TELETECH HOLDINGS INC
Form 10-Q
July 16, 2008

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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 September 30, 2007

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, and (2) has been subject to such filing requirements for the past (90) days. Yes o No þ

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(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 o No þ

As of July 16, 2008, there were 69,976,836 shares of the Registrant s common stock outstanding.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
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EXPLANATORY NOTE

This Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2007 includes a restatement of our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2006 (and related disclosures).

Summary of Adjustments

The following summarizes the accounting adjustments for the years 1996 through the second quarter of 2007 (amounts in thousands):

	Pre-Tax Accounting Adjustments					
Year Ended December 31,	Equity-Based Compensation	Leases	Other	Total Pre-Tax Adjustments	Provision for Income Tax[1]	Total Accounting Adjustments
1996	$ 763	$ 132	$	$ 895	$ (334)	$ 561
1997	1,776	515		2,291	(862)	1,429
1998	2,396	1,552		3,948	(1,412)	2,536
1999	12,779	1,112		13,891	(5,022)	8,869
2000	26,684	3,022		29,706	(9,004)	20,702
2001	5,648	679	10	6,337	(2,354)	3,983
2002	6,105	150	817	7,072	(1,479)	5,593
2003	2,214	492	3	2,709	(4,390)	(1,681)
2004	237	477	(3)	711	(340)	371
Cumulative effect at December 31, 2004	58,602	8,131	827	67,560	(25,197)	42,363
2005	965	(922)	392	435	1,437	1,872
2006	611	(1,437)	(111)	(937)	1,798	861
First quarter 2007	(209)	(75)	(863)	(1,147)	711	(436)
Second quarter 2007	(272)	227	(559)	(604)	1,056	452
Total	$ 59,697	$ 5,924	$ (314)	$ 65,307	$ (20,195)	$ 45,112

(1) In any given year, the Provision for Income Tax may not directly correlate with the amount of total pre-tax accounting adjustments. The provision as shown reflects the tax benefits of the pre-tax accounting adjustments,

permanent tax differences, and rate differences for foreign jurisdictions. These benefits are offset in part by changes in deferred tax valuation allowances and other adjustments restating the amount or period in which income taxes were originally recorded.

Equity-Based Compensation Accounting

The restatements arose during and as a result of a voluntary, independent review of our historical equity-based compensation practices and the related accounting conducted by the Audit Committee of our Board of Directors (the Review) and an additional review conducted by our management in consultation with our current and former independent auditors. The Review, which was conducted with the assistance of independent, outside `legal counsel and outside forensic accounting consultants, covered the accounting for all grants of or modifications to equity awards made to our directors, Section 16 Officers, employees and consultants from the initial public offering (IPO) of our common stock in 1996 through August 2007. Based on the Review, we determined that material equity-based compensation expense adjustments were required. The majority of adjustments affected periods prior to 2001. While the Review resulted in the restatement of historical financial periods, the Audit Committee found (i) no willful misconduct in connection with our equity compensation granting process; (ii) no evidence of improper conduct by any current member of senior management, any past or present member of the Compensation Committee or any other outside directors; and (iii) no regular or systematic practice of using hindsight to select grant dates.

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Under the oversight of the Audit Committee and in consultation with our current and former independent auditors, management conducted its own internal review of our historical equity-based compensation practices and related accounting. Our review covered 4,886 equity awards, including 4,347 equity awards from our IPO in 1996 through August 2007, and 539 pre-IPO grants for subsequent modifications, cancellations and other accounting issues. This internal review, which was a necessary step in the preparation and restatement of our Condensed Consolidated Financial Statements, included, among other things, evaluations of our previous accounting for grants of equity-based compensation.

We determined that pursuant to Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees*; Statement of Accounting Standards (SFAS) No. 123 *Accounting for Stock-Based Compensation*, SFAS No. 123(R) *Share-Based Payment*, and related interpretations, mistakes were made in the accounting for our equity compensation grants during the period reviewed. As shown in the table above, we recorded pre-tax, non-cash adjustments to our equity-based compensation expense which were primarily driven by (i) 901 grants comprising 5.4 million shares requiring only changes to the original grant measurement date; (ii) 190 grants comprising 5.0 million shares for which the original grant terms were subsequently modified (44 of these grants comprising 1.2 million shares also required a change to their original measurement date); and (iii) 30 grants comprising 0.8 million shares made to consultants which were mistakenly accounted for as employee grants. The majority of the grants requiring expense adjustments were issued prior to 2001.

As part of the restatement process resulting from the review of our historical equity-based compensation practices, we also assessed whether there were other matters which should be corrected in our previously issued financial statements. We concluded that additional accounting adjustments were appropriate, the pre-tax impact of which is presented in the table above, and are categorized as follows:

Lease Accounting

As part of our internal audit process, we identified the incorrect recording of certain leases under Statement of Financial Accounting Standards (SFAS) No. 13 *Accounting for Leases*. In addition, we incorrectly applied SFAS No. 143 *Accounting for Asset Retirement Obligations* to certain leases when it became effective in 2003. Specifically, we did not correctly identify capital versus operating leases for certain of our delivery centers and improperly accounted for certain relevant contractual provisions, including lease inducements, construction allowances, rent holidays, embedded derivatives, escalation clauses, lease commencement dates and asset retirement obligations. The lease classification changes and recognition of other lease provisions resulted in an adjustment to deferred rent, the recognition of appropriate asset retirement obligations, and the amortization of the related leasehold improvement assets. The majority of adjustments affected periods prior to 2001.

Other Accounting Adjustments

We made other corrections to accounts receivable and related revenue, accruals and related expense, as well as adjustments to reclassify restricted cash in a foreign entity to other assets.

Income Tax Adjustments and Income Tax Payables

The reduction of $20.2 million to the Provision for Income Taxes reflects a $23.6 million tax benefit from the pre-tax accounting changes and a $1.1 million tax benefit from permanent tax and foreign rate differences. These benefits are offset in part by a $3.0 million increase in the provision for income taxes due to changes in our deferred tax valuation allowances and a $1.5 million tax increase for other adjustments restating the amount or period in which income taxes were originally recorded.

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There is no material change to our income taxes payable to the U.S. or any foreign tax jurisdiction nor will we be entitled to a tax refund due to the accounting adjustments recorded for equity-based compensation expense during this restatement. In accounting for equity-based compensation, we only record a tax deduction when a stock option is exercised. The tax returns filed during these periods correctly reported a windfall tax deduction on stock options exercised as measured by the gain realized on exercise of the stock option (exercise price less the strike price of the option) in excess of the book expense recorded with respect to the particular stock option exercised. An increase to the book expense recorded for a particular stock option will have a corresponding decrease to the windfall tax deduction realized on exercise of the stock option but result in no overall increase or decrease to the total tax deductions taken with respect to the stock options exercised.

The likelihood that deferred tax assets recorded during the restatement will result in a future tax deduction was evaluated under the more-likely-than-not criteria of SFAS 109 *Accounting for Income Taxes*. In making this judgment we evaluated all available evidence, both positive and negative, in order to determine if, or to what extent, a valuation allowance is required. Changes to our recorded deferred tax assets are reflected in the period in which a change in judgment occurred.

The accounting adjustments for equity-based compensation, leases, other accounting and income tax are more fully described in Note 2 to the Condensed Consolidated Financial Statements and in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Financial information and disclosures included in the reports on Form 10-K, Form 10-Q and Form 8-K filed by us prior to November 10, 2007, and the related opinions of any of our independent registered public accounting firms and all earnings, press releases and similar communications issued by us prior to November 10, 2007 should not be relied upon and are superseded in their entirety by this report and other reports on Form 10-Q and Form 8-K filed by us with the SEC on or after November 10, 2007.

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PART I FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TELETECH HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share amounts)
(Unaudited)

	September 30, 2007	December 31, 2006 As restated
ASSETS		
Current assets		
Cash and cash equivalents	$ 70,684	$ 58,352
Accounts receivable, net	238,623	235,958
Prepaids and other current assets	61,273	37,886
Deferred tax assets, net	5,925	11,081
Income tax receivables	28,924	15,875
Total current assets	405,429	359,152
Long-term assets		
Property, plant and equipment, net	168,992	161,061
Goodwill	45,054	57,859
Contract acquisition costs, net	7,511	9,674
Deferred tax assets, net	46,659	46,166
Other long-term assets	34,548	30,509
Total long-term assets	302,764	305,269
Total assets	$ 708,193	$ 664,421
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 30,656	$ 31,287
Accrued employee compensation and benefits	88,563	75,445
Other accrued expenses	38,421	37,649
Income tax payables	23,069	29,734
Deferred tax liabilities, net	436	395
Other short-term liabilities	11,324	9,520
Total current liabilities	192,469	184,030
Long-term liabilities		
Line of credit	38,500	65,000
Grant advances	6,187	8,001
Deferred tax liabilities	88	137
Other long-term liabilities	42,373	38,662

Total long-term liabilities		87,148		111,800
Total liabilities		279,617		295,830
Minority interest		4,700		5,877
Commitments and contingencies (Note 11)				
Stockholders equity				
Preferred stock $0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of September 30, 2007 and December 31, 2006, respectively				
Common stock $.01 par value; 150,000,000 shares authorized; 69,797,571 and 70,103,437 shares outstanding as of September 30, 2007 and December 31, 2006, respectively		698		701
Additional paid-in capital		331,028		298,327
Treasury stock at cost: 12,077,609and 10,492,209 shares, respectively		(143,205)		(96,200)
Accumulated other comprehensive income		46,377		10,525
Retained earnings		188,978		149,361
Total stockholders equity		423,876		362,714
Total liabilities and stockholders equity	$	708,193	$	664,421

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

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

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2007	2006 As restated	2007	2006 As restated
Revenue	$ 335,727	$ 303,839	$ 998,075	$ 874,096
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	246,558	218,421	721,028	645,174
Selling, general and administrative	46,968	49,587	147,675	146,079
Depreciation and amortization	14,250	13,355	41,598	37,781
Restructuring charges, net	2,588	515	2,850	1,455
Impairment losses	2,274		15,789	478
Total operating expenses	312,638	281,878	928,940	830,967
Income from operations	23,089	21,961	69,135	43,129
Other income (expense), net				
Interest income	650	662	1,535	1,350
Interest expense	(1,395)	(2,507)	(4,457)	(4,966)
Loss on sale of business	(6,122)		(6,122)	
Other, net	41	677	(1,294)	(276)
Total other income (expense), net	(6,826)	(1,168)	(10,338)	(3,892)
Income before income taxes and minority interest	16,263	20,793	58,797	39,237
Provision for income taxes	(1,082)	(7,173)	(16,193)	(8,846)
Income before minority interest	15,181	13,620	42,604	30,391
Minority interest	(808)	(583)	(1,750)	(1,659)
Net income	$ 14,373	$ 13,037	$ 40,854	$ 28,732
Other comprehensive income (loss)				

Foreign currency translation adjustments	$ 7,710	$ 1,205	$ 19,197	$ 4,484
Derivatives valuation, net of tax	5,683	(86)	16,721	(2,018)
Other	(22)	(17)	(66)	(49)
Total other comprehensive income (loss)	13,371	1,102	35,852	2,417
Comprehensive income	$ 27,744	$ 14,139	$ 76,706	$ 31,149
Weighted average shares outstanding				
Basic	70,214	69,085	70,367	68,979
Diluted	72,343	70,277	72,909	70,210
Net income per share				
Basic	$ 0.20	$ 0.19	$ 0.58	$ 0.42
Diluted	$ 0.20	$ 0.19	$ 0.56	$ 0.41

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

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
Balance as of December 31, 2006 (As restated)		$	70,103	$701	$ (96,200)	$298,327	$ 10,525	$149,361	$362,714
Net income								40,854	40,854
Cumulative effect of adoption of FIN 48								(1,237)	(1,237)
Foreign currency translation adjustments							19,197		19,197
Derivatives valuation, net of tax							16,721		16,721
Exercise of stock options			1,280	13		15,580			15,593
Excess tax benefit from exercise of stock options						8,018			8,018
Equity based compensation						9,103			9,103
Treasury stock repurchases			(1,586)	(16)	(47,005)				(47,021)
Other							(66)		(66)
Balance as of September 30, 2007		$	69,797	$698	$(143,205)	$331,028	$ 46,377	$188,978	$423,876

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

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

	Nine-Months Ended September 30, 2007	Nine-Months Ended September 30, 2006 As restated
Cash flows from operating activities		
Net income	$ 40,854	$ 28,732
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,598	37,781
Amortization of contract acquisition costs	2,017	2,327
Provision for doubtful accounts	609	1,714
Loss on disposal of assets	6,228	241
Impairment losses	15,789	478
Deferred income taxes	975	(5,286)
Minority interest	1,750	1,659
Equity-based compensation expense	9,103	5,734
Changes in assets and liabilities:		
Accounts receivable	(786)	(200)
Prepaids and other assets	(14,751)	(11,961)
Accounts payable and accrued expenses	2,001	13,019
Other liabilities	(5,102)	(2,130)
Net cash provided by operating activities	100,285	72,108
Cash flows from investing activities		
Acquisition of a business, net of cash acquired of $0.5 million		(46,412)
Purchases of property, plant and equipment	(43,788)	(51,219)
Proceeds from disposition of business	3,237	
Payment for contract acquisition costs		(179)
Purchases of intangible assets		(1,357)
Other		
Net cash provided by (used in) investing activities	(40,551)	(99,167)
Cash flows from financing activities		
Proceeds from lines of credit	394,800	