TELETECH HOLDINGS INC
Form 10-Q
August 04, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.
(Exact name of registrant as specified in its charter)

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

9197 South Peoria Street
Englewood, Colorado 80112
(Address of principal executive offices)

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

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

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 o No o

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

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

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

As of July 28, 2010, there were 60,175,769 shares of the registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
JUNE 30, 2010 FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Amounts in thousands, except share amounts)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 131,484	$ 109,424
Accounts receivable, net	197,111	216,614
Prepaids and other current assets	34,996	39,144
Deferred tax assets, net	9,247	5,911
Income tax receivable	31,908	31,282
Total current assets	404,746	402,375
Long-term assets		
Property, plant and equipment, net	113,358	126,995
Goodwill	45,113	45,250
Contract acquisition costs, net	5,352	8,049
Deferred tax assets, net	35,607	36,527
Other long-term assets	17,565	20,971
Total long-term assets	216,995	237,792
Total assets	$ 621,741	$ 640,167
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 21,299	$ 17,625
Accrued employee compensation and benefits	64,185	67,106
Other accrued expenses	26,408	18,481
Income taxes payable	19,262	20,327
Deferred tax liabilities, net	3,991	3,145
Deferred revenue	5,254	13,164
Other current liabilities	3,818	6,118
Total current liabilities	144,217	145,966
Long-term liabilities		
Line of credit		
Negative investment in deconsolidated subsidiary	4,865	4,865
Deferred tax liabilities, net	1,732	
Deferred rent	12,168	13,989

Other long-term liabilities	16,090	19,446
Total long-term liabilities	34,855	38,300
Total liabilities	179,072	184,266
Commitments and contingencies (Note 10)		
Equity		
Preferred stock $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of June 30, 2010 and December 31, 2009		
Common stock $0.01 par value; 150,000,000 shares authorized; 60,176,232 and 62,218,238 shares outstanding as of June 30, 2010 and December 31, 2009, respectively	602	622
Additional paid-in capital	344,564	344,251
Treasury stock at cost: 21,878,213 and 19,836,208 shares as of June 30, 2010 and December 31, 2009, respectively	(283,945)	(251,691)
Accumulated other comprehensive income	3,113	10,513
Retained earnings	373,417	346,728
Total equity attributable to TeleTech shareholders	437,751	450,423
Non-controlling interest	4,918	5,478
Total equity	442,669	455,901
Total liabilities and equity	$ 621,741	$ 640,167

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenue	$ 271,927	$ 301,512	$ 543,453	$ 605,542
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	198,194	213,049	392,812	431,891
Selling, general and administrative	39,741	44,981	83,149	93,496
Depreciation and amortization	12,946	13,808	25,670	27,870
Restructuring charges, net	1,304	4,008	2,773	4,311
Impairment losses	679	2,620	679	4,587
Total operating expenses	252,864	278,466	505,083	562,155
Income from operations	19,063	23,046	38,370	43,387
Other income (expense)				
Interest income	486	705	1,060	1,512
Interest expense	(699)	(1,320)	(1,516)	(2,163)
Other, net	545	1,014	577	1,776
Total other income (expense)	332	399	121	1,125
Income before income taxes	19,395	23,445	38,491	44,512
Provision for income taxes	(5,071)	(6,328)	(10,125)	(11,508)
Net income	14,324	17,117	28,366	33,004
Net income attributable to non-controlling interest	(922)	(987)	(1,677)	(1,811)
Net income attributable to TeleTech shareholders	$ 13,402	$ 16,130	$ 26,689	$ 31,193
Weighted average shares outstanding				
Basic	61,117	63,098	61,495	63,502
Diluted	62,317	64,175	62,907	64,167

Net income per share attributable to TeleTech shareholders								
Basic	$	0.22	$	0.26	$	0.43	$	0.49
Diluted	$	0.22	$	0.25	$	0.42	$	0.49

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

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

	Equity of the Company									
	Preferred Stock		Common Stock		Treasury	Additional Paid-in	Accumulated Other Comprehensive Income (Loss)	Retained	Non-controlling	Total
	Shares	Amount	Shares	Amount	Stock	Capital		Earnings	interest	Equity
Balance as of December 31, 2009		$	62,218	$ 622	$ (251,691)	$ 344,251	$ 10,513	$ 346,728	$ 5,478	$ 455,901
Net income								26,689	1,677	28,366
Dividends distributed to non-controlling interest									(2,070)	(2,070)
Foreign currency translation adjustments							(6,164)		(167)	(6,331)
Derivatives valuation, net of tax							(1,037)			(1,037)
Vesting of restricted stock units			314	3	4,014	(6,270)				(2,253)
Exercise of stock options			80	1	1,013	(140)				874
Excess tax benefit from equity-based awards						128				128
Equity-based compensation expense						6,595				6,595
Purchases of common stock			(2,436)	(24)	(37,281)					(37,305)
Other							(199)			(199)
Balance as of June 30, 2010		$	60,176	$ 602	$ (283,945)	$ 344,564	$ 3,113	$ 373,417	$ 4,918	$ 442,669

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

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Amount in thousands)
(Unaudited)

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities		
Net income	$ 28,366	$ 33,004
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,670	27,870
Amortization of contract acquisition costs	2,697	1,543
Provision for doubtful accounts	643	953
Loss (gain) on foreign currency derivatives	328	(878)
Loss (gain) on disposal of assets	(211)	808
Impairment losses	679	4,587
Deferred income taxes	(1,564)	(2,555)
Excess tax benefit from equity-based awards		(79)
Equity-based compensation expense	6,595	6,079
Changes in assets and liabilities:		
Accounts receivable	14,044	16,192
Prepaids and other assets	1,964	3,207
Accounts payable and accrued expenses	7,826	(1,699)
Deferred revenue and other liabilities	(12,402)	4,806
Net cash provided by operating activities	74,635	93,838
Cash flows from investing activities		
Purchases of property, plant and equipment	(12,316)	(14,301)
Other		(1,727)
Net cash used in investing activities	(12,316)	(16,028)
Cash flows from financing activities		
Proceeds from line of credit	490,700	467,660
Payments on line of credit	(490,700)	(523,460)
Payments on capital lease obligations and equipment financing	(1,911)	(672)
Dividends distributed to non-controlling interest	(2,070)	(1,800)
Proceeds from exercise of stock options	874	1,310
Excess tax benefit from equity-based awards	128	
Purchases of common stock	(37,305)	(26,089)
Net cash used in financing activities	(40,284)	(83,051)
Effect of exchange rate changes on cash and cash equivalents	25	1,262
Increase (decrease) in cash and cash equivalents	22,060	(3,979)

Cash and cash equivalents, beginning of period		109,424		87,942
Cash and cash equivalents, end of period	$	131,484	$	83,963
Supplemental disclosures				
Cash paid for interest	$	1,165	$	675
Cash paid for income taxes	$	5,961	$	12,398
Non-cash investing and financing activities				
Acquisition of equipment through installment purchase agreements	$	186	$	1,456
Recognition of asset retirement obligations	$		$	63

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

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

(1) OVERVIEW AND BASIS OF PRESENTATION

Overview

TeleTech Holdings, Inc. and its subsidiaries (TeleTech or the Company) serve their clients through the primary 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, 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 accounting guidance for consolidations, the 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 reflect all adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company as of June 30, 2010, and the consolidated results of operations of the Company for the three and six months ended June 30, 2010 and 2009, and the cash flows of the Company for the six months ended June 30, 2010 and 2009. Operating results for the six months ended June 30, 2010 include a $2.0 million reduction to revenue for disputed service delivery issues which occurred in 2009. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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, 2009.

Certain amounts in 2009 have been reclassified in the Consolidated Financial Statements to conform to the 2010 presentation.

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 materially from these estimates under different assumptions or conditions.

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

Recently Issued Accounting Pronouncements

Effective January 1, 2010, the Company adopted a new financial accounting statement that requires additional disclosures 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 adoption of this standard did not have a material impact on the Company s results of operations, financial position, or cash flows.

Effective January 1, 2010, the Company adopted a new financial accounting statement that changes how TeleTech determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights should be consolidated. The determination of whether TeleTech is required to consolidate an entity is based on, among other things, an entity s purpose and design and TeleTech s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The adoption of this standard did not have a material impact on the Company s 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 in fiscal years beginning on or after June 15, 2010 and shall be applied on a prospective basis. Earlier application is permitted. The Company expects to adopt this guidance effective January 1, 2011 and does not expect that the new guidance will have a material impact 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 June 30, 2010 and December 31, 2009.

(3) SEGMENT INFORMATION

The Company serves its clients through the primary business of BPO services.

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. 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.

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.

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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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenue				
North American BPO	$ 212,506	$ 229,992	$ 420,448	$ 458,878
International BPO	59,421	71,520	123,005	146,664
Total	$ 271,927	$ 301,512	$ 543,453	$ 605,542
Income (loss) from operations				
North American BPO	$ 25,097	$ 28,314	$ 44,885	$ 53,741
International BPO	(6,034)	(5,268)	(6,515)	(10,354)
Total	$ 19,063	$ 23,046	$ 38,370	$ 43,387

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenue				
United States	$ 111,262	$ 111,489	$ 212,367	$ 211,551
Philippines	66,404	78,751	137,374	157,092
Latin America	49,180	47,801	97,182	104,865
Europe	23,757	29,336	50,894	60,747
Canada	13,618	21,583	28,397	47,827
Asia Pacific / Africa	7,706	12,552	17,239	23,460
Total	$ 271,927	$ 301,512	$ 543,453	$ 605,542

(4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had one client, IBM-Census, that contributed in excess of 10% of total revenue for the three and six months ended June 30, 2010. This client s revenue was 13.1% and 10.1% of total revenue for the three and six months ended June 30, 2010, respectively, and there was $21.1 million outstanding in accounts receivable at June 30, 2010. The current contract is expected to end in the third quarter of 2010. The Company does not expect this client to contribute in excess of 10% of its estimated annual revenue in 2010. The Company did not have any clients that contributed in excess of 10% of total revenue for the three and six months ended June 30, 2009.

The loss of one or more of its significant clients could have a material adverse effect on the Company s business, operating results, or financial condition. The Company does not require collateral from its clients. To limit the Company s credit risk, management performs periodic credit evaluations of its clients and maintains allowances for uncollectible accounts. Although the Company is impacted by economic conditions in various industry segments, management does not believe significant credit risk exists as of June 30, 2010.

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

(5) GOODWILL

Goodwill consisted of the following (amounts in thousands):

	December 31, 2009	Acquisitions	Impairments	Effect of Foreign Currency	June 30, 2010
North American BPO	$ 35,885	$	$	$	$ 35,885
International BPO	9,365			(137)	9,228
Total	$ 45,250	$	$	$ (137)	$ 45,113

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 June 30, 2010, 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 earned in foreign locations. Upon proper qualification, these contracts are designated as cash flow hedges. It is the Company s policy to only enter into derivative contracts with investment grade counterparty financial institutions, and correspondingly, the fair value of derivative assets consider, among other factors, the creditworthiness of these counterparties. Conversely, the fair value of derivative liabilities reflect the Company s creditworthiness. As of June 30, 2010, the Company has not experienced, nor does it anticipate any issues related to derivative counterparty defaults. The following table summarizes the aggregate unrealized net gain or loss in Accumulated Other Comprehensive Income for the three and six months ended June 30, 2010 and 2009 (amounts in thousands and net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Aggregate unrealized net gain (loss) at beginning of period	$ 7,430	$ (18,141)	$ 4,468	$ (21,180)
Net gain/(loss) from change in fair value of cash flow hedges	(2,366)	9,117	1,523	7,393
Net (gain)/loss reclassified to earnings from effective hedges	(1,633)	3,269	(2,560)	8,032
Aggregate unrealized net gain (loss) at end of period	$ 3,431	$ (5,755)	$ 3,431	$ (5,755)

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

The Company s cash flow hedging instruments as of June 30, 2010 and December 31, 2009 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

As of June 30, 2010	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the Next 12 Months	Contracts Maturing Through
Canadian Dollar	13,200	$ 11,273	72.7%	December 2011
Canadian Dollar Call Options	10,200	9,135	100.0%	December 2010
Philippine Peso	6,575,000	136,623[1]	74.0%	December 2012
Argentine Peso	22,000	5,122[2]	100.0%	December 2010
Mexican Peso	475,000	33,391	84.2%	December 2011
British Pound Sterling	6,436	10,017[3]	72.0%	December 2011
		$ 205,561		

As of December 31, 2009	Local Currency Notional Amount	U.S. Dollar Notional Amount
Canadian Dollar	14,400	$ 11,782
Canadian Dollar Call Options	19,400	17,301
Philippine Peso	4,615,000	96,354[1]
Argentine Peso	9,000	2,454
Mexican Peso	491,500	34,880
South African Rand	23,000	2,081
British Pound Sterling	3,876	6,565[3]
		$ 171,417

1 Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars,

Australian dollars and, in 2009 only, British pound sterling, which are translated into equivalent U.S. dollars on June 30, 2010 and December 31, 2009.

[2] Includes contracts to purchase Argentine pesos in exchange for Euros, which were translated into equivalent U.S. dollars on June 30, 2010.

[3] Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on June 30, 2010 and December 31, 2009.

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 were recorded in the cumulative translation adjustment in Accumulated Other Comprehensive Income 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 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 as of June 30, 2010.

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 assets and liabilities 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 June 30, 2010, the total notional amount of the Company s forward contracts used as fair value hedges was $55.3 million. These contracts are expected to mature within the next quarter.

Embedded Derivatives

In addition to hedging activities, the Company s foreign subsidiary in Argentina is party 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 June 30, 2010 and December 31, 2009 were as follows (amounts in thousands):

	June 30, 2010				
	Designated as Hedging Instruments		Not Designated as Hedging Instruments		
Derivative contracts:	Foreign Exchange	Foreign Exchange	Foreign Exchange Option and Forward	Foreign Exchange	Leases
Derivative classification:	Cash Flow	Net Investment	Contracts	Fair Value	Embedded Derivative
Fair value and location of derivative in the Consolidated Balance Sheet:					
Prepaids and other current assets	$6,161	$	$	$ 13	$
Other long-term assets	773				
Other current liabilities	(479)			(25)	(125)
Other long-term liabilities	(408)				(168)
Total fair value of derivatives, net	$6,047	$	$	$(12)	$(293)

	December 31, 2009				
	Designated as Hedging Instruments		Not Designated as Hedging Instruments		
Derivative contracts:	Foreign Exchange	Foreign Exchange	Foreign Exchange Option and Forward	Foreign Exchange	Leases
Derivative classification:	Cash Flow	Net Investment	Contracts	Fair Value	Embedded Derivative

Fair value and location of derivative in the Consolidated Balance Sheet:					
Prepaids and other current assets	$ 8,022	$	$42	$ 29	$
Other long-term assets	1,996				
Other current liabilities	(1,884)			(137)	(139)
Other long-term liabilities	(30)				(230)
Total fair value of derivatives, net	$ 8,104	$	$42	$(108)	$(369)

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

The effect of derivative instruments on the Consolidated Statements of Operations for the three months ended June 30, 2010 and 2009 were as follows (amounts in thousands):

	Three Months Ended June 30,			
	2010		2009	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contracts:	Foreign Exchange		Foreign Exchange	
Derivative classification:	Cash Flow	Net Investment	Cash Flow	Net Investment
Amount of gain or (loss) recognized in other comprehensive income effective portion, net of tax	$ (2,366)	$	$ 9,117	$
Amount and location of net gain or (loss) reclassified from accumulated OCI to income effective portion:				
Revenue	$ 2,677	$	$ (5,360)	$
Amount and location of net gain or (loss) reclassified from accumulated OCI to income ineffective portion and amount excluded from effectiveness testing:				
Revenue	$	$	$	$

	Three Months Ended June 30,					
	2010			2009		
	Not Designated as Hedging Instruments			Not Designated as Hedging Instruments		
Derivative contracts:	Foreign Exchange		Leases	Foreign Exchange		Leases
Derivative classification:	Option and Forward Contracts	Fair Value	Embedded Derivative	Option and Forward Contracts	Fair Value	Embedded Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Operations:						
Costs of services	$	$	$ (31)	$	$	$ 616
Other, net	$ (46)	$ (1,117)	$	$ (98)	$ (1,331)	$

The effect of derivative instruments on the Consolidated Statements of Operations for the six months ended June 30, 2010 and 2009 were as follows (amounts in thousands):

Six Months Ended June 30,	
2010	2009

	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contracts:	Foreign Exchange		Foreign Exchange	
Derivative classification:	Cash Flow	Net Investment	Cash Flow	Net Investment
Amount of gain or (loss) recognized in other comprehensive income effective portion, net of tax	$1,523	$	$ 7,393	$ (1,727)
Amount and location of net gain or (loss) reclassified from accumulated OCI to income effective portion:				
Revenue	$4,197	$	$(13,168)	$
Amount and location of net gain or (loss) reclassified from accumulated OCI to income ineffective portion and amount excluded from effectiveness testing:				
Revenue	$	$	$	$

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	Six Months Ended June 30,					
	2010			**2009**		
	Not Designated as Hedging Instruments			Not Designated as Hedging Instruments		
Derivative contracts:	Foreign Exchange		Leases	Foreign Exchange		Leases
Derivative classification:	Option and Forward Contracts	Fair Value	Embedded Derivative	Option and Forward Contracts	Fair Value	Embedded Derivative
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Operations:						
Costs of services	$	$	$ 76	$	$	$ 878
Other, net	$ (42)	$ (46)	$	$ (133)	$ (957)	$

(7) FAIR VALUE

The authoritative guidance for fair value measurements establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that the Company maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following presents information as of June 30, 2010 and December 31, 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.

Derivatives Net derivative assets (liabilities) measured at fair value on a recurring basis included the following as of June 30, 2010 and December 31, 2009 (amounts in thousands):

As of June 30, 2010

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for	**Significant Other**	**Significant Unobservable**

	Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)	At Fair Value
Cash flow hedges	$	$ 6,047	$	$ 6,047
Fair value hedges		(12)		(12)
Embedded derivatives		(293)		(293)
Option and forward contracts				
Total net derivative asset (liability)	$	$ 5,742	$	$ 5,742

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**TELETECH HOLDINGS, INC. AND SUBSIDIARIES
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As of December 31, 2009

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At Fair Value
Cash flow hedges	$	$ 8,104	$	$ 8,104
Fair value hedges		(108)		(108)
Embedded derivatives		(369)		(369)
Option and forward contracts		42		42
Total net derivative asset (liability)	$	$ 7,669	$	$ 7,669

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 June 30, 2010, 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 June 30, 2010 and December 31, 2009 (amounts in thousands):

As of June 30, 2010

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs

	(Level 1)		(Level 2)	(Level 3)
Assets				
Money market investments	$	$	25,543	$
Derivative instruments, net			5,742	
Total assets	$	$	31,285	$
Liabilities				
Deferred compensation plan liability	$	$	(3,443)	$
Total liabilities	$	$	(3,443)	$

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As of December 31, 2009

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets			
Money market investments	$	$	$
Derivative instruments, net		7,669	
Total assets	$	$ 7,669	$
Liabilities			
Deferred compensation plan liability	$	$ (3,399)	$
Total liabilities	$	$ (3,399)	$

(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 is currently under audit of income taxes in the Philippines 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 June 30, 2010, the Company had $44.9 million of deferred tax assets (after a $21.3 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of $39.1 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

The effective tax rate for the three and six months ended June 30, 2010 was 26.1% and 26.3%, respectively. The effective tax rate for the three and six months ended June 30, 2009 was 27.0% and 25.9%, respectively.

(9) RESTRUCTURING CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three and six months ended June 30, 2010 the Company undertook 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.

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A summary of the expenses recorded for the three and six months ended June 30, 2010 and 2009, respectively, is as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
North American BPO				
Reduction in force	$ 699	$ 2,668	$ 2,056	$ 3,568
Facility exit charges		360		472
Revision of prior estimates			(5)	(1,135)
Total	$ 699	$ 3,028	$ 2,051	$ 2,905

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
International BPO				
Reduction in force	$ 613	$ 824	$ 730	$ 1,250
Facility exit charges		156		156
Revision of prior estimates	(8)		(8)	
Total	$ 605	$ 980	$ 722	$ 1,406

During the three months ended March 31, 2009 and six months ended June 30, 2009, the Company determined that $0.7 million of previously recorded restructuring expense would be reimbursed from the primary client in the delivery centers being closed, and $0.4 million previously recorded would not be paid; these amounts were reversed against restructuring charge expenses as indicated as a revision of prior estimates in the table above.

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

	Closure of Delivery Centers	Reduction in Force	Total
Balance as of December 31, 2009	$ 375	$ 13	$ 388
Expense		2,786	2,786
Payments		(1,428)	(1,428)
Reversals		(13)	(13)
Balance as of June 30, 2010	$ 375	$ 1,358	$ 1,733

Of the remaining accrued costs, $1.4 million are expected to be paid during 2010, with the remainder to be paid thereafter.

Impairment Losses

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 the asset group s carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. To determine fair value, the Company used Level 3 inputs in its discounted cash flows analysis. Assumptions included the amount and timing of estimated future cash flows and assumed discount rates. During the three and six months ended June 30, 2010, the Company recognized impairment losses related to leasehold improvement assets of $0.7 million in its North American BPO segment.

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For the three months ended June 30, 2009, the Company recognized impairment losses related to leasehold improvement assets of $1.8 million and $0.8 million, in its North American BPO and International BPO segments, respectively.

During the six months ended June 30, 2009 the Company recognized impairment losses of $1.8 million for leasehold improvement assets in its North American BPO segment. During the six months ended June 30, 2009, the Company recognized impairment losses of $2.8 million in its International BPO segment related to the abandonment of $2.0 million of certain leasehold improvement assets during the first quarter of 2009, and the $0.8 million impairment loss recognized in the second quarter of 2009 as discussed above.

(10) COMMITMENTS AND CONTINGENCIES

Letters of Credit

As of June 30, 2010, outstanding letters of credit and other performance guarantees totaled approximately $5.0 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.

On March 31, 2010, the Company sold a corporate aircraft that was financed under a synthetic operating lease. Accordingly, the Company elected to exercise its purchase option rights under the lease for a specified amount. Simultaneous with the purchase, the Company sold the aircraft to an unrelated third-party. The proceeds from the aircraft sale were used to satisfy the lease obligations and other sales-related expenses, with the Company realizing a net gain of approximately $137,000, which was recorded in Other income in the Consolidated Statements of Operations in the six months ended June 30, 2010.

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, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits 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 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 named defendants executed a stipulation of settlement with the lead plaintiffs to settle the consolidated class action lawsuit. On June 11, 2010, the United States District Court for the Southern District of New York issued final approval of the settlement. The Company paid $225,000 of the total settlement amount, which had been included in Other accrued expenses in the Consolidated Balance Sheet at December 31, 2009; the remaining settlement amount was covered by the Company s insurance carriers.

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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 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. On January 5, 2010, the Court of Chancery, State of Delaware issued final approval of the settlement. The total amount paid under the approved settlement was covered by the Company s insurance carriers.

(11) COMPREHENSIVE INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net income	$ 14,324	$ 17,117	$ 28,366	$ 33,004
Foreign currency translation adjustment	(7,787)	14,799	(6,331)	7,286
Derivatives valuation, net of tax	(3,999)	12,386	(1,037)	15,425
Other	54		(199)	
Total comprehensive income	2,592	44,302	20,799	55,715
Comprehensive income attributable to non-controlling interest	(877)	(1,353)	(1,510)	(2,118)
Comprehensive income attributable to TeleTech	$ 1,715	$ 42,949	$ 19,289	$ 53,597

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

	Six Months Ended	
	2010	**2009**
Noncontrolling interest, January 1	$ 5,478	$ 5,011
Net income attributable to noncontrolling interest	1,677	1,811
Dividends distributed to noncontrolling interest	(2,070)	(1,800)
Foreign currency translation adjustments	(167)	307
Noncontrolling interest, June 30	$ 4,918	$ 5,329

(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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	61,117	63,098	61,495	63,502

Shares used in basic earnings per share calculation				
Effect of dilutive securities:				
Stock options	801	641	914	347
Restricted stock units	399	436	498	318
Total effects of dilutive securities	1,200	1,077	1,412	665
Shares used in dilutive earnings per share calculation	62,317	64,175	62,907	64,167

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For the three months ended June 30, 2010 and 2009, options to purchase 0.2 million and 0.8 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 six months ended June 30, 2010 and 2009, options to purchase 0.2 million and 2.4 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 June 30, 2010 and 2009, restricted stock units (RSUs) of 1.4 million and 0.9 million, respectively, and for the six months ended June 30, 2010 and 2009, RSUs of 1.1 million and 1.0 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

All equity-based payments to employees are recognized in the Consolidated Statements of Operations 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 June 30, 2010, there was approximately $0.1 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 $0.1 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively. The Company recognized compensation expense related to stock options of $0.2 million and $1.5 million for the six months ended June 30, 2010 and 2009, respectively.

Restricted Stock Unit Grants

During the six months ended June 30, 2010 and 2009, the Company granted 1,067,816 and 873,575 RSUs, respectively, to new and existing employees, which vest in equal installments over four years. The Company recognized compensation expense related to RSUs of $3.4 million and $6.4 million for the three and six months ended June 30, 2010, respectively, and $2.0 million and $4.6 million for the three and six months ended June 30, 2009, respectively. As of June 30, 2010, there was approximately $41.0 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company s equity plans.

As of June 30, 2010 and 2009, the Company had performance-based RSUs outstanding that vest based on the Company achieving specified operating income performance targets. The Company determined that it was not probable these performance targets would be met; therefore no expense was recognized for the six months ended June 30, 2010 or 2009. The Company did not achieve the operating income performance targets in 2009, thus the performance RSUs associated with the 2009 targets were cancelled.

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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, 2009. 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 2009 Annual Report on Form 10-K under the caption Item 1A. Risk Factors, in our other Securities and Exchange Commission filings and in our press releases.

Executive Summary

TeleTech is one of the largest and most geographically diverse global providers of onshore, offshore and work from home BPO services focusing on revenue generation, customer and enterprise management, and technology enabled solutions. We have a 28-year history of designing, implementing and managing critical business processes for Global 1000 companies to help them improve their customers experience, enhance 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 275 BPO programs serving approximately 85 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless communication industries.

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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, we believe that 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 2010 decreased over the prior year due primarily to the global economic slowdown resulting in a decline in our current call volumes and delayed client purchasing decisions. In addition, the continued migration of several of our clients to our offshore delivery centers, along with our proactive management of underperforming business and geographies out of our portfolio has impacted our revenue. Nevertheless, we believe that our revenue will grow over the long-term as global demand for our services is fueled by the following trends:

Focus on providers who can offer fully integrated revenue generation solutions. A focus on providers who can offer fully integrated revenue generation solutions to target new markets and improve revenue and profitability through customer acquisition, retention and growth by leveraging the profitability potential of each customer.

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 see increasing interest in 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.

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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 16 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.

Our Future Growth Goals and 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, adequate 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;
- Create focused revenue generation capabilities in targeted market segments;
- Better integrate front- and back-office processes; and
- Take advantage of cost efficiencies through the adoption of cloud based technology solutions.

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on end-to-end offerings in 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 selected profit improvement initiatives and increased asset utilization of our globally diverse delivery centers; and

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

Our Second Quarter 2010 Financial Results

In 2010, our second quarter revenue decreased 9.8% to $271.9 million over the year-ago period, which included an increase of 3.6% or $10.9 million due to fluctuations in foreign currency rates. Our second quarter 2010 income from operations decreased 17.3% to $19.1 million, or 7.0% of revenue, from $23.0 million, or 7.6% of revenue, in the year-ago period. The revenue decrease was due to a decline in existing client volumes from the impact of the global recessionary economic environment, and our proactive management of underperforming business and geographies out of our portfolio. Income from operations decreased due to a decrease in the percentage of revenue generated from our offshore clients. Income from operations for the second quarter of 2010 and 2009 also included $2.0 million and $6.6 million of restructuring charges and asset impairments, respectively.

Our offshore delivery centers serve clients based both in North America and in other countries. Our offshore delivery capacity spans seven countries with approximately 24,500 workstations and currently represents 71% of our global delivery capabilities. Revenue in these offshore locations was $114.4 million and represented 42% of our total revenue for the second quarter of 2010.

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 June 30, 2010, we had $131.5 million of cash and cash equivalents, total debt of $5.4 million, and a total debt to total capitalization ratio of 1.2%.

Business Overview

Our BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers. 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.

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, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel 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 6% to 12% of our revenue. Attrition of existing client programs during the first six months of 2010 was 10%.

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.

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Our potential clients typically obtain bids from multiple vendors and evaluate many factors in selecting a service provider, including, among others, 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 June 30, 2010, we had deferred start-up Training Revenue, net of Training Costs, of $4.9 million that will be recognized into our income from operations over the remaining life of the corresponding contracts ($3.2 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 contracting any 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.

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We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of June 30, 2010, the overall capacity utilization in our multi client delivery centers was 67% and was lower than the prior year due to reduced existing client volumes in light of the continued weak economic environment. The table below presents workstation data for our multi client delivery centers as of June 30, 2010 and 2009. Dedicated and managed delivery centers (3,283 and 7,950 workstations as of June 30, 2010 and 2009, respectively) are excluded from the workstation data below as unused workstations in these facilities are not available for sale. 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 the normal changes in our business environment and client needs.

	June 30, 2010			June 30, 2009		
	Total Production Workstations	**In Use**	**% In Use**	**Total Production Workstations**	**In Use**	**% In Use**
Multi-client centers						
Sites open <1 year	408	242	59%	2,721	1,539	57%
Sites open >1 year	30,993	20,926	68%	26,400	18,697	71%
Total multi-client centers	31,401	21,168	67%	29,121	20,236	69%

We continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue with our clients. In light of this trend, we plan to continue to selectively retain capacity and expand into new offshore markets. 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.

Recently 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.

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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 Current 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 customers (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 or tax returns. 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.

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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.

Interest and penalties relating to income taxes and uncertain tax positions are accrued net of tax in Provision for Income Taxes in our Consolidated Statements of Operations.

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 carrying value 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, or whenever events or changes in circumstances indicate goodwill may be impaired. Impairment occurs when the carrying value of goodwill exceeds its estimated fair value. The impairment, if any, is measured based on the estimated fair value of the reporting unit. We aggregate segment components with similar economic characteristics in forming a reporting unit; aggregation can be based on types of customers, methods of distribution of services, shared operations, acquisition history, and management judgment and reporting.

We estimate fair value using discounted cash flows of the reporting units. The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we use financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services, projected labor costs, as well as contract negotiation status. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. We use a discount rate we consider appropriate for the country where the business unit is providing services.

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.

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Equity Based Compensation

Equity-based compensation expense for all share-based payment awards granted is determined based on the grant-date fair value. We recognize equity-based compensation expense net of an estimated forfeiture rate, and recognize compensation expense only for shares that are expected to vest on a straight-line basis over the requisite service period of the award, which is typically the vesting term of the share-based payment award. We estimate the forfeiture rate annually based on historical experience of forfeited awards.

Fair Value Measurement

The fair value guidance codifies a new framework for measuring fair value and expands related disclosures. The framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. We utilize market data or assumptions that we believe market participants would use in pricing the asset or liability, assumptions about counterparty credit risk, including the ability of each party to execute its obligation under the contract, and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable.

We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observability of those inputs.

The valuation techniques required by the new provisions establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, listed equities and U.S. government treasury securities.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards, options and repurchase agreements.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value from the perspective of a market participant. Level 3 instruments include those that may be more structured or otherwise tailored to customers needs. At each balance sheet date, we perform an analysis of all instruments subject to fair value measurements and include within Level 3 all of those whose fair value is based on significant unobservable inputs.

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Derivatives

We enter into foreign exchange forward and option contracts to reduce our exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue in non-functional currencies. Upon proper qualification, these contracts are accounted for as cash flow hedges. When appropriate we also enter into foreign exchange forward contracts to hedge our net investments in foreign operations.

All derivative financial instruments are reported on the Consolidated Balance Sheets at fair value. Changes in fair value of derivative instruments designated as cash flow hedges are recorded in Accumulated Other Comprehensive Income (Loss), a component of Stockholders Equity, to the extent they are deemed effective. Based on the criteria established by current accounting standards, all of our cash flow hedge contracts are deemed to be highly effective. Changes in fair value of any net investment hedge are recorded in cumulative translation adjustment in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheets offsetting the change in cumulative translation adjustment attributable to the hedged portion of our net investment in the foreign operation. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenue. Gains and losses from the settlements of our net investment hedge remain in Accumulated Other Comprehensive Income (Loss) until partial or complete liquidation of the applicable net investment.

We also enter into fair value derivative contracts that hedge against translation gains and losses. Changes in the fair value of derivative instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized in earnings.

While we expect that our derivative instruments will continue to be highly effective and in compliance with applicable accounting standards, if our hedges did not qualify as highly effective or if we determine that forecasted transactions will not occur, the changes in the fair value of the derivatives used as hedges would be reflected currently in earnings.

In addition to hedging activities, we also have embedded derivatives in certain foreign lease contracts. We bifurcate and fair value the embedded derivative feature apart from the host contract with any changes in fair value of the embedded derivatives recognized in Cost of Services.

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.

Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally includes costs incurred in connection with our BPO operations, including direct labor, telecommunications, printing, 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.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Net cash provided by operating activities	$ 23,203	$ 39,827	$ 74,635	$ 93,838
Purchases of property, plant and equipment	5,708	5,846	12,316	14,301
Free cash flow	$ 17,495	$ 33,981	$ 62,319	$ 79,537

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

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Results of Operations

Three months ended June 30, 2010 as compared to three months ended June 30, 2009

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 June 30, 2010 and 2009 (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 June 30,					
	2010	% of Segment Revenue	2009	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 212,506		$ 229,992		$ (17,486)	-7.6%
International BPO	59,421		71,520		(12,099)	-16.9%
	$ 271,927		$ 301,512		$ (29,585)	-9.8%
Cost of services						
North American BPO	$ 146,994	69.2%	$ 154,119	67.0%	$ (7,125)	-4.6%
International BPO	51,200	86.2%	58,930	82.4%	(7,730)	-13.1%
	$ 198,194	72.9%	$ 213,049	70.7%	$ (14,855)	-7.0%
Selling, general and administrative						
North American BPO	$ 28,966	13.6%	$ 33,111	14.4%	$ (4,145)	-12.5%
International BPO	10,775	18.1%	11,870	16.6%	(1,095)	-9.2%
	$ 39,741	14.6%	$ 44,981	14.9%	$ (5,240)	-11.6%
Depreciation and amortization						
North American BPO	$ 10,071	4.7%	$ 9,609	4.2%	$ 462	4.8%
International BPO	2,875	4.8%	4,199	5.9%	(1,324)	-31.5%
	$ 12,946	4.8%	$ 13,808	4.6%	$ (862)	-6.2%
Restructuring charges, net						
North American BPO	$ 699	0.3%	$ 3,028	1.3%	$ (2,329)	-76.9%
International BPO	605	1.0%	980	1.4%	(375)	-38.3%
	$ 1,304	0.5%	$ 4,008	1.3%	$ (2,704)	-67.5%
Impairment losses						

North American BPO	$ 679	0.3%	$ 1,811	0.8%	$ (1,132)	-62.5%
International BPO		0.0%	809	1.1%	(809)	-100.0%
	$ 679	0.2%	$ 2,620	0.9%	$ (1,941)	-74.1%
Income (loss) from operations						
North American BPO	$ 25,097	11.8%	$ 28,314	12.3%	$ (3,217)	-11.4%
International BPO	(6,034)	-10.2%	(5,268)	-7.4%	(766)	-14.5%
	$ 19,063	7.0%	$ 23,046	7.6%	$ (3,983)	-17.3%
Other income (expense), net	$ 332	0.1%	$ 399	0.1%	$ (67)	-16.8%
Provision for income taxes	$ (5,071)	-1.9%	$ (6,328)	-2.1%	$ 1,257	19.9%

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Revenue

Revenue for North American BPO for the three months ended June 30, 2010 as compared to the same period in 2009 was $212.5 million and $230.0 million, respectively. The decrease in revenue for the North American BPO was due to net increases in short-term government programs of $7.9 million, a $8.6 million increase due to realized gains on cash flow hedges and positive changes in foreign exchange translation rates, offset by net decreases in client programs of $32.3 million, and certain program completions of $1.7 million.

Revenue for International BPO for the three months ended June 30, 2010 as compared to the same period in 2009 was $59.4 million and $71.5 million, respectively. The decrease in revenue for the International BPO was due to net decreases in client programs of $14.3 million, offset by positive changes in foreign exchange translation rates of $2.3 million.

Our offshore delivery capacity represented 71% of our global delivery capabilities at June 30, 2010. Revenue in these offshore locations was $114.4 million and represented 42% of our total revenue in the second quarter of 2010. Revenue in these offshore locations was $139.0 million or 46% of total revenue in the second quarter of 2009. An important component of our growth strategy is continued expansion of services delivered from our offshore locations, which contributes to our higher margins, along with our 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 June 30, 2010 as compared to the same period in 2009 was $147.0 million and $154.1 million, respectively. Cost of services as a percentage of revenue in the North American BPO increased compared with the prior year due to a decrease in the percentage of revenue generated from our offshore clients and lower capacity utilization. In absolute dollars the decrease was due to a $12.3 million decrease in employee related expenses due to lower volumes in existing client programs and the completion of certain client programs, a decrease in severance associated with ongoing operations of $1.7 million, offset by a $1.5 million increase for rent and related expenses and operating leases, a $3.3 million increase in telecommunications expenses primarily associated with a short-term government program, a $0.5 million increase in contract labor, and a $1.6 million net increase in other expenses.

Cost of services for International BPO for the three months ended June 30, 2010 as compared to the same period in 2009 was $51.2 million and $58.9 million, respectively. Cost of services as a percentage of revenue in the International BPO increased compared to the prior year due to lower capacity utilization, and the inability to rapidly reduce costs in certain markets due to local labor agreements and regulatory requirements. In absolute dollars the decrease was due to a $7.1 million decrease in employee related expenses due to lower volumes in existing client programs and the completion of certain client programs, a decrease in severance associated with ongoing operations of $0.9 million, and a $0.3 million net increase in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for the three months ended June 30, 2010 as compared to the same period in 2009 were $29.0 million and $33.1 million, respectively. The decrease in absolute dollars was due to a $2.1 million decrease in employee expenses, a $1.5 million decrease in incentive compensation expense, and a $1.7 million decrease in litigation settlements, offset by a $0.7 million increase in external professional fees, and a $0.6 million increase in insurance expense.

Selling, general and administrative expenses for International BPO for the three months ended June 30, 2010 as compared to the same period in 2009 were $10.8 million and $11.9 million, respectively. The expenses increased as a percentage of revenue. The decrease in absolute dollars was due to a $1.2 million decrease in employee expenses, a $0.6 million decrease in incentive compensation expense, and a $0.5 million decrease in telecommunications expenses, offset by a $0.5 million increase in external professional fees, and a $0.7 million net increase in other expenses.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for the three months ended June 30, 2010 and 2009 was $12.9 million and $13.8 million, respectively. For the North American BPO, the depreciation expense increase slightly in both absolute value and as a percentage of revenue as compared to the prior year. For the International BPO, the depreciation expense decreased both in absolute value and 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 as well as asset impairments recorded during 2009.

Restructuring Charges

During both the three months ended June 30, 2010 and 2009, we undertook reductions at several locations within both our North American BPO and International BPO segments to better align our delivery centers and workforce with the current business needs. In the three months ended June 30, 2010, we recorded $1.3 million of severance related restructuring charges compared to $3.5 million of severance charges and $0.5 million of facility exit charges due to the closure of three delivery centers in the same period in 2009.

Impairment Losses

During the three months ended June 30, 2010, we recorded a $0.7 million impairment charge compared to $2.6 million of impairment charges in the same period in 2009. The decrease in impairment is the result of fewer delivery center closures during the three months ended June 30, 2010.

Other Income (Expense)

For the three months ended June 30, 2010, interest income decreased to $0.5 million from $0.7 million in the same period in 2009 primarily due to lower interest rates. Interest expense decreased by $0.6 million from the same period in 2009 due to a lower average outstanding balance on our line of credit.

Income Taxes

The effective tax rate for the three months ended June 30, 2010 was 26.1%. This compares to an effective tax rate of 27.0% in the same period of 2009. The effective tax rate for the three months ended June 30, 2010 continues to be influenced by earnings in an international jurisdiction currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions.

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Results of Operations
Six months ended June 30, 2010 as compared to six months ended June 30, 2009
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 six months ended June 30, 2010 and 2009 (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.

	Six Months Ended June 30,					
	2010	% of Segment Revenue	2009	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 420,448		$ 458,878		$ (38,430)	-8.4%
International BPO	123,005		146,664		(23,659)	-16.1%
	$ 543,453		$ 605,542		$ (62,089)	-10.3%
Cost of services						
North American BPO	$ 291,771	69.4%	$ 311,812	68.0%	$ (20,041)	-6.4%
International BPO	101,041	82.1%	120,079	81.9%	(19,038)	-15.9%
	$ 392,812	72.3%	$ 431,891	71.3%	$ (39,079)	-9.0%
Selling, general and administrative						
North American BPO	$ 61,041	14.5%	$ 68,810	15.0%	$ (7,769)	-11.3%
International BPO	22,108	18.0%	24,686	16.8%	(2,578)	-10.4%
	$ 83,149	15.3%	$ 93,496	15.4%	$ (10,347)	-11.1%
Depreciation and amortization						
North American BPO	$ 20,021	4.8%	$ 19,799	4.3%	$ 222	1.1%
International BPO	5,649	4.6%	8,071	5.5%	(2,422)	-30.0%
	$ 25,670	4.7%	$ 27,870	4.6%	$ (2,200)	-7.9%
Restructuring charges, net						
North American BPO	$ 2,051	0.5%	$ 2,905	0.6%	$ (854)	-29.4%
International BPO	722	0.6%	1,406	1.0%	(684)	-48.6%
	$ 2,773	0.5%	$ 4,311	0.7%	$ (1,538)	-35.7%
Impairment losses						

North American BPO	$ 679	0.2%	$ 1,811	0.4%	$ (1,132)	-62.5%
International BPO		0.0%	2,776	1.9%	(2,776)	-100.0%
	$ 679	0.1%	$ 4,587	0.8%	$ (3,908)	-85.2%
Income (loss) from operations						
North American BPO	$ 44,885	10.7%	$ 53,741	11.7%	$ (8,856)	-16.5%
International BPO	(6,515)	-5.3%	(10,354)	-7.1%	3,839	37.1%
	$ 38,370	7.1%	$ 43,387	7.2%	$ (5,017)	-11.6%
Other income (expense), net	$ 121	0.0%	$ 1,125	0.2%	$ (1,004)	-89.2%
Provision for income taxes	$ (10,125)	-1.9%	$ (11,508)	-1.9%	$ 1,383	12.0%

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Revenue

Revenue for North American BPO for the six months ended June 30, 2010 as compared to the same period in 2009 was $420.4 million and $458.9 million, respectively. The decrease in revenue for the North American BPO was due to net increases in short-term government programs of $19.5 million, and positive changes in foreign exchange translation rates of $19.5 million, offset by net decreases in client programs of $59.1 million, certain program completions of $16.3 million, and a $2.0 million reduction to revenue for disputed service delivery issues.

Revenue for International BPO for the six months ended June 30, 2010 as compared to the same period in 2009 was $123.0 million and $146.7 million, respectively. The decrease in revenue for the International BPO was due to net decreases in client programs of $12.7 million, and certain program completions of $22.7 million, offset by positive changes in foreign exchange translation rates of $11.7 million.

Our offshore delivery capacity represented 71% of our global delivery capabilities at June 30, 2010. Revenue in these offshore locations was $237.6 million and represented 44% of our total revenue for the first six months of 2010. Revenue in these offshore locations was $285.0 million or 47% of total revenue for the first six months of 2009. An important component of our growth strategy is continued expansion of services delivered from our offshore locations, which contributes to our higher margins, along with our 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 six months ended June 30, 2010 as compared to the same period in 2009 was $291.8 million and $311.8 million, respectively. Cost of services as a percentage of revenue in the North American BPO increased compared with the prior year due to a decrease in the percentage of revenue generated from our offshore clients and lower capacity utilization. In absolute dollars the decrease was due to a $30.6 million decrease in employee related expenses due to lower volumes in existing client programs and the completion of certain client programs, offset by an increase in severance associated with ongoing operations of $0.1 million, a $3.0 million increase for rent and related expenses and operating leases, a $3.4 million increase in telecommunications expenses primarily associated with a short-term government program, a $1.4 million increase in contract labor, and a $2.7 million net increase in other expenses.

Cost of services for International BPO for the six months ended June 30, 2010 as compared to the same period in 2009 was $101.0 million and $120.1 million, respectively. Cost of services as a percentage of revenue in the International BPO increased slightly compared to the prior year due to lower capacity utilization, and the inability to rapidly reduce costs in certain markets due to local labor agreements and regulatory requirements. In absolute dollars the decrease was due to a $16.6 million decrease in employee related expenses due to lower volumes in existing client programs and the completion of certain client programs, a decrease in severance associated with ongoing operations of $0.7 million, and a $1.7 million net decrease in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for the six months ended June 30, 2010 as compared to the same period in 2009 were $61.0 million and $68.8 million, respectively. The decrease in absolute dollars was due to a $3.4 million decrease in employee expenses, a $2.9 million decrease in incentive compensation expense, a $1.6 million decrease in litigation settlements, and a $0.5 million decrease in external professional fees, offset by a $0.5 million increase in insurance expense, and a net increase in other expenses of $0.1 million.

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Selling, general and administrative expenses for International BPO for the six months ended June 30, 2010 as compared to the same period in 2009 were $22.1 million and $24.7 million, respectively. The expenses increased as a percentage of revenue. The decrease in absolute dollars was due to a $2.1 million decrease in employee expenses, a $1.1 million decrease in incentive compensation expense, and a $0.8 million decrease in telecommunications expense, offset by a $0.3 million increase in litigation settlements, and a $1.1 million net increase in other expenses.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for the six months ended June 30, 2010 and 2009 was $25.7 million and $27.9 million, respectively. For the North American BPO, the depreciation expense increased slightly in both absolute value and as a percentage of revenue as compared to the prior year. For the International BPO, the depreciation expense decreased both in absolute value and 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 as well as asset impairments recorded during 2009.

Restructuring Charges

During both 2010 and 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. During the six months ended June 30, 2010, we recorded $2.8 million of severance related restructuring charges compared to a net restructuring charge of $4.3 million, including severance and the closure of four delivery centers in the same period in 2009.

Impairment Losses

During the six months ended June 30, 2010, we recorded a $0.7 million impairment charge compared to $4.6 million of impairment charges in the same period in 2009. The decrease in impairment is the result of fewer delivery center closures during the six months ended June 30, 2010.

Other Income (Expense)

For the six months ended June 30, 2010, interest income decreased to $1.1 million from $1.5 million in the same period in 2009 primarily due to lower interest rates. Interest expense decreased by $0.6 million during 2010 from 2009 due to a lower average outstanding balance on our line of credit.

Income Taxes

The effective tax rate for the six months ended June 30, 2010 was 26.3%. This compares to an effective tax rate of 25.9% in the same period of 2009. The effective tax rate for the six months ended June 30, 2010 continues to be 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.

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 six months ended June 30, 2010, we generated positive operating cash flows of $74.6 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.

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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 to 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. We had no outstanding borrowings under our Credit Facility as of June 30, 2010 and December 31, 2009; however our average six-month utilization was $70.0 million and $77.0 million for the six months ended June 30, 2010 and June 30, 2009, respectively. After consideration for issued letters of credit under the Credit Facility, totaling $4.8 million, our remaining borrowing capacity was $220.2 million as of June 30, 2010.

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, at all, or on terms favorable to us.

The following discussion highlights our cash flow activities during the six months ended June 30, 2010 and 2009.

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 $131.5 million and $109.4 million as of June 30, 2010 and December 31, 2009, 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 six months ended June 30, 2010 and 2009, net cash flows provided by operating activities was $74.6 million and $93.8 million, respectively. The decrease was primarily due to a $13.0 million decrease in customer advances for future services along with a decrease of $2.1 million in the collections of accounts receivable.

Cash Flows from Investing Activities

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the six months ended June 30, 2010 and 2009, we reported net cash flows used in investing activities of $12.3 million and $16.0 million, respectively. The decrease was due primarily to reduced capital expenditures during the first six months of 2010 due to a limited need for additional capacity.

Cash Flows from Financing Activities

For the six months ended June 30, 2010 and 2009, we reported net cash flows used in financing activities of $40.3 million and $83.1 million, respectively. The decrease in net cash flows used from 2009 to 2010 was primarily due to a decrease in payments against our line of credit of $32.8 million and a $23.0 million increase in the proceeds received from our line of credit offset by an increase of $11.2 million in purchases of our outstanding common stock. While we had no outstanding balances under the line of credit as of June 30, 2010, we intend to utilize our credit facility from time-to-time for the remainder of 2010 to support our business activities.

Free Cash Flow

Free cash flow (see Presentation of Non GAAP Measurements for definition of free cash flow) decreased for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 as a result of a decrease in cash flows provided by operating activities for the six months ended June 30, 2010. Free cash flow was $62.3 million and $79.5 million for the six months ended June 30, 2010 and 2009, respectively.

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Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of June 30, 2010 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	1,192			2,837
Equipment financing arrangements	1,651	1,116	128		2,895
Purchase obligations	19,918	17,077	10,692	1,695	49,382
Operating lease commitments	26,066	31,216	10,587	6,335	74,204
Total	$ 49,280	$ 50,601	$ 21,407	$ 8,030	$ 129,318

Contractual obligations to be paid in a foreign currency are translated at the period end exchange rate.

Purchase obligations primarily consist of outstanding purchase orders for goods or services not yet received, which are not recognized as liabilities in our Consolidated Balance Sheets until such goods and/or services are received.

The contractual obligation table excludes our liabilities of $2.0 million related to uncertain tax positions because we cannot reliably estimate the timing of cash payments.

Future Capital Requirements

We expect total capital expenditures in 2010 to be approximately $25 $30 million. Of the expected capital expenditures in 2010, approximately 60% relates to the opening and/or growth of our delivery platform and approximately 40% relates to the maintenance capital required for existing assets and internal technology projects. The anticipated level of 2010 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.

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 June 30, 2010, we were authorized to purchase an additional $13.3 million of common stock under our stock repurchase program. As of August 4, 2010, based on an approval of an additional $25.0 million allowance by the Board of Directors, the remaining amount authorized for repurchase was approximately $38.3 million (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 14 of the Notes to the Consolidated Financial Statements in our 2009 Annual Report on Form 10 K. As of June 30, 2010, we were in compliance with all covenants under the Credit Facility and had approximately $220.2 million in available borrowing capacity. We had no outstanding borrowings and $4.8 million of letters of credit outstanding under our Credit Facility as of June 30, 2010. Based upon average outstanding borrowings during the three and six months ended June 30, 2010, interest accrued at a rate of approximately 1.1% and 1.2% per annum, respectively.

Client Concentration

Our five largest clients accounted for 43.2% and 35.8% of our consolidated revenue for the three months ended June 30, 2010 and 2009, respectively. Our five largest clients accounted for 41.0% and 35.7% of our consolidated revenue for the six months ended June 30, 2010 and 2009, respectively. The increased concentration year over year is primarily due to the IBM-Census contract, which we expect to end in the third quarter of 2010. 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 2010 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. Market risk also includes credit and non-performance risk by counterparties to our various financial instruments, our banking partners. We are exposed to market risk due to changes in interest rates and foreign currency exchange rates (as measured against the U.S. dollar); as well as credit risk associated with potential non-performance of our counterparty banks. These exposures are directly related to our normal operating and funding activities. 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, and the U.S. dollar/Argentine peso. In order to mitigate against credit and non-performance risk, it is our policy to only enter into derivative contracts and other financial instruments with investment grade counterparty financial institutions and, correspondingly, our derivative valuations reflect the creditworthiness of our counterparties. As of the date of this report, we have not experienced, nor do we anticipate, any issues related to derivative counterparty defaults.

Interest Rate Risk

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 June 30, 2010, we had no outstanding borrowings under the Credit Facility. Based upon average outstanding borrowings during the three and six months ended June 30, 2010, interest accrued at a rate of approximately 1.1% and 1.2% per annum, respectively. If the Prime Rate or LIBOR increased by 100 basis points during this period, 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, the United Kingdom, 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 six months ended June 30, 2010 and 2009, revenue associated with this foreign exchange risk was 35% and 37% of our consolidated revenue, respectively.

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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.

Our cash flow hedging instruments as of June 30, 2010 and December 31, 2009 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

As of June 30, 2010	**Local Currency Notional Amount**	**U.S. Dollar Notional Amount**	**% Maturing in the Next 12 Months**	**Contracts Maturing Through**
Canadian Dollar	13,200	$ 11,273	72.7%	December 2011
Canadian Dollar Call Options	10,200	9,135	100.0%	December 2010
Philippine Peso	6,575,000	136,623[1]	74.0%	December 2012
Argentine Peso	22,000	5,122[2]	100.0%	December 2010
Mexican Peso	475,000	33,391	84.2%	December 2011
British Pound Sterling	6,436	10,017[3]	72.0%	December 2011
		$ 205,561		

As of December 31, 2009	**Local Currency Notional Amount**	**U.S. Dollar Notional Amount**
Canadian Dollar	14,400	$ 11,782
Canadian Dollar Call Options	19,400	17,301
Philippine Peso	4,615,000	96,354[1]
Argentine Peso	9,000	2,454

Mexican Peso	491,500	34,880
South African Rand	23,000	2,081
British Pound Sterling	3,876	6,565[3]
		$ 171,417

[1] Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars, Australian dollars and, in 2009 only, British pound sterling, which are translated into equivalent U.S. dollars on June 30, 2010 and December 31, 2009.

[2] Includes contracts to purchase Argentine pesos in exchange for Euros, which were translated into equivalent U.S. dollars on June 30, 2010.

[3] Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on June 30, 2010 and December 31, 2009.

The fair value of our cash flow hedges at June 30, 2010 was (assets/(liabilities)) (amounts in thousands):

	Maturing in the

	June 30, 2010	Next 12 Months
Canadian Dollar	$ 1,078	$ 592
Canadian Dollar Call Options	608	608
Philippine Peso	1,965	2,230
Argentine Peso	352	352
Mexican Peso	2,439	2,172
British Pound Sterling	(395)	(272)
	$ 6,047	$ 5,682

Our cash flow hedges are valued using models based on market observable inputs, including both forward and spot foreign exchange rates, implied volatility, and counterparty credit risk. The year over year change in fair value largely reflects the recent global economic conditions which resulted in high foreign exchange volatility and an overall weakening in the U.S. dollar.

We recorded a net gain of $4.2 million and a net loss of $13.2 million for settled cash flow hedge contracts and the related premiums for the six months ended June 30, 2010 and 2009, respectively. These gains/(losses) 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 their respective local currencies. However, transactions are denominated in other currencies from time-to-time. For the six months ended June 30, 2010 and 2009, approximately 23% and 24%, respectively of revenue was derived from contracts denominated in currencies other than the U.S. dollar. Our results from operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

Fair Value of Debt and Equity Securities

We did not have any investments in debt or equity securities as of June 30, 2010.

ITEM 4. CONTROLS AND PROCEDURES

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

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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 Interim 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 Interim Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2010 to provide such reasonable assurance.

Our management, including our Chief Executive Officer and Interim 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. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. While the 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.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the quarter ended June 30, 2010 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, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations.

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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 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 named defendants executed a stipulation of settlement with the lead plaintiffs to settle the consolidated class action lawsuit. On June 11, 2010, the United States District Court for the Southern District of New York issued final approval of the settlement. The Company paid $225,000 of the total settlement amount, which had been included in Other accrued expenses in the Consolidated Balance Sheet at December 31, 2009; the remaining settlement amount was 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 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. On January 5, 2010, the Court of Chancery, State of Delaware issued final approval of the settlement. The total amount paid under the approved settlement was covered by the Company s insurance carriers.

ITEM 1A. RISK FACTORS

The adoption and implementation of new statutory and regulatory requirements for derivative transactions could have an adverse impact on our ability to hedge risks associated with our business.

We enter into forward and option contracts to hedge against the effect of exchange rate fluctuations. The United States Congress has passed, and the President has signed into law, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Financial Reform Act). The Financial Reform Act provides for new statutory and regulatory requirements for derivative transactions, including foreign currency hedging transactions. The Financial Reform Act requires the Commodities Futures and Trading Commission to promulgate rules relating to the Financial Reform Act. Until the rules relating to the Financial Reform Act are established, we do not know how these regulations will affect us. The rules adopted by the Commodities Futures and Trading Commission may in the future impact our flexibility to execute strategic hedges to reduce foreign exchange rate uncertainty and thus protect cash flows. In addition, the banks and other derivatives dealers who are our contractual counterparties will be required to comply with the Financial Reform Act s new requirements. It is possible that the costs of such compliance will be passed on to customers such as ourselves.

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

Issuer Purchases of Equity Securities

Following is the detail of the issuer purchases made during the quarter ended June 30, 2010:

Period	Total Number of Shares Purchased	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 (in thousands)[1]
April 1, 2010 - April 30, 2010		$		$ 31,082
May 1, 2010 - May 31, 2010		$		$ 31,082
June 1, 2010 - June 30, 2010	1,366,100	$ 12.98	1,366,100	$ 13,346
Total	1,366,100		1,366,100	

[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 August 2010, whereby the Board increased the program allowance by $25.0 million. Since inception of the program through June 30, 2010, the Board has authorized the repurchase of shares up to a total value of $337.3 million, of which we have purchased 26.2 million shares on the open market for $324.0 million. As of June 30, 2010 the remaining amount authorized for repurchases under the program was approximately $13.3 million. As of August 4, 2010, based on the approval of an additional $25.0 million allowance, the remaining amount authorized for repurchase was approximately $38.3 million. The stock repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. RESERVED

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)

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SIGNATURES

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

	TELETECH HOLDINGS, INC. (Registrant)
Date: August 4, 2010	By: /s/ Kenneth D. Tuchman Kenneth D. Tuchman Chairman and Chief Executive Officer
Date: August 4, 2010	By: /s/John R. Troka, Jr. John R. Troka, Jr. Interim Chief Financial Officer

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EXHIBIT INDEX

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