \$0.7 million previously recorded will not be paid; these amounts were reversed against restructuring charge expenses.

A roll-forward of the activity in the Company's restructuring accruals is as follows (amounts in thousands):

**Closure
of
Delivery** **Reduction
in**

	Centers	Force	Total
Balance as of December 31, 2008	\$ 2,113	\$	\$ 2,113
Expense	755	5,633	6,388
Payments	(715)	(4,336)	(5,051)
Revision of prior estimates	(1,324)	(50)	(1,374)
Balance as of September 30, 2009	\$ 829	\$ 1,247	\$ 2,076

Of the remaining accrued costs, \$1.7 million are expected to be paid during 2009, with the remainder to be paid thereafter.

Table of Contents

**TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

Impairment Losses

During 2009, the Company made the decision to exit certain delivery centers, in both its North American and International BPO segments, to better align capacity with current business needs. As a result of the decision to exit certain delivery centers, 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 an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. The Company used Level 3 inputs for its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. The Company had no impairment charges for the three months ended September 30, 2009. For the three months ended September 30, 2008, the Company recognized impairment losses related to the recoverability of its leasehold improvement assets of \$1.0 million in its North American BPO segment.

During the nine months ended September 30, 2009, the Company recognized impairment losses of \$2.8 million in its International BPO segment, related to the exiting of \$2.0 million of certain delivery centers during the first quarter of 2009 and an \$0.8 million impairment loss recognized in the second quarter based on the Company's evaluation of the recoverability of its leasehold improvement assets. During the nine months ended September 30, 2009 and 2008, the Company recognized impairment losses of \$1.8 million and \$1.0 million, respectively, in its North American BPO segment based on the Company's evaluation of the recoverability of its leasehold improvement assets.

(10) COMMITMENTS AND CONTINGENCIES

Letters of Credit

As of September 30, 2009, outstanding letters of credit and other performance guarantees totaled approximately \$5.3 million, which primarily guarantee workers' compensation and other insurance related obligations.

Guarantees

The Company's Credit Facility is guaranteed by a majority of the Company's domestic subsidiaries.

The Company has a corporate aircraft financed under a synthetic operating lease. The lease term is five years and expires in the first quarter of 2010. During the lease term, the Company has the option to return the aircraft, purchase the aircraft at a fixed price, or renew the lease with the lessor. During the three months ended September 30, 2009, the Company allowed the option to return the aircraft to lapse. The Company is currently evaluating whether to exercise its purchase option under the lease, or renew the lease. The current estimated fair market value of the aircraft is greater than the fixed purchase price of the aircraft under the lease terms.

Legal Proceedings

On January 25, 2008, a class action lawsuit was filed in the United States District Court for the Southern District of New York entitled *Beasley v. TeleTech Holdings, Inc., et al.* against TeleTech, certain current directors and officers and others alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act. The complaint alleges, among other things, false and misleading statements in the Registration Statement and Prospectus in connection with (i) a March 2007 secondary offering of common stock and (ii) various disclosures made and periodic reports filed by the Company between February 8, 2007 and November 8, 2007. On February 25, 2008, a second nearly identical class action complaint, entitled *Brown v. TeleTech Holdings, Inc., et al.*, was filed in the same court. On May 19, 2008, the actions described above were consolidated under the caption *In re: TeleTech Litigation* and lead plaintiff and lead counsel were approved. On October 21, 2009, the Company and the other defendants named executed a stipulation of settlement with the lead plaintiffs to settle the consolidated class action lawsuit. The settlement is subject to various conditions including preliminary approval by the United States District Court for the Southern District of New York, notice to class members, a final hearing and final approval by the District Court. The total settlement amount to be paid under the stipulation of settlement will be covered by the Company's insurance carriers.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

On July 28, 2008, a shareholder derivative action was filed in the Court of Chancery, State of Delaware, entitled *Susan M. Gregory v. Kenneth D. Tuchman, et al.*, against certain of TeleTech's former and current officers and directors alleging, among other things, that the individual defendants breached their fiduciary duties and were unjustly enriched in connection with: (i) equity grants made in excess of plan limits; and (ii) manipulating the grant dates of stock option grants from 1999 through 2008. TeleTech is named solely as a nominal defendant against whom no recovery is sought. On October 26, 2009, the Company and other defendants in the derivative action executed a stipulation of settlement with the lead plaintiffs to settle the derivative action. The settlement is subject to various conditions including approval by the Court of Chancery, State of Delaware. The Company will pay \$227,000 of the total settlement amount, which amount payable by the Company has been previously accrued for, and the rest of the settlement amount will be covered by the Company's insurance carriers.

From time to time, the Company has been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, the Company believes that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on the Company or its Consolidated Financial Statements.

(11) COMPREHENSIVE INCOME (LOSS)

The following table sets forth comprehensive income (loss) for the periods indicated (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income	\$ 21,457	\$ 21,096	\$ 54,461	\$ 62,639
Foreign currency translation adjustments	6,396	(26,284)	13,989	(20,684)
Derivatives valuation, net of tax	6,207	(6,922)	21,632	(29,618)
Total comprehensive income (loss)	\$ 34,060	\$ (12,110)	\$ 90,082	\$ 12,337
Comprehensive income attributable to noncontrolling interest	(812)	(936)	(2,930)	(3,008)
Comprehensive income (loss) attributable to TeleTech	\$ 33,248	\$ (13,046)	\$ 87,152	\$ 9,329

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

	Nine Months Ended	
	September 30,	
	2009	2008
Noncontrolling interest, January 1	\$ 5,011	\$ 3,555
Net income attributable to noncontrolling interest	2,746	2,992
Dividends distributed to noncontrolling interest	(2,790)	(1,428)
Foreign currency translation adjustments	184	16
Noncontrolling interest, September 30	\$ 5,151	\$ 5,135

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(12) NET INCOME PER SHARE

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Shares used in basic earnings per share calculation	62,159	68,217	63,051	69,373
Effect of dilutive securities Stock options	987	1,289	636	1,549
Effect of dilutive securities RSUs	686	2	435	
Shares used in dilutive earnings per share calculation	63,832	69,508	64,122	70,922

For the three months ended September 30, 2009 and 2008, options to purchase 0.3 million and 0.3 million shares of common stock, 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 nine months ended September 30, 2009 and 2008, options to purchase 0.8 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 effect would have been anti-dilutive. For the three months ended September 30, 2009 and 2008, restricted stock units (RSUs) of 0.6 million and 1.2 million, respectively, and for the nine months ended September 30, 2009 and 2008, RSUs of 0.9 million and 1.3 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.

(13) EQUITY-BASED COMPENSATION PLANS

The Company has adopted the revised authoritative guidance for equity-based compensation and applied the modified prospective method for expensing equity compensation. All equity-based payments to employees are recognized in the Consolidated Statements of Operations and Other Comprehensive Income (Loss) at the fair value of the award on the grant date. The fair values of all stock options granted by the Company are estimated on the date of grant using the Black-Scholes-Merton Model.

Stock Options

As of September 30, 2009, there was approximately \$0.7 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to unvested option arrangements granted under the Company's equity plans. The Company recognizes compensation expense straight-line over the vesting term of the option grant. The Company recognized compensation expense related to stock options of \$0.6 million and \$1.5 million for the three months ended September 30, 2009 and 2008, respectively. The Company recognized compensation expense related to stock options of \$2.1 million and \$3.3 million for the nine months ended September 30, 2009 and 2008, respectively.

Restricted Stock Unit Grants

During the nine months ended September 30, 2009 and 2008, the Company granted 879,299 and 432,000 RSUs, respectively, to new and existing employees, which vest in equal installments over four years. The Company recognized compensation expense related to RSUs of \$2.3 million and \$6.9 million for the three and nine months ended September 30, 2009, respectively, and \$1.7 million and \$4.6 million for the three and nine months ended September 30, 2008, respectively. As of September 30, 2009, there was approximately \$29.6 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company's equity plans.

As of September 30, 2009 and 2008, the Company also had performance-based RSUs outstanding that vest based on the Company achieving specified operating income performance targets in 2009 and 2008. The Company determined that it was not probable these performance targets would be met; therefore no expense was recognized for the three

and nine months ended September 30, 2009 and 2008.

Table of Contents

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

Introduction

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008. Except for historical information, the discussion below contains certain forward looking statements that involve risks and uncertainties. The projections and statements contained in these forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward looking statements.

All statements not based on historical fact are forward looking statements that involve substantial risks and uncertainties. In accordance with the Private Securities Litigation Reform Act of 1995, the following are important factors that could cause our actual results to differ materially from those expressed or implied by such forward looking statements, including but not limited to the following: achieving estimated revenue from new, renewed and expanded client business as volumes may not materialize as forecasted, especially due to the global economic slowdown; achieving profit improvement in our International Business Process Outsourcing (BPO) operations; the ability to close and ramp new business opportunities that are currently being pursued or that are in the final stages with existing and/or potential clients; our ability to execute our growth plans, including sales of new products; the possibility of lower revenue or price pressure from our clients experiencing a business downturn or merger in their business; greater than anticipated competition in the BPO services market, causing adverse pricing and more stringent contractual terms; risks associated with losing or not renewing client relationships, particularly large client agreements, or early termination of a client agreement; the risk of losing clients due to consolidation in the industries we serve; consumers concerns or adverse publicity regarding our clients' products; our ability to find cost effective locations, obtain favorable lease terms and build or retrofit facilities in a timely and economic manner; risks associated with business interruption due to weather, fires, pandemic, or terrorist related events; risks associated with attracting and retaining cost effective labor at our delivery centers; the possibility of asset impairments and restructuring charges; risks associated with changes in foreign currency exchange rates; economic or political changes affecting the countries in which we operate; changes in accounting policies and practices promulgated by standard setting bodies; and new legislation or government regulation that adversely impacts our tax obligations, health care costs or the BPO and customer management industry.

This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included elsewhere in this report. These factors are not intended to represent a complete list of all risks and uncertainties inherent in our business and should be read in conjunction with the more detailed cautionary statements included in our 2008 Annual Report on Form 10-K under the caption Item 1A. Risk Factors, in this 10-Q document under the caption Item 1A. Risk Factors, in our other Securities and Exchange Commission filings and our press releases.

Executive Summary

TeleTech is one of the largest and most geographically diverse global providers of business process outsourcing solutions. We have a 27-year history of designing, implementing and managing critical business processes for Global 1000 companies to help them improve their customers' experience, expand their strategic capabilities and increase their operating efficiencies. By delivering a high-quality customer experience through the effective integration of customer-facing, front-office processes with internal back-office processes, we enable our clients to better serve, grow and retain their customer base. We have developed deep vertical industry expertise and support more than 250 BPO programs serving approximately 90 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless communication industries.

Table of Contents

As globalization of the world's economy continues to accelerate, businesses are increasingly competing on a large-scale basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly skilled worldwide labor force. As a result of these developments, companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position while increasing shareholder value through improved productivity and profitability.

Revenue in 2009 decreased over the prior year due to the global economic slowdown resulting in a decline in our current call volumes, delayed client purchasing decisions along with the continued migration of several of our clients to our offshore delivery centers. Nevertheless, we believe that our revenue will continue to grow over the long-term as global demand for our services is fueled by the following trends:

Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment. Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more back-office opportunities and providing the services during non-peak hours with minimal incremental investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.

Increasing percentage of company operations being outsourced to most capable third-party providers. Having experienced success with outsourcing a portion of their business processes, companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party providers, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost effectively scale to meet their evolving needs.

Increasing adoption of outsourcing across broader groups of industries. Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we have seen an increase in interest of our services for companies in the healthcare, retail and financial services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow, further enabling us to increase and diversify our revenue and client base.

Focus on speed-to-market by companies launching new products or entering new geographic locations. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing providers that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO providers with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 17 countries and our significant investment in standardized technology and processes, we believe that clients select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for our clients' customers.

Table of Contents

Our Strategy

Our objective is to become the world's largest, most technologically advanced and innovative provider of onshore, offshore and work from home BPO solutions. Companies within the Global 1000 are our primary client targets due to their size, global nature, focus on outsourcing and desire for the global, scalable integrated process solutions that we offer. We have developed, and continue to invest in, a broad set of capabilities designed to serve this growing client need. These investments include our TeleTech@Home offering which allows our employees to serve clients from their homes. This capability has enhanced the flexibility of our offering allowing clients to choose our onshore, offshore or work from home employees to meet their outsourced business process needs. In addition, we have begun to offer hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative business process services across our targeted industries.

Our business strategy to increase revenue, profitability and our industry position includes the following elements:

Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

Adopt or increase BPO services;

Consolidate outsourcing providers with those that have a solid financial position, capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;

Modify their approach to outsourcing based on total value delivered versus the lowest priced provider; and

Better integrate front- and back-office processes;

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on targeted industries where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning services and our hosted TeleTech OnDemand capabilities;

Continue to improve our operating margins through selective cost cutting initiatives and increased asset utilization of our globally diverse delivery centers;

Scale our work-from-home initiative to increase operational flexibility; and

Selectively pursue acquisitions that extend our capabilities, geographic reach and/or industry expertise.

Table of Contents

Our Third Quarter 2009 Financial Results

In 2009, our third quarter revenue decreased 19.4% to \$281.5 million over the year-ago period, which includes a decrease of 3.4% or \$11.7 million due to fluctuations in foreign currency rates. Our third quarter 2009 income from operations increased 2.7% to \$28.0 million or 9.9% of revenue from \$27.2 million or 7.8% of revenue in the year-ago period. This revenue decrease is due to a decline in existing client volumes in light of the current global recessionary economic environment, the continued migration of several of our clients to our offshore delivery centers and proactively managing underperforming business and geographies out of our portfolio. Income from operations for the third quarter of 2009 and 2008 included \$0.7 million and \$3.0 million of restructuring charges and asset impairment, respectively.

We have experienced growth in our offshore delivery centers, which serve clients based both in North America and in other countries. Revenue in these offshore locations was \$140.7 million and represents 50% of our total revenue in the third quarter of 2009. Our offshore delivery capacity now spans seven countries with approximately 25,000 workstations and currently represents 70% of our global delivery capabilities.

Our strong financial position due to our cash flow from operations and low debt levels allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At September 30, 2009, we had \$114.9 million of cash and cash equivalents and a total debt to total capitalization ratio of 2.0%.

Business Overview

Our BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers. Effective January 1, 2009, we completed certain organizational changes focused on streamlining the structure of our organization to more closely align our reporting structure with our client base and increase management accountability. Beginning in the first quarter of 2009, our North American BPO segment is comprised of sales to all clients based in North America (encompassing the U.S. and Canada), while our International BPO is comprised of sales to all clients based in all countries outside of North America. TeleTech revised previously reported operating segment information to conform to its new operating segments in effect as of January 1, 2009.

BPO Services

The BPO business generates revenue based primarily on the amount of time our associates devote to a client's program. We primarily focus on large global corporations in the following industries: automotive, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and leisure and wireline and wireless telecommunications. Revenue is recognized as services are provided. The majority of our revenue is from multi-year contracts, and we expect this trend to continue. However, we do provide certain client programs on a short-term basis.

We have historically experienced annual attrition of existing client programs of approximately 7% to 15% of our revenue. Attrition of existing client programs during the first nine months of 2009 was 11%.

The BPO industry is highly competitive. We compete primarily with the in-house business processing operations of our current and potential clients. We also compete with certain third-party BPO providers. Our ability to sell our existing services or gain acceptance for new products or services is challenged by the competitive nature of the industry. There can be no assurance that we will be able to sell services to new clients, renew relationships with existing clients, or gain client acceptance of our new products.

Our ability to renew or enter into new multi-year contracts, particularly large complex opportunities, is dependent upon the macroeconomic environment in general and the specific industry environments in which our clients operate. A continued weakening of the U.S. or the global economy could lengthen sales cycles or cause delays in closing new business opportunities.

Table of Contents

Our potential clients typically obtain bids from multiple vendors and evaluate many factors in selecting a service provider, including, among other factors, the scope of services offered, the service record of the vendor and price. We generally price our bids with a long term view of profitability and, accordingly, we consider all of our fixed and variable costs in developing our bids. We believe that our competitors, at times, may bid business based upon a short term view, as opposed to our longer term view, resulting in a lower price bid. While we believe that our clients' perceptions of the value we provide results in our being successful in certain competitive bid situations, there are often situations where a potential client may prefer a lower cost.

Our industry is labor intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. An improvement in the local or global economies where our delivery centers are located could lead to increased labor related costs. In addition, our industry experiences high personnel turnover and the length of training time required to implement new programs continues to increase due to increased complexities of our clients' businesses. This may create challenges if we obtain several significant new clients or implement several new, large scale programs and need to recruit, hire and train qualified personnel at an accelerated rate.

To some extent our profitability is influenced by the number of new client programs entered into within the period. For new programs we defer revenue related to initial training (Training Revenue) when training is billed as a separate component from production rates. Consequently, the corresponding training costs associated with this revenue, consisting primarily of labor and related expenses (Training Costs), are also deferred. In these circumstances, both the Training Revenue and Training Costs are amortized straight-line over the life of the contract. In situations where Training Revenue is not billed separately, but rather included in the production rates, there is no deferral as all revenue is recognized over the life of the contract and the associated training expenses are expensed as incurred. As of September 30, 2009, we had deferred start-up Training Revenue, net of costs, of \$6.7 million that will be recognized into our income from operations over the remaining life of the corresponding contracts (\$4.9 million will be recognized within the next 12 months).

We may have difficulties managing the timeliness of launching new or expanded client programs and the associated internal allocation of personnel and resources. This could cause slower than anticipated revenue growth and/or higher than expected costs primarily related to hiring, training and retaining the required workforce, either of which could adversely affect our operating results.

Quarterly, we review our capacity utilization and projected demand for future capacity. In conjunction with these reviews, we may decide to consolidate or close under performing delivery centers, including those impacted by the loss of a client program, in order to maintain or improve targeted utilization and margins. In addition, because clients may request that we serve their customers from international delivery centers with lower prevailing labor rates, in the future, we may decide to close one or more of our delivery centers, even though it is generating positive cash flow, because we believe that the future profits from conducting such work outside the current delivery center may more than compensate for the one-time charges related to closing the facility.

Our profitability is influenced by our ability to increase capacity utilization in our delivery centers. We attempt to minimize the financial impact resulting from idle capacity when planning the development and opening of new delivery centers or the expansion of existing delivery centers. As such, management considers numerous factors that affect capacity utilization, including anticipated expirations, reductions, terminations, or expansions of existing programs and the potential size and timing of new client contracts that we expect to obtain.

We continue to win new business with both new and existing clients. To respond more rapidly to changing market demands, to implement new programs and to expand existing programs, we may be required to commit to additional capacity prior to the contracting of additional business, which may result in idle capacity. This is largely due to the significant time required to negotiate and execute large, complex BPO client contracts and the difficulty of predicting specifically when new programs will launch.

Table of Contents

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of September 30, 2009, the overall capacity utilization in our multi client delivery centers was 68% and is lower than the prior year due to a decline in existing client volumes in light of the current global recessionary economic environment. The table below presents workstation data for our multi client delivery centers as of September 30, 2009 and 2008. Dedicated and managed delivery centers (6,545 and 9,257 workstations as of September 30, 2009 and 2008, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale to other clients. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated delivery centers based on contractual obligations, normal changes in our business environment and/or client needs.

	September 30, 2009			September 30, 2008		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
Multi-client centers						
Sites open <1 year	1,158	891	77%	6,095	2,732	45%
Sites open >1 year	28,272	19,153	68%	24,289	18,413	76%
Total multi-client centers	29,430	20,044	68%	30,384	21,145	70%

While historically US-based clients utilized most of our offshore delivery capabilities, we have increasingly seen clients in Europe and Asia Pacific utilize our offshore delivery capabilities and expect this trend to continue with clients in other countries. In light of this trend, we plan to continue to selectively expand into new offshore markets. For example, we believe we were one of the first multi-national BPO providers to enter the African continent. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increase, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

Recent Issued Accounting Pronouncements

Refer to 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 its 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. Below is a discussion of the policies that we believe may involve a high degree of judgment and complexity.

Revenue Recognition

For each client arrangement, we determine whether evidence of an arrangement exists, delivery of our service has occurred, the fee is fixed or determinable and collection is reasonably assured. If all criteria are met, we recognize revenue at the time services are performed. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met.

Table of Contents

Our BPO segments recognize revenue under three models:

Production Rate Revenue is recognized based on the billable time or transactions of each associate, as defined in the client contract. The rate per billable time or transaction is based on a pre-determined contractual rate. This contractual rate can fluctuate based on our performance against certain pre-determined criteria related to quality and performance.

Performance Based Under performance-based arrangements, we are paid by our clients based on the achievement of certain levels of sales or other client-determined criteria specified in the client contract. We recognize performance-based revenue by measuring our actual results against the performance criteria specified in the contracts. Amounts collected from clients prior to the performance of services are recorded as deferred revenue, which is recorded in Other Short-Term Liabilities or Other Long-Term Liabilities in the accompanying Consolidated Balance Sheets.

Hybrid Hybrid models include production rate and performance-based elements. For these types of arrangements, we allocate revenue to the elements based on the relative fair value of each element. Revenue for each element is recognized based on the methods described above.

Certain client programs provide for adjustments to monthly billings based upon whether we meet or exceed certain performance criteria as set forth in the contract. Increases or decreases to monthly billings arising from such contract terms are reflected in revenue as earned or incurred.

Periodically, we make certain expenditures related to acquiring contracts or provide up-front discounts for future services to existing clients (recorded as Contract Acquisition Costs in the accompanying Consolidated Balance Sheets). Those expenditures are capitalized and amortized in proportion to the expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these costs is recorded as a reduction of revenue.

Income Taxes

We account for income taxes in accordance with the authoritative guidance 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. When circumstances warrant, we assess the likelihood that our net deferred tax assets will more likely than not be recovered from future projected taxable income.

We continually review the likelihood that deferred tax assets will be realized in future tax periods under the more likely than not criterion. In making this judgment, we consider all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance is required.

We follow a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, and settlement of issues under audit. We recognize interest and penalties related to uncertain tax positions in Provision for Income Taxes in our Consolidated Statements of Operations.

Table of Contents

In the future, our effective tax rate could be adversely affected by several factors, many of which are outside our control. Our effective tax rate is affected by the proportion of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. Further, we are subject to changing tax laws, regulations and interpretations in multiple jurisdictions, in which we operate, as well as the requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations. We estimate our annual effective tax rate each quarter based on a combination of actual and forecasted results of subsequent quarters. Consequently, significant changes in our actual quarterly or forecasted results may impact the effective tax rate for the current or future periods.

Allowance for Doubtful Accounts

We have established an allowance for doubtful accounts to reserve for uncollectible accounts receivable. Each quarter, management reviews the receivables on an account by account basis and assigns a probability of collection. Management's judgment is used in assessing the probability of collection. Factors considered in making this judgment include, among other things, the age of the identified receivable, client financial condition, previous client payment history and any recent communications with the client.

Impairment of Long Lived Assets

We evaluate the carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carry amount may not be recoverable. An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates.

Goodwill

We perform a goodwill impairment test on at least an annual basis. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. We conduct our annual goodwill impairment test in the fourth quarter each year, or more frequently if indicators of impairment exist. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in the business climate, unanticipated competition and/or slower than expected growth rates, among others. During the quarter ended September 30, 2009, we assessed whether any such indicators of impairment exist, and concluded there were no indicators of impairment.

Restructuring Liability

We routinely assess the profitability and utilization of our delivery centers and existing markets. In some cases, we have chosen to close under performing delivery centers and complete reductions in workforce to enhance future profitability. We recognize certain liabilities when the severance liabilities are determined to be probable and reasonably estimable. Liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, rather than upon commitment to a plan.

Equity Based Compensation

Equity-based compensation is measured at the grant date based on the estimated fair value of the award. The expense is recognized over the requisite service period, which is generally the vesting period.

Contingencies

We record a liability for pending litigation and claims when losses are both probable and reasonably estimable. Each quarter, management reviews all litigation and claims on a case-by-case basis and assigns probability of loss and range of loss.

Table of Contents

Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally include costs incurred in connection with our BPO operations and database marketing services, including direct labor, telecommunications, printing, postage, sales and use tax and certain fixed costs associated with delivery centers. In addition, cost of services includes income related to grants we may receive from local or state governments as an incentive to locate delivery centers in their jurisdictions which reduce the cost of services for those facilities.

Selling, General and Administrative

Selling, general and administrative expenses primarily include costs associated with administrative services such as sales, marketing, product development, legal settlements, legal, information systems (including core technology and telephony infrastructure) and accounting and finance. It also includes equity based compensation expense, outside professional fees (i.e. legal and accounting services), building expense for non delivery center facilities and other items associated with general business administration.

Restructuring Charges, Net

Restructuring charges, net primarily include costs incurred in conjunction with reductions in force or decisions to exit facilities, including termination benefits and lease and telecommunications liabilities, net of expected sublease rentals.

Interest Expense

Interest expense includes interest expense and amortization of debt issuance costs associated with our debts and capitalized lease obligations.

Other Income

The main components of other income are miscellaneous income not directly related to our operating activities, such as foreign exchange transaction gains.

Other Expense

The main components of other expense are expenditures not directly related to our operating activities, such as foreign exchange transaction losses.

Presentation of Non GAAP Measurements

Free Cash Flow

Free cash flow is a non GAAP liquidity measurement. We define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. 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.

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net cash provided by operating activities	\$ 58,840	\$ 65,994	\$ 152,678	\$ 125,299
Purchases of property, plant and equipment	4,791	15,320	19,092	51,728
Free cash flow	\$ 54,049	\$ 50,674	\$ 133,586	\$ 73,571

We discuss factors affecting free cash flow between periods in the Liquidity and Capital Resources section below.

Table of Contents**Results of Operations****Three Months Ended September 30, 2009 As Compared to Three Months Ended September 30, 2008***Operating Review*

The following table is presented to facilitate an understanding of our Management's Discussion and Analysis of Financial Condition and Results of Operations and presents our results of operations by segment for the three months ended September 30, 2009 and 2008 (amounts in thousands). We allocate to each segment its portion of corporate operating expenses. All inter-company transactions between the reported segments for the periods presented have been eliminated.

	Three Months Ended September 30,		Three Months Ended September 30,		\$ Change	% Change
	2009	% of Revenue	2008	% of Revenue		
Revenue						
North American BPO	\$ 215,949		\$ 245,945		\$ (29,996)	-12.2%
International BPO	65,575		103,165		(37,590)	-36.4%
Database Marketing and Consulting						0.0%
	\$ 281,524		\$ 349,110		\$ (67,586)	-19.4%
Cost of services						
North American BPO	\$ 143,475	66.4%	\$ 176,434	71.7%	\$ (32,959)	-18.7%
International BPO	51,134	78.0%	76,217	73.9%	(25,083)	-32.9%
Database Marketing and Consulting		0.0%	15	0.0%	(15)	-100.0%
	\$ 194,609	69.1%	\$ 252,666	72.4%	\$ (58,057)	-23.0%
Selling, general and administrative						
North American BPO	\$ 31,403	14.5%	\$ 36,381	14.8%	\$ (4,978)	-13.7%
International BPO	11,162	17.0%	14,731	14.3%	(3,569)	-24.2%
Database Marketing and Consulting		0.0%	45	0.0%	(45)	-100.0%
	\$ 42,565	15.1%	\$ 51,157	14.7%	\$ (8,592)	-16.8%
Depreciation and amortization						
North American BPO	\$ 9,761	4.5%	\$ 10,272	4.2%	\$ (511)	-5.0%
International BPO	5,903	9.0%	4,721	4.6%	1,182	25.0%
Database Marketing and Consulting		0.0%	5	0.0%	(5)	-100.0%
	\$ 15,664	5.6%	\$ 14,998	4.3%	\$ 666	4.4%

**Restructuring charges,
net**

North American BPO	\$ 428	0.2%	\$ 1,488	0.6%	\$ (1,060)	-71.2%
International BPO	275	0.4%	527	0.5%	(252)	-47.8%
Database Marketing and Consulting		0.0%		0.0%		0.0%
	\$ 703	0.2%	\$ 2,015	0.6%	\$ (1,312)	-65.1%

Impairment losses

North American BPO	\$	0.0%	\$ 1,033	0.4%	\$ (1,033)	100.0%
International BPO		0.0%		0.0%		0.0%
Database Marketing and Consulting		0.0%		0.0%		0.0%
	\$	0.0%	\$ 1,033	0.3%	\$ (1,033)	100.0%

**Income (loss) from
operations**

North American BPO	\$ 30,882	14.3%	\$ 20,337	8.3%	\$ 10,545	51.9%
International BPO	(2,899)	-4.4%	6,969	6.8%	(9,868)	-141.6%
Database Marketing and Consulting		0.0%	(65)	0.0%	65	100.0%
	\$ 27,983	9.9%	\$ 27,241	7.8%	\$ 742	2.7%

**Other income (expense),
net**

	\$ 445	0.2%	\$ (777)	-0.2%	\$ 1,222	157.3%
--	--------	------	----------	-------	----------	--------

**Provision for income
taxes**

	\$ (6,971)	-2.5%	\$ (5,368)	-1.5%	\$ (1,603)	-29.9%
--	------------	-------	------------	-------	------------	--------

Table of Contents*Revenue*

Revenue for North American BPO for the three months ended September 30, 2009 as compared to the same period in 2008 was \$215.9 million and \$245.9 million, respectively. The decrease in revenue for the North American BPO was due to net decreases in client programs of \$9.2 million, along with certain program terminations of \$15.9 million, and a \$4.9 million decrease due to realized losses on cash flow hedges purchased to reduce our exposure to foreign currency exchange rate fluctuations for revenue delivered in a different country from where the client is located. Revenue for International BPO for the three months ended September 30, 2009 as compared to the same period in 2008 was \$65.6 million and \$103.2 million, respectively. The decrease in revenue for the International BPO was due to net decreases in client programs of \$10.3 million, certain program terminations of \$20.5 million, and negative changes in foreign exchange translation rates causing a decrease in revenue of \$6.8 million.

Our strategy of continuing to increase our offshore revenue delivery resulted in an increase in our percentage of offshore revenue. Our offshore delivery capacity represents 70% of our global delivery capabilities at September 30, 2009. Revenue in these offshore locations was \$140.7 million and represented 50% of our total revenue in the third quarter of 2009. Revenue in these offshore locations was \$158.6 million or 45% of total revenue in the third quarter of 2008. An important component of our growth strategy is continued international expansion which is one of several factors contributing to our higher margins along with increased technology and consulting related projects. Factors that may impact our ability to maintain our offshore operating margins include potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

Cost of Services

Cost of services for North American BPO for the three months ended September 30, 2009 as compared to the same period in 2008 was \$143.5 million and \$176.4 million, respectively. Cost of services as a percentage of revenue in the North American BPO decreased compared to the prior year. In absolute dollars the decrease was due to a \$30.5 million decrease in employee related expenses due to lower volumes in existing client programs and program terminations, a \$1.5 million decrease for telecommunications expenses due to reductions in client volume and the closure of several delivery centers, a \$1.9 million decrease for rent and related expenses due to the closure of several delivery centers, offset by a \$1.0 million net increase in other expenses.

Cost of services for International BPO for the three months ended September 30, 2009 as compared to the same period in 2008 was \$51.1 million and \$76.2 million, respectively. Cost of services as a percentage of revenue in the International BPO increased compared to the prior year. In absolute dollars the decrease was due to \$21.5 million decrease in employee related expenses due to a net reduction in existing client volumes and program terminations, a \$1.2 million decrease for rent and related expenses due to the closure of several delivery centers, and a \$2.4 million net decrease in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for the three months ended September 30, 2009 as compared to the same period in 2008 were \$31.4 million and \$36.4 million, respectively. The expenses decreased in both absolute dollars and as a percentage of revenue. The decrease in absolute dollars reflects a decrease in employee related expenses of \$3.1 million, a \$0.5 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historical financial statements completed in 2008, a \$0.4 million decrease in technology costs, and a net decrease in other expenses of \$1.0 million.

Table of Contents

Selling, general and administrative expenses for International BPO for the three months ended September 30, 2009 as compared to the same period in 2008 were \$11.2 million and \$14.7 million, respectively. The expenses decreased in absolute dollars while increasing as a percentage of revenue. The decrease in absolute dollars reflects a decrease in employee related expenses of \$2.2 million, a \$0.4 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historical financial statements completed in 2008, and a \$0.9 million net decrease in other expenses.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for the three months ended September 30, 2009 and 2008 was \$15.7 million and \$15.0 million, respectively. For the North American BPO, the depreciation expense decreased in absolute value while it increased slightly as a percentage of revenue as compared to the prior year. This decrease in value was due to restructuring activities and delivery center closures which have better aligned our capacity to our operational needs. For the International BPO, the depreciation expense increased both in absolute value and as a percentage of revenue as compared to the prior year. During the quarter we shortened the useful life of certain telephony assets, resulting in the acceleration of \$1.8 million of depreciation expense in the period. This increase was offset by decreases in depreciation expense due to delivery center closures which have better aligned our capacity to our operational needs.

Restructuring Charges

During the three months ended September 30, 2009, we recorded a net \$0.7 million of restructuring charges compared to \$2.0 million in the same period in 2008. During 2009, we undertook reductions in both our North American BPO and International BPO segments to better align our delivery centers and workforce with the current business needs. We recorded \$0.8 million in severance related expenses, and a reduction of \$0.1 million in delivery center closure costs over both the North American BPO and International BPO segments.

Impairment Losses

During the three months ended September 30, 2009, we recorded no impairment charges compared to \$1.0 million of impairment charges in the same period in 2008.

Other Income (Expense)

For the three months ended September 30, 2009, interest income decreased to \$0.6 million from \$1.3 million in the same period in 2008 primarily due to lower cash and cash equivalent balances and lower interest rates. Interest expense decreased during 2009 by \$1.1 million due to a lower average outstanding balance on our line of credit and lower interest rates.

Income Taxes

The effective tax rate for the three months ended September 30, 2009 was 24.5%. This compares to an effective tax rate of 20.3% in the same period of 2008. The effective tax rate for the three months ended September 30, 2009 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.

Table of Contents**Nine months Ended September 30, 2009 As Compared to Nine months Ended September 30, 2008***Operating Review*

The following table is presented to facilitate an understanding of our Management's Discussion and Analysis of Financial Condition and Results of Operations and presents our results of operations by segment for the nine months ended September 30, 2009 and 2008 (amounts in thousands). We allocate to each segment its portion of corporate operating expenses. All inter-company transactions between the reported segments for the periods presented have been eliminated.

	Nine Months Ended September 30,				\$ Change	% Change
	2009	% of Segment Revenue	2008	% of Segment Revenue		
Revenue						
North American BPO	\$ 674,827		\$ 776,856		\$ (102,029)	-13.1%
International BPO	212,239		297,306		(85,067)	-28.6%
Database Marketing and Consulting						0.0%
	\$ 887,066		\$ 1,074,162		\$ (187,096)	-17.4%
Cost of services						
North American BPO	\$ 455,287	67.5%	\$ 554,931	71.4%	\$ (99,644)	-18.0%
International BPO	171,213	80.7%	233,559	78.6%	(62,346)	-26.7%
Database Marketing and Consulting		0.0%	109	0.0%	(109)	-100.0%
	\$ 626,500	70.6%	\$ 788,599	73.4%	\$ (162,099)	-20.6%
Selling, general and administrative						
North American BPO	\$ 100,213	14.9%	\$ 106,154	13.7%	\$ (5,941)	-5.6%
International BPO	35,848	16.9%	41,880	14.1%	(6,032)	-14.4%
Database Marketing and Consulting		0.0%	353	0.0%	(353)	-100.0%
	\$ 136,061	15.3%	\$ 148,387	13.8%	\$ (12,326)	-8.3%
Depreciation and amortization						
North American BPO	\$ 29,560	4.4%	\$ 31,916	4.1%	\$ (2,356)	-7.4%
International BPO	13,974	6.6%	13,847	4.7%	127	0.9%
Database Marketing and Consulting		0.0%	19	0.0%	(19)	-100.0%
	\$ 43,534	4.9%	\$ 45,782	4.3%	\$ (2,248)	-4.9%
Restructuring charges, net						

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

North American BPO	\$ 3,333	0.5%	\$ 1,616	0.2%	\$ 1,717	106.3%
International BPO	1,681	0.8%	3,098	1.0%	(1,417)	-45.7%
Database Marketing and Consulting		0.0%	(57)	0.0%	57	100.0%
	\$ 5,014	0.6%	\$ 4,657	0.4%	\$ 357	7.7%
Impairment losses						
North American BPO	\$ 1,811	0.3%	\$ 1,033	0.1%	\$ 778	75.3%
International BPO	2,776	1.3%		0.0%	2,776	100.0%
Database Marketing and Consulting		0.0%		0.0%		0.0%
	\$ 4,587	0.5%	\$ 1,033	0.1%	\$ 3,554	100.0%
Income (loss) from operations						
North American BPO	\$ 84,623	12.5%	\$ 81,206	10.5%	\$ 3,417	4.2%
International BPO	(13,253)	-6.2%	4,922	1.7%	(18,175)	-369.3%
Database Marketing and Consulting		0.0%	(424)	0.0%	424	100.0%
	\$ 71,370	8.0%	\$ 85,704	8.0%	\$ (14,334)	-16.7%
Other income (expense), net	\$ 1,570	0.2%	\$ (2,368)	-0.2%	\$ 3,938	166.3%
Provision for income taxes	\$ (18,479)	-2.1%	\$ (20,697)	-1.9%	\$ 2,218	10.7%

34

Table of Contents*Revenue*

Revenue for North American BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 was \$674.8 million and \$776.9 million, respectively. The decrease in revenue for the North American BPO was due to a net decrease in client programs of \$4.1 million, certain program terminations of \$69.6 million, and a \$28.4 million decrease due to realized losses on cash flow hedges purchased to reduce our exposure to foreign currency exchange rate fluctuations for revenue delivered in a different country from where the client is located. Revenue for International BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 was \$212.2 million and \$297.3 million, respectively. The decrease in revenue for the International BPO was due to a net increase in client programs of \$13.3 million, offset by certain program terminations of \$50.6 million, and negative changes in foreign exchange translation rates causing a decrease in revenue of \$47.8 million.

Our strategy of continuing to increase our offshore revenue delivery resulted in an increase in our percentage of offshore revenue. Our offshore delivery capacity represents 70% of our global delivery capabilities at September 30, 2009. Revenue in these offshore locations was \$425.8 million and represented 48% of our total revenue for the first nine months of 2009. Revenue in these offshore locations was \$478.2 million or 45% of total revenue for the nine months of 2008. An important component of our growth strategy is continued international expansion which is one of several factors contributing to our higher margins along with increased technology and consulting related projects. Factors that may impact our ability to maintain our offshore operating margins include potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

Cost of Services

Cost of services for North American BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 was \$455.3 million and \$554.9 million, respectively. Cost of services as a percentage of revenue in the North American BPO decreased compared to the prior year. In absolute dollars the decrease was due to an \$88.0 million decrease in employee related expenses due to lower volumes in existing client programs and program terminations, a \$4.7 million decrease in telecommunications expenses due to reductions in client volume and the closure of several delivery centers, a \$5.6 million decrease for rent and related expenses due to the closure of several delivery centers, and a \$1.3 million net decrease in other expenses.

Cost of services for International BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 was \$171.2 million and \$233.6 million, respectively. Cost of services as a percentage of revenue in the International BPO increased compared to the prior year. In absolute dollars the decrease was due to a \$55.2 million decrease in employee related expenses due to a net reduction in existing client volumes and program terminations, a \$3.3 million decrease for rent and related expenses due to the closure of several delivery centers, and a \$3.9 million net decrease in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 were \$100.2 million and \$106.2 million, respectively. The expenses decreased in absolute dollars while increasing as a percentage of revenue. The decrease in absolute dollars reflects an increase in employee related expenses primarily related to incentive compensation of \$2.2 million, offset by a \$4.2 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historical financial statements completed in 2008, a \$2.4 million decrease in technology costs, and a \$1.6 million net decrease in other expenses.

Table of Contents

Selling, general and administrative expenses for International BPO for the nine months ended September 30, 2009 as compared to the same period in 2008 were \$35.8 million and \$41.9 million, respectively. The expenses decreased in absolute dollars while increasing as a percentage of revenue. The decrease in absolute dollars reflects a decrease in employee related expenses of \$2.0 million, a \$2.2 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historical financial statements completed in 2008, and a \$1.9 million net decrease in other expenses.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for the nine months ended September 30, 2009 and 2008 was \$43.5 million and \$45.8 million, respectively. For the North American BPO, the depreciation expense decreased in absolute value while it increased slightly as a percentage of revenue as compared to the prior year. This decrease in value is due to restructuring activities and delivery center closures which have better aligned our capacity to our operational needs. For the International BPO, the depreciation expense increased both in absolute value and as a percentage of revenue as compared to the prior year. During the third quarter we shortened the useful life of certain telephony assets, resulting in the acceleration of \$1.8 million of depreciation expense in the period. This increase was offset by decreases in depreciation expense due to delivery center closures which have better aligned our capacity to our operational needs.

Restructuring Charges

During the nine months ended September 30, 2009, we recorded a net \$5.0 million of restructuring charges compared to \$4.7 million in the same period in 2008. During 2009, we undertook reductions in both our North American BPO and International BPO segments to better align our delivery centers and workforce with the current business needs. We recorded \$5.6 million in severance related expenses, and \$0.8 million in delivery center closure costs in both the North American BPO and International BPO segments. We also recorded a \$1.4 million reduction in several of our estimates of previously recorded delivery center closure charges.

Impairment Losses

During the nine months ended September 30, 2009, we recorded \$4.6 million of impairment charges compared to \$1.0 million of impairment charges in the same period in 2008. In 2009, this impairment charge related to the reduction of the net book value of certain leasehold improvements in both the North American BPO and International BPO segments.

Other Income (Expense)

For the nine months ended September 30, 2009, interest income decreased to \$2.1 million from \$3.8 million in the same period in 2008 primarily due to lower cash and cash equivalent balances and lower interest rates. Interest expense decreased during 2009 by \$2.0 million due to a lower average outstanding balance on our line of credit and lower interest rates.

Income Taxes

The effective tax rate for the nine months ended September 30, 2009 was 25.3%. This compares to an effective tax rate of 24.8% in the same period of 2008. The effective tax rate for the nine months ended September 30, 2009 is 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.

Table of Contents**Liquidity and Capital Resources**

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Amended and Restated Credit Agreement, dated September 28, 2006 (the Credit Facility). During the nine months ended September 30, 2009, we generated positive operating cash flows of \$152.7 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 from the United States with a particular focus on concentrating and safeguarding our global cash and cash equivalent reserves. While we generally prefer to hold U.S. dollars, we maintain adequate cash in the functional currency of our foreign subsidiaries to support local working capital requirements. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners, and low-risk investments.

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

We primarily utilize our Credit Facility to fund working capital, stock repurchases, and other strategic and general operating purposes. In September 2008, we exercised the upsizing feature under the Credit Facility to increase our borrowing capacity by an additional \$45.0 million, which increased the total commitments to \$225.0 million. As of September 30, 2009 and December 31, 2008, we had \$0.0 million and \$80.8 million in outstanding borrowings under our Credit Facility, respectively. After consideration for issued letters of credit under the Credit Facility, totaling \$5.0 million, our remaining borrowing capacity under this facility was \$220.0 million as of September 30, 2009.

We continue to closely monitor the credit markets and evaluate how recent events are impacting the liquidity and capitalization of our investment-grade rated syndication of banks. At this time, we do not foresee an issue that would limit our access to the available borrowing capacity under the Credit Facility.

The amount of capital required over the next 12 months will also 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. There can be no assurance that additional financing will be available on terms favorable to us.

The following discussion highlights our cash flow activities during the nine months ended September 30, 2009 and 2008.

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 \$114.9 million and \$87.9 million as of September 30, 2009 and December 31, 2008, respectively.

Cash Flows from Operating Activities

We reinvest our cash flows from operating activities in our business or in the purchases of our outstanding common stock. For the nine months ended September 30, 2009 and 2008, net cash flows provided by operating activities increased to \$152.7 million from \$125.3 million, respectively. The increase is primarily due to greater collections of accounts receivable, an increase in deferred revenue and a decrease in prepaids and other assets.

Table of Contents*Cash Flows from Investing Activities*

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the nine months ended September 30, 2009 and 2008, we reported net cash flows used in investing activities of \$24.7 million and \$52.5 million, respectively. The decrease is due primarily to reduced capital expenditures during the first nine months of 2009 due to a limited need for additional capacity.

Cash Flows from Financing Activities

For the nine months ended September 30, 2009 and 2008, we reported net cash flows used in financing activities of \$107.5 million and \$31.3 million, respectively. The increase in net cash flows used from 2008 to 2009 was primarily due to increased net payments on our line of credit of \$124.1 million, offset by a decrease in purchases of our outstanding common stock of \$47.0 million.

Free Cash Flow

Free cash flow (see Presentation of Non GAAP Measurements for definition of free cash flow) was \$133.6 million and \$73.6 million for the nine months ended September 30, 2009 and 2008, respectively. The increase in free cash flow was primarily due to an increase in our cash from operations of \$27.4 million and a decrease in capital expenditures of \$32.6 million.

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of September 30, 2009 are summarized as follows (amounts in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit facility	\$	\$	\$	\$	\$
Capital lease obligations	1,645	2,346			3,991
Equipment financing arrangements	2,571	1,226	320		4,117
Purchase obligations	24,668	30,990	6,095		61,753
Operating lease commitments	28,645	40,702	17,787	7,754	94,888
Total	\$ 57,529	\$ 75,264	\$ 24,202	\$ 7,754	\$ 164,749

Contractual obligations to be paid in a foreign currency are translated at the September 30, 2009 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 for uncertain tax positions of \$1.6 million because we cannot reliably estimate the timing of cash payments.

Future Capital Requirements

We expect total capital expenditures in 2009 to be approximately \$25 million. Of the expected capital expenditures in 2009, approximately 70% relates to the opening and/or growth of our delivery platform and approximately 30% relates to the maintenance capital required for existing assets and internal technology projects. The anticipated level of 2009 capital expenditures is primarily dependent upon new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technology infrastructure.

Table of Contents

We may consider restructurings, dispositions, mergers, acquisitions and other similar transactions. Such transactions could include the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures, or the incurrence, assumption, or refinancing of indebtedness and could be material to the consolidated financial condition and consolidated results of our operations. In addition, as of September 30, 2009, we are authorized to purchase an additional \$33.5 million of common stock under our stock repurchase program (see Part II Item 2 of this Form 10 Q). The stock repurchase program does not have an expiration date.

The launch of large client contracts may result in short-term negative working capital because of the time period between incurring the costs for training and launching the program and the beginning of the accounts receivable collection process. As a result, periodically we may generate negative cash flows from operating activities.

Debt Instruments and Related Covenants

We discuss debt instruments and related covenants in Note 13 of the Notes to the Consolidated Financial Statements in our 2008 Annual Report on Form 10 K. As of September 30, 2009, we were in compliance with all covenants under the Credit Facility and had approximately \$220.0 million in available borrowing capacity. We had no outstanding borrowings and \$5.0 million of letters of credit outstanding under our Credit Facility as of September 30, 2009. Based upon average outstanding borrowings during the third quarter of 2009, interest accrued at a rate of approximately 1.2% per annum.

Client Concentration

Our five largest clients accounted for 38.0% and 39.7% of our consolidated revenue for the three months ended September 30, 2009 and 2008, respectively. Our five largest clients accounted for 36.0% and 41.1% of our consolidated revenue for the nine months ended September 30, 2009 and 2008, respectively. 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 client 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, 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 2009 and 2011. 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. We are exposed to market risk due to changes in interest rates, and foreign currency exchange rates as measured against the U.S. dollar. These exposures are directly related to our normal operating and funding activities. As discussed below, 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, the U.S. dollar/Argentine peso and U.S. dollar/South African rand. It is our policy to only enter into derivative contracts with investment grade counterparty financial institutions and, correspondingly, our derivative assets reflect the creditworthiness of our counterparties. Conversely, our derivative liabilities values reflect our creditworthiness. As of the date of this report, we have not experienced, nor do we anticipate, any issues related to derivative counterparty defaults.

Table of Contents

Interest Rate Risk

The interest rate on our Credit Facility is variable based upon the Prime Rate and LIBOR and, therefore, is affected by changes in market interest rates. As of September 30, 2009, we had no outstanding borrowings under the Credit Facility, with available borrowing capacity of \$220.0 million, net of outstanding letters of credit. Based upon average outstanding borrowings during the third quarter of 2009, interest accrued at a rate of approximately 1.2% per annum. If our borrowing rates would have fluctuated by 100 basis points during the quarter, there would not have been a material impact to our consolidated financial position or results of operations.

Foreign Currency Risk

Our subsidiaries in Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa 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 nine months ended September 30, 2009 and 2008, revenue associated with this foreign exchange risk was 36.4% and 31.6% of our consolidated revenue, respectively. In order to mitigate the risk of these non-functional foreign currencies from weakening against the functional currency of the servicing subsidiary, 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 contracting 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 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.

Table of Contents

Our cash flow hedging instruments as of September 30, 2009 and December 31, 2008 are summarized as follows (amounts 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 September 30, 2009				
Canadian Dollar	21,900	\$ 18,101	67.1%	December 2011
Canadian Dollar Call Options	27,000	24,097	81.1%	December 2010
Philippine Peso	4,480,906	95,450 ¹	88.6%	February 2011
Argentine Peso	28,250	7,881 ²	100.0%	May 2010 September 2011
Mexican Peso	494,000	37,139	80.9%	February 2010
South African Rand	57,500	5,230	100.0%	March 2011
British Pound Sterling	1,796	3,195 ³	71.4%	
		\$ 191,093		
As of December 31, 2008				
Canadian Dollar	88,300	\$ 77,865		
Canadian Dollar Call Options	44,400	39,305		
Philippine Peso	6,656,909	150,418 ¹		
Argentine Peso	102,072	29,054 ²		
Mexican Peso	856,500	70,530		
South African Rand	92,000	8,399		
British Pound Sterling	1,725	2,537 ³		
		\$ 378,108		

- (1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars, Australian

dollars and British pound sterling, which are translated into equivalent U.S. dollars on September 30, 2009 and December 31, 2008.

(2) Includes contracts to purchase Argentine pesos in exchange for Euros, which are translated into equivalent U.S. dollars on September 30, 2009 and December 31, 2008.

(3) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on September 30, 2009 and December 31, 2008.

The fair value of our cash flow hedges at September 30, 2009 were (assets/(liabilities)) (amounts in thousands):

	September 30, 2009	Maturing in the Next 12 Months
Canadian Dollar	\$ 2,169	\$ 1,200
Canadian Dollar Call Options	1,763	1,371
Philippine Peso	(1,853)	(2,462)
Argentine Peso	(695)	(695)
Mexican Peso	(1,649)	(1,934)
South African Rand	2,310	2,310
British Pound Sterling	(315)	(226)

\$ 1,730 \$ (436)

The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk for asset positions and the Company's credit worthiness for liability positions. The year over year change in fair value largely reflects the recent global economic conditions which resulted in high foreign exchange volatility and an overall strengthening in the U.S. dollar.

41

Table of Contents

We recorded a net loss of \$16.7 million and a net gain of \$11.8 million for settled cash flow hedge contracts for the nine months ended September 30, 2009 and 2008, respectively. These amounts are reflected in Revenue in the accompanying Consolidated Statements of Operations. 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 gains or losses in our underlying exposures. Other than the transactions hedged as discussed above and in Note 6 to the accompanying Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in the respective local currency. For the nine months ended September 30, 2009 and 2008, approximately 24% and 28%, respectively of revenue is 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.

Fair Value of Debt and Equity Securities

We did not have any investments in debt or equity securities as of September 30, 2009.

ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer 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.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to reasonably assure 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 Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2009. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2009 to provide such reasonable assurance.

Our management, including our Chief Executive Officer and Chief Financial Officer, 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 the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure 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. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

Table of Contents

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended September 30, 2009 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, we believe that the ultimate resolution of these matters will not have a material adverse effect on our financial position, cash flows or results of operations.

Securities Class Action

On January 25, 2008, a class action lawsuit was filed in the United States District Court for the Southern District of New York entitled *Beasley v. TeleTech Holdings, Inc., et al.* against TeleTech, certain current directors and officers and others alleging violations of Sections 11, 12(a) (2) and 15 of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act. The complaint alleges, among other things, false and misleading statements in the Registration Statement and Prospectus in connection with (i) a March 2007 secondary offering of our common stock and (ii) various disclosures made and periodic reports filed by us between February 8, 2007 and November 8, 2007. On February 25, 2008, a second nearly identical class action complaint, entitled *Brown v. TeleTech Holdings, Inc., et al.*, was filed in the same court. On May 19, 2008, the actions described above were consolidated under the caption *In re: TeleTech Litigation* and lead plaintiff and lead counsel were approved by the court. On October 21, 2009, the Company and the other defendants named executed a stipulation of settlement with the lead plaintiffs to settle the consolidated class action lawsuit. The settlement is subject to various conditions including preliminary approval by the United States District Court for the Southern District of New York, notice to class members, a final hearing and final approval by the District Court. The total settlement amount to be paid under the stipulation of settlement will be covered by the Company's insurance carriers.

Derivative Action

On July 28, 2008, a shareholder derivative action was filed in the Court of Chancery, State of Delaware, entitled *Susan M. Gregory v. Kenneth D. Tuchman, et al.*, against certain of our former and current officers and directors alleging, among other things, that the individual defendants breached their fiduciary duties and were unjustly enriched in connection with: (i) equity grants made in excess of plan limits; and (ii) manipulating the grant dates of stock option grants from 1999 through 2008. TeleTech is named solely as a nominal defendant against whom no recovery is sought. On October 26, 2009, the Company and other defendants in the derivative action executed a stipulation of settlement with the lead plaintiffs to settle the derivative action. The settlement is subject to various conditions including approval by the Court of Chancery, State of Delaware. The Company will pay \$227,000 of the total settlement amount, which amount payable by the Company has been previously accrued for, and the rest of the settlement amount will be covered by the Company's insurance carriers.

Table of Contents**ITEM 1A. RISK FACTORS**

The following risk factor updates the risk factors that are included in our 2008 Annual Report on Form 10-K under the caption Item 1A. Risk Factors.

We face risks related to health epidemics, which could disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our business could be materially and adversely affected by health epidemics, including, but not limited to, outbreaks of the H1N1 influenza virus (commonly known as the swine flu), the avian flu, and severe acute respiratory syndrome (SARS). Outbreaks of SARS in 2003 and 2004 and the avian flu in 2006, 2007 and 2008 alarmed people around the world, raising issues pertaining to health and travel and undermining confidence in the world's economy. More recently, cases of the H1N1 virus have been identified internationally, including confirmed human outbreaks and deaths. Any prolonged epidemic of the H1N1 virus, avian flu, SARS, or other contagious infection in the markets in which we do business may result in worker absences, lower asset utilization rates, voluntary closure of our offices and delivery centers, travel restrictions on our employees, and other disruptions to our business. Moreover, health epidemics may force local health and government authorities to mandate the closure of our offices and delivery centers. Any prolonged or widespread health epidemic could severely disrupt our business operations, result in a significant decrease in demand for our services, and have a material adverse effect on our financial condition and results of operations.

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 September 30, 2009:

Period	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid per Share (or Unit)	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 ⁽¹⁾ (in thousands)
July 1, 2009 – July 31, 2009	55,100	\$14.16	55,100	\$ 33,548
August 1, 2009 – August 31, 2009				\$ 33,548
September 1, 2009 – September 30, 2009				\$ 33,548
Total	55,100		55,100	

(1) In November 2001, our Board of Directors (Board) authorized a stock repurchase program to repurchase up to

\$5.0 million of our common stock with the objective of increasing stockholder returns. The Board has since periodically authorized additional increases in the program. The most recent Board authorization to purchase additional common stock occurred in September 2009, whereby the Board increased the program allowance by \$25.0 million. Since inception of the program through September 30, 2009, the Board has authorized the repurchase of shares up to a total value of \$312.3 million, of which we have purchased 23.4 million shares on the open market for \$278.8 million. As of September 30, 2009 the remaining amount authorized for repurchases under the program is

approximately
\$33.5 million.
The stock
repurchase
program does not
have an
expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Table of Contents

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
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 Interim 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 Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

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: October 28, 2009

By: /s/ Kenneth D. Tuchman
Kenneth D. Tuchman
Chairman and Chief Executive Officer

Date: October 28, 2009

By: /s/ John R. Troka, Jr.
John R. Troka, Jr.
Interim Chief Financial Officer

46

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Description
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 Interim 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 Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)