TELETECH HOLDINGS INC
Form 10-Q
August 02, 2011

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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, 2011

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 þ 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, 2011, there were 56,678,612 shares of the registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
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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, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 194,286	$ 119,385
Accounts receivable, net	239,543	233,706
Prepaids and other current assets	44,423	38,486
Deferred tax assets, net	13,090	8,770
Income tax receivable	26,321	23,869
Total current assets	517,663	424,216
Long-term assets		
Property, plant and equipment, net	95,699	105,528
Goodwill	77,279	52,707
Contract acquisition costs, net	1,773	2,782
Deferred tax assets, net	32,896	37,944
Other long-term assets	58,475	37,446
Total long-term assets	266,122	236,407
Total assets	$ 783,785	$ 660,623
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 23,643	$ 23,599
Accrued employee compensation and benefits	79,089	72,406
Other accrued expenses	33,103	40,682
Income taxes payable	12,168	23,175
Deferred tax liabilities, net	1,675	2,235
Deferred revenue	17,853	5,570
Other current liabilities	6,163	4,584
Total current liabilities	173,694	172,251
Long-term liabilities		
Line of credit	118,000	
Negative investment in deconsolidated subsidiary	76	76
Deferred tax liabilities, net	3,457	3,559
Deferred rent	7,798	10,363

Other long-term liabilities	27,512	19,556
Total long-term liabilities	156,843	33,554
Total liabilities	330,537	205,805
Commitments and contingencies (Note 10)		
Stockholders equity		
Preferred stock $0.01 par value: 10,000,000 shares authorized; zero shares outstanding as of June 30, 2011 and December 31, 2010		
Common stock $0.01 par value; 150,000,000 shares authorized; 56,615,262 and 57,875,269 shares outstanding as of June 30, 2011 and December 31, 2010, respectively	566	579
Additional paid-in capital	346,121	349,157
Treasury stock at cost: 25,436,991 and 24,179,176 shares as of June 30, 2011 and December 31, 2010, respectively	(354,725)	(322,946)
Accumulated other comprehensive income	20,854	20,334
Retained earnings	429,292	396,602
Noncontrolling interest	11,140	11,092
Total stockholders equity	453,248	454,818
Total liabilities and stockholders equity	$ 783,785	$ 660,623

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,	
	2011	**2010**	**2011**	**2010**
Revenue	$ 293,636	$ 271,927	$ 574,615	$ 543,453
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	210,358	198,194	409,479	392,812
Selling, general and administrative	47,283	39,741	95,084	83,149
Depreciation and amortization	11,423	12,946	23,021	25,670
Restructuring charges, net	(57)	1,304	682	2,773
Impairment losses		679	230	679
Total operating expenses	269,007	252,864	528,496	505,083
Income from operations	24,629	19,063	46,119	38,370
Other income (expense)				
Interest income	720	486	1,386	1,060
Interest expense	(1,291)	(699)	(2,671)	(1,516)
Other income (expense), net	(705)	545	(261)	577
Total other income (expense)	(1,276)	332	(1,546)	121
Income before income taxes	23,353	19,395	44,573	38,491
Provision for income taxes	(129)	(5,071)	(9,978)	(10,125)
Net income	23,224	14,324	34,595	28,366
Net income attributable to noncontrolling interest	(1,007)	(922)	(1,905)	(1,677)
Net income attributable to TeleTech shareholders	$ 22,217	$ 13,402	$ 32,690	$ 26,689
Weighted average shares outstanding				
Basic	56,713	61,117	56,949	61,495
Diluted	57,974	62,317	58,376	62,907

Net income per share attributable to TeleTech shareholders								
Basic	$	0.39	$	0.22	$	0.57	$	0.43
Diluted	$	0.38	$	0.22	$	0.56	$	0.42

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

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

	Stockholders Equity of the Company									
	Preferred Stock		Common Stock		Treasury	Additional Paid-in	Accumulated Other Comprehensive Income	Retained	Noncontrolling	Total
	Shares	Amount	Shares	Amount	Stock	Capital	(Loss)	Earnings	interest	Equity
Balance as of December 31, 2010		$	57,875	$579	$(322,946)	$349,157	$20,334	$396,602	$11,092	$454,818
Net income								32,690	1,905	34,595
Dividends distributed to noncontrolling interest									(1,859)	(1,859)
Foreign currency translation adjustments							6,879		2	6,881
Derivatives valuation, net of tax							(6,580)			(6,580)
Vesting of restricted stock units issued out of treasury			441	4	6,032	(10,831)				(4,795)
Exercise of stock options			432	4	5,916	(2,247)				3,673
Excess tax benefit from equity-based awards						2,327				2,327
Equity-based compensation expense						7,715				7,715
Purchases of common stock			(2,133)	(21)	(43,727)					(43,748)
Other							221			221
Balance as of June 30, 2011		$	56,615	$566	$(354,725)	$346,121	$20,854	$429,292	$11,140	$453,248

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, 2011	2010
Cash flows from operating activities		
Net income	$ 34,595	$ 28,366
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,021	25,670
Amortization of contract acquisition costs	1,009	2,697
Amortization of debt issuance costs and other	290	
Accretion expense	531	
Provision for doubtful accounts		643
Gain on disposal of assets	(696)	(211)
Impairment losses	230	679
Deferred income taxes	8,076	(1,564)
Excess tax benefit from equity-based awards	(772)	
Equity-based compensation expense	7,715	6,595
Loss on foreign currency derivatives	531	328
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	5,908	14,044
Prepaids and other assets	(8,644)	1,964
Accounts payable and accrued expenses	(17,950)	7,826
Deferred revenue and other liabilities	(5,863)	(12,402)
Net cash provided by operating activities	47,981	74,635
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	2,328	
Purchases of property, plant and equipment	(12,362)	(12,316)
Acquisition of PRG and eLoyalty business unit, net of cash acquired of $14	(43,884)	
Net cash used in investing activities	(53,918)	(12,316)
Cash flows from financing activities		
Proceeds from line of credit	406,100	490,700
Payments on line of credit	(288,100)	(490,700)
Payments on capital lease obligations and equipment financing	(1,088)	(1,911)
Dividends distributed to noncontrolling interest	(1,859)	(2,070)
Proceeds from exercise of stock options	3,673	874
Excess tax benefit from equity-based awards	3,099	128
Purchase of treasury stock	(43,748)	(37,305)
Payments of debt issuance costs	(22)	
Net cash provided by (used in) financing activities	78,055	(40,284)

Effect of exchange rate changes on cash and cash equivalents	2,783	25
Increase in cash and cash equivalents	74,901	22,060
Cash and cash equivalents, beginning of period	119,385	109,424
Cash and cash equivalents, end of period	$ 194,286	$ 131,484
Supplemental disclosures		
Cash paid for interest	$ 2,026	$ 1,165
Cash paid for income taxes	$ 14,875	$ 5,961
Non-cash investing and financing activities		
Acquisition of equipment through installment purchase agreements	$	$ 186

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

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

(1) OVERVIEW AND BASIS OF PRESENTATION

Overview

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

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, its 55% equity owned subsidiary Percepta, LLC, and its 80% interest in Peppers & Rogers Group (PRG) which was acquired on November 30, 2010 (see Note 2 for additional information). All intercompany balances and transactions have been eliminated in consolidation.

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, 2011, and the consolidated results of operations of the Company for the three and six months ended June 30, 2011 and 2010, and the cash flows of the Company for the six months ended June 30, 2011 and 2010. Operating results for the six months ended June 30, 2010 included 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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, 2010.

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 ongoing basis, the Company evaluates its estimates including those related to derivatives and hedging activities, income taxes including the valuation allowance for deferred tax assets, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts and valuation of goodwill, long-lived and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ materially from these estimates under different assumptions or conditions.

Recently Issued Accounting Pronouncements

Effective January 1, 2011, the Company adopted 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 adoption of this standard did not have a material impact on the Company s results of operations, financial position, or cash flows.

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

In December 2010, the FASB issued new guidance related to goodwill impairment testing. The new guidance clarifies the requirements of when to perform step 2 of impairment testing for goodwill for reporting units with zero or negative carrying amounts. The Company adopted this guidance on January 1, 2011 and it did not have a material impact on the Company s results of operations, financial position, or cash flows because the Company has not historically had or is expected to have a reporting unit with goodwill and a zero or negative carrying amount.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under current guidance that permits the presentation of other comprehensive income in the statement of changes in stockholders equity has been eliminated. The amendment becomes effective retrospectively for the Company s interim period ending March 31, 2012. Early adoption is permitted. The Company is currently assessing the impact that this potential change would have on its financial position, results of operations or cash flows.

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance in U.S. GAAP with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. The amendment changes the wording used to describe many of the requirements, the FASB does not intend for the amendment to result in a change in the application of the requirements in the current authoritative guidance. The amendment becomes effective prospectively for the Company s interim period ending March 31, 2012. Early application is not permitted. The Company does not expect the amendment to have a material impact on its financial position, result of operations or cash flows.

(2) ACQUISITIONS

eLoyalty

On May 28, 2011, the Company acquired certain assets and assumed certain liabilities of eLoyalty Corporation (eLoyalty), related to the Integrated Contract Solutions (ICS) business unit, and the eLoyalty trade name. The ICS business unit focuses on helping clients improve customer service business performance through the implementation of a variety of service centers. ICS generates revenue in three ways: 1) managed services that support and maintain clients customer service center environment over the long-term; 2) consulting services that assist the customer in implementation and integration of a customer service center solution; and 3) product resale through the sale of third party software and hardware. eLoyalty operates out of an office in Austin, TX with an additional administrative location in Chicago, IL and has approximately 160 employees.

The up-front cash consideration was $40.9 million, subject to certain balance sheet adjustments of ($3.0) million as defined in the purchase and sale agreement, for a total purchase price of $37.9 million.

As of June 30, 2011, TeleTech paid $36.0 million of the total net purchase price leaving approximately $1.9 million unpaid, which was included in Other accrued expenses in the Consolidated Balance Sheets as of June 30, 2011. The Company recognized $0.4 million of acquisition related expenses as part of the eLoyalty purchase. These costs were recorded in Selling, general and administrative expense in the accompanying Consolidated Statements of Operations during the three and six months ended June 30, 2011.

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

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands). The estimates of fair value of identifiable assets acquired and liabilities assumed, are preliminary, pending completion of the valuation, thus are subject to revisions which may result in adjustments to the values presented below:

		Preliminary Estimates of Acquisition Date Fair Value
Cash	$	14
Accounts Receivable		7,702
Prepaid assets cost deferrals		14,726
Property, plant and equipment		897
Other assets		1,427
Customer relationships		11,700
Software		1,200
Noncompete agreements		900
Trademark		600
Consulting services backlog		500
Goodwill		24,282
		63,948
Accounts payable		2,156
Accrued expenses		1,211
Deferred revenue		22,525
Other		192
		26,084
Total purchase price	$	37,864

The customer relationship intangible asset is being amortized over 11 years. The goodwill recognized from the eLoyalty acquisition is attributable primarily to the assembled workforce of eLoyalty and significant opportunity for Company growth and marketing based on additional service offerings and capabilities. Since this acquisition is treated as an asset acquisition for tax purposes, the goodwill and associated intangible assets will be deductible for income tax purposes. The operating results of eLoyalty are reported within the North American BPO segment from the date of acquisition.

Peppers & Rogers Group

On November 30, 2010, the Company acquired an 80% interest in Peppers & Rogers Group. PRG is a leading global management consulting firm specializing in customer-centric strategies for Global 1000 companies and is recognized as a leading authority on customer-based strategies with a deep understanding of the most powerful levers that drive customer loyalty and business results. PRG currently operates offices on six continents across the globe, including headquarters in Stamford, Connecticut, and Istanbul, Turkey, along with regional offices in Belgium, Germany, United Arab Emirates, South Africa, Lebanon and Kuwait. PRG has 150 employees.

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