

TELETECH HOLDINGS INC  
Form 10-Q  
August 07, 2017  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

Form 10-Q

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

For the quarterly period ended June 30, 2017

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.

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company  
(Do not check if Emerging growth company)

company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 31, 2017, there were 45,842,430 shares of the registrant's common stock outstanding.

---

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

JUNE 30, 2017 FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (unaudited)</u>	1
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016 (unaudited)</u>	2
<u>Consolidated Statement of Equity as of and for the six months ended June 30, 2017 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)</u>	4
<u>Notes to the Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	41
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	42
<u>Item 1A. Risk Factors</u>	42
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44

SIGNATURES

45

EXHIBIT INDEX

46

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

(unaudited)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 77,910	\$ 55,264
Accounts receivable, net	288,041	300,808
Prepays and other current assets	67,080	59,905
Income tax receivable	7,703	7,035
Assets held for sale	8,969	10,715
Total current assets	449,703	433,727
Long-term assets		
Property, plant and equipment, net	160,321	151,037
Goodwill	166,874	129,648
Deferred tax assets, net	32,988	53,585
Other intangible assets, net	60,742	30,787
Other long-term assets	59,495	47,520
Total long-term assets	480,420	412,577
Total assets	\$ 930,123	\$ 846,304
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 36,022	\$ 38,197
Accrued employee compensation and benefits	81,544	66,133
Other accrued expenses	23,911	14,830
Income tax payable	9,822	7,040
Deferred revenue	22,964	23,318
Other current liabilities	23,089	29,154
Liabilities held for sale	1,908	1,357
Total current liabilities	199,260	180,029
Long-term liabilities		

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Line of credit	257,000	217,300
Deferred tax liabilities, net	137	160
Deferred rent	15,800	15,256
Other long-term liabilities	62,668	71,664
Total long-term liabilities	335,605	304,380
Total liabilities	534,865	484,409
Commitments and contingencies (Note 10)		
Mandatorily redeemable noncontrolling interest	—	—
Stockholders' equity		
Preferred stock; \$0.01 par value; 10,000,000 shares authorized; zero shares outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock; \$0.01 par value; 150,000,000 shares authorized; 45,694,081 and 46,113,693 shares outstanding as of June 30, 2017 and December 31, 2016, respectively	458	462
Additional paid-in capital	351,006	348,739
Treasury stock at cost: 36,358,172 and 35,938,560 shares as of June 30, 2017 and December 31, 2016, respectively	(618,452)	(603,262)
Accumulated other comprehensive income (loss)	(104,707)	(126,964)
Retained earnings	759,809	735,939
Noncontrolling interest	7,144	6,981
Total stockholders' equity	395,258	361,895
Total liabilities and stockholders' equity	\$ 930,123	\$ 846,304

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

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	\$ 353,429	\$ 305,105	\$ 691,706	\$ 617,515
Operating expenses				
Cost of services (exclusive of depreciation and amortization presented separately below)	268,004	226,768	521,902	458,108
Selling, general and administrative	43,985	44,774	87,205	90,274
Depreciation and amortization	16,258	17,221	30,758	34,950
Restructuring and integration charges, net	3,593	114	3,762	202
Impairment losses	—	—	—	—
Total operating expenses	331,840	288,877	643,627	583,534
Income from operations	21,589	16,228	48,079	33,981
Other income (expense)				
Interest income	695	263	1,121	429
Interest expense	(2,912)	(1,753)	(5,230)	(3,717)
Other income (expense), net	1,197	756	2,157	1,234
Loss on assets held for sale	(3,178)	—	(3,178)	—
Total other income (expense)	(4,198)	(734)	(5,130)	(2,054)
Income before income taxes	17,391	15,494	42,949	31,927
Benefit from (provision for) income taxes	(1,597)	(2,952)	(6,988)	(7,480)
Net income	15,794	12,542	35,961	24,447
Net income attributable to noncontrolling interest	(1,100)	(926)	(2,022)	(1,606)
Net income attributable to TeleTech stockholders	\$ 14,694	\$ 11,616	\$ 33,939	\$ 22,841
Other comprehensive income (loss)				
Net income	\$ 15,794	\$ 12,542	\$ 35,961	\$ 24,447
Foreign currency translation adjustments	3,339	(9,484)	9,567	472
Derivative valuation, gross	7,517	(5,965)	21,492	3,614
Derivative valuation, tax effect	(3,038)	2,363	(8,829)	(1,737)
Other, net of tax	130	225	259	400



Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Total other comprehensive income (loss)	7,948	(12,861)	22,489	2,749
Total comprehensive income (loss)	23,742	(319)	58,450	27,196
Less: Comprehensive income attributable to noncontrolling interest	(1,240)	(792)	(2,254)	(1,532)
Comprehensive income (loss) attributable to TeleTech stockholders	\$ 22,502	\$ (1,111)	\$ 56,196	\$ 25,664
Weighted average shares outstanding				
Basic	45,662	47,873	45,805	48,120
Diluted	46,150	48,221	46,224	48,483
Net income per share attributable to TeleTech stockholders				
Basic	\$ 0.32	\$ 0.24	\$ 0.74	\$ 0.47
Diluted	\$ 0.32	\$ 0.24	\$ 0.73	\$ 0.47
Dividends declared per share outstanding	\$ —	\$ —	\$ 0.22	\$ 0.185

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

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statement of Stockholders' Equity

(Amounts in thousands)

(Unaudited)

## Stockholders' Equity of the Company

Preferred Stock Shares	Amount	Common Stock Shares	Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling interest	Total
—	\$ —	46,114	\$ 462	\$ (603,262)	\$ 348,739	\$ (126,964)	\$ 735,939	\$ 6,981	\$ —
—	—	—	—	—	—	—	33,939	2,022	—
—	—	—	—	—	—	—	(10,069)	—	—
—	—	—	—	—	—	—	—	(1,800)	—
—	—	—	—	—	—	9,335	—	232	—
—	—	—	—	—	—	12,663	—	—	—
—	—	130	1	2,139	(4,016)	—	—	—	—
—	—	60	1	993	1,156	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	5,127	—	—	(291)	—
—	—	(610)	(6)	(18,322)	—	—	—	—	—

—	—	—	—	—	—	259	—	—	
—	\$ —	45,694	\$ 458	\$ (618,452)	\$ 351,006	\$ (104,707)	\$ 759,809	\$ 7,144	\$

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

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 35,961	\$ 24,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,758	34,950
Amortization of contract acquisition costs	809	334
Amortization of debt issuance costs	341	412
Imputed interest expense and fair value adjustments to contingent consideration	31	195
Provision for doubtful accounts	313	224
(Gain) loss on disposal of assets	12	(41)
Gain on sale of business	(30)	—
Impairment losses	—	—
Loss on held for sale assets	3,178	—
Deferred income taxes	5,901	5,897
Excess tax benefit from equity-based awards	(703)	(521)
Equity-based compensation expense	4,836	4,584
(Gain) loss on foreign currency derivatives	575	62
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	26,669	23,945
Prepays and other assets	(22,656)	(14,544)
Accounts payable and accrued expenses	27,281	(19,423)
Deferred revenue and other liabilities	12,179	(5,476)
Net cash provided by operating activities	125,455	55,045
Cash flows from investing activities		
Proceeds from sale of long-lived assets	22	63
Purchases of property, plant and equipment, net of acquisitions	(29,589)	(27,743)
Proceeds from sale of business	250	—
Investments in non-marketable equity investments	(1,384)	—
Acquisitions, net of cash acquired of zero and zero, respectively	(79,574)	(400)
Net cash used in investing activities	(110,275)	(28,080)
Cash flows from financing activities		
Proceeds from line of credit	1,151,700	1,186,500
Payments on line of credit	(1,112,000)	(1,151,500)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Payments on other debt	(3,025)	(1,214)
Payments of contingent consideration and hold back payments to acquisitions	(435)	(9,467)
Dividends paid to shareholders	(10,069)	(8,923)
Payments to noncontrolling interest	(1,800)	(2,202)
Purchase of mandatorily redeemable noncontrolling interest	—	(4,105)
Proceeds from exercise of stock options	2,150	371
Tax payments related to issuance of restricted stock units	(1,876)	(2,019)
Excess tax benefit from equity-based awards	—	521
Payments of debt issuance costs	(3)	(1,883)
Purchase of treasury stock	(18,328)	(36,111)
Net cash used in financing activities	6,314	(30,032)
Effect of exchange rate changes on cash and cash equivalents	1,152	(1,907)
Increase (decrease) in cash and cash equivalents	22,646	(4,974)
Cash and cash equivalents, beginning of period	55,264	60,304
Cash and cash equivalents, end of period	\$ 77,910	\$ 55,330
Supplemental disclosures		
Cash paid for interest	\$ 4,857	\$ 3,155
Cash paid for income taxes	\$ 5,905	\$ 13,705
Non-cash operating, investing and financing activities		
Acquisition of long-lived assets through capital leases	\$ 874	\$ 2,667
Acquisition of equipment through increase in accounts payable, net	\$ (1,274)	\$ 289
Contract acquisition costs credited to accounts receivable	\$ —	\$ 200

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

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) OVERVIEW AND BASIS OF PRESENTATION

Summary of Business

TeleTech Holdings, Inc. and its subsidiaries (“TeleTech” or the “Company”) is a leading global provider of technology enabled customer experience services. The Company helps leading brands improve customer experiences and operational effectiveness through a unique combination of technological innovation and operational expertise. The Company’s portfolio of solutions includes consulting, technology, operations and analytics to enable a seamless customer experience across every interaction channel and phase of the customer lifecycle. TeleTech’s 48,000 employees serve clients in the automotive, communication, financial services, government, healthcare, logistics, media and entertainment, retail, technology, transportation and travel industries across all the segments and via operations in the U.S., Australia, Belgium, Brazil, Bulgaria, Canada, China, Costa Rica, Germany, Hong Kong, Ireland, Lebanon, Macedonia, Mexico, New Zealand, the Philippines, Poland, Singapore, South Africa, Thailand, Turkey, the United Arab Emirates, and the United Kingdom.

Basis of Presentation

The Consolidated Financial Statements are comprised of the accounts of TeleTech, its wholly owned subsidiaries, and its 55% equity owned subsidiary Percepta, LLC. All intercompany balances and transactions have been eliminated in consolidation.

The 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 state fairly the consolidated financial position of the Company and the consolidated results of operations and comprehensive income (loss) and the consolidated cash flows of the Company. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

During the three months ended March 31, 2016, the Company recorded an additional tax expense of \$1.1 million that should have been recorded in prior periods related to operations by an entity outside its country of incorporation. The total amount of \$1.1 million should have been recorded as additional expense in the amount of \$180 thousand in 2011, \$123 thousand in 2012, \$137 thousand in 2013, \$358 thousand in 2014 and \$301 thousand in 2015.

The Company has evaluated the impact of this adjustment and concluded that the adjustment was not material to the previously issued consolidated financial statements.

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, 2016.

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, self-insurance reserves, litigation reserves, restructuring reserves, allowance for doubtful accounts, contingent consideration, 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.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers”. ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. While ASU-2014-09 was originally effective for fiscal years and interim periods within those years beginning after December 15, 2016, in August 2015, the FASB issued ASU 2015-14, “Deferral of Effective Date”, deferring the effective date by one year, to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. ASU 2014-09 can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. In June 2017, FASB issued ASU 2017-10, “Service Concession Arrangements”, which will be adopted along with the ASU 2014-09 guidance. The Company has assigned a project manager and team, has selected an external consulting company to assist through the project, is working through the project assessment phase, and is determining its implementation approach. As the Company has not yet completed the assessment, the Company has not made any conclusions regarding the potential impact to the financials.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases and making targeted changes to lessor accounting. The ASU also requires new disclosures regarding the amounts, timing, and uncertainty of cash flows arising from leases. The ASU is effective for interim and annual periods beginning on or after December 15, 2018 and early adoption is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently assessing the impact on the consolidated financial statements and related disclosures, evaluating software solutions and other tracking methods, and determining the implementation timeline.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting”, which amends the existing accounting standards related to stock-based compensation. The ASU simplifies several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for interim and annual periods beginning on or after December 15, 2016. Beginning with the first quarter of 2017, the Company has adopted the new guidance as applicable and this adoption did not have a material impact on its financial position, results of operation or related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows”. ASU 2016-15 is intended to reduce diversity in practice regarding how certain cash transactions are presented and classified in the Consolidated Statement of Cash Flows by providing guidance on eight specific cash flow issues. The ASU is effective for interim and annual periods beginning on or after December 15, 2017 and early adoption is permitted. The Company is currently assessing the impact on the consolidated statements and related disclosures.



In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other: Simplifying the Accounting for Goodwill Impairment”. ASU 2017-04 removes the need to complete Step 2 of any goodwill impairment test that has failed Step 1. The goodwill impairment will now be calculated as the amount by which a reporting unit’s carrying value exceeds its fair value. The ASU is effective for interim and annual periods beginning on or after December 15, 2019 and early adoption is permitted. The Company early adopted this standard as of January 1, 2017.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## (2) ACQUISITIONS AND DIVESTITURES

## Connexions

On April 3, 2017, the Company acquired all of the outstanding shares of Connexions, Inc., a health care customer service provider company, from OptumHealth Holdings, LLC. Connexions is being integrated into the health care vertical of the Customer Management Services (“CMS”) segment of the Company. Connexions employed approximately 2,000 at several centers in the U.S.

The total cash paid at acquisition was \$80 million. The purchase price is subject to customary representations and warranties, indemnities, and net working capital adjustment. In connection with the acquisition, the Company and OptumHealth (directly and through affiliates) also entered into long-term technology and customer services agreements, and into transition services agreements to facilitate the transfer of the business. The Company is required to pay an estimated \$1.8 million additional for the working capital adjustment, which will be paid during the third quarter of 2017. Additionally, fair value adjustments related to the transition services agreements are expected to reduce the purchase price by \$4.1 million resulting in a net estimated purchase price of \$77.7 million.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

	Preliminary Estimate of Acquisition Date Fair Value
Cash	\$ —
Accounts receivable, net	15,959
Prepaid expenses	241
Other current assets	51
Property, plant and equipment	7,594
Customer relationships	32,500
Goodwill	36,772
	\$ 93,117
Accounts payable	\$ 1
Accrued employee compensation and benefits	346
Accrued expenses	386
Deferred tax liabilities	14,273
Deferred revenue	399
	\$ 15,405

Total purchase price	\$ 77,712
----------------------	-----------

The estimates of fair value of identifiable assets acquired and liabilities assumed are preliminary, pending finalization of a valuation, thus are subject to revisions that may result in adjustments to the values presented above.

The Connexions customer relationships have been estimated based on the initial valuation and are amortized over an estimated useful life of 12 years. The goodwill recognized from the Connexions acquisition is estimated to be attributable, but not limited to, the acquired work force and expected synergies with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes. The acquired goodwill and the operating results of Connexions are reported within the CMS segment from the date of acquisition.

7

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Atelka

On November 9, 2016, the Company acquired all of the outstanding shares of Atelka Enterprise Inc. (“Atelka”), a Canadian customer contact center management and business process outsourcing services company that serves Canadian telecommunications, logistics, and entertainment clients. This acquisition is an addition to the CMS segment. Atelka employed approximately 2,800 in Quebec, Ontario, New Brunswick and Prince Edward Island.

The total purchase price was \$48.4 million (\$65.0 CAD), including certain working capital adjustments, and consisted of \$47.5 million in cash at closing and a \$1.4 million hold-back payment for contingencies as defined in the sale and purchase agreement, which will be paid out in month 12 and month 24, if required.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date (in thousands):

	Preliminary Estimate of Acquisition Date Fair Value
Cash	\$ 2,655
Accounts receivable, net	18,449
Prepaid expenses	615
Property, plant and equipment	3,161
Deferred tax assets, net	583
Customer relationships	10,500
Goodwill	20,330
	\$ 56,293
Accounts payable	\$ 1,199
Accrued employee compensation and benefits	2,418
Accrued expenses	2,597
Other	1,678
	\$ 7,892
Total purchase price	\$ 48,401

The estimates of fair value of identifiable assets acquired and liabilities assumed are preliminary, pending finalization of a valuation, thus are subject to revisions that may result in adjustments to the values presented above.

The Atelka customer relationships will be amortized over a useful life of 12 years. The goodwill recognized from the Atelka acquisition is estimated to be attributable, but not limited to, the acquired work force and expected synergies with CMS. None of the tax basis of the acquired intangibles and goodwill will be deductible for income tax purposes.

The acquired goodwill and the operating results of Atelka are reported within the CMS segment from the date of acquisition.

rogenSi

In the third quarter of 2014, as an addition to the Customer Strategy Services (“CSS”) segment, the Company acquired substantially all operating assets of rogenSi Worldwide PTY, Ltd., a global leadership, change management, sales, performance training and consulting company.

8

---

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The total potential purchase price was \$34.4 million, subject to certain working capital adjustments, and consisted of \$18.1 million in cash at closing and an estimated \$14.5 million in three earn-out payments, contingent on the acquired companies and TeleTech's CSS segment achieving certain agreed earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, as defined in the sale and purchase agreement. Additionally, the estimated purchase price included a \$1.8 million hold-back payment for contingencies as defined in the sale and purchase agreement which was paid in the first quarter of 2016. The total contingent consideration possible per the sale and purchase agreement ranged from zero to \$17.6 million and the earn-out payments were payable in early 2015, 2016 and 2017, based on July 1, 2014 through December 31, 2014, and full year 2015 and 2016 performance, respectively. As of December 31, 2016, the contingent consideration has been finalized and a total of \$12.0 million was earned and paid.

The fair value of the contingent consideration was measured by applying a probability weighted discounted cash flow model based on significant inputs not observable in the market (Level 3 inputs). Key assumptions include a discount rate of 4.6% and expected future value of payments of \$15.3 million. The \$15.3 million of expected future payments was calculated using a probability weighted EBITDA assessment with the highest probability associated with rogenSi achieving the targeted EBITDA for each earn-out year. As of the acquisition date, the fair value of the contingent consideration was approximately \$14.5 million. During the fourth quarter of 2014, the third quarter of 2015, the fourth quarter of 2015, and the third quarter of 2016, the Company recorded fair value adjustments of the contingent consideration of \$0.5 million, \$0.8 million, \$(0.3) million, and \$(4.3) million, respectively, based on revised estimates noting higher or lower probability of exceeding the EBITDA targets (see Note 7). As of September 30, 2016, the fair value of the remaining contingent consideration was reduced from \$4.3 million to zero given the remote possibility of achieving targeted EBITDA for 2016. As of December 31, 2016, the payment was finalized at a value of zero and thus no additional expense was required.

Assets and Liabilities Held for Sale

During the third quarter of 2016, the Company determined that one business unit from the Customer Growth Services ("CGS") segment and one business unit from the Customer Strategy Services ("CSS") segment would be divested from the Company's operations. These business units met the criteria to be classified as held for sale. The Company had engaged a broker for one of the business units and is assessing potential buyers for both business units. The Company anticipates the transactions will be finalized during the next three to six months. The Company has taken into consideration the discounted cash flow models, management input based on early discussions with brokers and potential buyers, and third party evidence from similar transactions to complete the fair value analysis as there has not been a selling price determined at this point for either unit. For the two business units in CGS and CSS losses of \$2.6 million and \$2.7 million, respectively, were recorded as of September 30, 2016 in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss). As of June 30, 2017, for the business unit in CSS, this loss continues to be the best estimate and no additional charge has been recorded. For the business unit in CGS, based on further discussion and initial offers, management has determined that the estimated selling price assumed should be revised. Based on this and further analysis, an additional \$3.2 million loss was recorded as of June 30, 2017 and included in Loss on assets held for sale in the Consolidated Statements of Comprehensive Income (Loss).

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents information related to the major components of assets and liabilities that were classified as held for sale in the Consolidated Balance Sheet as of June 30, 2017.

	As of
	June 30,
	2017
Cash	\$ —
Accounts receivable, net	8,179
Allowance for doubtful accounts	(51)
Other assets	617
Property, plant and equipment	1,010
Deferred tax assets, net	—
Customer relationships	3,888
Goodwill	3,033
Other intangible assets	771
Allowance for reduction of assets held for sale	(8,478)
Total assets	\$ 8,969
Accounts payable	\$ 668
Accrued employee compensation and benefits	754
Accrued expenses	272
Other	214
Total liabilities	\$ 1,908

## Investments

## CaféX

In the first quarter of 2015, the Company invested \$9.0 million in CafeX Communications, Inc. (“CaféX”) through the purchase of a portion of the Series B Preferred Stock of CaféX. CaféX is a provider of omni-channel web-based real time communication (WebRTC) solutions that enhance mobile applications and websites with in-app video communication and screen share technology to increase customer satisfaction and enterprise efficiency. TeleTech has deployed the CaféX technology as part of the TeleTech customer experience offerings within the CMS business segment and as part of its Humanify platform. At December 31, 2015, the Company owned 17.2% of the total equity of CaféX. During the fourth quarter of 2016, the Company invested an additional \$4.3 million to purchase a portion of the Series C Preferred Stock; \$3.2 million was paid in the fourth quarter of 2016 and \$1.1 million was paid in the first quarter of 2017. At June 30, 2017, the Company owns 17.2% of the total equity of CaféX. The investment is accounted for under the cost method of accounting. The Company evaluates its investments for possible other-than-temporary impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company tested the investment in CaféX for impairment and concluded that the investment was not impaired at June 30, 2017 or December 31, 2016.

Divestitures

Technology Solutions Group (“TSG”)

Effective June 30, 2017, the Company sold the Technology Solutions Group to SKC Communication Products, LLC for an upfront payment of \$250 thousand and future contingent royalty payments over the next 3 years. TSG had been included in the CTS segment. During the second quarter of 2017, a \$30 thousand gain, which included the write-off of \$0.7 million of goodwill, was recorded and included in the Consolidated Statements of Comprehensive Income (Loss).



Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## (3)SEGMENT INFORMATION

The Company reports the following four segments:

- the CMS segment includes the customer experience delivery solutions which integrate innovative technology with highly-trained customer experience professionals to optimize the customer experience across all channels and all stages of the customer lifecycle from an onshore, offshore or work-from-home environment;
- the CGS segment provides technology-enabled sales and marketing solutions that support revenue generation across the customer lifecycle, including sales advisory, search engine optimization, digital demand generation, lead qualification, and acquisition sales, growth and retention services;
- the CTS segment includes system design consulting, customer experience technology product, implementation and integration consulting services, and management of clients' cloud and on-premise solutions; and
- the CSS segment provides professional services in customer experience strategy and operations, insights, system and operational process optimization, and culture development and knowledge management.

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

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

## Three Months Ended June 30, 2017

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 269,056	\$ —	\$ 269,056	\$ 13,146	\$ 14,075
Customer Growth Services	32,403	—	32,403	754	2,321
Customer Technology Services	34,829	(31)	34,798	1,793	3,819
Customer Strategy Services	17,172	—	17,172	565	1,374
Total	\$ 353,460	\$ (31)	\$ 353,429	\$ 16,258	\$ 21,589

## Three Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 212,886	\$ (79)	\$ 212,807	\$ 11,879	\$ 8,339

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Customer Growth Services	36,893	—	36,893	1,639	3,482
Customer Technology Services	37,479	(129)	37,350	2,855	3,376
Customer Strategy Services	18,055	—	18,055	848	1,031
Total	\$ 305,313	\$ (208)	\$ 305,105	\$ 17,221	\$ 16,228

11

---

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Six Months Ended June 30, 2017

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 521,154	\$ (19)	\$ 521,135	\$ 24,388	\$ 34,671
Customer Growth Services	66,061	—	66,061	1,532	4,731
Customer Technology Services	70,679	(188)	70,491	3,605	6,876
Customer Strategy Services	34,019	—	34,019	1,233	1,801
Total	\$ 691,913	\$ (207)	\$ 691,706	\$ 30,758	\$ 48,079

Six Months Ended June 30, 2016

	Gross Revenue	Intersegment Sales	Net Revenue	Depreciation & Amortization	Income (Loss) from Operations
Customer Management Services	\$ 440,905	\$ (177)	\$ 440,728	\$ 24,133	\$ 23,934
Customer Growth Services	70,412	—	70,412	3,382	3,977
Customer Technology Services	72,849	(231)	72,618	5,730	6,156
Customer Strategy Services	33,757	—	33,757	1,705	(86)
Total	\$ 617,923	\$ (408)	\$ 617,515	\$ 34,950	\$ 33,981

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Capital Expenditures				
Customer Management Services	\$ 15,390	\$ 9,260	\$ 23,969	\$ 21,238
Customer Growth Services	242	1,984	362	3,171
Customer Technology Services	1,645	1,280	4,845	3,013
Customer Strategy Services	277	270	413	321
Total	\$ 17,554	\$ 12,794	\$ 29,589	\$ 27,743

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	June 30, 2017	December 31, 2016
Total Assets		
Customer Management Services	\$ 698,333	\$ 585,679
Customer Growth Services	60,480	71,540
Customer Technology Services	102,302	115,537
Customer Strategy Services	69,008	73,548
Total	\$ 930,123	\$ 846,304

	June 30, 2017	December 31, 2016
Goodwill		
Customer Management Services	\$ 79,927	\$ 42,589
Customer Growth Services	24,439	24,439
Customer Technology Services	40,839	41,500
Customer Strategy Services	21,669	21,120
Total	\$ 166,874	\$ 129,648

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
United States	\$ 194,209	\$ 166,249	\$ 372,641	\$ 340,827
Philippines	85,847	84,910	171,422	169,204
Latin America	31,823	29,164	64,940	59,322
Canada	18,466	892	37,098	2,129
Europe / Middle East / Africa	15,253	17,004	30,663	33,497
Asia Pacific	7,831	6,886	14,942	12,536
Total	\$ 353,429	\$ 305,105	\$ 691,706	\$ 617,515

## (4) SIGNIFICANT CLIENTS AND OTHER CONCENTRATIONS

The Company had no clients that contributed in excess of 10% of total revenue for the six months ended June 30, 2017. The Company had one client that contributed in excess of 10% of total revenue for the six months ended June 30, 2016. This client operates in the communications industry and is included in the CMS segment. This client contributed 9.6% and 10.2% of total revenue for the six months ended June 30, 2017 and 2016, respectively. The Company does have several other clients with revenue exceeding \$100 million annually and the loss of one or more of these clients could have a material adverse effect on the Company's business, operating results, or financial condition.

To limit the Company's credit risk with its clients, management performs periodic credit evaluations, maintains allowances for uncollectible accounts and may require pre-payment for services from certain clients. Based on currently available information, management does not believe significant credit risk existed as of June 30, 2017.

## (5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consisted of the following (in thousands):

	December 31, 2016	Acquisitions / Adjustments	Impairments	Effect of Foreign Currency	June 30, 2017
Customer Management Services	\$ 42,589	\$ 36,221	\$ —	\$ 1,117	\$ 79,927
Customer Growth Services	24,439	—	—	—	24,439
Customer Technology Services	41,500	(661)	—	—	40,839
Customer Strategy Services	21,120	—	—	549	21,669
Total	\$ 129,648	\$ 35,560	\$ —	\$ 1,666	\$ 166,874

The Company performs a goodwill impairment assessment on at least an annual basis. The Company conducts its annual goodwill impairment assessment during the fourth quarter, or more frequently, if indicators of impairment exist. During the quarter ended June 30, 2017, the Company assessed whether any such indicators of impairment existed and concluded there were none.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## (6) DERIVATIVES

## Cash Flow Hedges

The Company enters into foreign exchange and interest rate related derivatives. Foreign exchange derivatives entered into consist of forward and option contracts to reduce the Company's exposure to foreign currency exchange rate fluctuations that are associated with forecasted revenue earned in foreign locations. Interest rate derivatives consist of interest rate swaps to reduce the Company's exposure to interest rate fluctuations associated with its variable rate debt. 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 reflects the Company's creditworthiness. As of June 30, 2017, 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 (loss) for the three and six months ended June 30, 2017 and 2016 (in thousands and net of tax):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Aggregate unrealized net gain/(loss) at beginning of period	\$ (24,209)	\$ (21,406)	\$ (32,393)	\$ (26,885)
Add: Net gain/(loss) from change in fair value of cash flow hedges	7,448	(145)	19,768	8,887
Less: Net (gain)/loss reclassified to earnings from effective hedges	(2,969)	(3,457)	(7,105)	(7,010)
Aggregate unrealized net gain/(loss) at end of period	\$ (19,730)	\$ (25,008)	\$ (19,730)	\$ (25,008)

The Company's foreign exchange cash flow hedging instruments as of June 30, 2017 and December 31, 2016 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts.

	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the next 12 months	Contracts Maturing Through
As of June 30, 2017				
Philippine Peso	12,065,000	252,775 (1)	30.0 %	August 2021

Mexican Peso	1,759,000	106,627	17.2	%	May 2021
		\$ 359,402			

	Local Currency Notional Amount	U.S. Dollar Notional Amount
As of December 31, 2016		
Philippine Peso	14,315,000	301,134 (1)
Mexican Peso	2,089,000	129,375
		\$ 430,509

---

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on June 30, 2017 and December 31, 2016.



Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Company's interest rate swap arrangement has expired as of June 30, 2017 and no additional swaps have been entered into. As of December 31, 2016, the outstanding interest rate swap was as follows:

	Notional	Variable Rate	Fixed Rate		Contract	Contract
December 31, 2016	Amount	Received	Paid		Commencement	Maturity
Swap	\$	1 - month LIBOR	3.14	%	May 2012	May 2017

## Fair Value Hedges

The Company enters into foreign exchange forward contracts to economically hedge against foreign currency exchange gains and losses on certain receivables and payables of the Company's foreign operations. Changes in the fair value of derivative instruments designated as fair value hedges are recognized in earnings in Other income (expense), net. As of June 30, 2017 and December 31, 2016 the total notional amounts of the Company's forward contracts used as fair value hedges were \$235.2 million and \$227.8 million, respectively.

## Derivative Valuation and Settlements

The Company's derivatives as of June 30, 2017 and December 31, 2016 were as follows (in thousands):

Designation:	June 30, 2017		Interest	Not Designated as Hedging Instruments Foreign
	Designated as Hedging Instruments Foreign			

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Derivative contract type: Derivative classification:	Exchange Cash Flow	Rate Cash Flow	Exchange Fair Value
---	-----------------------	-------------------	------------------------

Fair value and location of derivative in the Consolidated Balance Sheet:

Prepays and other current assets	\$ —	\$ —	\$ 292
Other long-term assets	446	—	—
Other current liabilities	(17,296)	—	(121)
Other long-term liabilities	(15,843)	—	—
Total fair value of derivatives, net	\$ (32,693)	\$ —	\$ 171

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Designation:	December 31, 2016		Not Designated as Hedging Instruments
	Designated as Hedging Instruments	Interest Rate Cash Flow	
Derivative contract type:	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Fair Value
Derivative classification:			
Fair value and location of derivative in the Consolidated Balance Sheet:			
Prepays and other current assets	\$ 1,178	\$ —	\$ 1,606
Other long-term assets	—	—	—
Other current liabilities	(23,503)	(147)	(866)
Other long-term liabilities	(31,714)	—	—
Total fair value of derivatives, net	\$ (54,039)	\$ (147)	\$ 740

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the three months ended June 30, 2017 and 2016 were as follows (in thousands):

Designation:	Three Months Ended June 30,			
	2017		2016	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
	Foreign Exchange Cash Flow	Interest Rate Cash Flow	Foreign Exchange Cash Flow	Interest Rate Cash Flow
Derivative contract type:				
Derivative classification:				
Amount of gain or (loss) recognized in Other comprehensive income (loss) - effective portion, net of tax	\$ (2,953)	\$ (16)	\$ (3,399)	\$ (59)
Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion:				
Revenue	\$ (5,091)	\$ —	\$ (5,860)	\$ —
Interest expense	—	(26)	—	(102)

Three Months Ended June 30,

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

	2017	2016
Designation:	Not Designated as	Not Designated as
Derivative contract type:	Hedging Instruments	Hedging Instruments
	Foreign Exchange	Foreign Exchange
Derivative classification:	Forward Foreign Contracts	Forward Foreign Contracts
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):		
Costs of services	\$ — \$ —	\$ — \$ —
Other income (expense), net	\$ — \$ 416	\$ — \$ (3,923)

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effects of derivative instruments on the Consolidated Statements of Comprehensive Income (Loss) for the six months ended June 30, 2017 and 2016 were as follows (in thousands):

Designation:	Six Months Ended June 30, 2017		2016	
	Designated as Hedging Instruments		Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange	Interest Rate	Foreign Exchange	Interest Rate
Derivative classification:	Cash Flow	Cash Flow	Cash Flow	Cash Flow
Amount of gain or (loss) recognized in Other comprehensive income (loss) - effective portion, net of tax	\$ (7,036)	\$ (69)	\$ (6,819)	\$ (192)
Amount and location of net gain or (loss) reclassified from Accumulated OCI to income - effective portion:				
Revenue	\$ (11,897)	\$ —	\$ (11,757)	\$ —
Interest expense	—	(115)	—	(331)

Designation:	Six Months Ended June 30, 2017		2016	
	Not Designated as Hedging Instruments		Not Designated as Hedging Instruments	
Derivative contract type:	Foreign Exchange		Foreign Exchange	
Derivative classification:	Forward Contracts		Forward Contracts	
	Gain	Loss	Gain	Loss
Amount and location of net gain or (loss) recognized in the Consolidated Statement of Comprehensive Income (Loss):				
Costs of services	\$ —	\$ —	\$ —	\$ —
Other income (expense), net	\$ —	\$ (360)	\$ —	\$ 57

(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.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following presents information as of June 30, 2017 and December 31, 2016 for 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.

Investments – The Company measures investments, including cost and equity method investments, at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. The fair values of these investments are determined based on valuation techniques using the best information available, and may include market observable inputs, and discounted cash flow projections. An impairment charge is recorded when the cost of the investment exceeds its fair value and this condition is determined to be other-than-temporary. As of June 30, 2017, the investment in CaféX Communication, Inc., which consists of the Company's first quarter 2015 \$9.0 million investment, the fourth quarter 2016 \$3.2 million investment and the first quarter 2017 \$1.1 million investment, is recorded at \$13.3 million which approximates fair value.

Debt - The Company's debt consists primarily of the Company's Credit Agreement, which permits floating-rate borrowings based upon the current Prime Rate or LIBOR plus a credit spread as determined by the Company's leverage ratio calculation (as defined in the Credit Agreement). As of June 30, 2017 and December 31, 2016, the Company had \$257.0 million and \$217.3 million, respectively, of borrowings outstanding under the Credit Agreement. During the second quarter of 2017 outstanding borrowings accrued interest at an average rate of 2.1% per annum, excluding unused commitment fees. The amounts recorded in the accompanying Balance Sheets approximate fair value due to the variable nature of the debt based on Level 2 inputs.

Derivatives - Net derivative assets (liabilities) are measured at fair value on a recurring basis. The portfolio is valued using models based on market observable inputs, including both forward and spot foreign exchange rates, interest rates, implied volatility, and counterparty credit risk, including the ability of each party to execute its obligations under the contract. As of June 30, 2017, credit risk did not materially change the fair value of the Company's derivative contracts.

The following is a summary of the Company's fair value measurements for its net derivative assets (liabilities) as of June 30, 2017 and December 31, 2016 (in thousands):

As of June 30, 2017

	Fair Value Measurements Using			At Fair Value
	Quoted Prices for Identifiable Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$ —	\$ (32,693)	\$ —	\$ (32,693)

Edgar Filing: TELETECH HOLDINGS INC - Form 10-Q

Interest rate swaps	—	—	—	—
Fair value hedges	—	171	—	171
Total net derivative asset (liability)	\$ —	\$ (32,522)	\$ —	\$ (32,522)

18

---



Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of December 31, 2016

	Fair Value Measurements Using			At Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash flow hedges	\$ —	\$ (54,039)	\$ —	\$ (54,039)
Interest rate swaps	—	(147)	—	(147)
Fair value hedges	—	740	—	740
Total net derivative asset (liability)	\$ —	\$ (53,446)	\$ —	\$ (53,446)

The following is a summary of the Company's fair value measurements as of June 30, 2017 and December 31, 2016 (in thousands):

As of June 30, 2017

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>			
Derivative instruments, net	\$ —	\$ —	\$ —
Total assets	\$ —	\$ —	\$ —
<b>Liabilities</b>			
Deferred compensation plan liability	\$ —	\$ (11,694)	\$ —
Derivative instruments, net	—	(32,522)	—
Contingent consideration	—	—	(1,393)
Total liabilities	\$ —	\$ (44,216)	\$ (1,393)

As of December 31, 2016

Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Observable Inputs (Level 3)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Derivative instruments, net	\$ —	\$ —		\$ —
Total assets	\$ —	\$ —		\$ —
<b>Liabilities</b>				
Deferred compensation plan liability	\$ —	\$ (10,841)		\$ —
Derivative instruments, net	—	(53,446)		—
Contingent consideration	—	—		(1,808)
Total liabilities	\$ —	\$ (64,287)		\$ (1,808)

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.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Contingent Consideration — The Company recorded contingent consideration related to the acquisitions of rogenSi and Atelka. These contingent payables were recognized at fair value using a discounted cash flow approach and a discount rate of 4.6% and 0%, respectively. The discount rates vary dependent on the specific risks of each acquisition including the country of operation, the nature of services and complexity of the acquired business, and other similar factors. These measurements were based on significant inputs not observable in the market. The Company recorded interest expense each period using the effective interest method until the future value of these contingent payables reached their expected future value. Interest expense related to all recorded contingent payables is included in Interest expense in the Consolidated Statements of Comprehensive Income (Loss).

The Company recorded contingent consideration related to a revenue servicing agreement with Welltok in the fourth quarter of 2016, in which a maximum of \$1.25 million will be paid over eight quarters based on the dollar value of revenue earned by the Company. The contingent payable was recognized at fair value of \$1.25 million as of December 31, 2016. As required, the first payment of \$435 thousand was completed during the second quarter of 2017.

A rollforward of the activity in the Company's fair value of the contingent consideration payable is as follows (in thousands):

	December 31, 2016	Acquisitions	Payments	Imputed Interest / Adjustments	June 30, 2017
Welltok	\$ 1,250	\$ —	\$ (435)	\$ —	\$ 815
Atelka	558	—	—	20	578
Total	\$ 1,808	\$ —	\$ (435)	\$ 20	\$ 1,393

## (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. Quarterly, the Company assesses the likelihood that its net deferred tax assets will be recovered. Based on the weight of all available evidence, both positive and negative, the Company records a valuation allowance against deferred tax assets when it is more-likely-than-not that a future tax benefit will not be realized.

In accordance with ASC 740, the Company recorded a liability during the first quarter of 2016 of \$1.1 million, inclusive of penalties and interest, for uncertain tax positions. See Note 1 for further information on this item.

During the second quarter of 2016, \$0.3 million of liability was released due to the closing of a statute of limitations.

During the third quarter of 2016, \$0.8 million of liability was released due to the favorable outcome of communications with a revenue authority related to site compliance for locations with tax advantaged status.

During the third quarter of 2016, \$0.5 million of liability was released due to the closing of a statute of limitations.

As of June 30, 2017, the Company had \$33.0 million of gross deferred tax assets (after a \$9.8 million valuation allowance) and net deferred tax assets (after deferred tax liabilities) of \$32.9 million related to the U.S. and international tax jurisdictions whose recoverability is dependent upon future profitability.

Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The effective tax rate for the three and six months ended June 30, 2017 was 9.2% and 16.3%, respectively. The effective tax rate for the three and six months ended June 30, 2016 was 19.1% and 23.4%, respectively.

The Company's U.S. income tax returns filed for the tax years ending December 31, 2013 to present remain open tax years. The Company has been notified of the intent to audit, or is currently under audit of, income taxes for rogenSi in Hong Kong for the tax year 2014, Canada for tax years 2009 and 2010, the state of Michigan in the United States for tax years 2012 through 2015, for the Philippines branch for tax year 2015 and in Belgium for tax years 2014 and 2015. 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. During the second quarter of 2016, the Company successfully closed the audit in the U.S. for the acquired entity Technology Solutions Group for the tax year 2012 (prior to acquisition) with no changes. The Company also closed in the fourth quarter of 2016 the audit in New Zealand for tax years 2013 and 2014 with no changes.

The Company has been granted "Tax Holidays" as an incentive to attract foreign investment by the government of the Philippines. Generally, a Tax Holiday is an agreement between the Company and a foreign government under which the Company receives certain tax benefits in that country, such as exemption from taxation on profits derived from export-related activities. In the Philippines, the Company has been granted multiple agreements with an initial period of four years and additional periods for varying years, expiring at various times between 2011 and 2020. The aggregate effect on income tax expense for the three months ended June 30, 2017 and 2016 was approximately \$2.9 million and \$3.4 million, respectively, which had a favorable impact on diluted net income per share of \$0.06 and \$0.07, respectively. The aggregate effect on income tax expense for the six months ended June 30, 2017 and 2016 was approximately \$6.0 million and \$6.0 million, respectively, which had a favorable impact on diluted net income per share of \$0.13 and \$0.12, respectively.

(9) RESTRUCTURING CHARGES, INTEGRATION CHARGES AND IMPAIRMENT LOSSES

Restructuring Charges

During the three and six months ended June 30, 2017 and 2016, the Company continued restructuring activities primarily associated with reductions in the Company's capacity, workforce and related management in several of the segments to better align the capacity and workforce with current business needs.

During the three months ended June 30, 2017, several restructuring activities were completed regarding the purchase of Connexions (see Note 2). Several of the delivery centers that were included in the purchase will be closed over the next few quarters and in conjunction with this a \$1.7 million severance accrual has been recorded as of June 30, 2017 and these charges are included in the income statement for the quarter.

A summary of the expenses recorded in Restructuring and integration charges, net in the accompanying Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016, respectively, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reduction in force				
Customer Management Services	\$ 1,797	\$ (92)	\$ 1,761	\$ (4)
Customer Growth Services	—	—	—	—
Customer Technology Services	14	10	93	10
Customer Strategy Services	—	10	—	10
Total	\$ 1,811	\$ (72)	\$ 1,854	\$ 16

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Facility exit and other charges				
Customer Management Services	\$ —	\$ 153	\$ 42	\$ 153
Customer Growth Services	—	—	—	—
Customer Technology Services	—	33	84	33
Customer Strategy Services	—	—	—	—
Total	\$ —	\$ 186	\$ 126	\$ 186

A rollforward of the activity in the Company's restructuring accruals is as follows (in thousands):

	Reduction in Force	Facility Exit and Other Charges	Total
Balance as of December 31, 2016	\$ 1,468	\$ 98	\$ 1,566
Expense	1,917	126	2,043
Payments	(693)	(196)	(889)
Change due to foreign currency	(1)	—	(1)
Change in estimates	(62)	—	(62)
Balance as of June 30, 2017	\$ 2,629	\$ 28	\$ 2,657

The remaining restructuring and other accruals are expected to be paid or extinguished during the next twelve months and are all classified as current liabilities within Other accrued expenses in the Consolidated Balance Sheets.

## Integration Charges

During the three months ended June 30, 2017, as a result of the Connexions acquisition, certain integration activities were completed and \$1.8 million of additional expenses were incurred and paid. These integration activities included the hiring, licensing and training of a group of employees at new delivery centers as two of the acquired centers will be closed during the third quarter of 2017. The Company has also incurred significant expenses related to the integration of the IT systems and paid duplicative software costs for several areas during the transition period.

## Impairment Losses

During each of the periods presented, the Company evaluated the recoverability of its leasehold improvement assets at certain customer engagement centers. An asset is considered to be impaired when the anticipated undiscounted future cash flows of its 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, 2017 and 2016, the Company recognized no losses related to leasehold improvement assets.



Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(10) COMMITMENTS AND CONTINGENCIES

Credit Facility

On February 11, 2016, the Company entered into a First Amendment to our June 3, 2013 Amended and Restated Credit Agreement and Amended and Restated Security Agreement (collectively the “Credit Agreement”) for a senior secured revolving credit facility (the “Credit Facility”) with a syndicate of lenders led by Wells Fargo Bank, National Association. The Credit Agreement provides for a secured revolving credit facility that matures on February 11, 2021 with an initial maximum aggregate commitment of \$900.0 million, and an accordion feature of up to \$1.2 billion in the aggregate, if certain conditions are satisfied.

Base rate loans bear interest at a rate equal to the greatest of (i) Wells Fargo’s prime rate, (ii) one half of 1% in excess of the federal funds effective rate, and (iii) 1.25% in excess of the one month London Interbank Offered Rate (“LIBOR”); plus in each case a margin of 0% to 0.75% based on the Company’s net leverage ratio. Eurodollar loans bear interest at LIBOR plus a margin of 1.0% to 1.75% based on the Company’s net leverage ratio. Alternate currency loans bear interest at rates applicable to their respective currencies.

Letter of credit fees are one eighth of 1% of the stated amount of the letter of credit on the date of issuance, renewal or amendment, plus an annual fee equal to the borrowing margin for Eurodollar loans.

The Credit Facility commitment fees are payable to the lenders in an amount equal to the unused portion of the Credit Facility at a rate of 0.125% to 0.250% based on the Company’s net leverage ratio.

The Company is obligated to maintain a maximum net leverage ratio of 3.25 to 1.00, and a minimum interest coverage ratio of 2.50 to 1.00.

The Company primarily utilizes its Credit Agreement to fund working capital, general operations, stock repurchases, dividends and other strategic activities, such as the acquisitions described in Note 2. As of June 30, 2017 and December 31, 2016, the Company had borrowings of \$257.0 million and \$217.3 million, respectively, under its Credit Agreement, and its average daily utilization was \$455.4 million and \$342.2 million for the six months ended June 30, 2017 and 2016, respectively. Based on the current level of availability based on the covenant calculations, the Company’s remaining borrowing capacity was approximately \$385 million as of June 30, 2017. As of June 30, 2017, the Company was in compliance with all covenants and conditions under its Credit Agreement.

Letters of Credit

As of June 30, 2017, outstanding letters of credit under the Credit Agreement totaled \$3.9 million and primarily guaranteed workers’ compensation and other insurance related obligations. As of June 30, 2017, letters of credit and contract performance guarantees issued outside of the Credit Agreement totaled \$7.2 million.

Legal Proceedings

From time to time, the Company has been involved in legal actions, both as plaintiff and defendant, which arise in the ordinary course of business. The Company accrues for exposures associated with such legal actions to the extent that losses are deemed both probable and reasonably estimable. To the extent specific reserves have not been made for certain legal proceedings, their ultimate outcome, and consequently, an estimate of possible loss, if any, cannot reasonably be determined at this time.

Based on currently available information and advice received from counsel, the Company believes that the disposition or ultimate resolution of any current legal proceedings, except as otherwise specifically reserved for in its financial statements, will not have a material adverse effect on the Company's financial position, cash flows or results of operations.

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## (11)NONCONTROLLING INTEREST

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

	Six Months Ended June 30,	
	2017	2016
Noncontrolling interest, January 1	\$ 6,981	\$ 7,201
Net income attributable to noncontrolling interest	2,022	1,606
Dividends distributed to noncontrolling interest	(1,800)	(1,710)
Foreign currency translation adjustments	232	(74)
Other	—	10
Equity-based compensation expense	(291)	69
Noncontrolling interest, June 30	\$ 7,144	\$ 7,102

## (12)MANDATORILY REDEEMABLE NONCONTROLLING INTEREST

The Company held an 80% interest in iKnowtion until January 1, 2016 when the additional 20% was purchased. In the event iKnowtion met certain EBITDA targets for calendar year 2015, the purchase and sale agreement required TeleTech to purchase the remaining 20% interest in iKnowtion in 2016 for an amount equal to a multiple of iKnowtion's 2015 EBITDA as defined in the purchase and sale agreement. These terms represented a contingent redemption feature which the Company determined was probable of being achieved.

Based on final EBITDA for 2015, the payment for the remaining 20% was completed in April 2016 for the value shown in the table below in accordance with the purchase and sale agreement.

The Company recorded the mandatorily redeemable noncontrolling interest at the redemption value based on the corresponding EBITDA multiples as prescribed in the purchase and sale agreement at the end of each reporting period. At the end of each reporting period the changes in the redemption value were recorded in retained earnings. Since the EBITDA multiples as defined in the purchase and sale agreement were below the current market multiple, the Company determined that there was no preferential treatment to the noncontrolling interest shareholders resulting in no impact to earnings per share.

A rollforward of the mandatorily redeemable noncontrolling interest is included in the table below (in thousands).

	Six Months Ended June 30,	
	2017	2016
Mandatorily redeemable noncontrolling interest, January 1	\$ —	\$ 4,131
Net income attributable to mandatorily redeemable noncontrolling interest	—	—
Working capital distributed to mandatorily redeemable noncontrolling interest	—	(492)
Change in redemption value	—	466
Purchase of mandatorily redeemable noncontrolling interest	—	(4,105)
Mandatorily redeemable noncontrolling interest, June 30	\$ —	\$ —

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## (13) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents changes in the accumulated balance for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss) (in thousands):

	Foreign Currency Translation Adjustment	Derivative Valuation, Net of Tax	Other, Net of Tax	Totals
Accumulated other comprehensive income (loss) at December 31, 2015	\$ (71,196)	\$ (26,885)	\$ (3,284)	\$ (101,365)
Other comprehensive income (loss) before reclassifications	546	8,887	804	10,237
Amounts reclassified from accumulated other comprehensive income (loss)	—	(7,010)	(404)	(7,414)
Net current period other comprehensive income (loss)	546	1,877	400	2,823
Accumulated other comprehensive income (loss) at June 30, 2016	\$ (70,650)	\$ (25,008)	\$ (2,884)	\$ (98,542)
Accumulated other comprehensive income (loss) at December 31, 2016	\$ (92,008)	\$ (32,393)	\$ (2,563)	\$ (126,964)
Other comprehensive income (loss) before reclassifications	9,335	19,768	494	29,597
Amounts reclassified from accumulated other comprehensive income (loss)	—	(7,105)	(235)	(7,340)
Net current period other comprehensive income (loss)	9,335	12,663	259	22,257
Accumulated other comprehensive income (loss) at June 30, 2017	\$ (82,673)	\$ (19,730)	\$ (2,304)	\$ (104,707)

The following table presents the classification and amount of the reclassifications from Accumulated other comprehensive income (loss) to the statement of comprehensive income (loss) (in thousands):

	For the Three Months Ended June 30,		Statement of
	2017	2016	Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	\$ (5,091)	\$ (5,860)	Revenue
Loss on interest rate swaps	(26)	(102)	Interest expense
Tax effect	2,148	2,505	Provision for income taxes
	\$ (2,969)	\$ (3,457)	Net income (loss)
Other			
Actuarial loss on defined benefit plan	\$ (130)	\$ (224)	Cost of services
Tax effect	13	22	Provision for income taxes
	\$ (117)	\$ (202)	Net income (loss)

Table of Contents

## TELETECH HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	For the Six Months Ended June 30, 2017	2016	Statement of Comprehensive Income (Loss) Classification
Derivative valuation			
Gain (loss) on foreign currency forward exchange contracts	\$ (11,897)	\$ (11,757)	Revenue
Loss on interest rate swaps	(115)	(331)	Interest expense
Tax effect	4,907	5,078	Provision for income taxes
	\$ (7,105)	\$ (7,010)	Net income (loss)
Other			
Actuarial loss on defined benefit plan	\$ (261)	\$ (448)	Cost of services
Tax effect	26	44	Provision for income taxes
	\$ (235)	\$ (404)	Net income (loss)

## (14) NET INCOME PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Shares used in basic earnings per share calculation	45,662	47,873	45,805	48,120
Effect of dilutive securities:				
Stock options	11	10	6	14
Restricted stock units	460	324	395	335
Performance-based restricted stock units	17	14	18	14
Total effects of dilutive securities	488	348	419	363
Shares used in dilutive earnings per share calculation	46,150	48,221	46,224	48,483

For the three months ended June 30, 2017 and 2016, options to purchase 0.0 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the six months ended June 30, 2017 and 2016, options to purchase 0.0 million and 0.1 million shares of common stock, respectively, were outstanding, but not included in the computation of diluted net income per share because the exercise price exceeded the value of the shares and the effect would have been anti-dilutive. For the three months ended June 30, 2017 and 2016, restricted stock units (“RSUs”) of 0.0 million and 0.1 million, 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, 2017 and 2016, RSUs of 0.0 million and 0.2 million, respectively, were outstanding, but not included in the computation of diluted net income per share because the effect would have been anti-dilutive.



Table of Contents

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(15)EQUITY-BASED COMPENSATION PLANS

All equity-based awards to employees are recognized in the Consolidated Statements of Comprehensive Income (Loss) at the fair value of the award on the grant date. During the three and six months ended June 30, 2017 and 2016, the Company recognized total compensation expense of \$2.8 million and \$4.8 million and \$1.8 million and \$4.6 million, respectively. Of the total compensation expense, \$1.0 million and \$1.5 million was recognized in Cost of services and \$1.8 million and \$3.4 million was recognized in Selling, general and administrative during the three and six months ended June 30, 2017. During the three and six months ended June 30, 2016, the Company recognized compensation expense of \$0.6 million and \$1.3 million in Cost of services and \$1.2 million and \$3.3 million in Selling, general and administrative, respectively.

Restricted Stock Unit Grants

During the six months ended June 30, 2017 and 2016, the Company granted 696,093 and 91,405 RSUs, respectively, to new and existing employees, which vest in equal installments over four or five years. The Company recognized compensation expense related to RSUs of \$2.8 million and \$5.1 million for the three and six months ended June 30, 2017, respectively. The Company recognized compensation expense related to RSUs of \$1.8 million and \$4.6 million for the three and six months ended June 30, 2016, respectively. As of June 30, 2017, there was approximately \$27.2 million of total unrecognized compensation cost (including the impact of expected forfeitures) related to RSUs granted under the Company's equity plans.

Stock Options

The Company recognized compensation expense related to subsidiary performance options of zero and \$(0.3) million for the three and six months ended June 30, 2017, respectively. The option benefit for 2017 resulted from the Company concluding that the performance targets of the subsidiary will not be achieved.

(16)RELATED PARTY

The Company entered into an agreement under which Avion, LLC ("Avion") and Airmax LLC ("Airmax") provide certain aviation flight services as requested by the Company. Such services include the use of an aircraft and flight crew. Kenneth D. Tuchman, Chairman and Chief Executive Officer of the Company, has a direct 100% beneficial ownership interest in Avion and Airmax. During the six months ended June 30, 2017 and 2016, the Company expensed \$0.4 million and \$0.5 million, respectively, to Avion and Airmax for services provided to the Company. There was \$100 thousand in payments due and outstanding to Avion and Airmax as of June 30, 2017.

During 2014, the Company entered into a vendor contract with Convercent Inc. to provide learning management and web and telephony based global helpline solutions. This contract was renewed, after an arms-length market pricing review, in the fourth quarter of 2016. The majority owner of Convercent is a company which is owned and controlled by Kenneth D. Tuchman, Chairman and Chief Executive Officer of the Company. During the six months ended June 30, 2017 and 2016, the Company paid \$30 thousand and \$50 thousand, respectively.

During 2015, the Company entered into a contract to purchase software from CaféX, which is a company that TeleTech holds a 17.2% equity investment in. During the fourth quarter of 2016, and the second quarter of 2017, the Company purchased \$0.25 million and \$0.6 million, respectively, of software from CaféX. See Note 2 for further information regarding this investment.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“Litigation Reform Act”), relating to our future operations, expected financial condition and prospects, results of operation, continuation of client relationships, and other business matters that are based on our current expectations, assumptions, business strategy, and projections with respect to the future, and are not a guarantee of performance. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A, “Risk Factors.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “likely result,” and similar expressions. When we discuss our strategy, plans, goals, initiatives, or objectives, we are making forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Litigation Reform Act.

We caution you not to rely unduly on any forward-looking statements. Actual results may differ materially from what is expressed in the forward-looking statements, and you should review and consider carefully the risks, uncertainties and other factors that affect our business and may cause such differences, as outlined but not limited to factors discussed in the “Risk Factors” section of our 2016 Annual Report on Form 10-K. The risk factors we wish for you to be aware of in particular include but are not limited to the risk inherent in the volatile and uncertain economic conditions, the fact that a large portion of our revenue is generated from a limited number of clients and the loss of one or more of these clients or a large portion of one client’s business could adversely affect our results of operations, the risk of client consolidation, the possibility that the current trend among clients to outsource their customer care may not continue, the competitiveness of our markets, the risk of information systems breach and the related impact on our clients and their data, our geographic concentration, the risk inherent in the terms of our contracts that we do not always have the opportunity to negotiate, the risk related to our international footprint, how our foreign currency exchange risk can adversely impact our results of operations, the risk of changes in law that impact our business and our ability to comply with all the laws that relate to our operations, the risk related to the reliability of the information infrastructure that we use and our ability to deliver uninterrupted service to our clients, the risk of not being able to forecast demand for services accurately and the related impact on capacity utilization, our inability to attract and retain qualified and skilled personnel, impact of changing technologies on our services and solutions, the restrictive covenants contained in our credit facility that may impact our ability to execute our strategy and operate our business, the supply chain disruption related risk, the risk to innovation due to unforeseen intellectual property infringement, the risk related to our M&A activity and our ability to identify, acquire and properly integrate acquired businesses in accordance with our strategy, the controlling shareholder risk, and the volatility of our stock price that may result in loss of investment.

The forward-looking statements are based on information available as of the date that this Form 10-Q is filed with the United States Securities and Exchange Commission (“SEC”) and we undertake no obligation to update them, except as may be required by applicable laws. They are based on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct.



Table of Contents

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

Executive Summary

TeleTech Holdings, Inc. ("TeleTech", "the Company", "we", "our" or "us") is a leading global provider of technology enabled customer experience services. We help leading brands improve customer experiences and operational effectiveness through a unique combination of technological innovation and operational expertise. Our portfolio of solutions includes consulting, technology, operations and analytics to enable a seamless customer experience across every interaction channel and phase of the customer lifecycle. Our solutions are supported by 48,000 employees delivering services in 23 countries from 87 customer engagement centers on six continents. Our revenue for the quarter ended June 30, 2017 was \$353.4 million.

Since our establishment in 1982, we have helped clients strengthen their customer relationships, brand recognition and loyalty by simplifying and personalizing interactions with their customers. We deliver thought leadership, technology and innovation that create customer strategies designed to differentiate our clients from their competition; data analytics that personalize interactions and increase customer value; and integration services that connect clients' customer relationship management ("CRM") system to a cloud-based collaboration platform, leading to customer interactions that are seamless and relevant.

Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments: Customer Management Services ("CMS"), Customer Growth Services ("CGS"), Customer Technology Services ("CTS") and Customer Strategy Services ("CSS"). Our integrated customer experience managed services platform differentiates the Company by combining strategic consulting, data analytics, process optimization, system design and integration, operational excellence, and technology solutions and services.

We have developed tailored expertise in the automotive, communications, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000 and serve approximately 300 global clients.

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying our heritage business process outsourcing services of our CMS segment into higher-value consulting, data analytics, digital marketing and technology-enabled services. Of the \$353.4 million in revenue we reported in the current period, approximately 24% or \$84.4 million came from the CGS, CTS and CSS segments, focused on customer-centric strategy, growth and technology-based services, with the remainder of our revenue coming from the heritage business process outsourcing focused CMS segment.

Our strong balance sheet, cash flows from operations and access to debt and capital markets have historically provided us the financial flexibility to effectively fund our organic growth, capital expenditures, strategic acquisitions and incremental investments. Additionally, we continue to return capital to our shareholders via an ongoing stock repurchase program and regular semi-annual dividends. As of June 30, 2017, our cumulative authorized repurchase allowance was \$762.3 million, of which we repurchased 46.1 million shares for \$735.8 million. For the period from July 1, 2017 through July 31, 2017, we repurchased zero additional shares. The stock repurchase program does not have an expiration date.



## Table of Contents

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TeleTech's performance, cash flows, capital needs and liquidity factors. Given our cash flow generation and balance sheet strength, we believe cash dividends and early returns to shareholders through share repurchases, in balance with our investments in innovation and strategic acquisitions, align shareholder interests with the needs of the Company. The initial dividend of \$0.18 per common share was paid on March 16, 2015 to shareholders of record as of March 6, 2015. A second dividend of \$0.18 per common share was paid on October 14, 2015 to shareholders of record as of September 30, 2015. A third dividend of \$0.185 per common share was paid on April 15, 2016 to shareholders of record as of March 31, 2016. A fourth dividend of \$0.20 per common share was paid on October 14, 2016 to shareholders of record as of October 3, 2016. Effective February 23, 2017, the Board of Directors authorized an additional semi-annual dividend of \$0.22 per common share, which was paid on April 14, 2017 to shareholders of record as of March 31, 2017.

## Our Integrated Service Offerings and Business Segments

We have four operating and reportable segments, which provide an integrated set of services including:

### Customer Strategy Services

We typically begin by engaging our clients at a strategic level. Through our strategy and operations, analytics, learning and performance, change management and consulting expertise, we help our clients design, build and execute their customer engagement strategies. We help our clients to better understand and predict their customers' behaviors and preferences along with their current and future economic value. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this segment involves instilling a high performance culture through management and leadership alignment and process optimization.

### Customer Technology Services

Once the design of the customer engagement is completed, our ability to architect, deploy and host or manage the client's customer management environment becomes a key enabler to achieving and sustaining the client's customer engagement vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer management environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients. Through our Humanify™ platform, we also provide data-driven context aware software-as-a-service ("SaaS") based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

### Customer Management Services

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, email, e-commerce and social media to optimize the customer experience for our clients. In addition, we manage certain client back-office processes to enhance their customer-centric view of relationships and maximize operating efficiencies. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

### Customer Growth Services

We offer integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver approximately \$3 billion in client revenue annually via the discovery, acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and our proprietary Revana Analytic Multichannel Platform™. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications.



Table of Contents

Based on our clients' requirements, we provide our services on an integrated cross-business segment and on a discrete basis.

## Financial Highlights

In the second quarter of 2017, our revenue increased 15.8% to \$353.4 million over the same period in 2016 including a decrease of 0.7% or \$2.1 million due to foreign currency fluctuations. This increase in revenue is comprised of an increase from the Atelka and Connexions acquisitions and organic growth in the CMS segment. Revenue, adjusted for the \$2.1 million decrease related to foreign exchange, increased by \$50.4 million, or 16.5%, over the prior year.

Our second quarter 2017 income from operations increased 33.0% to \$21.6 million or 6.1% of revenue, from \$16.2 million or 5.3% of revenue in the second quarter of 2016. This increase is primarily due to increases in CMS volumes, the acquisitions, the operating income optimization actions the Company executed in the second half of 2016 including restructuring of the sales and marketing functions and several IT support functions, a deprioritization of certain non-essential businesses and activities, improvement in our people, site and technology utilization and a \$3.2 million increase due to foreign currency fluctuations. These increases were offset by \$3.6 million of restructuring and integration charges related to the Connexions acquisition. Income from operations in the second quarter of 2017 and 2016 included \$3.6 million and \$0.1 million of restructuring charges and asset impairments, respectively.

Our offshore customer engagement centers serve clients based in the U.S. and in other countries and spans five countries with 23,000 workstations, representing 56% of our global delivery capability. Revenue for our CMS and CGS segments that is provided in these offshore locations was \$109 million and represented 36% of our revenue for the second quarter of 2017, as compared to \$104 million and 42% of our revenue for 2016.

Our cash flow from operations and available credit allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At June 30, 2017, we had \$77.9 million of cash and cash equivalents, total debt of \$273.3 million, and a total debt to total capitalization ratio of 40.9%.

We internally target capacity utilization in our customer engagement centers at 80% to 90% of our available workstations. As of June 30, 2017, the overall capacity utilization in our centers was 76%. The table below presents workstation data for all of our centers as of June 30, 2017 and 2016. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations.

	June 30, 2017			June 30, 2016			
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use	
Total centers							
Sites open >1 year	40,574	30,633	75 %	34,914	24,270	70 %	
Sites open <1 year	452	449	99 %	861	724	84 %	
Total workstations	41,026	31,082	76 %	35,775	24,994	70 %	

While we continue to see demand from all geographic regions to utilize our offshore delivery capabilities and expect this trend to continue with our clients, some of our clients have regulatory pressures to bring the services onshore to

the United States. In light of these trends we plan to continue to selectively retain and grow capacity and expand into new offshore markets, while maintaining appropriate capacity in the United States. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increases, 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 Part I, Item I, Financial Statements, Note 1 to the Consolidated Financial Statements for a discussion of recently issued accounting pronouncements.

Table of Contents

## Critical Accounting Policies and Estimates

Management's Discussion and Analysis of our 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. For further information, please refer to the discussion of all critical accounting policies in Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Results of Operations

Three months ended June 30, 2017 compared to three months ended June 30, 2016

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the three months ended June 30, 2017 and 2016 (amounts in thousands). All inter-company transactions between the reported segments for the periods presented have been eliminated.

## Customer Management Services

	Three Months Ended June 30,				
	2017	2016	\$ Change	% Change	
Revenue	\$ 269,056	\$ 212,807	\$ 56,249	26.4	%
Operating Income	14,075	8,339	5,736	68.8	%
Operating Margin	5.2	% 3.9	%		

The increase in revenue for the Customer Management Services segment was attributable to a \$61.0 million net increase in client programs including the Atelka and Connexions acquisitions, offset by program completions of \$2.8 million and a \$2.0 million decrease due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 5.2% in the second quarter of 2017 as compared to 3.9% in the prior period. The operating margin increased due to higher revenue including the acquisitions of Atelka and Connexions, a \$3.0 million benefit due to improved foreign exchange trends, increased capacity utilization, and efficiencies realized from the expense rationalization activities completed during the second half of 2016. These benefits were partially offset by \$3.6 million in restructuring and integration charges for the Connexions acquisition related to severance, and the rehiring, relicensing and retraining of employees in new delivery centers as well as the integration of the IT systems and duplicative software costs during the transition period. Included in the operating income was amortization expense related to acquired intangibles of \$1.2 million and \$0.2 million for the quarters ended June 30, 2017 and 2016, respectively.

## Customer Growth Services

	Three Months Ended June 30,			
	2017	2016	\$ Change	% Change
Revenue	\$ 32,403	\$ 36,893	\$ (4,490)	(12.2) %
Operating Income	2,321	3,482	(1,161)	(33.3) %
Operating Margin	7.2 %	9.4 %		

The decrease in revenue for the Customer Growth Services segment was due to a \$0.2 million decrease in client programs and a decrease for program completions of \$4.3 million.

Table of Contents

The operating income as a percentage of revenue decreased to 7.2% in the second quarter of 2017 as compared to 9.4% in the prior period. This decrease in margin is related to the decrease in revenue and lower capacity utilization, offset by a reduction in the operating losses for the Digital Marketing unit which we are holding for sale.

Included in the operating income was amortization expense related to acquired intangibles of zero and \$0.7 million for the quarters ended June 30, 2017 and 2016, respectively.

## Customer Technology Services

	Three Months Ended June 30,				
	2017	2016	\$ Change	% Change	
Revenue	\$ 34,798	\$ 37,350	\$ (2,552)	(6.8)	%
Operating Income	3,819	3,376	443	13.1	%
Operating Margin	11.0	% 9.0			%

The decrease in revenue for the Customer Technology Services segment was driven by a decrease in the Avaya offerings as we wound down and then sold the business unit.

The operating income as a percentage of revenue increased to 11.0% in the second quarter of 2017 as compared to 9.0% in the prior period. This increase is primarily due to a decrease in amortization. Included in the operating income was amortization expense related to acquired intangibles of \$0.3 million and \$1.1 million for the quarters ended June 30, 2017 and 2016, respectively.

## Customer Strategy Services

	Three Months Ended June 30,				
	2017	2016	\$ Change	% Change	
Revenue	\$ 17,172	\$ 18,055	\$ (883)	(4.9)	%
Operating Income	1,374	1,031	343	33.3	%
Operating Margin	8.0	% 5.7			%

The decrease in revenue for the Customer Strategy Services segment was related to growth in the Service Optimization practice offset by decreases in Mindset and Sales Transformation practices across multiple delivery regions.

The operating income as a percentage of revenue increased to 8.0% in the second quarter of 2017 as compared to 5.7% in the prior period. The positive operating income is related to expense rationalization against reduced revenue and lower administrative and depreciation expenses. Included in the operating income was amortization expense of \$0.4 million and \$0.7 million for the quarters ended June 30, 2017 and 2016, respectively.

## Interest Income (Expense)

For the three months ended June 30, 2017 interest income increased to \$0.7 million from \$0.3 million in the same period in 2016. Interest expense increased to \$2.9 million during 2017 from \$1.8 million during 2016 primarily due to larger outstanding balances on the line of credit.

Other Income (Expense)

Included in the three months ended June 30, 2017 was \$3.2 million of estimated losses related to a business unit which has been classified as assets held for sale (see Part I. Item 1. Financial Statements, Note 2 to the Consolidated Financial Statements).

Table of Contents

## Income Taxes

The effective tax rate for the three months ended June 30, 2017 was 9.2%. This compares to an effective tax rate of 19.1% for the comparable period of 2016. The effective tax rate for the three months ended June 30, 2017 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without a \$0.7 million benefit related to return to provision adjustments, a \$0.7 million benefit related to excess taxes on equity compensation, \$1.5 million of benefit from restructuring expenses, and \$1.2 million of benefit related to losses recorded on businesses held for sale, the Company's effective tax rate for the second quarter of 2017 would have been 23.4%.

## Results of Operations

Six months ended June 30, 2017 compared to six months ended June 30, 2016

The tables included in the following sections are presented to facilitate an understanding of Management's Discussion and Analysis of Financial Condition and Results of Operations and present certain information by segment for the six months ended June 30, 2017 and 2016 (in thousands). All intercompany transactions between the reported segments for the periods presented have been eliminated.

## Customer Management Services

	Six Months Ended June 30,		\$ Change	% Change	
	2017	2016			
Revenue	\$ 521,135	\$ 440,728	\$ 80,407	18.2	%
Operating Income	34,671	23,934	10,737	44.9	%
Operating Margin	6.7	% 5.4			%

The increase in revenue for the Customer Management Services segment was attributable to a \$89.6 million net increase in client programs including Atelka and Connexions offset by program completions of \$8.2 million. Revenue was further impacted by a \$1.0 million reduction due to foreign currency fluctuations.

The operating income as a percentage of revenue increased to 6.7% for the six months ended June 30, 2017 as compared to 5.4% in the prior period. The operating margin increased due to higher revenue including the acquisitions of Atelka and Connexions, a \$6.9 million benefit due to improved foreign exchange trends, increased capacity utilization, and efficiencies realized from the expense rationalization activities completed during the second half of 2016. These increases were partially offset by \$3.6 million of restructuring and integration charges for the Connexions acquisition related to severance, and the rehiring, relicensing and retraining of employees in new delivery centers as well as the integration of the IT systems and duplicative software costs during the transition period. Included in the operating income was amortization expense related to acquired intangibles of \$1.8 million and \$0.4 million for the six months ended June 30, 2017 and 2016, respectively.

## Customer Growth Services

	Six Months Ended June 30,		\$ Change	% Change	
	2017	2016			
Revenue	\$ 66,061	\$ 70,412	\$ (4,351)	(6.2)	%
Operating Income	4,731	3,977	754	19.0	%
Operating Margin	7.2	% 5.6			%

The decrease in revenue for the Customer Growth Services segment was due to a \$4.3 million increase in client programs and a decrease for program completions of \$8.7 million.

The operating income as a percentage of revenue increased to 7.2% for the six months ended June 30, 2017 as compared to 5.6% in the prior period. This was attributable to reductions in amortization expenses and a reduction in the operating loss for the Digital Marketing unit which we are holding for sale. Included in the operating income was amortization expense related to acquired intangibles of zero and \$1.3 million for the six months ended June 30, 2017 and 2016, respectively.



Table of Contents

## Customer Technology Services

	Six Months Ended June 30,					
	2017	2016	\$ Change	% Change		
Revenue	\$ 70,491	\$ 72,618	\$ (2,127)	(2.9)	%	
Operating Income	6,876	6,156	720	11.7	%	
Operating Margin	9.8	% 8.5	%			

The decrease in revenue for the Customer Technology Services segment was driven by an increase for the CISCO offerings offset by a decrease in the Avaya offerings as we wound down and then sold the business unit.

The operating income as a percentage of revenue increased to 9.8% for the six months ended June 30, 2017 as compared to 8.5% in the prior period. The increase is due to increased profitability in the CISCO platform and a reduction in amortization. Included in the operating income was amortization expense related to acquired intangibles of \$0.5 million and \$2.3 million for the six months ended June 30, 2017 and 2016, respectively.

## Customer Strategy Services

	Six Months Ended June 30,					
	2017	2016	\$ Change	% Change		
Revenue	\$ 34,019	\$ 33,757	\$ 262	0.8	%	
Operating Income (Loss)	1,801	(86)	1,887	2,194.2	%	
Operating Margin	5.3	% (0.3)	%			

The increase in revenue for the Customer Strategy Services segment was related to growth in the Service Optimization practice offset by decreases in Mindset and Sales Transformation practices across multiple delivery regions.

The operating income as a percentage of revenue was 5.3% for the six months ended June 30, 2017 as compared to a loss of (0.3)% in the prior period. The operating margin increased due to expense rationalization, decreased amortization as well as reduced losses for the PRG Middle East unit which we are holding for sale. Included in the operating income was amortization expense of \$1.0 million and \$1.5 million for the six months ended June 30, 2017 and 2016, respectively.

## Interest Income (Expense)

For the six months ended June 30, 2017 interest income increased to \$1.1 million from \$0.4 million in the same period in 2016. Interest expense increased to \$5.2 million during 2017 from \$3.7 million during 2016 primarily due to larger outstanding balances on the line of credit.

## Other Income (Expense), Net

Included in the six months ended June 30, 2017 was \$3.2 million of estimated losses related to a business unit which has been classified as assets held for sale (see Part I. Item 1. Financial Statements, Note 2 to the Consolidated Financial Statements).

#### Income Taxes

The effective tax rate for the six months ended June 30, 2017 was 16.3%. This compares to an effective tax rate of 23.4% for the comparable period of 2016. The effective tax rate for the six months ended June 30, 2017 was influenced by earnings in international jurisdictions currently under an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. Without \$1.0 million benefit related to excess taxes on equity compensation, \$0.4 million benefit related to return to provision, \$1.5 million of benefit from restructuring expenses, and \$1.2 million of benefit related to losses recorded on businesses held for sale, the Company's effective tax rate for the six months ended June 30, 2017 would have been 22.3%.

## Table of Contents

### Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Credit Facility. During the six months ended June 30, 2017, we generated positive operating cash flows of \$125.5 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 in the United States with a focus on concentrating and safeguarding our global cash and cash equivalents. While the majority of our cash is held outside the U.S., we prefer to hold U.S. Dollars in addition to the local currencies of our foreign subsidiaries. We expect to use our offshore cash to support working capital and growth of our foreign operations. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners and utilization of diversified, high quality investments.

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

The following discussion highlights our cash flow activities during the six months ended June 30, 2017 and 2016.

### 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 \$77.9 million and \$55.3 million as of June 30, 2017 and December 31, 2016, respectively. We diversify the holdings of such cash and cash equivalents considering the financial condition and stability of the counterparty institutions.

We reinvest our cash flows to grow our client base, expand our infrastructure, for investment in research and development, for strategic acquisitions, for the purchase of our outstanding stock and to pay dividends.

### Cash Flows from Operating Activities

For the six months ended June 30, 2017 and 2016, net cash flows provided by operating activities was \$125.5 million and \$55.0 million, respectively. The increase was primarily due to a \$46.7 million decrease in payments made for operating expenses, a \$17.7 million increase in collections for deferred revenue, and a \$2.7 million increase in cash collected from accounts receivable.

### Cash Flows from Investing Activities

For the six months ended June 30, 2017 and 2016, we reported net cash flows used in investing activities of \$110.3 million and \$28.1 million, respectively. The increase was due to a \$1.8 million increase in capital expenditures and an additional \$80.0 million related to funding for an acquisition.

### Cash Flows from Financing Activities

For the six months ended June 30, 2017 and 2016, we reported net cash flows provided by (used in) financing activities of \$6.3 million and \$(30.0) million, respectively. The change in net cash flows from 2016 to 2017 was primarily due to a \$4.7 million increase in the Credit Facility offset by a \$17.8 million decrease in purchases of our outstanding common stock, a \$13.1 million decrease in contingent consideration and purchase of non-controlling interest payments and a decrease of \$1.9 million related to the 2016 payment of debt issuance costs.

#### Free Cash Flow

Free cash flow (see “Presentation of Non-GAAP Measurements” below for the definition of free cash flow) increased for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 primarily due to an increase in cash flow from working capital. Free cash flow was \$95.9 million and \$27.3 million for the six months ended June 30, 2017 and 2016, respectively.

Table of Contents

## 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 (in thousands):

	Three		Six Months Ended June 30,	
	Months Ended June 30, 2017	2016	2017	2016
Net cash provided by operating activities	\$ 50,523	\$ 43,507	\$ 125,455	\$ 55,045
Less: Purchases of property, plant and equipment	17,554	12,794	29,589	27,743
Free cash flow	\$ 32,969	\$ 30,713	\$ 95,866	\$ 27,302

## Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of June 30, 2017 are summarized as follows (in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility(1)	\$ 7,044	\$ 14,088	\$ 261,696	\$ —	\$ 282,828
Equipment financing arrangements	3,374	4,901	1,665	—	9,940
Contingent consideration	1,186	207	—	—	1,393
Purchase obligations	7,770	9,523	1,509	—	18,802
Operating lease commitments	46,180	61,899	36,669	26,302	171,050
Other debt	2,298	3,626	472	—	6,396
Total	\$ 67,852	\$ 94,244	\$ 302,011	\$ 26,302	\$ 490,409

(1) Includes estimated interest payments based on the weighted-average interest rate, unused commitment fees, current interest rate swap arrangements, and outstanding debt as of June 30, 2017.

- 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 \$3.9 million related to uncertain tax positions because we cannot reliably estimate the timing of cash payments.

Our outstanding debt is primarily associated with the use of funds under our Credit Agreement to fund working capital, repurchase our common stock, pay dividends, and for other cash flow needs across our global operations.

## Table of Contents

### Future Capital Requirements

We expect total capital expenditures in 2017 to be approximately 4.6% of revenue. Approximately 70% of these expected capital expenditures are to support growth in our business and 30% relate to the maintenance for existing assets. The anticipated level of 2017 capital expenditures is primarily driven by new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

The amount of capital required over the next 12 months will 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. We can provide no assurance that we will be able to raise additional capital upon commercially reasonable terms acceptable to us.

### Client Concentration

During the six months ended June 30, 2017, one of our clients represented 9.6% of our total revenue. Our five largest clients accounted for 34.7% and 35.9% of our consolidated revenue for the three months ended June 30, 2017 and 2016, respectively. Our five largest clients accounted for 34.4% and 35.5% of our consolidated revenue for the six months ended June 30, 2017 and 2016, respectively. We have experienced long-term relationships with our top five clients, ranging from 10 to 21 years, with the majority of these clients having completed multiple contract renewals with us. 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 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, we believe 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 2017 and 2020. 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. 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. We enter into derivative instruments to manage and reduce the impact of currency exchange rate changes, primarily between the U.S. dollar/Philippine peso, the U.S. dollar/Mexican peso, and the Australian dollar/Philippine peso. We enter into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. 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.





Table of Contents

## Interest Rate Risk

We previously entered into interest rate derivative instruments to reduce our exposure to interest rate fluctuations associated with our variable rate debt. The interest rate on our Credit Agreement is variable based upon the Prime Rate, the Federal Funds rate, or LIBOR and, therefore, is affected by changes in market interest rates. As of June 30, 2017, we had \$257.0 million of outstanding borrowings under the Credit Agreement. Based upon average outstanding borrowings during the three and six months ended June 30, 2017, interest accrued at a rate of approximately 2.1% and 2.0% per annum, respectively. If the Prime Rate or LIBOR increased by 100 basis points during the quarter, there would be a \$1.0 million of additional interest expense per \$100.0 million of outstanding borrowing under the Credit Agreement.

The Company's interest rate swap arrangement has expired as of June 30, 2017 and no additional swaps have been entered into. As of December 31, 2016 the outstanding interest rate swap was as follows:

	Notional	Variable Rate	Fixed Rate	Contract	Contract
	Amount	Received	Paid	Commencement	Maturity
				Date	Date
December 31, 2016	\$ 15 million	1 - month LIBOR	3.14	% May 2012	May 2017
Swap					

## Foreign Currency Risk

Our subsidiaries in Bulgaria, Costa Rica, Mexico, Poland, and the Philippines 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, 2017 and 2016, revenue associated with this foreign exchange risk was 28% and 32% of our consolidated revenue, respectively.

In order to mitigate the risk of these non-functional foreign currencies weakening against the functional currencies of the servicing subsidiaries, 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 servicing 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.

39

---

Table of Contents

Our cash flow hedging instruments as of June 30, 2017 and December 31, 2016 are summarized as follows (in thousands). All hedging instruments are forward contracts, except as noted.

	Local Currency Notional Amount	U.S. Dollar Notional Amount	% Maturing in the next 12 months	Contracts Maturing Through
As of June 30, 2017				
Philippine Peso	12,065,000	252,775 (1)	30.0 %	August 2021
Mexican Peso	1,759,000	106,627	17.2 %	May 2021
		\$ 359,402		

	Local Currency Notional Amount	U.S. Dollar Notional Amount
As of December 31, 2016		
Philippine Peso	14,315,000	301,134 (1)
Mexican Peso	2,089,000	129,375
		\$ 430,509

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars and Australian dollars, which are translated into equivalent U.S. dollars on June 30, 2017 and December 31, 2016.

The fair value of our cash flow hedges at June 30, 2017 was assets/(liabilities) (in thousands):

	June 30, 2017	Maturing in the Next 12 Months
Philippine Peso	(16,810)	(9,336)
Mexican Peso	(15,883)	(7,960)
	\$ (32,693)	\$ (17,296)

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 increase in fair value from December 31, 2016 largely reflects a broad weakening in the U.S. dollar.

We recorded net losses of approximately \$11.9 million and \$11.8 million for settled cash flow hedge contracts and the related premiums for the six months ended June 30, 2017 and 2016, respectively. These losses were reflected in

Revenue in the accompanying Consolidated Statements of Comprehensive Income (Loss). 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 increases or decreases in our underlying exposures.

Other than the transactions hedged as discussed above and in Part I, Item 1. Financial Statements, Note 6 to the Consolidated Financial Statements, the majority of the transactions of our U.S. and foreign operations are denominated in their respective local currency. However, transactions are denominated in other currencies from time-to-time. We do not currently engage in hedging activities related to these types of foreign currency risks because we believe them to be insignificant as we endeavor to settle these accounts on a timely basis. For the six months ended June 30, 2017 and 2016, approximately 25% and 21%, 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 marketable debt or equity securities as of June 30, 2017 or December 31, 2016.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

This report includes the certifications of our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”) 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.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended) are designed to provide reasonable assurance 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 CEO and CFO, to allow timely decisions regarding required disclosures.

Management of the Company, with the participation of its CEO and CFO, evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period. Based on that evaluation, as of the end of the period covered by this Form 10-Q, the Company’s CEO and CFO have concluded that the Company’s disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting.

At the year ended December 31, 2016, material weaknesses existed in the Company’s internal control over financial reporting which continued to exist as of June 30, 2017. These material weaknesses are fully described in our Annual Report on Form 10-K for the year ended December 31, 2016.

While these material weaknesses did not result in errors that were material to our annual or interim financial statements, they could result in misstatements of our consolidated financial statements and disclosures which would result in material misstatement of our consolidated financial statements and disclosures which would not be prevented or detected.

Notwithstanding such material weaknesses in internal control over financial reporting, our CEO and CFO have concluded that our consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Inherent Limitations of Internal Controls

Our management, including the CEO and CFO, 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 internal control are met. Further, the design of internal controls must consider the benefits of controls relative to their costs. Inherent limitations within internal controls include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of controls. 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 objective of the design of any system of controls is to provide reasonable assurance of the effectiveness of 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. Thus, even effective internal control over financial reporting can only provide reasonable assurance of achieving their objectives. Therefore, because of the inherent limitations in cost effective internal controls, misstatements due to error or fraud may occur and may not be

prevented or detected.

41

---

Table of Contents

Remediation Efforts and Status of Remaining Material Weaknesses

Revenue: During 2016, management took the necessary steps to redesign the control framework, including the implementation of (i) a revenue quality assurance organization, (ii) standardized contract and invoice review and approval templates, and (iii) a document storage system for improved organization and evidence of review. Additionally, management established a quarterly control owner certification process and invested in employee training. Management has completed the design and implementation of this control framework and has tested the revenue controls in the quarter ending December 31, 2016. Management will continue to test the controls for revenue in 2017 to ensure they have operated for a sufficient period of time before concluding on remediation.

Impairments: During 2016, management has taken the necessary steps to redesign the control framework, including implementation of specific preparation and review procedures to (i) ensure the accuracy of the valuation models used to calculate fair market values, (ii) validate the source of the financial forecasts, and (iii) evidence the assessment of the models for reasonableness. In addition, TeleTech has engaged a third party valuation expert to assist management with the underlying valuation models supporting the goodwill and intangible impairment assessments. Management has completed the design and implementation of the control framework and has tested the impairment controls in the quarter ending December 31, 2016. Management will continue to test the controls for impairment in 2017 to ensure they have operated for a sufficient period of time before concluding on remediation.

Control Environment: During 2016 TeleTech invested significantly in the quality of our accounting talent including management, technical, process improvement and financial system roles. Additionally, we implemented a number of programs to: improve our talent acquisition and retention platforms; enhance technical, transactional and control knowledge of our accounting teams; create a culture of accountability and control. These programs have significantly improved the stability of our global accounting organization. In order to consider this material weakness to be fully remediated, we believe additional time is needed to demonstrate sustainability as it relates to our internal control over financial reporting and improvements made to our complement of resources.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Part I, Item 1. Financial Statements, Note 10 to the Consolidated Financial Statements of this Form 10-Q is hereby incorporated by reference.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors described in Item 1A. Risk Factors described in our Annual Report on Form 10-K for the year ended December 31, 2016.



Table of Contents

## 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, 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share	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)
March 31, 2017				\$ 33,248
April 1, 2017 - April 30, 2017	177,300	\$ 29.49	177,300	\$ 28,021
May 1, 2017 - May 31, 2017	45,831	\$ 31.44	45,831	\$ 26,580
June 1, 2017 - June 30, 2017	—	\$ —	—	\$ 26,580
Total	223,131		223,131	

(1) In November 2001, our Board of Directors ("Board") authorized a stock repurchase program with the objective of increasing stockholder returns. The Board periodically authorizes additional increases to the program. The most recent Board authorization to purchase additional common stock occurred in February 2017, whereby the Board increased the program allowance by \$25.0 million. Since inception of the program through June 30, 2017, the Board has authorized the repurchase of shares up to a total value of \$762.3 million, of which we have purchased 46.1 million shares on the open market for \$735.8 million. As of June 30, 2017 the remaining amount authorized for repurchases under the program was approximately \$26.6 million. The stock repurchase program does not have an expiration date.

## ITEM 5. OTHER INFORMATION

At the Company's 2017 Annual Meeting of Stockholders held on May 24, 2017, the Company's stockholders voted, on an advisory basis, in favor of holding future advisory votes on the compensation of the Company's named executive officers ("say-on-pay votes") every three years, as previously reported in the Current Report on Form 8-K filed by the Company on May 30, 2017. Based on these results, and consistent with its recommendation, the Board has determined that the Company will hold future say-on-pay votes every three years until the next required stockholder advisory vote on the frequency of say-on-pay votes is required under Section 14A of the Exchange Act, or until the Board otherwise determines that a different frequency for such votes is in the best interests of the Company's stockholders.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
10.96	<u>Purchase Agreement dated as of April 3, 2017 by and among OptumHealth Holdings, LLC, Connexions, Inc., and TeleTech Healthcare Solutions, Inc. (incorporated by reference as Exhibit 10.96 to TeleTech's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)</u>
31.1*	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
31.2*	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
32.1*	<u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
32.2*	<u>Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (unaudited), (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the six months ended June 30, 2017 (unaudited), and (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited).



Table of Contents

SIGNATURES

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

TELETECH HOLDINGS, INC.  
(Registrant)

Date: August 7, 2017 By: /s/ Kenneth D. Tuchman  
Kenneth D. Tuchman  
Chairman and Chief Executive Officer

Date: August 7, 2017 By: /s/ Regina M. Paolillo  
Regina M. Paolillo  
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.96	<u>Purchase Agreement dated as of April 3, 2017 by and among OptumHealth Holdings, LLC, Connexions, Inc., and TeleTech Healthcare Solutions, Inc. (incorporated by reference as Exhibit 10.96 to TeleTech's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017)</u>
31.1*	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
31.2*	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
32.1*	<u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
32.2*	<u>Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)</u>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed or furnished herewith.

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Notes to the Consolidated Financial Statements, (ii) Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (unaudited), (iii) Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2017 and 2016 (unaudited), (iv) Consolidated Statements of Stockholders' Equity as of and for the six months ended June 30, 2017 (unaudited), and (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited).

