

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

**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

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

84-1291044

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

**9197 South Peoria Street
Englewood, Colorado 80112**

(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of 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
Prepays 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		Six Months Ended June	
	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 Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non- controlling interest	Total Equity	
									Shares
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
Prepays 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)

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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		Six Months Ended June	
	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		Six Months Ended June	
	2010	2009	2010	2009