TELETECH HOLDINGS INC
Form 10-K
February 22, 2010

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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

Commission File Number: 001-11919

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

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**

Common Stock, $0.01 par value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o   No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o   No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o   No o

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

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

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

As of June 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, there were 62,077,497 shares of the registrant s common stock outstanding. The aggregate market value of the registrant s voting and non-voting common stock that was held by non-affiliates on such date was $468,568,851 based on the closing sale price of the registrant s common stock on such date as reported on the NASDAQ Global Select Market.

As of February 17, 2010, there were 61,784,468 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the proxy statement for the registrant s 2010 annual meeting of stockholders.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
DECEMBER 31, 2009 FORM 10-K

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NON-GAAP FINANCIAL MEASURES

In various places throughout this Annual Report on Form 10-K (Form 10-K), we use certain financial measures to describe our performance that are not accepted measures under accounting principles generally accepted in the United States (non-GAAP financial measures). We believe such non-GAAP financial measures are informative to the users of our financial information because we use these measures to manage our business. We discuss non-GAAP financial measures in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K under the heading Presentation of Non-GAAP Measurements.

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-K and the information incorporated by reference contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. In particular, we direct your attention to Item 1. Business, Item 3. Legal Proceedings, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Item 9A. Controls and Procedures. We intend the forward-looking statements throughout this Form 10-K and the information incorporated by reference to be covered by the safe harbor provisions for forward-looking statements. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect project, would, could, should, seeks, or scheduled to and other words and phrases of similar meaning. Known unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on information available as of the date of this Form 10-K and 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. Actual results could be materially different from our expectations due to a variety of factors, including, but not limited to, the factors identified in this Form 10-K under the captions Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, our other SEC filings and our press releases. We assume no obligation to update: (i) forward-looking statements to reflect actual results or (ii) changes in factors affecting such forward-looking statements.

AVAILABILITY OF INFORMATION

You may read and copy any materials TeleTech files with the SEC at the SEC s Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such materials also can be obtained at the SEC s website, www.sec.gov or by mail from the Public Reference Room of the SEC, at the proscribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. TeleTech s SEC filings are also available to the public, free of charge, on its corporate website, www.teletech.com, as soon as reasonably practicable after TeleTech electronically files such material with, or furnishes it to, the SEC.

PART I

ITEM 1. BUSINESS

Our Business

Over our 28-year history, we have become one of the largest global providers of onshore, offshore and work from home business process outsourcing (BPO) services focusing on revenue generation, customer and enterprise management, and technology-enabled solutions. We help Global 1000 companies enhance their strategic capabilities, improve quality and lower costs by designing, implementing and managing their critical front- and back-office processes. We provide a 24 x 7, 365 day fully integrated global solution that spans people, process, proprietary technology and infrastructure for governments and private sector clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries. As of December 31, 2009, our approximately 45,000 employees provided services from nearly 35,600 workstations across 68 delivery centers in 16 countries. We have approximately 90 global clients, many of whom are in the Global 1000. The Global 1000 is a ranking of the world s largest companies based on market capitalization. We perform a variety of BPO services for our clients and support more than 270 unique BPO programs.

We believe BPO is a key enabler of improved business performance as measured by a company s ability to consistently outperform peers through both business and economic cycles. We believe the benefits of BPO include renewed focus on core capabilities, faster time to market, enhanced revenue generation opportunities, streamlined processes, reduced capital and operating risk, movement from a fixed to variable cost structure, access to borderless sourcing capabilities, and creation of proprietary best operating practices and technology, all of which contribute to increased customer satisfaction and shareholder returns for our clients.

Industry studies indicate that companies with high customer satisfaction levels enjoy premium pricing in their industry, which we believe results in increased profitability and greater shareholder returns. Given the strong correlation between customer satisfaction and improved profitability, we believe that more companies are increasingly focused on selecting outsourcing partners, such as TeleTech, that can deliver strategic revenue generation and front- to back-office capabilities to improve the customer experience rather than reducing costs.

Our Business History

We were founded in 1982 and reorganized as a Delaware corporation in 1994. We completed an initial public offering of our common stock in 1996 and since that time have grown our annual revenue from $183 million to $1.2 billion, representing a compound annual growth rate (CAGR) of 15.3%.

Our revenue is derived from BPO services and is reported in our North American and International BPO segments. Certain information with respect to segments and geographic areas is contained in Note 4 to the Consolidated Financial Statements. These services involve the transfer of our clients front- and back-office business processes to our 68 delivery centers or work from home associates. We also manage the facilities and operations of our clients service delivery centers. Customer management and revenue generation solutions help our clients target, acquire, retain and grow their customer base. Enterprise management solutions help companies manage their internal business process and include product or service provisioning, fulfillment, expense management, supply chain management, claims processing, payment and warranty processing, basic through advanced technical support, human resource recruiting and talent management, retirement plan administration, data analysis and market research, network management, and workforce training and scheduling. Our hosted OnDemand™ technology offerings provide our clients with cloud based computing solutions for multi-channel interaction routing, customer experience management and workforce optimization.

We market our services primarily to clients in G-20 countries which represent 19 of the world s largest economies, together with the European Union and perform these services from strategically located

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delivery centers around the globe. Many of our clients choose a blended strategy whereby they outsource work with us in multiple geographic locations and may also utilize our work from home offering. We believe our ability to offer one of the most geographically diverse footprints improves service flexibility while reducing operational and delivery risk in the event of a service interruption at any one location.

With operations in 16 countries, we believe this makes us one of the largest and most geographically diverse providers of BPO services. We plan to selectively expand into other attractive delivery markets over time.

Of the 16 countries from which we provide BPO services, nine provide services for onshore clients including the U.S., Australia, Brazil, China, Germany, New Zealand, Northern Ireland, Scotland and Spain.

The other seven countries provide services, partially or entirely, for offshore clients including Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa. The total number of workstations in these countries is 25,159, or 71% of our total delivery capacity.

Historical Performance

As summarized below, following our initial public offering in 1996, we experienced double-digit revenue growth through 2000, undertook a business transformation strategy in late 2001, began to realize the benefits of this transformation in 2004 and continue to realize those benefits. Beginning in 1997, we were one of the first companies to provide BPO services to U.S. clients from delivery centers in Argentina, Canada and Mexico.

Although revenue growth continued at a CAGR of 4.7% from $913 million in 2001 to $1.0 billion in 2003, we experienced net losses during this time period. We attribute these losses primarily to the global economic downturn, the bursting of the dot-com bubble, the September 11, 2001 terrorist attacks and the business transformation we undertook to further strengthen our industry position and future competitiveness. The business transformation redefined our delivery model, reduced our cost structure and improved our competitive and financial position by:

- Migrating from a decentralized holding company to a centralized operating company to enhance financial and operating disciplines;
- Centralizing our technology infrastructure and migrating to a 100% IP-based delivery platform;
- Standardizing our global operational processes and applications;
- Automating and virtualizing our human capital needs primarily around talent acquisition, training and performance optimization;
- Improving the efficiency of certain underperforming operations and reducing our selling, general and administrative expenses;
- Improving pricing or rationalizing the performance of certain underperforming client programs;
- Investing in sales and client account management;
- Investing in innovative new solutions to diversify revenue into higher margin offerings, including professional services, learning services and hosted technology solutions;
- Increasing delivery capabilities with expanded onshore, offshore and work from home solutions;

Reducing long-term debt by nearly $120 million from 2003 to 2004 with cash surpluses and borrowings under our revolving credit facility; and

Approving and executing a stock repurchase program.

As a result of this business transformation, from 2005 to 2008, our revenue grew at a CAGR of 8.8% from $1.1 billion to $1.4 billion and diluted earnings per share grew at a CAGR of 43.3% from $0.36 to $1.06. Our operating margin more than doubled to 7.8% in 2008 from 2.9% in 2005.

Due to the global economic slowdown, our revenue decreased from 2008 to 2009 by 16.6%, which included a decrease of 4.1% due to changes in foreign exchange rates. Despite this decrease, we were able to increase our operating margin for 2009 to 8.6%. This was achieved through increased professional services revenue, increased utilization of our delivery centers across a 24-hour period, leveraging our global purchasing power and continued expansion of services provided from our geographically diverse delivery centers.

As of December 31, 2009, we had $109.4 million in cash and cash equivalents and a debt to capitalization ratio of 2.1%. We generated $136.5 million in free cash flow during 2009 and our cash flows from operations and borrowings under our revolving credit facility have enabled us to fund $24.2 million in capital expenditures. Approximately 70% of our capital expenditures were related to the opening and/or growth of our delivery platform with the remaining 30% used for maintenance of our embedded infrastructure and internal technology projects. See Management s Discussion and Analysis of Financial Condition and Results of Operations for discussion of free cash flow and other non-GAAP measurements.

In November 2001, the Board of Directors (Board) authorized a stock repurchase program to repurchase up to $5.0 million of our common stock with the objective of increasing stockholder returns. The Board has since periodically authorized additional increases in the program. Since inception of the program through December 31, 2009, the Board has authorized the repurchase of shares up to an aggregate value of $312.3 million. During the year ended December 31, 2009, we purchased 2.5 million shares for $34.8 million. Since inception of the program, we have purchased 23.8 million shares for $286.7 million. As of December 31, 2009, the remaining allowance under the program was approximately $25.6 million. For the period from January 1, 2010 thru February 22, 2010, we have purchased an additional 0.6 million shares for $11.4 million. On February 18, 2010, the Board authorized an increase of $25.0 million in the funding available for share repurchase. The stock repurchase program does not have an expiration date.

Our Future Growth Goals and Strategy

Our objective is to become the world s largest, most technologically advanced and innovative provider of onshore, offshore and work from home BPO solutions. Companies within the Global 1000 are our primary client targets due to their size, global nature, focus on outsourcing and desire for the global, scalable integrated process solutions that we offer. We have developed, and continue to invest in, a broad set of capabilities designed to serve this growing client need. These investments include our TeleTech@Home offering which allows our employees to serve clients from their homes. This capability has enhanced the flexibility of our offering by allowing clients to choose our onshore, offshore or work from home employees to meet their outsourced business process needs. In addition, we have begun to offer hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative business process services across our targeted industries.

Our business strategy to increase revenue, profitability and our industry position includes the following elements:

Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

- Adopt or increase BPO services;

- Consolidate outsourcing providers with those that have a solid financial position, adequate capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;

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- Modify their approach to outsourcing based on total value delivered versus the lowest priced provider;
- Create focused revenue generation capabilities in targeted market segments;
- Better integrate front- and back-office processes; and
- Take advantage of cost efficiencies through the adoption of cloud based technology solutions.

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on end-to-end offerings in targeted industries where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning services and our hosted TeleTech OnDemand™ capabilities;

Continue to improve our operating margins through selected profit improvement initiatives and increased asset utilization of our globally diverse delivery centers;

Scale our work from home initiative to increase operational flexibility; and

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

Our Market Opportunity

Companies around the world are increasingly realizing that the quality of their customer relationships is critical to maintaining their competitive advantage. This realization has driven companies to increase their focus on developing, managing, growing and continuously enhancing their customer relationships.

As globalization of the world s economy continues to accelerate, businesses are increasingly competing on a large-scale basis due to rapid advances in technology and communications that permit cost-effective real-time global communications and ready access to a highly-skilled worldwide labor force. As a result of these developments, companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position and reduce risk while increasing shareholder value through improved productivity and profitability.

Revenue in 2009 decreased over the prior year due primarily to the global economic slowdown resulting in a decline in our current call volumes, delayed client purchasing decisions along with the continued migration of several of our clients to our offshore delivery centers, and proactively managing underperforming business and geographies out of our portfolio. Nevertheless, we believe that our revenue will resume long-term growth as global demand for our services is fueled by the following trends:

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

Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment. Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more back-office opportunities and providing the services during non-peak hours with minimal incremental

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investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.

Increasing percentage of company operations being outsourced to most capable third-party providers. Having experienced success with outsourcing a portion of their business processes, companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party providers, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost-effectively scale to meet their evolving needs.

Increasing adoption of outsourcing across broader groups of industries. Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we see increasing interest in our services from companies in the healthcare, retail and financial services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow, further enabling us to increase and diversify our revenue and client base.

Focus on speed-to-market by companies launching new products or entering new geographic locations. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing providers that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO providers with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 16 countries and our significant investment in standardized technology and processes, we believe that clients select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Business Overview

We help Global 1000 clients improve the efficiency of their front- and back-office business processes while increasing customer satisfaction. We manage our clients outsourcing needs with the primary goal of delivering a high-quality customer experience while also reducing their total delivery costs.

Our solutions provide access to highly skilled people in 16 countries using standardized operating processes and a centralized delivery platform to:

Design, implement and manage industry-specific end-to-end enterprise level back-office processes to achieve efficient and effective global service delivery for discrete or multiple back-office requirements;

Manage the customer lifecycle, from acquiring and on-boarding through support and retention;

Maximize revenue and customer profitability for our clients via highly sophisticated market segmentation, data analytic, and electronic direct marketing tools;

Support field sales teams and manage sales relationships with small and medium-sized businesses as well as governmental agencies;

Design, implement and manage e-commerce portals;

Provide a suite of pre-integrated TeleTech OnDemand[tm] business process applications through a monthly license subscription;

Offer infrastructure deployment, including the development of data and BPO delivery centers;

Provide services and tools for client s internal human capital operations including talent acquisition, learning services and performance optimization for use in clients internal operations; and

Offer professional consulting services in each of the above areas.

Our Competitive Strengths

Entering a business services outsourcing relationship is typically a long-term strategic commitment for companies. The outsourced processes are usually complex and require a high degree of customization and integration with a client s core operations. Accordingly, our clients tend to enter long-term contracts which provide us with a more predictable revenue stream. In addition, we have high levels of client retention due to our operational excellence and ability to meet our clients outsourcing objectives, as well as the significant transition costs required to exit the relationship. Our client retention was 88% in 2009 and 94% in 2008.

We believe that our clients select us due to our:

Industry reputation and our position as one of the largest and most financially sound industry providers with 28 years of expertise in delivering complex BPO solutions across targeted industries;

Ability to scale infrastructure and employees worldwide using globally deployed best practices to ensure a consistent, high-quality service;

Ability to optimize the performance of our workforce through proprietary hiring, training and performance optimization tools; and

Commitment to continued product and services innovation to further the strategic capabilities of our clients.

We believe that technological excellence, best operating practices and innovative human capital strategies that can scale globally are key elements to our continued industry leadership.

Technological Excellence

Over the past six years, we have measurably transformed our technology platform by moving to a secure, private, 100% internet protocol (IP) based infrastructure. This transformation has enabled us to centralize and standardize our worldwide delivery capabilities resulting in improved quality of delivery for our clients along with lower capital and information technology (IT) operating costs.

The foundation of this platform is our four IP hosting centers known as TeleTech GigaPOPs®, which are located on three continents. These centers provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, storage and business analytic capabilities. This enables anywhere to anywhere, real-time processing of our clients business needs from any location around the globe and is the foundation for new, innovative offerings including TeleTech OnDemand™, TeleTech@Home and our suite of human capital solutions. This hub and spoke model enables us to provide our services at the lowest cost while increasing scalability, reliability, redundancy, asset utilization and the diversity of our service offerings.

To ensure high end-to-end security and reliability of this critical infrastructure, we monitor and manage the TeleTech GigaPOPs® 24 x 7, 365 days per year from several strategically located state-of-the-art global command centers as well as providing redundant, fail-over capabilities for each GigaPOP.

Our technology innovations have resulted in the filing of more than 20 intellectual property patent applications.

Globally Deployed Best Operating Practices

Globally deployed best operating practices assure that we can deliver a consistent, scalable, high-quality experience to our clients   customers from any of our 68 delivery centers or work from home associates around the world. Standardized processes include our approach to attracting, screening, hiring, training, scheduling, evaluating, coaching and maximizing associate performance to meet our clients needs. We provide real-time reporting on performance across the globe to ensure consistency of delivery. In addition, this information provides valuable insight into what is driving customer inquiries, enabling us to proactively recommend process changes to our clients to optimize their customers experience.

Innovative Human Capital Strategies

To effectively manage and leverage our human capital requirements, we have developed a proprietary suite of business processes, software tools and client engagement guidelines that work together to improve performance for our clients while enabling us to reduce time to hire, decrease employee turnover and improve time to service and quality of performance.

The three primary components of our human capital platform Talent Acquisition, Learning Services and Performance Optimization combine to form a powerful and flexible management system to streamline and standardize operations across our global delivery centers. These three components work together to allow us to make better hires, improve training quality and provide real-time feedback and incentives for performance.

Innovative New Revenue Opportunities

We continue to develop other innovative services that leverage our investment in a centralized and standardized delivery platform to meet our clients needs, and we believe that these solutions will represent a growing percentage of our future revenue.

TeleTech OnDemand™

TeleTech OnDemand™ delivers a fully integrated suite of best-in-class business process applications on a hosted (software as a service) basis, providing streamlined delivery center technology, knowledge and services. This allows our clients to empower their associates with the same technology and best practices we use internally on a monthly subscription license model. With TeleTech OnDemand™, there is no need for our clients to license software, purchase on-premise hardware, or staff up to provide ongoing technology support.

Our TeleTech OnDemand™ solutions are easy to implement and scale seamlessly to support business growth, encompassing the full breadth of business process operations including Interaction Routing, Self-Service, Customer Experience Management, Employee Desktop Management, Business Intelligence and Performance Management. Because they are based on our rigorous first-hand use, our hosted services are proven, reliable, scalable and continually refined and expanded.

TeleTech@Home

Our dispersed workforce solution enables employees to work from home while accessing the same proprietary training, workflow, reporting and quality tools as our delivery center associates. TeleTech@Home associates are TeleTech employees not independent contractors providing a strong cultural fit, seamless workforce control and high levels of job satisfaction. Our TeleTech@Home solution utilizes our highly scalable and centralized technical architecture and enables secure access, monitoring and reporting for our Global 1000 clients. TeleTech@Home is offered as a full service solution, disaster recovery back-up, a managed service or as a Hosted/Technology solution.

Features of the new TeleTech@Home offering include:

Outstanding quality, low employee turnover, high call resolution and superior sales and customer management performance;

Greater flexibility and scalability through the benefit of dispersed geography and proven processes;

Ability to reach a new and talented employee pool that includes licensed and certified professionals in a variety of industries with multiple years of experience;

Access to a unique and flexible employee population that includes stay-at-home parents, workers with physical challenges that make office commuting undesirable, rural workers and workers in highly technical urban centers; and

An excellent business continuity safeguard to prevent potential disruption resulting from natural disasters or pandemic threats.

Clients

In 2009, we had one client that represented at least 10% of our total annual revenue. T-Mobile USA, Inc. represented 10% of total revenue in 2009. Our top five and ten clients represented 36% and 58% of total revenue in 2009, respectively.

Certain of our communications clients, which represent approximately 16% of our total annual revenue, also provide us with telecommunication services through transactions that are negotiated at different times and with different legal entities. We believe each of these supplier contracts is negotiated on an arm s length basis and that the terms are substantially the same as those that have been negotiated with unrelated vendors. Expenditures under these supplier contracts represent less than one percent of our total operating costs.

Competition

We compete with the in-house business process operations of our current and potential clients. We also compete with certain companies that provide BPO services including: Accenture Ltd.; Convergys Corporation; Genpact Limited, Sykes Enterprises Incorporated and Teleperformance, among others. We work with Accenture Ltd., Computer Sciences Corporation and IBM on a sub-contract basis and approximately 11% of our total revenue is generated from these system integrator relationships.

We compete primarily on the basis of our 28 years of experience, our global locations, our quality and scope of services, our speed and flexibility of implementation, our technological expertise, and our total value delivered and contractual terms. A number of competitors may have different capabilities and resources than ours. Additionally, niche providers or new entrants could capture a segment of the market by developing new systems or services that could impact our market potential.

Seasonality

Historically, we experience a seasonal increase in revenue in the fourth quarter related to higher volumes from clients primarily in the healthcare, package delivery, retail and other industries with seasonal businesses. Also, our operating margins in the first quarter are impacted by higher payroll-related taxes with our global workforce.

Employees

As of December 31, 2009, we had approximately 45,000 employees in 16 countries. Approximately 87% of these employees held full-time positions and 80% were located outside of the U.S. We have approximately 10,300 employees outside the U.S. and Canada covered by collective bargaining agreements. In most cases, the collective bargaining agreements are mandated under national labor laws. These collective bargaining agreements include employees in the following countries:

In Argentina, approximately 4,400 employees are covered by an industry-wide collective bargaining agreement with the Confederation of Commerce Employees that expires in March 2010;

In Brazil, approximately 750 employees are covered by industry-wide collective bargaining agreements with Sintratel and SintelMark that expire in December 2011;

In Mexico, we have approximately 2,800 employees covered by an industry-wide collective bargaining agreement with the Federacion Obrero Sindicalista that expires in January 2011;

In Spain, we have approximately 2,300 employees covered by industry-wide collective bargaining agreements with COMFIA-CCOO and FES-UGT that expired in December 2009, nevertheless, the relevant parties are negotiating the terms of a new agreement and the parties continue to operate under the terms of the old agreement;

In New Zealand, we had approximately 20 employees covered by a collective employment agreement with the Engineering Printing and Manufacturing Union that expired during the fourth quarter of 2009 upon the cessation of the program covered by the collective employment agreement;

In Australia, approximately 46 employees are covered by a collective agreement adopted by TeleTech International, Pty. Ltd. under the provisions of the Contract Call Centres Award 2010 that expires in January 2013; and

In London, Ontario, we have approximately 200 employees, a majority of which could become unionized pending the finalization results of union election held on December 15, 2009;

We anticipate that these agreements will be renewed and that any renewals will not impact us in a manner materially different from all other companies covered by such industry-wide agreements. We believe that our relations with our employees and unions are satisfactory. We have not experienced any material work stoppages in our ongoing business.

Intellectual Property and Proprietary Technology

Our success is partially dependent upon certain proprietary technologies and core intellectual property. We have a number of pending patent applications in the U.S. and foreign countries. Our technology is also protected under copyright laws. Additionally, we rely on trade secret protection and confidentiality and proprietary information agreements to protect our proprietary technology. We have trademarks or registered trademarks in the U.S. and other countries, including TELETECH®, the TELETECH GLOBE Design, TELETECH GIGAPOP®, TELETECH GLOBAL VENTURES®, HIREPOINT®, VISAPOINT®, IDENTIFY!®, IDENTIFY! PLUS®, INCULTURE®, TOTAL DELIVERED VALUE® and YOUR CUSTOMER MANAGEMENT PARTNER®. We believe that several of our trademarks are of material importance. Some of our proprietary technology is licensed to others under corresponding license agreements. Some of our technology is licensed from others. While our competitive position could be affected by our ability to protect our intellectual property, we believe that we have generally taken commercially reasonable steps to protect our intellectual property.

Our Corporate Information

Our principal executive offices are located at 9197 South Peoria Street, Englewood, Colorado 80112 and the telephone number at that address is (303) 397-8100. Electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements are available free of charge by (i) visiting the Investors section of our website at http://www.teletech.com or (ii) sending a written request to Investor Relations at our corporate headquarters or to investor.relations@teletech.com. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. Information on our website is not incorporated by reference into this report.

ITEM 1A. RISK FACTORS

In evaluating our business, you should carefully consider the risks and uncertainties discussed in this section, in addition to the other information presented in this Annual Report on Form 10-K. The risks and uncertainties described below may not be the only risks that we face. If any of these risks or uncertainties actually occurs, our business, financial condition or results of operation could be materially adversely affected and the market price of our common stock may decline.

Risks Relating to Our Business

Recent changes in U.S. and global economic conditions could have an adverse effect on the profitability of our business

Our business is directly affected by the performance of our clients and general economic conditions. Recent turmoil in the financial markets has adversely affected economic activity in the U.S. and other regions of the world in which we do business. There is evidence that this is affecting demand for some of our services. In substantially all of our client programs, we generate revenue based, in large part, on the amount of time our employees devote to our clients customers. Consequently, the amount of revenue generated from any particular client program is dependent upon consumers interest in and use of our client s products and/or services, which may be adversely affected by general economic conditions. Our clients may not be able to market or develop products and services that require their customers to use our services, especially as a result of the recent downturn in the U.S. and worldwide economy. Furthermore, a decline in our clients business or performance, including possible client bankruptcies, could impair their ability to pay for our services. Our business, financial condition, results of operations and cash flows would be adversely affected if any of our major clients were unable or unwilling, for any reason, to pay for our services.

A large portion of our revenue is generated from a limited number of clients, and the loss of one or more of our clients could cause a reduction in our revenue and operating results

We rely on strategic, long-term relationships with large, global companies in targeted industries. As a result, we derive a substantial portion of our revenue from relatively few clients. Our five largest clients collectively represented 36% of revenue in 2009 and 39% of revenue in 2008. Our ten largest clients represented 58% of revenue in 2009 and 58% of revenue in 2008. One of our clients, T-Mobile, represented 10% of our revenue in 2009. Another one of our clients, Sprint Nextel, represented 13% of our revenue in 2008.

We believe that a substantial portion of our total revenue will continue to be derived from a relatively small number of our clients in the future. The contracts with our five largest clients expire between 2010 and 2011. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that any contracts will be renewed or, if renewed, will be on terms as favorable as the existing contracts. The volumes and profit margins of our most significant programs may decline and we may not be able to replace such clients or programs with clients or programs that generate comparable revenue and profits. The loss of all or part of a major client s business could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Client consolidations could result in a loss of clients or contract concessions that would adversely affect our operating results

We serve clients in targeted industries that have historically experienced a significant level of consolidation. If one of our clients is acquired by another company (including another one of our clients), provisions in certain of our contracts allow these clients to cancel or renegotiate their contracts, or to seek contract concessions. Such consolidations may result in the termination or phasing out of an existing client contract, volume discounts and other contract concessions that could have an adverse effect on our business, financial condition, results of operations and cash flows.

Unauthorized disclosure of sensitive or confidential client and customer data could expose us to protracted and costly litigation, penalties and cause us to lose clients

We are dependent on IT networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We are also required at times to manage, utilize and store sensitive or confidential client or customer data. As a result, we are subject to numerous U.S. and foreign laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or customer data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation, business, financial condition, results of operations and cash flows.

Our financial results depend on our capacity utilization, in particular our ability to forecast our clients customer demand and make corresponding decisions regarding staffing levels, investments and operating expenses

Our delivery center utilization rates have a substantial and direct effect on our profitability, and we may not achieve desired utilization rates. Our utilization rates are affected by a number of factors, including:

- Our ability to maintain and increase capacity in each of our delivery centers during peak and non-peak hours;
- Our ability to predict our clients customer demand for our services and thereby to make corresponding decisions regarding staffing levels, investments and other operating expenditures in each of our delivery center locations;
- Our ability to hire and assimilate new employees and manage employee turnover; and
- Our need to devote time and resources to training, professional development and other non-chargeable activities.

However, because the majority of our business is inbound from our clients customer-initiated encounters, we have significantly higher utilization during peak (weekday) periods than during off-peak (night and weekend) periods. We have experienced periods of idle capacity, particularly in our multi-client delivery centers. Historically, we experience idle peak period capacity upon opening a new delivery center or termination or completion of a large client program. We may consolidate or close under-performing delivery centers in order to maintain or improve targeted utilization and margins. In the event we close delivery centers in the future, we may be required to record restructuring or impairment charges, which could adversely impact our results of operations. There can be no assurance that we will be able to achieve or maintain desired delivery center capacity utilization. As a result of the fixed costs associated with each delivery center, quarterly variations in client volumes, many of which are outside our control, can have a material adverse effect on our utilization rates. If our utilization rates are below expectations in any given quarter, our financial condition, results of operations and cash flows for that quarter could be adversely affected.

Our business depends on uninterrupted service to clients

Our operations are dependent upon our ability to protect our facilities, computer and telecommunications equipment and software systems against damage or interruption from fire, power loss, terrorist or cyber attacks, sabotage, telecommunications interruption or failure, labor shortages, weather conditions, natural disasters and other similar events. Additionally, severe weather can cause our employees to miss work and interrupt the delivery of our services, resulting in a loss of revenue. In the event we experience a temporary or permanent interruption at one or more of our locations (including our corporate headquarters building), our business could be materially adversely affected and we may be required to pay contractual damages or face the suspension or loss of a client s business. Further, the impacts associated with global climate change, such as rising sea levels or increased and intensified storm activity, may cause increased business interruptions or may require the relocation of our facilities

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located in low-lying coastal areas. Although we maintain property and business interruption insurance, such insurance may not adequately compensate us for any losses we may incur.

Many of our contracts utilize performance pricing that link some of our fees to the attainment of various performance or business targets, which could increase the variability of our revenue and operating margin

A majority of our contracts include performance clauses that condition some of our fees on the achievement of agreed-upon performance standards or milestones. These performance standards can be complex and often depend in some measure on our clients actual levels of business activity or other factors outside of our control. If we fail to satisfy these measures, it could reduce our revenue under the contracts or subject us to potential damage claims under the contract terms.

Our contracts provide for early termination, which could have a material adverse effect on our operating results

Most of our contracts do not ensure that we will generate a minimum level of revenue and the profitability of each client program may fluctuate, sometimes significantly, throughout the various stages of a program. Our contracts generally enable the clients to terminate the contract or reduce customer interaction volumes. Our larger contracts generally require the client to pay a contractually agreed amount and/or provide prior notice in the event of early termination. There can be no assurance that we will be able to collect early termination fees.

We may not be able to offset increased costs with increased service fees under long-term contracts

Some of our larger long-term contracts allow us to increase our service fees if and to the extent certain cost or price indices increase. The majority of our expenses are payroll and payroll-related, which includes healthcare costs. Over the past several years, payroll costs, including healthcare costs, have increased at a rate much greater than that of general cost or price indices. Increases in our service fees that are based upon increases in cost or price indices may not fully compensate us for increases in labor and other costs incurred in providing services. There can be no assurance that we will be able to recover increases in our costs through increased service fees.

Our business may be affected by our ability to obtain financing

From time to time, we may need to obtain debt or equity financing for capital expenditures, stock repurchases, payment of existing obligations, replenishment of cash reserves, acquisitions or joint ventures. Additionally, our existing credit facility requires us to comply with certain financial covenants. There can be no assurance that we will be able to obtain additional debt or equity financing, or that any such financing would be on terms acceptable to us. Furthermore, there can be no assurance that we will be able to meet the financial covenants under our debt agreements or, in the event of noncompliance, will be able to obtain waivers or amendments from the lenders.

Our business may be affected by risks associated with international operations and expansion

An important component of our growth strategy is continued international expansion. There are certain risks inherent with conducting international business, including but not limited to:

- Management of personnel overseas;
- Longer payment cycles;
- Difficulties in accounts receivable collections;

Foreign currency exchange rates;

Difficulties in complying with foreign laws;

Unexpected changes in regulatory requirements;

Political and social instability, as demonstrated by terrorist threats, regime change, increasing tension in the Middle East and other regions, and the resulting need for enhanced security measures; and

Potentially adverse tax consequences.

Any one or more of these or other factors could have a material adverse effect on our international operations and, consequently, on our business, financial condition, results of operations and cash flow. There can be no assurance that we will be able to manage our international operations successfully.

Our financial results may be impacted by foreign currency exchange risk

We serve an increasing number of our clients from delivery centers in other countries that include Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa. Contracts with these clients are typically priced, invoiced, and paid in U.S. dollars while the costs incurred to operate these delivery centers are denominated in the functional currency of the applicable non-U.S.-based operating subsidiary. Therefore, fluctuations between the currencies of the contracting and operating subsidiary present foreign currency exchange risks. In addition, because our financial statements are denominated in U.S. dollars, and approximately 24% of our revenue is derived from contracts denominated in other currencies, our results of operations and revenue could be adversely affected if the U.S. dollar strengthens significantly against foreign currencies.

While we enter into forward and option contracts to hedge against the effect of exchange rate fluctuations, the foreign exchange exposure between the contracting and operating subsidiaries is not hedged 100%. Since the operating subsidiary assumes the foreign exchange exposure, its operating margins could decrease if the operating subsidiary s currency strengthens against the contracting subsidiary s currency. For example, our operating subsidiaries are at risk if their functional currency strengthens against the contracting subsidiary s currency (typically the U.S. dollar). If the U.S. dollar devalues against the operating subsidiaries functional currency, the financial results of those operating subsidiaries and TeleTech (upon consolidation) will be negatively affected. While our hedging strategy effectively offsets a portion of these foreign currency changes, there can be no assurance that we will be able to continue to successfully hedge this foreign currency exchange risk or that the value of the U.S. dollar will not materially weaken. If we fail to manage our foreign currency exchange risk, our business, financial condition, results of operations and cash flows could be adversely affected.

We are subject to counterparty credit risk and market risk with respect to financial transactions with our financial institutions

The recent global economic and credit crisis weakened the creditworthiness of many financial institutions, and in some circumstances caused previously financially solvent financial institutions to file for bankruptcy.

The counterparties to our hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these counterparties become insolvent and fail to perform their financial obligations under these hedge transactions. Our hedging exposure to counterparty credit risk is not secured by any collateral. If one or more of the counterparties to one or more of our hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, our credit exposure will depend on foreign exchange rate movements relative to the contracted foreign exchange rate and whether any gains result that are not realized due to a counterparty default. While all of our counterparty financial institutions are investment grade rated by Standard & Poor s and Moody s as of December 31, 2009, we can provide no assurances as to the financial stability or viability of any of our counterparties.

We also have a revolving credit facility with a syndicate of financial institutions that were investment grade rated at December 31, 2009. We can provide no assurances as to the financial stability or viability of

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these financial and other institutions and their ability to fund their obligations when required under our agreements.

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements

Because we provide services to our clients customers, who reside in 85 countries, we are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, government affairs, immigration, internal and disclosure control obligations, data privacy and labor relations. Violations of these regulations could result in liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process information and allegations by our clients that we have not performed our contractual obligations. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws might be insufficient to protect our contractual and intellectual property rights, among other rights.

Changes in U.S. federal, state and international laws and regulations may adversely affect the sale of our services, including expansion of overseas operations. In the U.S., some of our services must comply with various federal and state regulations regarding the method of placing outbound telephone calls. In addition, we could incur liability for failure to comply with laws or regulations related to the portions of our clients businesses that are transferred to us. Changes in these regulations and requirements, or new restrictive regulations and requirements, may slow the growth of our services or require us to incur substantial costs. Changes in laws and regulations could also mandate significant and costly changes to the way we implement our services and solutions, such as preventing us from using offshore resources to provide our services, or could impose additional taxes on the provision of our services and solutions. These changes could threaten our ability to continue to serve certain markets.

Our financial results and projections may be impacted by our ability to maintain and find new locations for our delivery centers in countries with stable wage rates

Our industry is labor-intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. As a result, our future growth is dependent upon our ability to find cost-effective locations in which to operate, both domestically and internationally. Some of our delivery centers are located in countries that have experienced rising standards of living, which may in turn require us to increase employee wages. In addition, approximately 10,300 employees outside the U.S. are covered by collective bargaining agreements. Although we anticipate that the terms of agreements will not impact us in a manner materially different than other companies located in these countries, we may not be able to pass increased labor costs on to our clients. There is no assurance that we will be able to find cost-effective locations. Any increases in labor costs may have a material adverse effect on our business, financial condition, results of operations and cash flows.

The business process outsourcing markets are highly competitive, and we might not be able to compete effectively

Our ability to compete will depend on a number of factors, including our ability to:

- Initiate, develop and maintain new client relationships;
- Maintain and expand existing client programs;
- Staff and equip suitable delivery center facilities in a timely manner; and
- Develop new solutions and enhance existing solutions we provide to our clients.

Moreover, we compete with a variety of companies with respect to our offerings, including:

Large multinational providers, including the service arms of large global technology providers;

Offshore service providers in lower-cost locations that offer services similar to those we offer, often at highly competitive prices;

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- Niche solution or service providers that compete with us in a specific geographic market, industry segment or service area; and
- Most importantly, the in-house operations of clients or potential clients.

Because our primary competitors are the in-house operations of existing or potential clients, our performance and growth could be adversely affected if our existing or potential clients decide to provide in-house business process services they currently outsource, or retain or increase their in-house business processing services and product support capabilities. In addition, competitive pressures from current or future competitors also could cause our services to lose market acceptance or put downward pressure on the prices we charge for our services and on our operating margins. If we are unable to provide our clients with superior services and solutions at competitive prices, our business, financial condition, results of operations and cash flows could be adversely affected.

We may not be able to develop our services and solutions in response to changes in technology and client demand

Our success depends on our ability to develop and implement systems technology and outsourcing services and solutions that anticipate and respond to rapid and continuing changes in technology, industry developments and client needs. Our continued growth and future profitability will be highly dependent on a number of factors, including our ability to develop new technologies that:

- Expand our existing solutions and offerings;
- Achieve cost efficiencies in our existing delivery center operations; and
- Introduce new solutions that leverage and respond to changing technological developments.

We may not be successful in anticipating or responding to these developments on a timely basis. Our integration of new technologies may not achieve their intended cost reductions and services and technologies offered by current or future competitors may make our service offerings uncompetitive or obsolete. Our failure to maintain our technological capabilities or to respond effectively to technological changes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we fail to recruit, hire, train and retain key executives or qualified employees, our business will be adversely affected

Our business is labor intensive and places significant importance on our ability to recruit, train, and retain qualified personnel. We generally experience high employee turnover and are continuously required to recruit and train replacement personnel as a result of a changing and expanding work force. Demand for qualified technical professionals conversant in multiple languages, including English, and/or certain technologies may exceed supply, as new and additional skills are required to keep pace with evolving technologies. In addition, certain delivery centers are located in geographic areas with relatively low unemployment rates, which could make it more costly to hire qualified personnel. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain qualified personnel or an increase in wages or other costs of attracting, training, or retaining qualified personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our success is also dependent upon the efforts, direction and guidance of our executive management team. Although members of our executive team are subject to non-competition agreements, they can terminate their employment at any time. The loss of any member of our senior management team could adversely affect our business, financial condition, results of operations and cash flows and growth potential.

If we fail to integrate businesses and assets that we may acquire through joint ventures or acquisitions, we may lose clients and our liquidity, capital resources and profitability may be adversely affected

We may pursue joint ventures or strategic acquisitions of companies with services, technologies, industry specializations, or geographic coverage that extend or complement our existing business. Acquisitions and joint ventures often involve a number of special risks, including the following:

- We may encounter difficulties integrating acquired software, operations and personnel and our management s attention could be diverted from other business concerns;
- We may not be able to successfully incorporate acquired technology and rights into our service offerings and maintain uniform standards, controls, procedures and policies;
- The businesses or assets we acquire may fail to achieve the revenue and earnings we anticipated, causing us to incur additional debt to fund operations and to write down the value of acquisitions on our financial statements;
- We may assume liabilities associated with the sale of the acquired company s products or services;
- Our resources may be diverted in asserting and defending our legal rights and we may ultimately be liable for contingent and other liabilities, not previously disclosed to us, of the companies that we acquire;
- Acquisitions may disrupt our ongoing business and dilute our ownership interest;
- Acquisitions may result in litigation from former employees or third parties; and
- Due diligence may fail to identify significant issues with product quality, product architecture, ownership rights and legal contingencies, among other matters.

We may pursue strategic alliances in the form of joint ventures and partnerships, which involve many of the same risks as acquisitions as well as additional risks associated with possible lack of control if we do not have a majority ownership position. Any of the factors identified above could have a material adverse effect on our business and on the market value of our common stock.

In addition, negotiation of potential acquisitions and the resulting integration of acquired businesses, products, or technologies, could divert management s time and resources. Future acquisitions could cause us to issue dilutive equity or incur debt, contingent liabilities, additional amortization charges from intangible assets, asset impairment charges, or write-off charges for in-process research and development and other indefinite-lived intangible assets that could adversely affect our business, financial condition, results of operations and cash flows.

We face risks related to health epidemics, which could disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our business could be materially and adversely affected by health epidemics, including, but not limited to, outbreaks of the H1N1 influenza virus (commonly known as the swine flu), the avian flu, and severe acute respiratory syndrome (SARS). Outbreaks of SARS in 2003 and 2004 and the avian flu in 2006, 2007 and 2008 alarmed people around the world, raising issues pertaining to health and travel and undermining confidence in the world s economy. More recently, cases of the H1N1 virus have been identified internationally, including confirmed human outbreaks and deaths. Any prolonged epidemic of the H1N1 virus, avian flu, SARS, or other contagious infection in the markets in which we do business may result in worker absences, lower asset utilization rates, voluntary closure of our offices and delivery centers, travel restrictions on our employees, and other disruptions to our business. Moreover, health epidemics may force local health and government authorities to mandate the closure of our offices and delivery centers. Any prolonged or widespread health epidemic could severely disrupt our business operations, result in a significant decrease in demand for our services, and have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Common Stock

The market price for our common stock may be volatile

The trading price of our common stock has been volatile and may be subject to wide fluctuations in response to, among other factors, the following:

- Actual or anticipated variations in our quarterly results;
- Announcements of new contracts or contract cancellations;
- Changes in financial estimates by securities analysts;
- Our ability to meet the expectations of securities analysts;
- Conditions or trends in the business process outsourcing industry;
- Changes in the market valuations of other business process outsourcing companies;
- Developments in countries where we have significant delivery centers, GigaPOPs or operations;
- The ability of our clients to pay for our services; or
- Other events or factors, many of which are beyond our control.

In addition, the stock market in general, the NASDAQ Global Select Market and the market for BPO providers in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. These broad market and industry factors may materially and adversely affect our stock price, regardless of our operating performance.

You may suffer significant dilution as a result of our outstanding stock options and our equity incentive programs

We have adopted benefit plans for the compensation of our employees and directors under which restricted stock units (RSUs) and options to purchase our common stock have been and will continue to be granted. Options to purchase approximately 3.3 million shares of our common stock were outstanding at December 31, 2009, of which approximately 3.2 million shares were exercisable. RSUs representing approximately 2.4 million shares were outstanding at December 31, 2009, all of which were unvested. The large number of shares issuable upon exercise of our options and other equity incentive grants could have a significant depressing effect on the market price of our stock and cause dilution to the earnings per share of our common stock.

Our Chairman and Chief Executive Officer has practical control over all matters requiring action by our stockholders

Kenneth D. Tuchman, our Chairman and Chief Executive Officer, beneficially owns approximately 50.7% of our common stock. As a result, Mr. Tuchman has practical control over all matters requiring action by our stockholders, including the election of our entire Board of Directors. It is unlikely that a change in control of our company could be effected without his approval.

We and certain of our officers and directors have been named as parties to class action and related lawsuits relating to our historical equity-based compensation practices and resulting restatements, and additional lawsuits may be filed in the future

In connection with our historical equity-based compensation practices and resulting restatements, a securities class action lawsuit and a shareholder derivative lawsuit were filed against the Company, certain of our current directors and officers and others. There may be additional lawsuits of this nature filed in the future. We cannot predict the outcome of these lawsuits, nor can we predict the amount of time

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and expense that will be required to resolve these lawsuits. Although we expect the majority of expenses related to the lawsuits to be covered by insurance, there can be no assurance that all such expenses will be reimbursed.

Our controls and procedures may not prevent or detect all errors or acts of fraud

Our management, including our CEO and Interim 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 the control system are met. Further, the design of a control system must consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the Securities and Exchange Commission (SEC) to implement Section 404, we are required to furnish a report by our management to include in this Form 10-K regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. We have in the past discovered, and may potentially in the future discover, areas of internal control over financial reporting which may require improvement. If we are unable to assert that our internal control over financial reporting is effective now or in any future period, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our 2009 fiscal year that remain unresolved.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Englewood, Colorado, which consists of approximately 264,000 square feet of owned office space.

As of December 31, 2009, excluding delivery centers we have exited, we operated 68 delivery centers that are classified as follows:

Multi-Client Center We lease space for these centers and serve multiple clients in each facility;

Dedicated Center We lease space for these centers and dedicate the entire facility to one client; and

Managed Center These facilities are leased or owned by our clients and we staff and manage these sites on behalf of our clients in accordance with facility management contracts.

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As of December 31, 2009, our delivery centers were located in the following countries:

	Multi-Client Centers	Dedicated Centers	Managed Centers	Total Number of Delivery Centers
Argentina	4		2	6
Australia	2	1		3
Brazil	1		1	2
Canada	2	4	1	7
China			1	1
Costa Rica	1			1
Germany			1	1
Malaysia	1			1
Mexico	3			3
New Zealand	1		1	2
Northern Ireland	1			1
Philippines	13			13
Scotland		1	2	3
South Africa	1		1	2
Spain	4	1	1	6
United States of America	5	5	6	16
Total	39	12	17	68

The leases for all of our delivery centers have remaining terms ranging from one to 11 years and generally contain renewal options. We believe that our existing delivery centers are suitable and adequate for our current operations, and we have plans to build additional centers to accommodate future business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we have been involved in claims and lawsuits, both as plaintiff and defendant, which arise in the ordinary course of business. Accruals for claims or lawsuits have been provided for to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, we believe that the disposition or ultimate resolution of such claims or lawsuits will not have a material adverse effect on our financial position, cash flows or results of operations.

Securities Class Action

On January 25, 2008, a class action lawsuit was filed in the United States District Court for the Southern District of New York entitled *Beasley v. TeleTech Holdings, Inc., et al.* against TeleTech, certain current directors and officers and others alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act, Section 10(b) of the Securities Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Securities Exchange Act. The complaint alleges, among other things, false and misleading statements in the Registration Statement and Prospectus in connection with (i) a March 2007 secondary offering of common stock and (ii) various disclosures made and periodic reports filed by the Company between February 8, 2007 and November 8, 2007. On February 25, 2008, a second nearly identical class action complaint, entitled *Brown v. TeleTech Holdings, Inc., et al.,* was filed in the same court. On May 19, 2008, the actions described above were consolidated under the caption *In re: TeleTech Litigation* and lead plaintiff and lead counsel were approved. On October 21, 2009, the Company and the other defendants named executed a stipulation of settlement with the lead plaintiffs to settle the consolidated class action lawsuit. The United States District Court for the Southern District of New York has preliminarily approved the settlement and has set a hearing on final approval on June 11, 2010. The Company will pay $225,000 of the total settlement amount, which is included in Other accrued expenses in the Consolidated Balance Sheet, and the rest of the settlement amount will be covered by the Company s insurance carriers.

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Derivative Action

On July 28, 2008, a shareholder derivative action was filed in the Court of Chancery, State of Delaware, entitled *Susan M. Gregory v. Kenneth D. Tuchman, et al.*, against certain of TeleTech s former and current officers and directors alleging, among other things, that the individual defendants breached their fiduciary duties and were unjustly enriched in connection with: (i) equity grants made in excess of plan limits; and (ii) manipulating the grant dates of stock option grants from 1999 through 2008. TeleTech is named solely as a nominal defendant against whom no recovery is sought. On October 26, 2009, the Company and other defendants in the derivative action executed a stipulation of settlement with the lead plaintiffs to settle the derivative action. On January 5, 2010, the Court of Chancery, State of Delaware issued final approval of the settlement. The total amount to be paid under the approved settlement will be covered by the Company s insurance carriers.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol TTEC. The following table sets forth the range of the high and low sales prices per share of the common stock for the quarters indicated as reported on the NASDAQ Global Select Market:

	High	Low
Fourth Quarter 2009	$ 20.89	$ 14.82
Third Quarter 2009	$ 18.28	$ 14.05
Second Quarter 2009	$ 15.37	$ 10.01
First Quarter 2009	$ 11.89	$ 7.05
Fourth Quarter 2008	$ 13.20	$ 6.43
Third Quarter 2008	$ 21.07	$ 10.02
Second Quarter 2008	$ 26.88	$ 19.88
First Quarter 2008	$ 23.59	$ 16.17

As of December 31, 2009, we had approximately 551 holders of record of our common stock. We have never declared or paid any dividends on our common stock and we do not expect to do so in the foreseeable future.

Stock Repurchase Program

In November 2001, the Board of Directors (Board) authorized a stock repurchase program to repurchase up to $5.0 million of our common stock with the objective of increasing stockholder returns. The Board has since periodically authorized additional increases in the program. Since inception of the program through December 31, 2009, the Board has authorized the repurchase of shares up to an aggregate value of $312.3 million. Since inception of the program, we have purchased 23.8 million shares for $286.7 million.

During the year ended December 31, 2009, we purchased 2.5 million shares for $34.8 million. As of December 31, 2009, the remaining allowance under the program was approximately $25.6 million. For the period from January 1, 2010 through February 22, 2010, we have purchased an additional 0.6 million shares for $11.4 million. On February 18, 2010, the Board authorized an increase of $25.0 million in the funding available for share repurchase. The stock repurchase program does not have an expiration date.

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Issuer Purchases of Equity Securities During the Fourth Quarter of 2009

The following table provides information about our repurchases of equity securities during the quarter ended December 31, 2009:

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)	
October 1, 2009 October 31, 2009		$			$	33,548
November 1, 2009 November 30, 2009		$			$	33,548
December 1, 2009 December 31, 2009	414,143	$	19.07	414,143	$	25,650
Total	414,143			414,143		

Equity Compensation Plan Information

The following table sets forth, as of December 31, 2009, the number of shares of our common stock to be issued upon exercise of outstanding options, RSUs, warrants and rights, the weighted-average exercise price of outstanding options, warrants and rights, and the number of securities available for future issuance under equity-based compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, RSUs, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	5,732,891(1)	$	11.72(2)	2,993,441
Equity compensation plans not approved by security holders		$		

Total	5,732,891	2,993,441

(1) Includes options to purchase 3,337,913 shares and 2,394,978 RSUs issued under our equity incentive plans.

(2) Weighted average exercise price of outstanding stock options; excludes RSUs, which have no exercise price.

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Stock Performance Graph

The graph depicted below compares the performance of TeleTech common stock with the performance of the NASDAQ Composite Index; the Russell 2000 Index; and customized peer group over the period beginning on December 31, 2004 and ending on December 31, 2009. We have chosen a Peer Group composed of Convergys Corporation (NYSE: CVG), Genpact Limited (NYSE: G), Sykes Enterprises, Incorporated (NASDAQ: SYKE) and Teleperformance (NYSE Euronext: RCF). We believe that the companies in the Peer Group are relevant to our current business model, market capitalization and position in the overall BPO industry.

The graph assumes that $100 was invested on December 31, 2004 in our common stock and in each comparison index, and that all dividends were reinvested. We have not declared any dividends on our common stock. Stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among TeleTech Holdings, Inc., The NASDAQ Composite Index,
The Russell 2000 Index, An Old Peer Group And A New Peer Group

	December					
	2004	2005	2006	2007	2008	2009
TeleTech Holdings, Inc.	$ 100	$ 124	$ 246	$ 220	$ 86	$ 207
NASDAQ Composite	$ 100	$ 101	$ 114	$ 124	$ 73	$ 106
Russell 2000	$ 100	$ 105	$ 124	$ 122	$ 81	$ 103
Peer Group	$ 100	$ 116	$ 167	$ 139	$ 82	$ 125

*$100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, the Consolidated Financial Statements and the related notes appearing elsewhere in this Form 10-K (amounts in thousands except per share amounts).

	Year Ended December 31,				
	2009	2008(9)	2007(9)	2006(9)	2005(9)
Statement of Operations Data					
Revenue	$ 1,167,915	$ 1,400,147	$ 1,369,632	$ 1,210,753	$ 1,085,903
Cost of services	(820,517)	(1,024,451)	(1,001,459)	(882,809)	(809,059)
Selling, general and administrative	(180,039)	(199,495)(2)	(207,528)(2)	(199,995)	(183,111)
Depreciation and amortization	(56,991)	(59,166)	(55,953)	(51,989)	(54,412)
Other operating expenses	(9,659)(1)	(8,077)(3)	(22,904)(5)	(2,195)(7)	(7,384)(8)
Income from operations	100,709	108,958	81,788	73,765	31,937
Other income (expense)	2,334	(4,354)	(6,437)(6)	(4,442)	(156)
Provision for income taxes	(27,477)	(27,269)(4)	(19,562)	(16,474)(4)	(3,953)(4)
Noncontrolling Interest	(3,812)	(3,588)	(2,686)	(1,868)	(1,542)
Net income attributable to TeleTech shareholders	$ 71,754	$ 73,747	$ 53,103	$ 50,981	$ 26,286
Weighed average shares outstanding					
Basic	62,891	68,208	70,228	69,184	72,121
Diluted	64,238	69,578	72,638	69,869	73,134
Net income per share attributable to TeleTech shareholders					
Basic	$ 1.14	$ 1.08	$ 0.76	$ 0.74	$ 0.36
Diluted	$ 1.12	$ 1.06	$ 0.73	$ 0.73	$ 0.36
Balance Sheet Data					
Total assets	$ 640,167	$ 668,942	$ 760,295	$ 664,421	$ 527,973
Total long-term liabilities	$ 38,300	$ 127,949	$ 118,729	$ 111,800	$ 68,646

(1) Includes $5.7 million charge related to reductions in force; $0.8 million charge related to facility exit charges; $1.4 million benefit related to the revised estimates of facility exit charges; and a $4.6 million charge related to the impairment of property and equipment.

(2) Includes $14.6 million and $11.5 million for 2008 and 2007, respectively, for costs incurred for the Company s review of its equity-based compensation practices and restatement of the Consolidated Financial Statements.

(3) Includes $3.3 million charge related to reductions in force; $3.0 million charge related to facility exit charges; and a $2.0 million charge related to the impairment of property and equipment.

(4) Includes benefits due to the reversal of income tax valuation allowances of $3.9 million, $5.7 million, and $12.7 million for the years 2008, 2006 and 2005, respectively. The year 2006 includes a $3.3 million benefit due to the Enhansiv Holdings, Inc. loss carry forward. The year 2005 includes a $3.7 million charge related to the repatriation of foreign earnings under a Qualified Domestic Reinvestment (Gross) Plan.

(5) Includes the following items: $13.4 million charge related to the impairment of goodwill; $2.4 million charge related to the impairment of property and equipment; $3.8 million charge related to reductions in force; $4.0 million charge related to facility exit charges; and a $0.7 million benefit related to the revised estimates of restructuring charges.

(6) Includes a net $0.9 million benefit related to the sale of assets; and a $2.2 million benefit related to the execution of a software and intellectual property license agreement.

(7) Includes $1.0 million charge related to reductions in force; $0.8 million related to facility exit costs; and a $0.6 million charge related to the impairment of property and equipment.

(8) Includes $2.3 million charge related to the impairment of property and equipment; $2.1 million charge related to reductions in force; $2.6 million charge related to facility exit charges; $0.6 million impairment loss related to a decision to exit a lease early and to discontinue use of certain software; and a $0.2 million benefit related to revised estimates of restructuring and impairment charges.

(9) Presentation has been recast in accordance with the application of new accounting guidance for non-controlling interest. See Note 1 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

TeleTech is one of the largest and most geographically diverse global providers of business process outsourcing solutions. We have a 28-year history of designing, implementing and managing critical business processes for Global 1000 companies to help them improve their customers experience, expand their strategic capabilities and increase their operating efficiencies. By delivering a high-quality customer experience through the effective integration of customer-facing, front-office processes with internal back-office processes, we enable our clients to better serve, grow and retain their customer base. We have developed deep vertical industry expertise and support more than 270 business process outsourcing programs serving approximately 90 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries.

As globalization of the world s economy continues to accelerate, businesses are increasingly competing on a large-scale basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled worldwide labor force. As a result of these developments, we believe that companies have increasingly outsourced business processes to third-party providers in an effort to enhance or maintain their competitive position while increasing shareholder value through improved productivity and profitability.

Revenue in 2009 decreased over the prior year due to the global economic slowdown resulting in a decline in our current call volumes, delayed client purchasing decisions along with the continued migration of several of our clients to our offshore delivery centers, and proactively managing underperforming and geographies out of our portfolio. We believe that our revenue will continue to grow over the long-term as global demand for our services is fueled by the following trends:

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

Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment. Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more back-office opportunities and providing the services during non-peak hours with minimal incremental investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.

Increasing percentage of company operations being outsourced to most capable third-party providers. Having experienced success with outsourcing a portion of their business processes, companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party providers, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost-effectively scale to meet their evolving needs.

Increasing adoption of outsourcing across broader groups of industries. Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we see increasing interest in our services from companies in the healthcare, retail and financial services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow, further enabling us to increase and diversify our revenue and client base.

Focus on speed-to-market by companies launching new products or entering new geographic locations. As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing providers that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO providers with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 16 countries and our significant investment in standardized technology and processes, we believe that clients select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Strategy

Our objective is to become the world s largest, most technologically advanced and innovative provider of onshore, offshore and work from home BPO solutions. Companies within the Global 1000 are our primary client targets due to their size, global nature, focus on outsourcing and desire for the global, scalable integrated process solutions that we offer. We have developed, and continue to invest in, a broad set of capabilities designed to serve this growing client need. These investments include our TeleTech@Home offering which allows our employees to serve clients from their homes. This capability has enhanced the flexibility of our offering allowing clients to choose our onshore, offshore or work from home employees to meet their outsourced business process needs. In addition, we have begun to offer cloud based hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative business process services across our targeted industries.

Our business strategy to increase revenue, profitability and our industry position includes the following elements:

Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:

- Adopt or increase BPO services;
- Consolidate outsourcing providers with those that have a solid financial position, adequate capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;
- Modify their approach to outsourcing based on total value delivered versus the lowest priced provider;

- Create focused revenue generation capabilities in targeted market segments;

- Better integrate front- and back-office processes; and
- Take advantage of cost efficiencies through the adoption of cloud based technology solutions.

Deepen and broaden our relationships with existing clients;

Win business with new clients and focus on end-to-end offerings in targeted industries where we expect accelerating adoption of business process outsourcing;

Continue to invest in innovative proprietary technology and new business offerings;

Continue to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning services and our hosted TeleTech OnDemand[tm] capabilities;

Continue to improve our operating margins through selective profit improvement initiatives and increased asset utilization of our globally diverse delivery centers;

Scale our work from home initiative to increase operational flexibility; and

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

Our 2009 Financial Results

In 2009, our revenue decreased 16.6% to $1,168 million over the 2008 year, which included a decrease of 4.1% or $57.3 million due to fluctuations in foreign currency rates. Our income from operations decreased 7.5% to $100.7 million or 8.6% of revenue in 2009 from $109.0 million or 7.8% of revenue in 2008. This revenue decrease was due to a decline in existing client volumes in light of the current global recessionary economic environment, the continued migration of several of our clients to our offshore delivery centers and proactively managing underperforming business and geographies out of our portfolio. Income from operations in 2009 included $5.1 million and $4.6 million of restructuring charges and asset impairment, respectively.

We have experienced growth in our offshore delivery centers, which serve clients based in both North America and in other countries. Our offshore delivery capacity now spans seven countries with 25,159 workstations and currently represents 71% of our global delivery capabilities. Revenue in these offshore locations was $556.6 million in 2009 and represented 48% of our total revenue.

Our strong financial position due to our cash flow from operations and low debt levels allowed us to fund a significant portion of our capital needs and stock repurchases through internally generated cash flows. At December 31, 2009, we had $109.4 million of cash and cash equivalents and a total debt to total capitalization ratio of 2.1%. During 2009, we repurchased 2.5 million shares of our common stock for $34.8 million under the stock repurchase program.

Business Overview

Our BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers. Effective January 1, 2009, we completed certain organizational changes focused on streamlining the structure of our organization to more closely align our reporting structure with our client base and increase management accountability. Beginning in the first quarter of 2009, our North American BPO segment is comprised of sales to all clients based in North America (encompassing the U.S. and Canada), while our International

BPO is comprised of sales to all clients based in all countries outside of North America. TeleTech revised previously reported operating segment information to conform to its new operating segments in effect as of January 1, 2009.

On December 18, 2007, we completed the sale of Customer Solutions Mauritius, an indirect subsidiary that owned a 60% interest in our TeleTech Services India Ltd. joint venture and generated less than 1% of our revenue in 2007. See Note 2 to the Consolidated Financial Statements for further discussion of this disposition.

On September 27, 2007, Newgen Results Corporation and related companies (hereinafter collectively referred to as Newgen) and TeleTech entered into an agreement to sell substantially all of the assets and certain liabilities associated with our Database Marketing and Consulting business. The transaction was completed on September 28, 2007. This business, which only represented 1% of our revenue in 2007, provided outsourced database management, direct marketing and related customer acquisitions and retention services for automobile dealerships and manufacturers in North America. During 2007, our income from operations before income taxes was reduced by $24.3 million. This included $20.4 million of asset impairment and restructuring charges along with a loss on the sale of assets of $6.1 million partially offset by software license income of $2.2 million recorded in Other, net. See Note 7 to the Consolidated Financial Statements for further discussion on the impairment charges and Note 2 to the Consolidated Financial Statements for further discussion of this disposition. On December 22, 2008, as discussed in Note 3 to the Consolidated Financial Statements, Newgen Results Corporation, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. Accordingly, we deconsolidated Newgen Results Corporation as of December 22, 2008.

See Note 4 to the Consolidated Financial Statements for additional discussion regarding our preparation of segment information.

BPO Services

The BPO business generates revenue based primarily on the amount of time our associates devote to a client s program. We primarily focus on large global corporations in the following industries: automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless telecommunications. Revenue is recognized as services are provided. The majority of our revenue is from multi-year contracts and we expect that trend to continue. However, we do provide certain client programs on a short-term basis.

We have historically experienced annual attrition of existing client programs of approximately 6% to 12% of our revenue. Attrition of existing client programs during 2009 and 2008 was 12% and 6%, respectively.

The BPO industry is highly competitive. We compete primarily with the in-house business processing operations of our current and potential clients. We also compete with certain third-party BPO providers. Our ability to sell our existing services or gain acceptance for new products or services is challenged by the competitive nature of the industry. There can be no assurance that we will be able to sell services to new clients, renew relationships with existing clients, or gain client acceptance of our new products.

Our ability to renew or enter into new multi-year contracts, particularly large complex opportunities, is dependent upon the macroeconomic environment in general and the specific industry environments in which our clients operate. A continued weakening of the U.S. or the global economy could lengthen sales cycles or cause delays in closing new business opportunities.

Our potential clients typically obtain bids from multiple vendors and evaluate many factors in selecting a service provider, including, among other factors, the scope of services offered, the service record of the vendor and price. We generally price our bids with a long-term view of profitability and, accordingly, we consider all of our fixed and variable costs in developing our bids. We believe that our competitors, at times, may bid business based upon a short-term view, as opposed to our longer-term view, resulting in a lower price bid. While we believe our clients perceptions of the value we provide results in our being successful in certain competitive bid situations, there are often situations where a potential client may prefer a lower cost.

Our industry is labor-intensive and the majority of our operating costs relate to wages, employee benefits and employment taxes. An improvement in the local or global economies where our delivery centers are located could lead to increased labor-related costs. In addition, our industry experiences high personnel turnover, and the length of training time required to implement new programs continues to increase due to increased complexities of our clients businesses. This may create challenges if we obtain several significant new clients or implement several new, large-scale programs and need to recruit, hire and train qualified personnel at an accelerated rate.

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To some extent our profitability is influenced by the number of new client programs entered into within the period. For new programs we defer revenue related to initial training (Training Revenue) when training is billed as a separate component from production rates. Consequently, the corresponding training costs associated with this revenue, consisting primarily of labor and related expenses (Training Costs), are also deferred. In these circumstances, both the Training Revenue and Training Costs are amortized straight-line over the life of the contract. In situations where Training Revenue is not billed separately, but rather included in the production rates, there is no deferral as all revenue is recognized over the life of the contract and the associated training expenses are expensed as incurred.

As of December 31, 2009, we had deferred start-up Training Revenue, net of Training Costs, of $5.8 million that will be recognized into our income from operations over the remaining life of the corresponding contracts ($4.3 million will be recognized within the next 12 months). See Note 15 to the Consolidated Financial Statements for further discussion of deferred training revenue and costs.

We may have difficulties managing the timeliness of launching new or expanded client programs and the associated internal allocation of personnel and resources. This could cause slower than anticipated revenue growth and/or higher than expected costs primarily related to hiring, training and retaining the required workforce, either of which could adversely affect our operating results.

Quarterly, we review our capacity utilization and projected demand for future capacity. In conjunction with these reviews, we may decide to consolidate or close under-performing delivery centers, including those impacted by the loss of a major client program, in order to maintain or improve targeted utilization and margins. In addition, because clients may request that we serve their customers from international delivery centers with lower prevailing labor rates, in the future we may decide to close one or more of our delivery centers, even though it is generating positive cash flow, because we believe the future profits from conducting such work outside the current delivery center may more than compensate for the one-time charges related to closing the facility.

Our profitability is influenced by our ability to increase capacity utilization in our delivery centers. We attempt to minimize the financial impact resulting from idle capacity when planning the development and opening of new delivery centers or the expansion of existing delivery centers. As such, management considers numerous factors that affect capacity utilization, including anticipated expirations, reductions, terminations, or expansions of existing programs and the potential size and timing of new client contracts that we expect to obtain.

We continue to win new business with both new and existing clients. To respond more rapidly to changing market demands, to implement new programs and to expand existing programs, we may be required to commit to additional capacity prior to the contracting of additional business, which may result in idle capacity. This is largely due to the significant time required to negotiate and execute large, complex BPO client contracts and the difficulty of predicting when new programs will launch.

We internally target capacity utilization in our delivery centers at 80% to 90% of our available workstations. As of December 31, 2009, the overall capacity utilization in our Multi-Client Centers was 66% and was lower than the prior year due to softness of existing client volumes in light of the weakening economic environment. The table below presents workstation data for our multi-client centers as of December 31, 2009 and 2008. Dedicated and Managed Centers (3.956 and 9,048 workstations, at December 31, 2009 and 2008, respectively) are excluded from the workstation data as unused workstations in these facilities are not available for sale. Our utilization percentage is defined as the total number of utilized production workstations compared to the total number of available production workstations. We may change the designation of shared or dedicated centers based on the normal changes in our business environment and client needs.

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	December 31, 2009			December 31, 2008		
	Total Production Workstations	In Use	% In Use	Total Production Workstations	In Use	% In Use
Multi-client centers						
Sites open <1 year	20,271	13,885	68%	18,083	13,558	75%
Sites open >1 year	11,373	7,061	62%	12,805	8,472	66%
Total multi-client centers	31,644	20,946	66%	30,888	22,030	71%

While historically US-based clients utilized most of our offshore delivery capabilities, we have increasingly seen clients in Europe and Asia Pacific utilize our offshore delivery capabilities and expect this trend to continue with clients in other countries. In light of this trend, we plan to continue to selectively expand into new offshore markets. For example, we believe we were one of the first multi-national BPO providers to enter the African continent. As we grow our offshore delivery capabilities and our exposure to foreign currency fluctuations increase, we continue to actively manage this risk via a multi-currency hedging program designed to minimize operating margin volatility.

Database Marketing and Consulting

On September 27, 2007, Newgen and TeleTech entered into an agreement to sell substantially all of the assets and certain liabilities associated with our Database Marketing and Consulting business. As a result of the transaction which was completed on September 28, 2007, Newgen received $3.2 million in cash and recorded a loss on disposal of $6.1 million. See Note 2 to the Consolidated Financial Statements for further discussion of this disposition.

Concurrent with the sale, we entered into an agreement with this buyer to provide ongoing BPO services to that segment that were previously being performed by us. We reviewed the direct cash flows associated with this agreement and compared them to our estimates of the revenue associated with the Database Marketing and Consulting business. We concluded that these direct cash flows were significant. As a result, the operations included in the Database Marketing and Consulting business did not meet the accounting criteria and therefore was not classified as discontinued operations.

Prior to the sale and as a result of the business continued losses, during June 2007, we determined that it was more-likely-than-not that we would dispose of our Database Marketing and Consulting business. This triggered impairment testing on an interim basis for this segment as discussed in Note 7 to the Consolidated Financial Statements. As a result, the Database, Marketing and Consulting business recorded an impairment loss of $13.4 million during the second quarter of 2007 to reduce the carrying value of their goodwill to zero.

On December 22, 2008, as discussed in Note 3 to the Consolidated Financial Statements, Newgen Results Corporation, a wholly-owned subsidiary of the Company, filed a voluntary petition for liquidation under Chapter 7 in the United States Bankruptcy Court for the District of Delaware. According to accounting literature, the consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners. Accordingly, the Company deconsolidated Newgen Results Corporation as of December 22, 2008.

Overall

As shown in the Results of Operations section which follows later, we have improved income from operations for our North American and International BPO segments. The increases are attributable to a variety of factors such as expansion of work on certain client programs, transitioning work on certain client programs to lower cost operating centers, improving individual client program profit margins and/or eliminating underperforming programs and our multi phased cost reduction plan.

As we pursue acquisition opportunities, it is possible that the contemplated benefits of any future acquisitions may not materialize within the expected time periods or to the extent anticipated. Critical to the success of our acquisition strategy is the orderly, effective integration of acquired businesses into our organization. If this integration is unsuccessful, our business may be adversely impacted. There is also the risk that our valuation assumptions and models for an acquisition may be overly optimistic or incorrect.

Critical Accounting Policies and Estimates

Management s discussion and analysis of its financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. We regularly review our estimates and assumptions. These estimates and assumptions, which are based upon historical experience and on various other factors believed to be reasonable under the circumstances, form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Reported amounts and disclosures may have been different had management used different estimates and assumptions or if different conditions had occurred in the periods presented. Below is a discussion of the policies that we believe may involve a high degree of judgment and complexity.

Revenue Recognition

For each client arrangement, we determine whether evidence of an arrangement exists, delivery of our service has occurred, the fee is fixed or determinable and collection is reasonably assured. If all criteria are met, we recognize revenue at the time services are performed. If any of these criteria are not met, revenue recognition is deferred until such time as all of the criteria are met.

Our BPO segments recognize revenue under three models:

Production Rate Revenue is recognized based on the billable time or transactions of each associate, as defined in the client contract. The rate per billable time or transaction is based on a pre-determined contractual rate. This contractual rate can fluctuate based on our performance against certain pre-determined criteria related to quality and performance.

Performance-based Under performance-based arrangements, we are paid by our clients based on the achievement of certain levels of sales or other client-determined criteria specified in the client contract. We recognize performance-based revenue by measuring our actual results against the performance criteria specified in the contracts. Amounts collected from clients prior to the performance of services are recorded as deferred revenue, which is recorded in Other Short-Term Liabilities or Other Long-Term Liabilities in the accompanying Consolidated Balance Sheets.

Hybrid Hybrid models include production rate and performance-based elements. For these types of arrangements, we allocate revenue to the elements based on the relative fair value of each element. Revenue for each element is recognized based on the methods described above.

Certain client programs provide for adjustments to monthly billings based upon whether we meet or exceed certain performance criteria as set forth in the contract. Increases or decreases to monthly billings arising from such contract terms are reflected in revenue as earned or incurred.

Periodically we make certain expenditures related to acquiring contracts, or providing up front discounts for future services to existing customers (recorded as Contract Acquisition Costs in the accompanying Consolidated Balance Sheets). Those expenditures are capitalized and amortized in proportion to the expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these amounts is recorded as a reduction of revenue.

Income Taxes

We account for income taxes in accordance with the authoritative guidance for income taxes, which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the Consolidated Financial Statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. When circumstances warrant, we assess the likelihood that our net deferred tax assets will more likely than not be recovered from future projected taxable income.

We continually review the likelihood that deferred tax assets will be realized in future tax periods under the more-likely-than-not criteria. In making this judgment, we consider all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance is required.

We follow a two-step approach to recognizing and measuring uncertain tax positions. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, and settlement of issues under audit.

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

In the future, our effective tax rate could be adversely affected by several factors, many of which are outside our control. Our effective tax rate is affected by the proportion of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. Further, we are subject to changing tax laws, regulations and interpretations in multiple jurisdictions, in which we operate, as well as the requirements, pronouncements and ruling of certain tax, regulatory and accounting organizations. We estimate our annual effective tax rate each quarter based on a combination of actual and forecasted results of subsequent quarters. Consequently, significant changes in our actual quarterly or forecasted results may impact the effective tax rate for the current or future periods.

Allowance for Doubtful Accounts

We have established an allowance for doubtful accounts to reserve for uncollectible accounts receivable. Each quarter, management reviews the receivables on an account-by-account basis and assigns a probability of collection. Management s judgment is used in assessing the probability of collection. Factors considered in making this judgment include, among other things, the age of the identified receivable, client financial condition, previous client payment history and any recent communications with the client.

Impairment of Long-Lived Assets

We evaluate the carrying value of property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carry amount may not be recoverable. An asset is considered to be impaired when the anticipated undiscounted future cash flows of an asset group are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset group and its fair value. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates.

Goodwill

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

We estimate fair value using discounted cash flows of the reporting units. The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we use financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services, projected labor costs, as well as contract negotiation status. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. We use a discount rate we consider appropriate for the country where the business unit is providing services. As of December 31, 2009, the Company s assessment of goodwill impairment indicated that the fair values of the Company s reporting units were substantially in excess of their estimated carrying values, and therefore goodwill in the reporting units was not impaired. If actual results are less than the assumptions used in performing the impairment test, the fair value of the reporting units may be significantly lower, causing the carrying value to exceed the fair value and indicating an impairment has occurred.

Restructuring Liability

We routinely assess the profitability and utilization of our delivery centers and existing markets. In some cases, we have chosen to close under-performing delivery centers and complete reductions in workforce to enhance future profitability. We recognize certain severance liabilities when the liabilities are determined to be probable and reasonably estimable. Liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, rather than upon commitment to a plan.

A significant assumption used in determining the amount of the estimated liability for closing delivery centers is the estimated liability for future lease payments on vacant centers, which we determine based on our ability to successfully negotiate early termination agreements with landlords and/or our ability to sublease the facility. If our assumptions regarding early termination and the timing and amounts of sublease payments prove to be inaccurate, we may be required to record additional losses, or conversely, a reversal of previously reported losses.

Equity-Based Compensation Expense

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

Fair Value Measurement

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

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

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

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

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

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

Derivatives

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

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

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

While we expect that our derivative instruments will continue to be highly effective and in compliance with applicable accounting standards, if our hedges did not qualify as highly effective or if we determine that

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forecasted transactions will not occur, the changes in the fair value of the derivatives used as hedges would be reflected currently in earnings.

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

Contingencies

We record a liability for pending litigation and claims where losses are both probable and reasonably estimable. Each quarter, management reviews all litigation and claims on a case-by-case basis and assigns probability of loss and range of loss.

Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally include costs incurred in connection with our BPO operations and database marketing services, including direct labor, telecommunications, printing, postage, sales and use tax and certain fixed costs associated with delivery centers. In addition, cost of services includes income related to grants we may receive from local or state governments as an incentive to locate delivery centers in their jurisdictions which reduce the cost of services for those facilities.

Selling, General and Administrative

Selling, general and administrative expenses primarily include costs associated with administrative services such as sales, marketing, product development, legal settlements, legal, information systems (including core technology and telephony infrastructure) and accounting and finance. It also includes equity-based compensation expense, outside professional fees (i.e., legal and accounting services), building expense for non-delivery center facilities and other items associated with general business administration.

Restructuring Charges, Net

Restructuring charges, net primarily include costs incurred in conjunction with reductions in force or decisions to exit facilities, including termination benefits and lease liabilities, net of expected sublease rentals.

Interest Expense

Interest expense includes interest expense and amortization of debt issuance costs associated with our debts and capitalized lease obligations.

Other Income

The main components of other income are miscellaneous income not directly related to our operating activities, such as foreign exchange transaction gains.

Other Expenses

The main components of other expenses are expenditures not directly related to our operating activities, such as foreign exchange transaction losses.

Presentation of Non-GAAP Measurements

Free Cash Flow

Free cash flow is a non-GAAP liquidity measurement. We believe that free cash flow is useful to our investors because it measures, during a given period, the amount of cash generated that is available for debt obligations and investments other than purchases of property, plant and equipment. Free cash flow is not a measure determined by GAAP and should not be considered a substitute for income from operations, net income, net cash provided by operating activities, or any other measure determined in

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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 excludes cash that may be necessary for acquisitions, investments and other needs that may arise.

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

	Year Ended December 31,		
	2009	**2008**	**2007**
Net cash provided by operating activities	$ 160,672	$ 160,566	$ 103,514
Purchases of property, plant and equipment	24,188(1)	61,712(1)	61,083
Free cash flow	$ 136,484	$ 98,854	$ 42,431

(1) Purchases of property, plant and equipment for the years ended December 31, 2009 and 2008 are net of proceeds from a government grant of $0.8 million and $4.3 million, respectively.

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

RESULTS OF OPERATIONS

Year Ended December 31, 2009 Compared to December 31, 2008

The following tables are presented to facilitate Management s Discussion and Analysis. The following table presents results of operations by segment for the years ended December 31, 2009 and 2008 (dollar amounts in thousands):

	Year Ended December 31,					
	2009	% of Segment Revenue	2008	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 886,738		$ 1,020,722		$ (133,984)	13.1%
International BPO	281,177		379,425		(98,248)	25.9%
Database Marketing and Consulting						
	$ 1,167,915		$ 1,400,147		$ (232,232)	16.6%
Cost of services						
North American BPO	$ 598,040	67.4%	$ 726,114	71.1%	$ (128,074)	17.6%
International BPO	222,477	79.1%	298,230	78.6%	(75,753)	25.4%
Database Marketing and Consulting			107		(107)	100.0%
	$ 820,517	70.3%	$ 1,024,451	73.2%	$ (203,934)	19.9%
Selling, general and administrative						
North American BPO	$ 132,399	14.9%	$ 145,338	14.2%	$ (12,939)	8.9%
International BPO	47,640	16.9%	53,755	14.2%	(6,115)	11.4%
Database Marketing and Consulting			402		(402)	100.0%
	$ 180,039	15.4%	$ 199,495	14.2%	$ (19,456)	9.8%
Depreciation and amortization						
North American BPO	$ 39,603	4.5%	$ 41,385	4.1%	$ (1,782)	4.3%
International BPO	17,388	6.2%	17,756	4.7%	(368)	2.1%
Database Marketing and Consulting			25		(25)	100.0%
	$ 56,991	4.9%	$ 59,166	4.2%	$ (2,175)	3.7%
Restructuring charges, net						
North American BPO	$ 3,388	0.4%	$ 2,947	0.3%	$ 441	15.0%
International BPO	1,684	0.6%	3,169	0.8%	(1,485)	46.9%
Database Marketing and Consulting			(57)		57	100.0%

	$	5,072	0.4%	$	6,059	0.4%	$	(987)	16.3%
Impairment losses									
North American BPO	$	1,811	0.2%	$	1,854	0.2%	$	(43)	2.3%
International BPO		2,776	1.0%		164	0.0%		2,612	1593%
Database Marketing and Consulting									
	$	4,587	0.4%	$	2,018	0.1%	$	2,569	127.3%
Income (loss) from operations									
North American BPO	$	111,497	12.6%	$	103,084	10.1%	$	8,413	8.2%
International BPO		(10,788)	3.8%		6,351	1.7%		(17,139)	269.9%
Database Marketing and Consulting					(477)			477	100.0%
	$	100,709	8.6%	$	108,958	7.8%	$	(8,249)	7.6%
Other income (expense), net	$	2,334	0.2%	$	(4,354)	0.3%	$	6,688	153.6%
Provision for income taxes	$	(27,477)	2.4%	$	(27,269)	1.9%	$	(208)	0.8%

Revenue

Revenue for North American BPO for 2009 compared to 2008 was $886.7 million and $1,020.7 million, respectively. The decrease in revenue for the North American BPO was due to net decreases in client programs of $20.0 million, along with certain program terminations of $90.8 million, and a $23.2 million decrease due to realized losses on cash flow hedges purchased to reduce our exposure to foreign currency exchange rate fluctuations for revenue delivered in a different country from where the client is located.

Revenue for International BPO for 2009 compared to 2008 was $281.2 million and $379.4 million, respectively. The decrease in revenue for the International BPO was due to a net increase in client programs of $9.7 million, offset by certain program terminations of $73.8 million, and negative changes in foreign exchange translation rates causing a decrease in revenue of $34.1 million.

Our strategy of continuing to increase our offshore revenue delivery resulted in an increase in our percentage of offshore revenue. Our offshore delivery capacity now represents 71% of our global delivery capabilities at December 31, 2009. Revenue in these offshore locations was $556.6 million and represented 48% of our total revenue for 2009. Revenue in these offshore locations was $628.3 million and represented 45% of our total revenue for 2008. An important component of our growth strategy is continued international expansion which is one of several factors contributing to our higher margins along with increased technology and consulting related projects. Factors that may impact our ability to maintain our offshore operating margins include potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

Cost of Services

Cost of services for North American BPO for 2009 compared to 2008 was $598.0 million and $726.1 million, respectively. Cost of services as a percentage of revenue in the North American BPO decreased compared to the prior year. In absolute dollars the decrease was due to a $114.2 million decrease in employee related expenses due to lower volumes in existing client programs and program terminations, a $6.6 million decrease for telecommunications expense due to reductions in client volume and the closure of several delivery centers, a $5.5 million decrease for rent and related expenses due to the closure of several delivery centers, and a $1.8 million net decrease in other expenses.

Cost of services for International BPO for 2009 compared to 2008 was $222.5 million and $298.2 million, respectively. Cost of services as a percentage of revenue in the International BPO increased slightly compared to the prior year. In absolute dollars the decrease was due to a $67.3 million decrease in employee related expenses due to program terminations and changes in the foreign currency rates, a $3.5 million decrease for rent and related expenses due to the closure of several delivery centers, a $2.7 million decrease in sales and use tax, and a $2.2 million net decrease in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for 2009 compared to 2008 were $132.4 million and $145.3 million, respectively. The expenses decreased in absolute dollars while increasing slightly as a percentage of revenue. The decrease in absolute dollars reflects an increase in employee related expenses primarily related to incentive compensation of $0.6 million, a $5.9 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historic financial statements completed in 2008, a $2.4 million decrease in technology costs, a $1.1 million decrease in advertising, and a net decrease in other expenses of $4.1 million.

Selling, general and administrative expenses for International BPO for 2009 compared to 2008 were $47.6 million and $53.8 million, respectively. The expenses decreased in absolute dollars while increasing as a percentage of revenue. The decrease in absolute dollars reflected a decrease in employee related expenses of $2.7 million, a $2.7 million decrease in external professional fees related to our review of equity-based compensation practices and restatement of our historic financial statements completed in 2008, a $0.6 million decrease in technology costs, and a net decrease in other expenses of $0.2 million.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for 2009 and 2008 was $57.0 million and $59.2 million, respectively. For the North American BPO, the depreciation expense decreased in absolute value while it increased slightly as a percentage of revenue as compared to the prior year. This decrease in value was due to restructuring activities and delivery center closures which have better aligned our capacity to our operational needs. For the International BPO, the depreciation expense decreased in absolute value while it increased as a percentage of revenue as compared to the prior year. During 2009 we shortened the useful life of certain telephony assets, resulting in the acceleration of $1.8 million of depreciation expense in the period in the International BPO. This increase was offset by decreases in depreciation expense due to delivery center closures which have better aligned our capacity to our operational needs.

Restructuring Charges

During 2009, we recorded a net $5.1 million of restructuring charges compared to $6.1 million in 2008. During 2009, we undertook reductions in both our North American BPO and International BPO segments to better align our capacity and workforce with the current business needs. We recorded $5.7 million in severance related expenses, and $0.8 million in delivery center closure costs in both the North American BPO and International BPO segments. We also recorded a $1.4 million reduction in several of our estimates of previously recorded delivery center closure charges. During 2008, we undertook several restructuring activities including the closure of four North American BPO delivery centers and reductions in force in our International BPO segment to better align our capacity and workforce with current business needs.

Impairment Losses

During 2009, we recorded $4.6 million of impairment charges compared to $2.0 million of impairment charges in 2008. In 2009, this impairment charge related to the reduction of the net book value of certain leasehold improvements in both the North American BPO and International BPO segments. In 2008, these impairment charges related primarily to the closure of two North American BPO delivery centers.

Other Income (Expense)

For 2009, interest income decreased to $2.6 million from $4.8 million in 2008, primarily due to lower cash and cash equivalent balances and lower interest rates. Interest expense decreased during 2009 by $3.6 million due to a lower average outstanding balance on our line of credit and lower interest rates. Other income increased during 2009 by $5.3 million primarily due to changes in foreign exchange rates which caused a shift from foreign currency losses to foreign currency gains.

Income Taxes

The effective tax rate for 2009 was 26.7%. This compares to an effective tax rate of 26.1% in 2008. The 2009 effective tax rate is positively 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. The effective tax rate for 2008 of 26.1% was lower than the statutory rate due to the release of $3.9 million of valuation allowance in the United Kingdom, the Netherlands and the United States and a net reduction of $0.1 million of liabilities for uncertain tax positions.

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Year Ended December 31, 2008 Compared to December 31, 2007

The following table presents results of operations by segment for the years ended December 31, 2008 and 2007 (amounts in thousands):

	Year Ended December 31,					
	2008	% of Segment Revenue	2007	% of Segment Revenue	$ Change	% Change
Revenue						
North American BPO	$ 1,020,722		$ 996,886		$ 23,836	2.4%
International BPO	379,425		355,854		23,571	6.6%
Database Marketing and Consulting			16,892		(16,892)	−100.0%
	$ 1,400,147		$ 1,369,632		$ 30,515	2.2%
Cost of services						
North American BPO	$ 726,114	71.1%	$ 710,295	71.3%	$ 15,819	2.2%
International BPO	298,230	78.6%	279,386	78.5%	18,844	6.7%
Database Marketing and Consulting	107		11,778	69.7%	(11,671)	−99.1%
	$ 1,024,451	73.2%	$ 1,001,459	73.1%	$ 22,992	2.3%
Selling, general and administrative						
North American BPO	$ 145,338	14.2%	$ 136,247	13.7%	$ 9,091	6.7%
International BPO	53,755	14.2%	53,886	15.1%	(131)	−0.2%
Database Marketing and Consulting	402		17,395	103.0%	(16,993)	−97.7%
	$ 199,495	14.2%	$ 207,528	15.2%	$ (8,033)	−3.9%
Depreciation and amortization						
North American BPO	$ 41,385	4.1%	$ 37,015	3.7%	$ 4,370	11.8%
International BPO	17,756	4.7%	15,073	4.2%	2,683	17.8%
Database Marketing and Consulting	25		3,865	22.9%	(3,840)	−99.4%
	$ 59,166	4.2%	$ 55,953	4.1%	$ 3,213	5.7%
Restructuring charges, net						
North American BPO	$ 2,947	0.3%	$ 1,629	0.2%	$ 1,318	80.9%
International BPO	3,169	0.8%	894	0.3%	2,275	254.5%
Database Marketing and Consulting	(57)		4,592	27.2%	(4,649)	−101.2%

	$	6,059	0.4%	$	7,115	0.5%	$	(1,056)	−14.8%
Impairment losses									
North American BPO	$	1,854	0.2%	$		0.0%	$	1,854	
International BPO		164	0.0%			0.0%		164	
Database Marketing and Consulting					15,789	93.5%		(15,789)	−100.0%
	$	2,018	0.1%	$	15,789	1.2%	$	(13,771)	−87.2%
Income (loss) from operations									
North American BPO	$	103,084	10.1%	$	111,700	11.2%	$	(8,616)	−7.7%
International BPO		6,351	1.7%		6,615	1.9%		(264)	−4.0%
Database Marketing and Consulting		(477)			(36,527)	216.2%		36,050	98.7%
	$	108,958	7.8%	$	81,788	6.0%	$	27,170	33.2%
Other income (expense), net	$	(4,354)	0.3%	$	(6,437)	0.5%	$	2,083	32.4%
Provision for income taxes	$	(27,269)	1.9%	$	(19,562)	1.4%	$	(7,707)	−39.4%

Revenue

Revenue for North American BPO for 2008 compared to 2007 was $1,020.7 million and $996.9 million, respectively. The increase in revenue for the North American BPO was due to net increases in client programs of $71.9 million, offset by certain program terminations of $39.4 million, and a $8.7 million decrease due to realized losses on cash flow hedges purchased to reduce our exposure to foreign currency exchange rate fluctuations for revenue delivered in a different country from where the client is located.

Revenue for International BPO for 2008 compared to 2007 was $379.4 million and $355.9 million, respectively. The increase in revenue for the International BPO was due to net increases in client programs of $31.7 million, positive changes in foreign exchange translation rates causing an increase in revenue of $6.8 million, offset by certain program terminations of $15.0 million.

Our strategy of continuing to increase our offshore revenue delivery resulted in an increase in our percentage of offshore revenue. Our offshore delivery capacity represented 65% of our global delivery capabilities at December 31, 2008. Revenue in these offshore locations was $628.3 million and represented 45% of our total revenue for 2008. Revenue in these offshore locations was $548.8 million and represented 40% of our total revenue for 2007. An important component of our growth strategy is continued international expansion which is one of several factors contributing to our higher margins along with increased technology and consulting related projects. Factors that may impact our ability to maintain our offshore operating margins include potential increases in competition for the available workforce, the trend of higher occupancy costs and foreign currency fluctuations.

Cost of Services

Cost of services for North American BPO for 2008 compared to 2007 was $726.1 million and $710.3 million, respectively. Cost of services as a percentage of revenue in the North American BPO decreased slightly compared to the prior year. In absolute dollars the increase was due to a $17.4 million increase in employee related expenses due to the implementation of new and expanded client programs, a $2.8 million increase in rent, and a $4.4 million net decrease in other expenses.

Cost of services for International BPO for 2008 compared to 2007 was $298.2 million and $279.4 million, respectively. Cost of services as a percentage of revenue remained relatively flat compared to the prior year. In absolute dollars the increase was due a $10.1 million increase in employee related expenses due to the implementation of new and expanded client programs, a $4.0 million increase in rent and telecommunications, and a $4.7 million net increase in other expenses.

Selling, General and Administrative

Selling, general and administrative expenses for North American BPO for 2008 compared to 2007 were $145.3 million and $136.2 million, respectively. The expenses increased both in absolute dollars and as a percentage of revenue. The increase in absolute dollars reflects an increase in employee related expenses of $1.0 million, a $4.0 million increase in external professional fees related to our review of equity-based compensation practices and restatement of our historic financial statements completed in 2008, a $0.7 million increase in advertising, a $0.5 million increase in technology costs, and a net increase in other expenses of $2.9 million.

Selling, general and administrative expenses for International BPO for 2008 compared to 2007 were $53.8 million and $53.9 million, respectively. The expenses decreased both in absolute dollars and as a percentage of revenue. The decrease in absolute dollars reflected a $1.1 million increase in external professional fees related to our review of equity-based compensation practices and restatement of our historic financial statements completed in 2008, an increase of $0.6 million for salary related expenses, an increase of $.3 million for technology related costs, and a net decrease in other expenses of $2.1 million.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for 2008 and 2007 was $59.2 million and $56.0 million, respectively. Depreciation and amortization expense in both the North American BPO and the International BPO as a percentage of revenue increased slightly compared to the prior year. The North American BPO included an increase in the Philippines of $5.0 million and South Africa of $0.6 million due to investment in new capacity. The International BPO included an increase for Latin America of $1.9 million due to new capacity. The Database Marketing and Consulting depreciation expense decreased by $3.9 million due to the sale of substantially all of the assets and liabilities associated with the business in September 2007.

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Restructuring Charges

During 2008, we recorded $6.1 million of restructuring charges compared to $7.1 million in 2007. During 2008, we undertook several restructuring activities including the closure of four North American BPO delivery centers and reductions in force in our International BPO segment to better align our capacity and workforce with current business need. During 2007, we completed reductions in force in the North American BPO, the International BPO as well as the Database Marketing and Consulting BPO which totaled $4.0 million. We also recorded $3.9 million in the Database Marketing and Consulting BPO related to a facility exit charge.

Impairment Losses

During 2008, we recorded $2.0 million of impairment charges compared to $15.8 million of impairment charges in 2007. In 2008, this impairment charge related primarily to the closure of two North American BPO delivery centers. During 2007, we recognized impairment losses of $15.8 million primarily related to the following items:
(i) $15.6 million related to our Database Marketing and Consulting business comprised of $13.4 million of goodwill impairment and $2.2 million related to leasehold improvement impairments; and (ii) $0.2 million related to the reduction of the net book value of certain leasehold improvements in the North American BPO to their estimated fair values.

Other Income (Expense)

For 2008, interest income increased by $2.5 million from the prior year, primarily due to higher cash and cash equivalent balances, primarily in international locations earning higher average interest rates.

Income Taxes

The effective tax rate for 2008 was 26.1%. This compares to an effective tax rate of 26.0% in 2007. The 2008 effective tax rate is positively 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. The effective tax rate for 2008 was lower than the statutory rate due to the release of $3.9 million of valuation allowance in the United Kingdom, the Netherlands and the United States and a net reduction of $0.1 million liability for uncertain tax positions. The effective tax rate for 2007 of 26.0% was lower than the statutory rate due to the second quarter impairment and third quarter restructuring and loss on the sale of subsidiary recorded for our Database Marketing and Consulting business as discussed in Note 7 to the Consolidated Financial Statements. These charges were all recorded in the U.S. tax jurisdiction and reduced income before taxes recorded in the U.S. and thereby increased the proportion of income before taxes earned in international tax jurisdictions. We also realized a $2.4 million benefit related to a permanent difference in calculating the gain from disposition of our India joint venture in the fourth quarter of 2007 as discussed in Note 2 to the Consolidated Financial Statements and a $1.4 million benefit related to certain tax planning and corporate restructuring activities and the reversal of $0.9 million in deferred tax valuation allowance recorded against tax assets in prior years.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash generated from operations, our cash and cash equivalents, and borrowings under our Amended and Restated Credit Agreement, dated September 28, 2006 (the Credit Facility). During the year ended December 31, 2009, we generated positive operating cash flows of $160.7 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 particular focus on concentrating and safeguarding our global cash and cash equivalent reserves. While we generally prefer to hold U.S. Dollars, we maintain adequate cash in the functional currency of our foreign subsidiaries to support local operating costs. While there are no assurances, we believe our global cash is protected given our cash management practices, banking partners, and low-risk investments.

We have global operations that expose us to foreign currency exchange rate fluctuations that may positively or negatively impact our liquidity. To mitigate these risks, we enter into foreign exchange forward and option contracts through our cash flow hedging program. Please refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk, Foreign Currency Risk, for further discussion.

We primarily utilize our Credit Facility to fund working capital, stock repurchases, and other strategic and general operating purposes. In September 2008, we exercised the upsizing feature under the Credit Facility to increase our borrowing capacity by an additional $45.0 million, which increased the total commitments to $225.0 million. As of December 31, 2009 and December 31, 2008, we had zero and $80.8 million in outstanding borrowings under our Credit Facility, respectively. After consideration for issued letters of credit under the Credit Facility, totaling $4.8 million, our remaining borrowing capacity was $220.2 million as of December 31, 2009. As of December 31, 2009, we were in compliance with all covenants and conditions under our Credit Facility.

The amount of capital required over the next 12 months will also depend on our levels of investment in infrastructure necessary to maintain, upgrade or replace existing assets. Our working capital and capital expenditure requirements could also increase materially in the event of acquisitions or joint ventures, among other factors. These factors could require that we raise additional capital through future debt or equity financing. There can be no assurance that additional financing will be available, at all, or on terms favorable to us.

The following discussion highlights our cash flow activities during the years ended December 31, 2009, 2008, and 2007.

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 $109.4 million and $87.9 million as of December 31, 2009 and 2008, respectively.

Cash Flows from Operating Activities

We reinvest our cash flows from operating activities in our business or in the purchase of our outstanding stock. For the years 2009, 2008 and 2007, we reported net cash flows provided by operating activities of $160.7 million, $160.6 million and $103.5 million, respectively. Our cash from operating activities in 2009 was relatively unchanged from 2008. The increase from 2007 to 2008 was primarily due to an increase in net income of $21.5 million, greater collections of accounts receivable of $50.3 million offset by decreases in impairment losses of $13.8 million.

Cash Flows from Investing Activities

We reinvest cash in our business primarily to grow our client base and to expand our infrastructure. For the years 2009, 2008 and 2007, we reported net cash flows used in investing activities of $29.8 million, $62.1 million and $49.1 million, respectively. The decrease from 2008 to 2009 was primarily due to a $37.5 million reduction in net capital expenditures. The increase from 2007 to 2008 was primarily due to the disposition of two of our entities.

Cash Flows from Financing Activities

For the years 2009, 2008 and 2007, we reported net cash flows used in financing activities of $114.9 million, $75.6 million and $30.1 million, respectively. The change from 2008 to 2009 was due to an increase in net payments on our line of credit of $96.2 million offset by decreased purchases of common stock of $54.8 million. The change from 2007 to 2008 was due to increased purchases of our outstanding stock of $42.6 million, increased net borrowings on the line of credit of $15.0 million offset by a decrease in proceeds from stock option exercises of $13.0 million.

Free Cash Flow

Free cash flow (see Presentation of Non-GAAP Measurements for definition of free cash flow) was $136.5 million, $98.9 million and $42.4 million for the years 2009, 2008 and 2007, respectively. The increase from 2008 to 2009 resulted primarily from a decrease in capital expenditures. The increase from 2008 to 2007 resulted primarily from an increase in net income and positive changes in working capital.

Obligations and Future Capital Requirements

Future maturities of our outstanding debt and contractual obligations as of December 31, 2009 are summarized as follows (amounts in thousands):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
Credit Facility	$	$	$	$	$
Capital lease obligations	1,645	1,935			3,580
Equipment financing arrangements	2,680	1,389	240		4,309
Purchase obligations	20,840	25,160	3,936		49,937
Operating lease commitments	29,583	36,864	15,102	6,845	88,394
Total	$ 54,748	$ 65,348	$ 19,278	$ 6,845	$ 146,219

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 liabilities of $1.6 million related to uncertain tax positions because we cannot reliably estimate the timing of future cash payments. See Note 12 to the Consolidated Financial Statements for further discussion.

Purchase Obligations

Occasionally we contract with certain of our communications clients (which currently represent approximately 16% of our annual revenue) to provide us with telecommunication services. We believe these contracts are negotiated on an arm s-length basis and may be negotiated at different times and with different legal entities.

Future Capital Requirements

We expect total capital expenditures in 2010 to be approximately $30 $40 million. Approximately 55% of the expected capital expenditures in 2010 are related to the opening and/or growth of our delivery platform and 45% relates to the maintenance capital required for existing assets and internal technology projects. The anticipated level of 2010 capital expenditures is primarily dependent upon new client contracts and the corresponding requirements for additional delivery center capacity as well as enhancements to our technological infrastructure.

We may consider restructurings, dispositions, mergers, acquisitions and other similar transactions. Such transactions could include the transfer, sale or acquisition of significant assets, businesses or interests, including joint ventures or the incurrence, assumption, or refinancing of indebtedness and could be material to the consolidated financial condition and consolidated results of our operations. In addition, as of December 31, 2009, we are authorized to purchase an additional $25.6 million of common stock under our stock repurchase program (see Part II Item 5 of this Form 10-K). The stock repurchase program does not have an expiration date.

The launch of large client contracts may result in short-term negative working capital because of the time period between incurring the costs for training and launching the program and the beginning of the accounts receivable collection process. As a result, periodically we may generate negative cash flows from operating activities.

Debt Instruments and Related Covenants

Our Credit Facility, dated September 28, 2006, permits borrowing up to a maximum of $225 million. The Credit Facility expires on September 27, 2011 and allows us to request a one-year extension beyond the maturity date subject to unanimous approval by the lenders. The Credit Facility is collateralized by the majority of our domestic accounts receivable and a pledge of 65% of the capital stock of specified material foreign subsidiaries. Our domestic subsidiaries are guarantors under the Credit Facility.

The Credit Facility, which includes customary financial covenants, may be used for general corporate purposes, including working capital, purchases of treasury stock and acquisition financing. As of December 31, 2009, we had no outstanding borrowings under the Credit Facility and were in compliance with all financial covenants. Borrowings accrue interest at a rate based on either (1) Prime Rate, defined as the higher of the lender s prime rate or the Federal Funds Rate plus 0.50%, or (2) the London Interbank Offered Rate (LIBOR) plus an applicable credit spread, at our option. The interest rate and unused commitment fees also vary based on our leverage ratio as defined in the Credit Facility. During 2009, borrowings accrued interest at an average rate of approximately 1.2% per annum. In addition, we paid unused commitment fees at a rate of 0.125% per annum. As of December 31, 2009 and 2008, we had outstanding borrowings under the Credit Facility of zero and $80.8 million, respectively. The weighted average interest rate on outstanding borrowings as of December 31, 2008 was approximately 2.3%. Availability was $220.2 million as of December 31, 2009, reduced from $225.0 million by $4.8 million in issued letters of credit.

Client Concentration

Our five largest clients accounted for 36%, 39% and 40% of our annual revenue for the years ended December 31, 2009, 2008 and 2007, respectively. 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, this risk is mitigated, in part, by the service level disruptions and transition/migration costs that would arise for our clients.

The contracts with our five largest clients expire between 2010 and 2011. Additionally, a particular client may have multiple contracts with different expiration dates. We have historically renewed most of our contracts with our largest clients. However, there is no assurance that future contracts will be renewed or, if renewed, will be on terms as favorable as the existing contracts.

Recently Issued Accounting Pronouncements

We discuss the potential impact of recent accounting pronouncements in Note 1 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our consolidated financial position, consolidated results of operations, or consolidated cash flows due to adverse changes in financial and commodity market prices and rates. Market risk also includes credit and non-performance risk by counterparties to our various financial instruments, our banking partners. We are exposed to market risks due to changes in interest rates and foreign currency exchange rates (as measured against the U.S. dollar); as well as credit risk associated with potential non-performance of our counterparty banks. These exposures are directly related to our normal operating and funding activities. As discussed below, we enter into derivative instruments to manage and reduce the impact of currency exchange rate changes, primarily between the U.S. dollar/Canadian dollar, the U.S. dollar/Philippine peso, the U.S. dollar/Mexican peso, the U.S. dollar/Argentine peso, and the U.S. dollar/S. African rand. In order to mitigate against credit and non-performance risk, it is our policy to only enter into derivative contracts and other financial instruments with investment grade counterparty financial institutions and, correspondingly, our derivative valuations reflect the creditworthiness of our counterparties. As of the date of this report, we have not experienced, nor do we anticipate, any issue related to derivative counterparty defaults.

Interest Rate Risk

The interest rate on our Credit Facility is variable based upon the Prime Rate and the LIBOR and, therefore, is affected by changes in market interest rates. As of December 31, 2009, there was no outstanding balance under the Credit Facility. However, based upon the 2009 annual average borrowing rate of 1.2% and an average borrowed balance of $74 million, if the Prime Rate or LIBOR increased 100 basis points, there would not be a material impact to our consolidated financial position or results of operations.

Foreign Currency Risk

Our subsidiaries in Argentina, Canada, Costa Rica, Malaysia, Mexico, the Philippines and South Africa use the local currency as their functional currency for paying labor and other operating costs. Conversely, revenue for these foreign subsidiaries is derived principally from client contracts that are invoiced and collected in U.S. dollars or other foreign currencies. As a result, we may experience foreign currency gains or losses, which may positively or negatively affect our results of operations attributed to these subsidiaries. For the years ended December 31, 2009, 2008 and 2007, revenue associated with this foreign exchange risk was 36%, 32% and 27% of our consolidated revenue, respectively.

In order to mitigate the risk of these non-functional foreign currencies from weakening against the functional currency of the servicing subsidiary, which thereby decreases the economic benefit of performing work in these countries, we may hedge a portion, though not 100%, of the projected foreign currency exposure related to client programs served from these foreign countries through our cash flow hedging program. While our hedging strategy can protect us from adverse changes in foreign currency rates in the short term, an overall weakening of the non-functional foreign currencies would adversely impact margins in the segments of the contracting subsidiary over the long term.

The following summarizes relative (weakening) strengthening of the local currency against the U.S. Dollar during the years presented:

	Year Ended December 31,		
	2009	**2008**	**2007**
Canadian Dollar vs. U.S. Dollar	14.3%	(23.9)%	15.2%
Philippine Peso vs. U.S. Dollar	2.2%	(15.1)%	15.9%
Argentina Peso vs. U.S. Dollar	(8.1)%	(11.5)%	(2.7)%
Mexican Peso vs. U.S. Dollar	5.7%	(26.7)%	(1.1)%
S. African Rand vs. U.S. Dollar	20.6%	(36.1)%	2.7%
Australian Dollar vs. U.S. Dollar	21.8%	(25.7)%	10.1%
Euro vs. U.S. Dollar	2.9%	(4.9)%	9.6%

Cash Flow Hedging Program

To reduce our exposure to foreign currency exchange rate fluctuations associated with forecasted revenue in non-functional currencies, we purchase forward and/or option contracts to acquire the functional currency of the foreign subsidiary at a fixed exchange rate at specific dates in the future. We have designated and account for these derivative instruments as cash flow hedges for forecasted revenue in non-functional currencies.

While we have implemented certain strategies to mitigate risks related to the impact of fluctuations in currency exchange rates, we cannot ensure that we will not recognize gains or losses from international transactions, as this is part of transacting business in an international environment. Not every exposure is or can be hedged and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts for which actual results may differ from the original estimate. Failure to successfully hedge or anticipate currency risks properly could adversely affect our consolidated operating results.

Our cash flow hedging instruments as of December 31, 2009 and 2008 are summarized as follows (amounts in thousands). All hedging instruments are forward contracts, except as noted.

2009	Local Currency Notional Amount		U.S. Dollar Notional Amount	% Maturing in 2010	Contracts Maturing Through
Canadian Dollar	14,400	$	11,782	50.0%	December 2011
Canadian Dollar Call Options	19,400		17,301	100.0%	December 2010
Philippine Peso	4,615,000		96,354(1)	82.0%	December 2011
Argentine Peso	9,000		2,454	100.0%	May 2010
Mexican Peso	491,500		34,880	76.8%	September 2011
South African Rand	23,000		2,081	100.0%	February 2010
British Pound Sterling	3,876		6,565(2)	64.1%	December 2011
		$	171,417		

2008	Local Currency Notional Amount		U.S. Dollar Notional Amount
Canadian Dollar	88,300	$	77,865
Canadian Dollar Call Options	44,400		39,305
Philippine Peso	6,656,909		150,418(1)
Argentine Peso	102,072		29,054
Mexican Peso	856,500		70,530
S. African Rand	92,000		8,399
British Pound Sterling	1,725		2,537(2)
		$	378,108

(1) Includes contracts to purchase Philippine pesos in exchange for New Zealand dollars, Australian dollars and British pound sterling, which are translated into equivalent U.S. dollars on December 31, 2009 and December 31, 2008.

(2) Includes contracts to purchase British pound sterling in exchange for Euros, which are translated into equivalent U.S. dollars on December 31, 2009 and December 31, 2008.

The fair value of our cash flow hedges at December 31, 2009 was (assets/(liabilities)):

	December 31, 2009	Maturing in 2010
Canadian Dollar	$ 3,418	$ 2,331
Philippine Peso	2,385	2,050
Argentine Peso	(132)	(132)
Mexican Peso	1,565	1,010
S. African Rand	1,018	1,018
British Pound Sterling	(150)	(139)
	$ 8,104	$ 6,138

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

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We recorded net gains/(losses) of $(18.3) million, $4.9 million, and $13.6 million for settled cash flow hedge contracts and the related premiums for the years ended December 31, 2009, 2008, and 2007, respectively. These gains/(losses) are reflected in Revenue in the accompanying Consolidated Statements of Operations and 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 gains or losses in our underlying exposures.

Other than the transactions hedged as discussed above and in Note 10