TELETECH HOLDINGS INC
Form 10-K
July 16, 2008

Table of Contents

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, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

If this report is an annual or transition report, 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 o No þ

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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 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 þ	Accelerated filer o	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, 2007, the last business day of the registrant s most recently completed second fiscal quarter, there were 70,389,172 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 $1,204,726,163 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 July 16, 2008, there were 69,976,836 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
DECEMBER 31, 2007 FORM 10-K

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

In this Annual Report on Form 10-K for the year ended December 31, 2007, we are restating: (i) our consolidated balance sheet as of December 31, 2006 and our consolidated statements of operations and comprehensive income, statements of stockholders equity and statements of cash flows for the years ended December 31, 2006 and December 31, 2005; and (ii) our unaudited quarterly financial information for the first and second quarters of 2007 and for all quarters in our year ended December 31, 2006 (see Note 24 to the Consolidated Financial Statements). Restatement adjustments attributable to fiscal years 1996 through 2004 are reflected as a net adjustment to retained earnings as of January 1, 2005.

Summary of Adjustments

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

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

(1) In any given year, the Provision for Income Tax may not directly correlate with the amount of total pre-tax accounting adjustments. The provision as shown reflects the tax benefits of the pre-tax accounting adjustments, permanent tax differences, and rate differences for foreign jurisdictions. These benefits are offset in part by

changes in deferred tax valuation allowances and other adjustments restating the amount or period in which income taxes were originally recorded.

Equity-Based Compensation Accounting

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

Table of Contents

senior management, any past or present member of the Compensation Committee or any other outside directors; and (iii) no regular or systematic practice of using hindsight to select grant dates.

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

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

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

Lease Accounting

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

Other Accounting Adjustments

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

Income Tax Adjustments and Income Tax Payables

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

There is no material change to our income taxes payable to the U.S. or any foreign tax jurisdiction nor will we be entitled to a tax refund due to the accounting adjustments recorded for equity-based compensation expense during this restatement. In accounting for equity-based compensation, we only record a tax deduction when a stock option is exercised. The tax returns filed during these periods correctly reported a

Table of Contents

windfall tax deduction on stock options exercised as measured by the gain realized on exercise of the stock option (exercise price less the strike price of the option) in excess of the book expense recorded with respect to the particular stock option exercised. An increase to the book expense recorded for a particular stock option will have a corresponding decrease to the windfall tax deduction realized on exercise of the stock option but result in no overall increase or decrease to the total tax deductions taken with respect to the stock options exercised.

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

The accounting adjustments for equity-based compensation, leases, other accounting and income tax are more fully described in Note 2 to the Consolidated Financial Statements and in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

NON-GAAP FINANCIAL MEASURES

In various places throughout this 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 Annual Report on 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. 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, intend and other words and phrases of similar meaning. Known and u 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 Operation, 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.

PART I

ITEM 1. BUSINESS

Our Business

Over our 26-year history, we have become one of the largest global providers of onshore, offshore and work-from-home business process outsourcing (BPO) services with a customer management focus. 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, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless industries. As of December 31, 2007, our 53,000 employees provide services from 38,400 workstations across 89 delivery centers in 18 countries. We have approximately 100 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 services for many of our clients subsidiaries and support approximately 250 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 business and economic cycles. We believe the benefits of BPO include renewed focus on core capabilities, faster time-to-market, streamlined processes, movement from a fixed to variable cost structure, access to global 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, more and more companies are increasingly focused on selecting outsourcing partners, such as TeleTech, that can deliver strategic front and back office capabilities that improve the customer experience versus simply 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 $1.4 billion, representing a compounded annual growth rate (CAGR) of 20%.

Substantially all of our revenue comes from BPO services and is reported in our North American and International BPO segments. These services involve the transfer of our clients front and back office business processes to our 89 delivery centers or work-from-home associates. We also manage the operations of delivery centers for our clients. Front office services include helping clients acquire, grow, serve and retain their customers. Back office services include managing clients critical processes such as products or services provisioning; sales lead generation, fulfillment and sales support; expense, loyalty, reward and supply chain management; claims, collections, loans, payment and warranty processing; Tier 1 through 3, or basic through advanced, technical support; retirement plan administration; data analysis, intelligence and market research; network management; and workforce recruiting, training and scheduling.

Our strategy is to sell our services to clients in G-20 countries while performing an increasing amount of the work in emerging markets where there is a growing pool of high quality, lower cost labor with strong multilingual and technical skills. The G-20 represents 19 of the world s largest economies, together with the European Union.

Of the 18 countries from which we provide BPO services, eight provide services, partially or entirely, for offshore clients including Argentina, Brazil, Canada, Costa Rica, Malaysia, Mexico, the Philippines and

Table of Contents

South Africa. The total workstations in these countries are 24,235, or 63%, of our total delivery capacity. Many of our clients choose a blended strategy whereby they offshore work with us in four to five locations as well as utilize our work-from-home offering. We believe our ability to offer one of the most geographically diverse offshore footprints improves clients expansion and servicing flexibility while reducing operational and delivery risk in the event of a service interruption at any one location.

Our offshore revenue is the fastest growing part of our business. In 2007, our offshore revenue grew 37% to $550 million and represented 40% of our total revenue. We believe this makes us one of the largest and most geographically diverse providers of BPO services. We recently expanded into two new emerging markets (Costa Rica and South Africa) and plan to selectively increase the number of offshore markets we operate in over time.

The other ten countries in which we operate provide services for onshore clients including the U.S., Australia, China, England, Germany, New Zealand, Northern Ireland, Scotland, Singapore and Spain. A key part of our future strategy is to perform more services for these clients in offshore locations.

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 and began realizing the benefits of this transformation in 2004 and going forward. 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. This was due primarily to the global economic downturn, 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, learning and hosted services;
- Expanding delivery capabilities with expanded onshore, near-shore, 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 2007, our revenue grew at a CAGR of 12.3% from $1.1 billion to $1.4 billion and diluted earnings per share grew at a CAGR of 42.4% from $0.36 to $0.73. Our operating margin more than doubled to 6.0% in 2007 from 2.9% in 2005.

Table of Contents

As of December 31, 2007, we had $91.2 million in cash and cash equivalents and a debt to equity ratio of 17.4%. We generated $42.4 million in free cash flow during 2007 and our cash flows from operations and borrowings under our revolving credit facility have enabled us to fund $61.1 million in capital expenditures. Approximately 80% of our capital expenditures were related to growth primarily in offshore markets with the remaining 20% used for the development and maintenance of our embedded infrastructure.

Our improved financial performance in 2007 resulted from strong growth with both new and existing clients across an expanding array of industry verticals, a 37% growth rate in offshore revenue and the ongoing benefit from our achievement of $120 million in cost reductions from mid-2003 through 2007.

On June 30, 2006, we acquired 100 percent of the outstanding common shares of Direct Alliance Corporation (DAC), a provider of e-commerce, professional sales and account management solutions primarily to Fortune 500 companies that sell into and maintain long-standing relationships with small and medium businesses. We acquired DAC for $46.4 million in cash and used borrowings under our revolving credit facility to finance the acquisition. See Note 3 to the Consolidated Financial Statements for additional discussion regarding this acquisition.

On September 27, 2007, Newgen Results Corporation and related companies (hereinafter collectively referred to as Newgen) and TeleTech entered into an asset purchase agreement to sell substantially all of the assets and certain liabilities associated with the Database Marketing and Consulting business. This transaction closed on September 28, 2007. The Database Marketing and Consulting business provided outsourced database management, direct marketing and related customer acquisition and retention services for automobile dealerships and manufacturers. See Note 4 to the Consolidated Financial Statements for additional discussion regarding this disposition.

On December 18, 2007, we completed the sale of our Customer Solutions Mauritius subsidiary that owned a 60% equity interest in TeleTech Services India Ltd., our Indian joint venture. See Note 4 to the Consolidated Financial Statements for additional discussion regarding this disposition.

In November 2001, our Board of Directors authorized a $5 million stock repurchase program with the objective of improving stockholder returns. Since then, the Board has steadily increased the amount of funds available to repurchase our common stock to $215 million. In early November 2007, we announced the suspension of repurchases under our stock repurchase program due to our review of historical equity-based compensation practices. During the first three quarters of the year ended December 31, 2007, we purchased 1.6 million shares for $47.0 million. From inception of the program through December 31, 2007, we purchased 14.8 million shares for $162.3 million, leaving $52.7 million remaining under the repurchase program as of December 31, 2007. The program does not have an expiration date.

Our Future Growth Goals and Strategy

We plan to achieve our growth objectives by:

Capitalizing 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, 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; and

- Better integrate front and back office processes.

Deepening and broadening relationships with existing clients;

Winning business with new clients and focusing on targeted high growth industry verticals;

Table of Contents

Continuing to diversify revenue into higher margin offerings such as professional services, talent acquisition, learning services and our hosted TeleTech OnDemandtm capabilities;

Increasing capacity utilization during peak and non-peak hours;

Scaling our work-from-home initiative to increase operational flexibility; and

Completing select acquisitions that extend our core BPO capabilities or vertical expertise.

Our Market Opportunity

Companies around the world are increasingly realizing that the quality of their customer relationships are 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.

Additionally, globalization of the world s economy continues to accelerate. Businesses are now competing on a global basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled global 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 increase shareholder value through improved productivity and profitability.

The global BPO industry is large and growing. Based on industry reports, we estimate that companies are spending approximately $6 trillion worldwide on internal and external business processes. International Data Corporation has reported that in 2007 companies outsourced $462 billion of business process services globally. This is projected to grow to $677 billion by 2011, representing a 10% CAGR.

We believe that the global demand for high quality third-party business process services is being fueled by the following trends:

Integration of front- and back-office processes to provide an enhanced customer experience. Companies have realized that integrated business processes allow customer needs to be resolved more accurately and efficiently, resulting in higher customer satisfaction, loyalty and sales. By providing a high-quality customer experience, companies can improve their competitive position and continue to grow and retain their customer base.

Increasing percentage of company operations being outsourced to the most capable providers. Having experienced success with outsourcing a portion of their business processes, companies are outsourcing a larger percentage of their business processes. Furthermore, companies are outsourcing more complex business processes, recognizing the importance of achieving continuous process improvements and enhanced productivity. To achieve these benefits, companies are consolidating their outsourcing by focusing on third-party providers that have an extensive operating history, global reach, world-class capabilities and an ability to scale and meet their evolving needs.

Increasing adoption of outsourcing across a broader group of industries. Early adopters of the BPO trend, such as the media and communications industries, are being joined by companies in the financial services, healthcare, retail and other industries. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness.

Focusing 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 give them speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking service providers with an extensive operating history, an established global footprint and the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly.

Table of Contents

Our Business Overview

We help Global 1000 clients improve 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 skilled people in 18 countries using standardized operating processes and a centralized delivery platform to:

- Design, implement and manage industry-specific end-to-end 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;
- Support field sales teams and manage sales relationships with small and medium-sized businesses;
- 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;
- License tools within our human capital suite 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 in both 2007 and 2006 was 93%.

We believe that our clients select us because of our:

- Industry reputation and our position as one of the largest industry providers with 26 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 five 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.

Table of Contents

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, work force 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.

Prior to this technology transformation, each of our delivery centers had a significant investment in disparate hardware and software maintained by on-site IT staff, which was costly to operate and maintain and did not provide the level of reliability or redundancy we now provide.

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.

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 89 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 to allow us to make better hires, improve training quality and provide real-time feedback and incentives for performance.

Several of our clients have licensed portions of the above components, thereby providing an additional opportunity to diversify our revenue into higher-margin offerings.

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^{tm} 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^{tm},

Table of Contents

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, 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 out of their 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.

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; and
- 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.

Clients

In 2007, we had one client that represented more than 10% of our total annual revenue. Sprint Nextel represented 15% of total revenue in 2007. Our top five and ten clients represented 40% and 59% of total revenue, respectively.

Certain of our communications clients, which represent approximately 20% 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 total 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.; APAC Customer Services, Inc.; Convergys Corporation; Computer Sciences Corp.; Electronic Data Systems Corporation; International Business Machines Corp.; Teleperformance; Sitel Corporation; Sykes Enterprises Incorporated and West Corporation, among others. We work with Accenture, Computer Sciences Corporation and IBM on a sub-contract basis and approximately 20% of our total revenue is generated from these system integrator relationships.

We compete primarily on the basis of our 26 years of experience, our global locations, our quality and scope of services, our speed and flexibility of implementation, our technological expertise, and our price and contractual terms. A number of competitors may have different capabilities and resources than ours.

Table of Contents

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.

Periodically, we earn a significant amount of unanticipated quarterly revenue in conjunction with government-sponsored disaster relief programs. For example, we earned a significant amount of revenue during the third and fourth quarters of 2005 from a short-term U.S. Government program to provide disaster relief services to hurricane victims in the U.S.

Database Marketing and Consulting Business

This segment represented 1% of total revenue in 2007 and provided outsourced database and marketing services for primarily U.S.-based automotive dealerships and manufacturers to generate and qualify sales leads and to schedule, remind and follow up on customer service appointments. Other services included email campaign management, event marketing, Internet-based appointment setting, lead qualification and related customer acquisition and retention services utilizing email, direct mail and phone-based services.

On September 27, 2007, Newgen and TeleTech entered into an asset purchase agreement to sell substantially all of the assets and certain liabilities associated with the Database Marketing and Consulting business. This transaction closed on September 28, 2007. See Note 4 to the Consolidated Financial Statements for additional information regarding this disposition.

Employees

As of December 31, 2007, we had approximately 53,000 employees in 18 countries. Approximately 84% of these employees held full-time positions and 75% were located outside of the U.S. We have approximately 14,500 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, including our employees in the following countries:

In Argentina, approximately 4,100 employees are covered by an industry-wide collective bargaining agreement with the Confederation of Commerce Employees that expires annually in March 2009;

In Brazil, approximately 3,200 employees are covered by industry-wide collective bargaining agreements with Sintratel and SintelMark that expire in May 2009;

In Mexico, we have approximately 3,700 employees covered by an industry-wide collective bargaining agreement with the Federacion Obrero Sindicalista that expires in December 2008; and

In Spain, we have approximately 3,500 employees covered by industry-wide collective bargaining agreements with COMFIA-CCOO and FES-UGT that expire in December 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. In New Zealand, we have approximately 150 employees that have identified themselves as members of the Engineering, Printing & Manufacturing Union, but there is no collective bargaining agreement in place covering these employees. In Australia and the United Kingdom, we have approximately 100 employees that have identified themselves as being members of unions, but there is no collective bargaining agreement in place covering these employees. We believe that our relations with our employees and unions are satisfactory. We have not experienced any significant work stoppages in our ongoing business.

Intellectual Property & 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 and Current Reports on Form 8-K 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

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 40% of revenue in 2007 and 42% of revenue in 2006. Our ten largest clients represented 59% of revenue in 2007 and 61% of revenue in 2006. One of our clients, Sprint Nextel, represented 15% of our revenue in 2007 and 16% of our revenue in 2006. Sprint Nextel was the only client that represented over 10% of our revenue during these periods.

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 2008 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. Although we do not believe that it is likely our entire relationship with Sprint Nextel or any other

Table of Contents

large client would terminate at one time, the loss of all or part of a major client s business or a contract concession 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.

Our business may be affected by the performance of our clients and general economic conditions

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. Although we currently do not anticipate payment issues with our major clients, our business, financial condition, results of operations and cash flows would be adversely affected if any of them were unable or unwilling, for any reason, to pay for our services.

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.

Table of Contents

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.

We attempt to maximize utilization. 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. On a quarterly basis, we assess the expected long-term capacity utilization of our delivery centers. 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, cyber attacks, 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. 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.

11

Table of Contents

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 objective is to sign multi-year contracts with our clients. However, 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, for payment of existing obligations, to replenish cash reserves, or to fund acquisitions or joint ventures. Additionally, our existing credit facility requires us to comply with certain financial covenants. As a result of the voluntary, independent review of our historical equity-based compensation practices, we amended our credit facility with our lenders three times since November 2007 in order to ensure compliance with certain covenants. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations under the heading Amendment of Credit Facility for further discussion. Upon the filing of this Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008, we believe that we will be in compliance with all financial covenants. However, if we do not file future quarterly or annual reports on a timely basis, there can be no assurance that we will be able to obtain waivers or additional amendments from our lenders. If our lenders refuse to waive or amend our existing credit facility in the future, we may be required to immediately repay the entire outstanding balance under our credit facility or to pay our lenders higher interest for past periods. Furthermore, 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.

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 countries 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 flows. 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 including Argentina, Brazil, 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 contracting subsidiary. Therefore, fluctuations between the currencies of the contracting and operating subsidiary present foreign currency exchange risks.

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 contracting subsidiary s currency devalues against the operating subsidiary s currency.

For example, the U.S. dollar has weakened against many foreign currencies over the past two years. If the U.S. dollar continues to devalue, the financial results of certain operating subsidiaries (and hence TeleTech upon consolidation) will be negatively affected. While our hedging strategy effectively offset a portion of these foreign currency changes during 2006 and 2007, there can be no assurance that we will 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.

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

Because we provide services to clients in 50 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 and practices 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.

13

Table of Contents

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 14,500 employees outside the U.S. and Canada 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;
- 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;
- 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.

Table of Contents

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.

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 44.9% 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.

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;

Table of Contents

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 relating to our completed and continued actions to remediate the weaknesses in our financial reporting and disclosure controls, which could result in a material misstatement of our consolidated financial statements and have a material adverse effect on our operating results and stock price

As a result of issues identified during the recently completed Audit Committee Review and related accounting, as well as our internal review, management has identified deficiencies in our control environment that constitute material weaknesses and, consequently, has concluded that our internal control over financial reporting was not effective at December 31, 2007. As discussed below under the caption Item 9A. Controls and Procedures, we are currently in the process of remediating these material weaknesses which have not been completed. However, if the corrective actions we have already taken and continue to take do not successfully remediate these material weaknesses in a timely manner, our stock price may decline and we may be required to incur additional costs to improve our internal control systems and procedures.

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;

Other events or factors, many of which are beyond our control.

Table of Contents

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 options to purchase our stock and restricted stock units (RSUs) have been and may be granted. Options to purchase approximately 5.0 million shares of our common stock were outstanding at December 31, 2007 of which approximately 3.1 million shares were exercisable. RSUs representing approximately 2.2 million shares were outstanding at December 31, 2007 all of which were unvested. The large number of shares issuable upon exercise of our options and other equity incentive grants to our employees 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.

Risks Relating to the Review of Our Historical Equity-Based Compensation Practices

The review of our historical equity-based compensation practices, together with the preparation of the restated financial restatements, has consumed a considerable amount of Board member and management time and caused us to incur substantial expenses

The review conducted by our Audit Committee and related accounting and our own internal review of historical equity-based compensation practices and our preparation of restated Consolidated Financial Statements have required us to expend significant Board member and management time, and to incur significant accounting, legal and other expenses. These reviews and the preparation of our financial statements has required numerous meetings of the Audit Committee, the full Board and members of our senior management and diverted attention from the operation of our business. In addition, we have incurred substantial expenses in connection with these reviews, which have had and could continue to have a negative effect on our financial condition, results of operations and cash flows.

The ongoing government inquiries relating to our historical equity-based compensation practices are time consuming and expensive and could result in fines and penalties

Government authorities, including the SEC and the IRS, may conduct ongoing inquiries into our historical equity-based compensation practices. We have fully cooperated with all government authorities and intend to continue to do so. The period of time necessary to resolve these inquiries is uncertain, and we cannot predict the outcome of these inquiries or whether we will face additional inquiries or other actions related to our historical equity-based compensation practices. These inquiries may require us to continue to expend significant management time and incur significant accounting, legal and other expenses, and could result in actions seeking, among other things, the payment of fines and penalties.

If we do not maintain compliance with the SEC reporting requirements and the NASDAQ Global Select Market listing requirements, our common stock could be delisted, which could, among other things, reduce the price and liquidity of our common stock

Due to the review of our historical equity-based compensation practices and related accounting, we were not able to file our periodic reports with the SEC on a timely basis and faced the possibility of delisting from NASDAQ. Upon the filing of this Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008, we believe we will have returned to full compliance with SEC and NASDAQ filing requirements. However, if the SEC has comments on these reports (or other reports that we previously filed) that require us to file amended reports, or if we do not file future quarterly and annual reports on a timely basis, our common stock could be delisted from the NASDAQ Global Select Market and would subsequently be transferred to the National Quotation Service Bureau, or Pink

17

Table of Contents

Sheets. The trading of our common stock on the Pink Sheets could have a material adverse effect on the price and liquidity of our common stock, especially if investors sell our stock to comply with institutional ownership guidelines or to meet margin calls. Moreover, we would be subject to a number of restrictions regarding the registration of our stock under federal securities laws, and we would not be able to issue stock options or other equity awards to our employees or allow them to exercise their outstanding options or other equity awards, which could harm our ability to attract and retain key employees.

We and our officers and directors have been named as parties to a class action lawsuit 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, two securities class action lawsuits were filed against us, certain of our current directors and officers and others. These two class action lawsuits have since been consolidated. There may be additional lawsuits of this nature filed in the future. We cannot predict the outcome of this lawsuit, nor can we predict the amount of time and expense that will be required to resolve this lawsuit. Although we expect the majority of expenses related to the class action lawsuit to be covered by insurance, there can be no assurance that all such expenses will be reimbursed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have received no 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 2007 fiscal year that remain unresolved.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Englewood, Colorado. In February 2003, we purchased our corporate headquarters building, which consists of approximately 264,000 square feet of office space, including furniture and fixtures, for $38.3 million.

As of December 31, 2007, excluding delivery centers we have exited, we operated 89 delivery centers that are classified as follows:

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

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; and

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

As of December 31, 2007, our delivery centers were located in the following countries:

	Multi-Client Centers	Managed Centers	Dedicated Centers	Total Number of Delivery Centers
Argentina	6	2		8
Australia	5	2	1	8
Brazil	2	2		4
Canada	4	1	7	12
China	1	1		2
Costa Rica	1			1
England		1		1
Germany		1		1
Malaysia	1			1
Mexico	3			3
New Zealand	1	2		3
Northern Ireland	1			1
Philippines	10			10
Scotland		3	1	4
Singapore		1		1
Spain	4	4	1	9
U.S.	6	9	5	20
Total	45	29	15	89

The leases for all of our delivery centers have remaining terms ranging from one to 14 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, we believe that the ultimate resolution of these matters 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 our common stock and (ii) various disclosures made and periodic reports filed by us 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 by the court. TeleTech and the other individual defendants intend to defend this case vigorously. Although we expect the majority of expenses related to the class action lawsuit to be covered by insurance, there can be no assurance that all of such expenses will be reimbursed.

NASDAQ Delisting Proceedings

We did not timely file with the SEC our Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008 in addition to this Form 10-K as a result of the review of our historical equity-based compensation practices and the resulting restatements of previously issued financial statements. As a result, we received three NASDAQ Staff Determination notices, dated November 14, 2007, March 5, 2008 and May 15, 2008, stating that we are not in compliance with NASDAQ Marketplace Rule 4310(c)(14) and, therefore, we are subject to potential delisting from the NASDAQ Global Select Market. We appealed the NASDAQ Staff s November 14, 2007 delisting notice and, ultimately, the NASDAQ Listing and Hearing Review Council requested that we provide an update on our efforts to file the delayed periodic reports by May 30, 2008. We provided that update on May 30, 2008.

Upon the filing of this Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008, we believe we have returned to full compliance with SEC and NASDAQ filing requirements.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of our year ended December 31, 2007.

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 fourth 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 2007	$ 27.43	$ 18.76
Third Quarter 2007	$ 35.24	$ 22.75
Second Quarter 2007	$ 40.41	$ 30.05
First Quarter 2007	$ 37.52	$ 23.34
Fourth Quarter 2006	$ 24.12	$ 14.78
Third Quarter 2006	$ 16.14	$ 10.72
Second Quarter 2006	$ 13.88	$ 10.93
First Quarter 2006	$ 13.08	$ 10.90

As of June 20, 2008, we had approximately 565 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, our Board initially authorized a $5 million stock repurchase program with the objective of improving stockholder returns. Since then, the Board has steadily increased the amount of funds available to repurchase common stock to $215 million. In early November 2007, we announced the suspension of repurchases under our stock repurchase program due to our voluntary, independent review of historical equity-based compensation practices and related accounting. During the first three quarters of the year ended December 31, 2007, we purchased 1.6 million shares for $46.7 million. From inception of the program through 2007, we have purchased 14.8 million shares for $162.3 million, leaving $52.7 million remaining under the repurchase program as of December 31, 2007. The program does not have an expiration date. There were no purchases of equity securities during the fourth quarter of 2007.

Table of Contents

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 a customized peer group over the period beginning on December 31, 2002 and ending on December 31, 2007. The peer group is composed of APAC Customer Services Inc., Convergys Corporation, Sykes Enterprises, Incorporated and Electronic Data Systems Corporation. In prior years, our peer group also included Sitel Corporation and West Corporation. These two companies are no longer included in our peer group because their common stock is no longer publicly traded. The graph assumes that $100 was invested on December 31, 2002 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
Based on investment of $100 on December 31, 2002

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
TeleTech Holdings, Inc.	$ 100	$ 156	$ 133	$ 166	$ 329	$ 293
NASDAQ Composite Index	100	150	165	169	188	205
Russell 2000 Index	100	147	174	182	216	212
Peer Group	100	134	125	134	163	122

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.

We have restated the selected financial data presented in this report. The results of the restatement are described in the Explanatory Note to this Form 10-K, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to our Consolidated Financial Statements in this Form 10-K.

	Year Ended December 31,				
	2007	**2006 As restated**	**2005 As restated**	**2004 As restated**	**2003 As restated**
Statement of Operations Data					
Revenue	$ 1,369,632	$ 1,210,753	$ 1,085,903	$ 1,052,690	$ 1,001,128
Cost of services	(1,001,459)	(882,809)	(809,059)[5]	(772,573)	(762,685)
Selling, general and administrative	(207,528)	(199,995)	(183,111)	(165,533)	(152,083)
Depreciation and amortization	(55,953)	(51,989)	(54,412)	(61,147)	(60,059)
Other operating expenses	(22,904)[1]	(2,195)[3]	(7,384)[6]	(4,693)[8]	(10,631)[10]
Income from operations	81,788	73,765	31,937	48,744	15,670
Other income (expense)	(6,437)[2]	(4,442)	(156)	(15,250)[9]	(13,021)
Provision for income taxes	(19,562)	(16,474)[4]	(3,953)[7]	(9,124)	(30,469)[11]
Minority Interest	(2,686)	(1,868)	(1,542)	(738)	(1,003)
Net income (loss)	$ 53,103	$ 50,981	$ 26,286	$ 23,632	$ (28,823)
Weighed average shares outstanding					
Basic	70,228	69,184	72,121	74,751	74,206
Diluted	72,638	69,869	73,134	75,637	74,206
Net income (loss) per share					
Basic	$ 0.76	$ 0.74	$ 0.36	$ 0.32	$ (0.39)
Diluted	$ 0.73	$ 0.73	$ 0.36	$ 0.31	$ (0.39)

(1)

Includes the following items: $13.4 million charge related to the impairment of goodwill in accordance with SFAS No. 142 Goodwill and Other Intangible Assets (SFAS 142); $2.2 million charge related to the impairment of property and equipment in accordance with SFAS 144; $3.8 million charge related to reductions in force and $4.0 million charge related to facility exit charges in accordance with SFAS 146; $0.7 million benefit related to the revised estimates of restructuring charges; and $11.5 charge related to the costs of the Company s review of its equity based compensation practices.

(2) Includes the following items: $6.1 million charge related to the sale of assets in accordance with SFAS 144, $7.0 million benefit related to the sale of assets in accordance with SFAS 144; and $2.2 million benefit related to the execution of a software and intellectual property license agreement.

(3) Includes the following items: $1.1 million charge related to reductions in force; $0.8 million related to facility exit costs in accordance with SFAS 146; $0.6 million charge related to the impairment of property and equipment in accordance with SFAS 144; and $3.6 million benefit due to revised estimates of self-insurance accruals.

(4) Includes the following items: $4.5 million benefit due to the reversal of income tax valuation allowance for Spain; $1.2 million benefit due to the reversal of income tax valuation allowance for Argentina; and $3.3 million benefit due to the EHI loss carryforward.

(5) Includes the following item: $2.0 million benefit due to revised estimates of self-insurance accruals.

(6) Includes the following items: $2.1 million charge related to the impairment of property and equipment in accordance with SFAS 144; $2.1 million charge related to reductions in force;

Table of Contents

$2.0 million charge related to facility exit charges in accordance with SFAS 146; $0.6 million impairment loss related to a decision to exit a lease early and to discontinue use of certain software; $1.0 million benefit due to revised estimates of self-insurance accrual; and $0.5 million benefit related to revised estimates of restructuring and impairment charges.

(7) Includes the following items: $1.4 million benefit due to the reversal of income tax valuation allowance for Argentina; $1.4 million benefit due to the reversal of income tax valuation allowance for Brazil; $9.9 million benefit due to the reversal of U.S. income tax valuation allowance; and $3.7 million charge related to the repatriation of foreign earnings under a Qualified Domestic Reinvestment Plan.

(8) Includes the following items: $2.6 million charge related to the impairment of property and equipment in accordance with SFAS 144; $2.1 million charge related to a reduction in workforce and facility exit charges under SFAS 146; and $1.9 million reversal of part of the sales and use tax liability.

(9) Includes the following items: $7.6 million one-time charge related to restructuring of our long-term debt; and $2.8 million one-time charge related to the termination of an interest rate swap agreement.

(10) Includes the following items: $7.0 million charge related to the impairment of property and equipment; $5.6 million charge related to a reduction in force and facility exit charges; and $1.9 million benefit related to revised estimates of restructuring charges.

(11) Includes the following item: $30.9 million charge primarily for the impairment of deferred tax assets.

The following Balance Sheet data as of December 31, 2007 and 2006, and the Statement of Operations data for the years ended December 31, 2007, 2006 and 2005 are derived from our audited financial statements included in Part II, Item 8. Financial Statements and Supplementary Data. The data for the remaining periods are derived from our books and records for the respective periods.

The following is a summary of selected financial data as of and for the year ended December 31, 2007 and the impact of the restatement and a comparison to the amounts originally reported as of and for the years ended December 31, 2006, 2005, 2004 and 2003, respectively:

		Year Ended December 31, 2006		
	December 31, 2007	**As Previously Reported**	**Adjustments**	**As restated**
Statement of Operations Data				
Revenue	$ 1,369,632	$ 1,211,297	$ (544)	$ 1,210,753
Cost of services	(1,001,459)	(885,602)	2,793	(882,809)
Selling, general and administrative	(207,528)	(199,226)	(769)	(199,995)
Depreciation and amortization	(55,953)	(51,429)	(560)	(51,989)
Other operating expenses	(22,904)	(2,195)		(2,195)
Income from operations	81,788	72,845	920	73,765
Other income (expense)	(6,437)	(4,459)	17	(4,442)
Provision for income taxes	(19,562)	(14,676)	(1,798)	(16,474)

Minority interest		(2,686)		(1,868)				(1,868)
Net income (loss)	$	53,103	$	51,842	$	(861)	$	50,981
Weighted average shares outstanding								
Basic		70,228		69,184				69,184
Diluted		72,638		70,615		(746)		69,869
Net income (loss) per share								
Basic	$	0.76	$	0.75	$	(0.01)	$	0.74
Diluted	$	0.73	$	0.73	$	(0.00)	$	0.73

23

Table of Contents

	As of			
	December 31, 2007	December 31, 2006		
		As Previously Reported	Adjustments	As Restated
Balance Sheet Data				
Total assets	$ 760,295	$ 658,716	$ 5,705	$ 664,421
Total current liabilities	$ 186,810	$ 182,015	$ 2,015	$ 184,030
Total long-term liabilities	$ 118,729	$ 107,417	$ 4,383	$ 111,800
Total stockholders equity	$ 451,201	$ 363,407	$ (693)	$ 362,714

	Year Ended December 31, 2005		
	As Previously Reported	Adjustments	As Restated
Statement of Operations Data			
Revenue	$ 1,086,673	$ (770)	$ 1,085,903
Cost of services	(812,174)	3,115	(809,059)
Selling, general and administrative	(182,262)	(849)	(183,111)
Depreciation and amortization	(53,317)	(1,095)	(54,412)
Other operating expenses	(7,384)		(7,384)
Income from operations	31,536	401	31,937
Other income (expense)	680	(836)	(156)
Provision for income taxes	(2,516)	(1,437)	(3,953)
Minority interest	(1,542)		(1,542)
Net income (loss)	$ 28,158	$ (1,872)	$ 26,286
Weighted average shares outstanding			
Basic	72,121		72,121
Diluted	73,631	(497)	73,134
Net income (loss) per share			
Basic	$ 0.39	$ (0.03)	$ 0.36
Diluted	$ 0.38	$ (0.02)	$ 0.36

	As of December 31, 2005		
	As Previously Reported	Adjustments	As Restated
Balance Sheet Data			
Total assets	$ 522,172	$ 5,801	$ 527,973

Total current liabilities	$ 160,915	$ (3,194)	$ 157,721
Total long-term liabilities	$ 61,339	$ 7,307	$ 68,646
Total stockholders equity	$ 293,374	$ 1,689	$ 295,063

Table of Contents

	Year Ended December 31, 2004		
	As Previously Reported	Adjustments	As Restated
Statement of Operations Data			
Revenue	$ 1,052,690	$	$ 1,052,690
Cost of services	(774,521)	1,948	(772,573)
Selling, general and administrative	(165,630)	97	(165,533)
Depreciation and amortization	(59,378)	(1,769)	(61,147)
Other operating expenses	(4,693)		(4,693)
Income from operations	48,468	276	48,744
Other income (expense)	(14,263)	(987)	(15,250)
Provision for income taxes	(9,464)	340	(9,124)
Minority interest	(738)		(738)
Net income (loss)	$ 24,003	$ (371)	$ 23,632
Weighted average shares outstanding			
Basic	74,751		74,751
Diluted	76,109	(472)	75,637
Net income (loss) per share			
Basic	$ 0.32	$	$ 0.32
Diluted	$ 0.32	$ (0.01)	$ 0.31

	As of December 31, 2004		
	As Previously Reported	Adjustments	As Restated
Balance Sheet Data			
Total assets	$ 496,795	$ 2,772	$ 499,567
Total current liabilities	$ 136,192	$ (4,741)	$ 131,451
Total long-term liabilities	$ 30,186	$ 6,619	$ 36,805
Total stockholders equity	$ 322,545	$ 894	$ 323,439

Table of Contents

	Year Ended December 31, 2003		
	As Previously Reported	Adjustments	As Restated
Statement of Operations Data			
Revenue	$ 1,001,128	$	$ 1,001,128
Cost of services	(764,687)	2,002	(762,685)
Selling, general and administrative	(149,860)	(2,223)	(152,083)
Depreciation and amortization	(58,596)	(1,463)	(60,059)
Other operating expenses	(10,631)		(10,631)
Income from operations	17,354	(1,684)	15,670
Other income (expense)	(11,996)	(1,025)	(13,021)
Provision for income taxes	(34,859)	4,390	(30,469)
Minority interest	(1,003)		(1,003)
Net income (loss)	$ (30,504)	$ 1,681	$ (28,823)
Weighted average shares outstanding			
Basic	74,206		74,206
Diluted	74,206		74,206
Net income (loss) per share			
Basic	$ (0.41)	$ 0.02	$ (0.39)
Diluted	$ (0.41)	$ 0.02	$ (0.39)

	As of December 31, 2003		
	As Previously Reported	Adjustments	As Restated
Balance Sheet Data			
Total assets	$ 554,816	$ 20,198	$ 575,014
Total current liabilities	$ 139,751	$ 3,009	$ 142,760
Total long-term liabilities	$ 120,370	$ 15,892	$ 136,262
Total stockholders equity	$ 285,512	$ 1,298	$ 286,810

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 26-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 approximately 250 business process outsourcing programs serving 100 global clients in the automotive, broadband, cable, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel, wireline and wireless industries.

As globalization of the world s economy continues to accelerate, businesses are increasingly competing on a worldwide basis due to rapid advances in technology and telecommunications that permit cost-effective real-time global communications and ready access to a highly-skilled global labor force. As a result of these developments, companies have increasingly outsourced business processes to third-

26

Table of Contents

party providers in an effort to enhance or maintain their competitive position and increase shareholder value through improved productivity and profitability.

We believe that the global demand for our services is being fueled by the following trends:

Integration of front and back office business processes to provide an enhanced customer experience. Companies have realized that integrated business processes allow customer needs to be met more quickly and efficiently. This integration results in higher customer satisfaction and brand loyalty and thereby improves their competitive position.

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 outsourcing a larger percentage of this work. To achieve these benefits, companies are consolidating their business processes with third-party providers that have an extensive operating history, global reach, world-class capabilities and an ability to 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, retailing and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness.

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 and the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly.

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, 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. 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 includes the following elements:

Deepen and broaden our relationships with existing clients.

Win business with new clients and focus on targeted industries where we expect accelerating adoption of business process outsourcing.

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

Continue to improve our operating margins.

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

Our 2007 Financial Results

In 2007, our revenue grew 13.1% over 2006 to $1,370 million. Our income from operations grew 10.9% to $81.8 million in 2007 from $73.8 million in 2006. Income from operations in 2007 included $22.9 million of asset impairment and restructuring charges primarily related to the disposal of our Database Marketing and Consulting business and $11.5 million of selling, general and administrative charges associated with the restatement of our historic financial statements. Excluding both of these charges which totaled $34.4 million, our income from operations in 2007 increased 57.5% to $116.2 million or 8.5% of revenue from $73.8 million or 6.1% of revenue in 2006.

Our improved profitability stems primarily from continued expansion into offshore markets, increased utilization of our delivery centers across a 24-hour period, leveraging our global purchasing power and diversifying revenue into higher margin opportunities.

We have experienced strong growth in our offshore delivery centers, which primarily serve clients located in other countries. Our offshore delivery capacity now spans eight countries and 24,235 workstations and currently represents 63% of our global delivery capabilities. Revenue in these offshore locations grew 37% in 2007 to $550 million and represented 40% of our total revenue. To meet continued client demand in 2007, we added 7,700 gross workstations primarily in offshore locations including the Philippines and Latin America. We plan to selectively expand into new offshore markets. We believe we are one of the first 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.

In the third quarter of 2007, Newgen Results Corporation and related companies (hereinafter collectively referred to as Newgen) and TeleTech entered into an asset purchase agreement to sell substantially all of the assets and certain liabilities associated with the Database Marketing and Consulting business which represented 1% of our consolidated revenue. This transaction closed on September 28, 2007. During 2007, our income from operations was reduced by $20.4 million related to asset impairment and restructuring charges for this business. During 2007, our income from operations before income taxes and minority interest was reduced by $24.3 million which includes the $20.4 million of asset impairment and restructuring charges discussed above along with a $3.9 million net charge related to the above disposal comprised of 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.

In the fourth quarter of 2007, we completed the sale of our Customer Solutions Mauritius subsidiary that owned a 60% interest in our TeleTech Services India Ltd. joint venture and represented less than 1% of our consolidated revenue. We recorded a $7.0 million gain on the sale which was recorded in Other, net.

Our strong financial position, cash flow from operations and low debt levels allowed us to finance a significant portion of our capital needs and stock repurchases through internally generated cash flows. At December 31, 2007, we had $91.2 million of cash and cash equivalents and a total debt to equity ratio of 17.4%. During 2007, we repurchased $47.0 million of our common stock throughout the year and since inception of the share repurchase program in 2001 have invested $162.3 million to acquire approximately 20% of our outstanding stock.

Restatement of Financial Statements

All of the financial information presented in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as elsewhere in this Form 10-K, has been adjusted to reflect the restatement of our financial results, as described in the Explanatory Note to this Form 10-K and Note 2 to our Consolidated Financial Statements included in this Form 10-K. The impact under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and Statement of Financial Accounting Standards (SFAS) No. 123(R), *Accounting for Share Based Payment* (SFAS 123(R)), of recognizing additional equity-based compensation expense and related tax adjustments is summarized in the table below.

Table of Contents

As part of the restatement process resulting from the review of our historical equity-based compensation practices, we also assessed whether there were other matters which should be corrected in our previously issued financial statements and identified adjustments for leases and other items, including tax adjustments, which are also summarized in the table below.

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

(1) In any given year, the Provision for Income Tax may not directly correlate with the amount of total pre-tax accounting adjustments. The provision as shown reflects the tax benefits of the pre-tax accounting adjustments, permanent tax differences, and rate differences for foreign jurisdictions. These benefits are offset in part by changes in deferred tax valuation allowances and other adjustments restating the amount or period in which income taxes were originally recorded.

Equity-Based Compensation

As a result of our Audit Committee s voluntary, independent review of our historical equity-based compensation practices and management s additional review, which has now been completed, we determined that pursuant to Accounting Principles Board No. 25, *Accounting for Stock Issued to Employees*; Statement of Accounting Standards (SFAS) No. 123 *Accounting for Stock-Based Compensation*, SFAS No. 123(R) *Share-Based Payment*, and related interpretations, mistakes were made in the accounting for our equity compensation grants during the period reviewed. As shown in the table above, we recorded pre-tax, non-cash adjustments to our equity-based compensation expense which were primarily driven by (i) 901 grants comprising 5.4 million shares requiring only changes to the original grant measurement date; (ii) 190 grants comprising 5.0 million shares for which the original grant terms were subsequently modified (44 of these grants comprising 1.2 million shares also required a change to their original measurement date); and (iii) 30 grants comprising 0.8 million shares made to consultants which were mistakenly accounted for as employee grants. As a result, we recorded additional equity-based compensation expense for financial accounting purposes under APB 25 and SFAS 123(R), resulting in a pre-tax, non-cash cumulative charge of $59.7 million ($38.3 million on an after tax basis) in our Consolidated Financial Statements through June 30, 2007. The majority of adjustments affected periods prior to 2001.

Background

On September 17, 2007, the Audit Committee of our Board of Directors initiated an independent review of our historical equity-based compensation practices and the related accounting (the Review). We commenced this Review on our own initiative and not in response to any governmental or regulatory investigation, shareholder lawsuit, whistleblower complaint or inquiries from the media.

Table of Contents

The Review, conducted by the Audit Committee over a period of approximately five months, included the following tasks, among others:

Reviewing hard copy and electronic files obtained from us as well as other sources that totaled hundreds of thousands of pages of hard copy and electronic documents;

Conducting interviews of 34 past and present employees, officers and directors, some of whom were interviewed more than once;

Engaging outside consultants to conduct various statistical analyses of our equity awards;

Reviewing Board and Committee minutes and related materials from 1996 through August 2007;

Reviewing actions by unanimous written consent (UWCs) and other granting actions relating to equity awards from 1996 through August 2007;

Reviewing our public filings and equity compensation plans;

Frequent communications by the Chairman of the Audit Committee with the Audit Committee s independent counsel and its accounting consultants; and

Numerous telephonic and in-person meetings of the Audit Committee.

We placed no restrictions on the Audit Committee in connection with the Review, and we cooperated fully with the Review.

Under the oversight of the Audit Committee and in consultation with our current and former independent auditors, management conducted its own internal review of our historical equity-based compensation practices and related accounting over a period of approximately nine months. Our review covered 4,886 equity awards, including 4,347 equity awards from our IPO in 1996 through August 2007 and 539 pre-IPO grants for subsequent modifications, cancellations, and other accounting issues. The equity awards, which comprised approximately 37.9 million stock options and approximately 3.2 million restricted stock units, were granted as annual incentives to employees, in connection with hiring new employees, promotions, or whose performance warranted the award, and to directors and certain consultants. This internal review, which was a necessary step in the preparation of our restated Consolidated Financial Statements, included, among other things, evaluations of our previous accounting for grants of equity-based compensation as described more fully below.

Historical Equity-Based Compensation Practices

From 1996 through August 2007, we made the following types of equity-based compensation grants to directors, Section 16 Officers, employees and consultants:

Annual pool grants in conjunction with our annual merit review process, which generally occurred within a few months following our year end (referred to as annual grants);

Individual grants to newly hired or promoted Section 16 Officers and employees and, from time to time, grants in recognition of performance or as incentives;

Options granted or assumed in connection with acquisitions; and

Options granted to non-employee directors and, from time to time, consultants.

As previously disclosed in our Current Report on Form 8-K filed with the SEC on February 20, 2008, the Audit Committee s Review included the following findings, among others:

There was no willful misconduct in connection with our equity compensation granting process.

There was no evidence of improper conduct by the Chairman and Chief Executive Officer, the Vice Chairman, any current member of senior management, any past or present member of the Compensation Committee, or any other outside director.

There was no regular or systematic practice of using hindsight to select grant dates and no pattern of consistently hitting lows.

Other findings, mostly related to periods prior to 2002, which we believe should be viewed within the context of the Report s finding of no willful misconduct, include:

Certain employees/officers involved in the administration of our stock options, none of which are actively employed by us, did not adequately meet all of the demands of their positions and/or did not adequately appreciate their responsibilities in the stock option granting process, particularly in the period prior to 2002.

There were control and other deficiencies in our equity compensation granting process.

Our policies were not sufficient to ensure compliance with all applicable accounting and disclosure rules relevant to equity compensation.

There were episodic instances of selecting grant dates with some hindsight.

- There was some evidence that certain employees/officers involved in selecting grant dates, none of which are actively employed by us, had some understanding of the accounting implications of selecting dates with hindsight. However, there was no conclusive evidence demonstrating that those involved in selecting dates knowingly and/or purposely violated accounting or disclosure rules.

There were instances where we failed to appreciate that certain required granting actions needed to be completed before a measurement date for a grant could be established under applicable equity compensation accounting rules.

Certain stock option awards were not properly recorded under applicable equity compensation accounting rules, including in connection with:

- modification of grants;
- a recipient s status as a consultant or an employee; and
- treatment of performance-based vesting conditions.

Delegation of Authority

The Audit Committee s Review noted that, by the terms of our various stock option plans (as amended and restated from time to time), the Compensation Committee was vested with the authority to administer and grant stock options under the plans. The Review found that for the period from August 1996 to December 2000, no documentation existed delegating the authority to make grants from the Compensation Committee to management. For the period December 2000 through December 2004, although the Audit Committee found that there was a documented delegation of authority to management, there were variations in the practices utilized when management made awards and the Company regularly followed the practice of obtaining approval or ratification by the Compensation Committee of awards issued based on management actions. Given these circumstances, there was some uncertainty as to whether such awards were final and effective prior to the time when the Compensation Committee acted on the awards. The Audit Committee found that a change in the Company s procedures including a formalization of the delegation to management was made in December 2004. As a result, for the period December 2004 through August 2007, this uncertainty was eliminated.

Management conducted a thorough review of how the delegation of authority operated in practice and as understood by those who were involved in the process during the period 1996 through 2004. For the period 1996 through 2004, management concluded that there was an implied delegation of authority from the Compensation Committee to management to grant stock options within certain pre-established parameters. These parameters were modified in December 2000 to require explicit Compensation

Table of Contents

Committee approval for all grants to Section 16 Officers and for all grants greater than 100,000 shares. These parameters remained unchanged through the remainder of the period reviewed. Management s conclusions on delegation of authority are based on, among other things, information obtained from past and present officers and directors, including members of the Compensation Committee, indicating that they believed that management was provided with the authority within certain stated limitations to make grants, and management, in fact, in making grants acted consistently with such understanding. Our review of employee files, emails and other available and relevant information indicated that grants were generally approved by management through offer letters to new employees and through signed personnel forms or email communications for promotional grants. For annual pool grants, the Compensation Committee approved the total number of shares to be included in the pool while management was delegated the authority to allocate the pool to the individual grant recipients. This allocation was evidenced by a list of grant recipients provided by Human Capital who administered the process. In addition, our review noted that while it was our practice to provide the Compensation Committee with a quarterly monitoring report indicating grants of equity during the previous quarter and for the Compensation Committee to act on the grants, there were no instances where the Compensation Committee changed any grant that was approved by management. The Compensation Committee s quarterly action was not considered by the Compensation Committee or the officers who acted on the grants as required for the grants to be given effect. As a result, we have concluded that the finalization of management approval generally represented the point in time when the number of options and the exercise price of the option were first known with finality and, therefore, was the appropriate date at which to establish a measurement date as required under APB 25. Upon further consideration based on the information provided in management s review and analysis, the Audit Committee concurred with management s conclusions that while explicit, documented delegation of authority did not exist for the entire period under review, an effective implied delegation of authority from the Compensation Committee to management did exist for the period 1996 through November 2004.

Measurement Dates

During all periods reviewed, we typically dated new hire or promotional grants on the first date of employment or the effective date of promotion. We did note that during the period August 1996 through December 2000, it was the occasional practice for offers of employment to include an exercise price based upon the date of the employee s offer letter and the grant was dated on the same date as of the offer letter regardless of the employee s first date of employment. The dating practices as outlined above applied to both employees and Section 16 Officers. For annual pool grants, the grants were dated on the date the pool was approved by the Compensation Committee or on a date selected by management within the parameters established by the Compensation Committee. Grants to our directors were dated typically on the automatic dates prescribed in the applicable stock option plan. Consultant grants were typically dated on the first date of their service to the company.

We found that the evidence available to determine the date on which final management approval for the grant was obtained sometimes varied. In cases where the evidence related to the grant was limited, we reviewed all of the available information including the date the grant record was created in our equity grant tracking system which was in some cases the only contemporaneous dating evidence available. In situations where there was only limited evidence as to the approval of the grant, we first reviewed grants made on the same date to assess whether the grant was part of another granting action and, if not, we reviewed the date that the grant was communicated to the employee. If there was no other information available, we assigned a measurement date to the grant as of the record creation date in our equity grant tracking system.

Table of Contents

Equity-Based Compensation Expense Adjustments

As presented in the table below and discussed more fully below, as a result of the findings in the Audit Committee s Review and through management s own review, we determined that material equity-based compensation expense adjustments were required primarily for the following reasons, among others:

Measurement date mistakes were made in connection with annual pool grants where the allocation of the grants to individual recipients was not known with finality until after the stated grant date;

Measurement date mistakes were made on new hire and promotional grants to Section 16 Officers, employees and non-employee directors as a result of delayed or missing approvals and grants made prior to the start date;

Certain stock option awards were modified after the establishment of a measurement date to accelerate the vesting of the employees stock options or to allow the exercise of stock options beyond the standard 90-day period following termination of employment; and

Certain grants previously accounted for as employee awards were determined to have been made for non-employee consulting services and should have been accounted for under SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123).

The following table summarizes the impact of these adjustments for the accounting periods presented (amounts in thousands):

	Pre-Tax Equity Based Compensation Expense				
Year Endend December 31,	**Measurement Date Changes**	**Modifications to Employee Grants**	**Non-Employee Grants**	**Other**	**Total**
1996	$ 21	$	$ 742	$	$ 763
1997	223	422	1,131		1,776
1998	454	199	1,743		2,396
1999	2,714	3,030	6,559	476	12,779
2000	7,380	13,411	4,069	1,824	26,684
2001	4,921	815	(135)	47	5,648
2002	5,865	76	(10)	174	6,105
2003	499	1,237	231	247	2,214
2004	357	82	(425)	223	237
Cumulative effect at December 31, 2004	22,434	19,272	13,905	2,991	58,602
2005	276	303	311	75	965
2006	(15)	425	49	152	611
First quarter 2007	28	859	(478)	(618)	(209)
Second quarter 2007	62	186	(13)	(507)	(272)
Total	$ 22,785	$ 21,045	$ 13,774	$ 2,093	$ 59,697

Measurement Date Adjustments

For the years 1996 through 2005, we accounted for our equity-based compensation grants under APB 25 and determined the required disclosures pursuant to the provisions of SFAS 123. Under APB 25, it is necessary to recognize equity-based compensation expense for stock options having intrinsic value on the dates such options are granted. As used in this discussion, the measurement date for a particular option is the date all required granting actions for an option are completed and is therefore the date on which the value of the option should be determined for accounting purposes. The valuation is based on the closing stock price on such measurement date. We set the exercise price of our options at the closing price of our common stock on the grant date. If the grant date is not the same as the required measurement date for an option, intrinsic value can arise if the closing stock price on the grant date was less than the closing stock price on the measurement date. The difference between the exercise price established as of the grant date and the closing stock price on the measurement date is viewed as built-in gain in the value of the option that exists on the measurement date, for which an equity-based compensation expense is required to be recognized.

On January 1, 2006, we adopted SFAS 123(R) under the modified prospective method. For the measurement date revisions, we revised our historical pro forma footnote disclosures in accordance with SFAS 123. Additionally, we adjusted our 2006 Consolidated Financial Statements and the first two quarters of 2007 to reflect the impact of revised measurement dates on the compensation expense recognized in accordance with SFAS 123(R).

We identified 3,021 grants for which we used incorrect measurement dates for financial accounting purposes, of which 945 grants comprising approximately 6.6 million shares resulted in accounting adjustments related to revised measurement dates. For options accounted for under APB 25, if the exercise price was less than the closing price on the revised measurement date, we recorded an adjustment to recognize equity-based compensation expense for the intrinsic value of such equity awards over the vesting period of the award. For options accounted for under SFAS 123(R), we calculated the fair value of the award on the revised measurement date and recorded an adjustment for the revised fair value of each award over the vesting period.

To determine the correct measurement dates for these grants under applicable accounting principles, we followed the guidance in APB 25, which deems the measurement date to be the first date on which all of the following facts are known with finality: (i) the identity of the individual employee who is entitled to receive the option grant; (ii) the number of options that the individual employee is entitled to receive; and (iii) the option s exercise price.

The documents and information considered in connection with our adjustments to measurement dates included, among other things:

- Board and Committee meeting minutes and related materials;
- evidence relating to the dates UWCs were prepared and circulated for signature and/or signed by Compensation Committee members;
- personnel files of employees who were granted options;
- e-mail communications and other electronic files from our computer system and in back-up media;
- documentation relating to the allocation of annual grants to individual employees;
- information as to the respective hire dates of employees receiving the option grants, including (if the grant was a new hire grant) the date of any offer letter;
- correspondence, memoranda and other documentation supporting option grants;
- information concerning the dates that stock options were entered into our (or our third-party administrator s) stock option tracking systems; and
- information obtained from current and former officers, directors, employees and outside professionals.

Table of Contents

We reviewed each of the grant types described in the tables below to identify the required granting actions for each grant type and we determined, on a grant-by-grant basis, the appropriate measurement date based upon all of the relevant and available information associated with the grant. The discussion below reflects all grants made, both pre and post IPO. The following tables summarize the equity-based compensation expense by accounting period for each of the grant types described (expense amounts in thousands):

	Annual Pool Grants			New Hire, Promotional & Merit Grants to Employees			New Hire, Promotional & Merit Grants to Section 16 Officers		
	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period
Pre-IPO through 1996			$	542	5,047,544	$ 21			$
1997				50	997,000	511			
1998				90	1,627,000	421			
1999	273	1,038,953	741	114	2,451,204	4,381	9	1,706,749	764
2000	327	895,478	1,167	346	2,485,887	11,636	5	600,000	8,681
2001	530	1,339,385	1,096	58	564,225	3,817	9	1,160,000	922
2002	569	1,108,100	1,250	65	999,300	4,088	8	735,000	686
2003	242	457,100	289	45	1,082,200	634	3	407,300	1,036
2004	256	1,091,000	145	83	1,408,000	379	5	550,000	107
Cumulative effect at December 31, 2004	2,197	5,930,016	4,688	1,393	16,662,360	25,888	39	5,159,049	12,196
2005			53	79	1,002,500	410	4	1,220,000	191
2006	133	591,950	1,492	61	770,500	2,464			2,957
First quarter 2007			313	89	1,210,000	1,551	6	635,000	730
Second quarter 2007			309	9	232,500	895	1	15,000	819
Totals	2,330	6,521,966	$ 6,855	1,631	19,877,860	$ 31,208	50	7,029,049	$ 16,893

	Grants Made to Employees of Acquired Companies			Non-employee Director Grants			Grants to Consultants		
	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period	Grants Issued in Period	Shares Granted in Period	Total Compensation Expense by Period

Pre-IPO through 1996	9	15,600	$	6	262,500	$	3	105,000	$ 742
1997	131	276,000	97	4	75,000	38			1,130
1998	116	1,547,899	152	7	106,250	80	7	547,744	1,743
1999	177	1,491,785	320	6	133,750	14	1	10,000	6,559
2000	295	848,230	1,117	5	131,000	14	3	40,000	4,069
2001			1,203	5	155,000	14			(135)
2002			77	6	95,000	14	11	55,000	(10)
2003			22	7	100,000	2	6	30,000	231
2004			30	6	80,000				34
Cumulative effect at December 31,2004	728	4,179,514	3,018	52	1,138,500	176	31	787,744	14,363
2005				4	60,000		1	5,000	20
2006	45	197,000	132	4	60,000	402			85
First quarter 2007			86						2
Second quarter 2007			231	4	60,000	678			(13)
Totals	773	4,376,514	$ 3,467	64	1,318,500	$ 1,256	32	792,744	$ 14,457

35

	Total Equity Grants				
	Grants Issued in Period	Shares Granted in Period	Total Pre-Tax Equity-Based Compensation Expense by Period	Expense Previously Recorded by Period	Net Adjustment
Pre-IPO through 1996	560	5,430,644	$ 763	$	$ 763
1997	185	1,348,000	1,776		1,776
1998	220	3,828,893	2,396		2,396
1999	580	6,832,441	12,779		12,779
2000	981	5,000,595	26,684		26,684
2001	602	3,218,610	6,917	1,269	5,648
2002	659	2,992,400	6,105		6,105
2003	303	2,076,600	2,214		2,214
2004	350	3,129,000	695	458	237
Cumulative effect at December 31, 2004	4,440	33,857,183	60,329	1,727	58,602
2005	88	2,287,500	674	(291)	965
2006	243	1,619,450	7,532	6,921	611
First quarter 2007	95	1,845,000	2,682	2,891	(209)
Second quarter 2007	14	307,500	2,919	3,191	(272)
Totals	4,880	39,916,633	$ 74,136	$ 14,439	$ 59,697

Annual Pool Grants Annually during the years 1999 through 2006, with the exception of 2005, we made grants to employees (including Section 16 Officers) as part of an annual performance review process. During this period, 2,330 grants totaling approximately 6.5 million options were granted. The number of options authorized for any year was approved by the Compensation Committee generally in the first quarter of that year. The exercise prices of these grants were established utilizing various methods including the date of the Compensation Committee meeting during which the award pool was established. In some cases, however, the Compensation Committee specifically delegated to management the ability to set the grant date based upon an approved date range. In the majority of the grants, the evidence suggests that the allocation of the grants were not final until sometime in the third quarter of each respective year. All annual pool grants have been assigned revised measurement dates.

New Hire, Promotional and Merit Grants to Employees We made 1,631 grants totaling approximately 19.9 million shares to non-Section 16 employees who were hired, promoted or whose performance warranted the award from 1996 through June 2007. We have determined that certain grants to employees were made prior to the completion of all of the required granting actions. Accordingly, we revised the measurement dates of 521 grants totaling approximately 6.4 million stock options.

New Hire, Promotional and Merit Grants to Section 16 Officers We made 50 grants totaling approximately 7.0 million shares to Section 16 Officers who were hired, promoted or whose performance warranted the award from 1996 through June 2007. We have determined that certain grants to Section 16 Officers were granted prior to the completion of all of the required granting actions including as appropriate approval by the Compensation Committee or the Board. Furthermore, the delays in the completion of all required granting actions were often the result of the use of UWCs where the final approval was not received until after the stated grant date (the effective date of the UWC). Accordingly, we revised the measurement dates of 22 grants representing approximately 2.7 million options awarded to newly hired or promoted Section 16 Officers. Neither our Chairman and Chief Executive Officer nor our Vice Chairman have ever exercised any options granted to them.

Grants Made to Employees of Acquired Companies From 1996 through 2006, we made 773 grants totaling approximately 4.4 million options to employees of companies we acquired. Grants made in conjunction with acquisitions were typically authorized at the time of the Board s approval of the acquisition. The exercise price of such option grants was typically set at the closing stock price of our common stock on the closing date of the acquisition or in some cases approximately 90 days after the acquisition. We have concluded that in some cases, all of the required granting actions necessary for valid approval of these grants had not been completed as of the grant dates. As a result, we revised the measurement dates of 156 grants representing approximately 1.1 million options.

Non-Employee Director Grants From 1996 through June 2007, we made 64 grants to non-employee directors totaling approximately 1.3 million options. We revised the measurement dates for certain of these grants because they were awarded on dates other than the automatic dates prescribed in the applicable stock option plan.

Grants to Consultants We made 32 grants totaling approximately 0.8 million options to consultants, three of which were made to directors of the Board for services unrelated to their Board service. One grant to a consultant was modified after the initial grant date. To correctly account for these grants in accordance with SFAS 123 and EITF 96-18 *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, we recorded $14.5 million of compensation expense.

Modifications to Employee Grants Our review also identified a number of instances where modifications to stock options were made on terms beyond the limitations specified in the original terms of the grants, resulting in additional compensation expense. Modifications were made to stock options issued in annual pool grants, new hire and promotional grants to Section 16 Officers and employees and grants made to employees of acquired companies. The modifications included the following, among others:

Severance agreements offered to certain terminated employees that allowed for continued vesting and the right to exercise stock options beyond the standard time period permitted under the terms of the stock option agreement;

Employment agreements that provided for the accelerated vesting of stock options;

Continued vesting and the ability to exercise stock options for certain employees not terminated from our database in a timely manner following their departure from TeleTech due to administrative errors; and

Options granted to certain employees that were not entered into our equity tracking system until after their dates of termination, primarily due to administrative delays in processing stock option requests and the lack of communication of employee termination dates to our third party plan administrator.

Impact of the Mistakes on our Financial Statements

We have determined that after accounting for forfeitures, the adjustments described above resulted in an understatement of equity-based compensation expense, which was allocated among the applicable accounting periods based on the respective vesting terms of the corrected option grants. Most of the adjusted measurement dates involved grants made prior to 2001.

Table of Contents

The following table reflects the impact of the equity-based compensation restatement adjustments on our consolidated statements of income for the periods presented below (amounts in thousands):

Year Ended December 31,	Pre-Tax Equity-Based Compensation Expense	Income Taxes	Net Charge to Net Income
1996	$ 763	$ (283)	$ 480
1997	1,776	(659)	1,117
1998	2,396	(888)	1,508
1999	12,779	(4,739)	8,040
2000	26,684	(9,895)	16,789
2001	5,648	(2,094)	3,554
2002	6,105	(2,264)	3,841
2003	2,214	(822)	1,392
2004	237	(235)	2
Cumulative effect at December 31, 2004	58,602	(21,879)	36,723
2005	965	(164)	801
2006	611	137	748
First quarter 2007	(209)	316	107
Second quarter 2007	(272)	213	(59)
Total	$ 59,697	$ (21,377)	$ 38,320

Tax Consequences Under Internal Revenue Code

As a result of the review of our equity-based compensation practices, we have determined that a number of our historical equity-based grants were issued with exercise prices that were below the quoted market price of the underlying stock on the date of grant. Under Internal Revenue Code Section 409A, grant recipients with stock options with exercise prices below the quoted market price of the underlying stock on the date of grant and that vest after December 31, 2004 are subject to unfavorable tax consequences that did not apply at the time of grant. Based on the review of our equity-based compensation practices, we have determined that certain option grants exercised by our employees in 2006 and 2007 or outstanding as of December 31, 2007, may be subject to the adverse tax consequences under Section 409A depending on the vesting provisions of each grant.

While the final regulations under Section 409A were not effective until January 1, 2008, transition rules published by the IRS in various notices and announcements make the principles of Section 409A applicable, to varying degrees, during the tax years 2006 and 2007.

In general, any exercise during 2006 and 2007 of a stock option vesting after December 31, 2004, granted with an exercise price less than the fair market value of the common stock on the measurement date is subject to the provisions of Section 409A. Additionally, in the one case of a stock option granted to an employee who was also a Section 16 officer at the time of grant, with an exercise price less than the fair market value on the measurement date, Section 409A treats all vested and unexercised stock options as exercised at December 31, 2007. The Section 16 officer realized gross income, subject to both regular income and employment taxes along with the taxes imposed under Section 409A, based on the difference between the fair market value of TeleTech stock on December 31, 2007 and the exercise price of the stock option.

In the fourth quarter of 2007, we identified that there would be adverse tax consequences for employees who exercised stock options from these grants during 2006 and 2007. In December of 2007, we committed to compensate our employees for the adverse tax consequences of Section 409A and who, as a result, incurred (or are otherwise subject to) taxes and penalties. In that regard, we have made, or will make, cash payments estimated at $2.9 million to or on behalf of these individuals for the incremental taxes imposed under Section 409A and an associated tax gross-up (as a result of the tax

Table of Contents

payment itself being taxable to the employee). This amount was recorded as Selling, General, and Administrative expense in our Consolidated Financial Statements in the fourth quarter of 2007 when we elected to reimburse our employees for their incremental taxes.

With the final Regulations effective January 1, 2008, employees holding unexercised stock options potentially subject to Section 409A will be treated the same as Section 16 Officers and lose the deferral of income typically associated with a stock option. Unexercised stock options potentially subject to Section 409A will violate the provisions on January 1, 2008 (if they are already vested) or upon their future vesting. An employee would then realize gross income, subject to income taxes and employment taxes as well as the taxes imposed under Section 409A, based on the difference between the fair market value of our common stock at December 31, 2008 (for unexercised options) or the actual gain realized (for options exercised in 2008). In 2008, we intend to provide all eligible employees with the opportunity to remedy their outstanding stock options that are subject to potential penalties under Section 409A. The resulting financial impact will be reflected in the period in which the remedial action is finalized.

We have also considered the impact of Section 162(m) on 2007 and prior periods. Section 162(m) of the Internal Revenue Code imposes a $1 million annual limit on the compensation deduction permitted by a public company employer for compensation paid to its chief executive officer and its other officers whose compensation is required to be reported to stockholders under the Securities Exchange Act of 1934 because they are among the four most highly compensated officers for the taxable year. (Generally, this will include the Chief Executive Officer (CEO) and the three highest-paid officers other than the CEO, but will exclude the Chief Financial Officer). One significant exception is that compensation in excess of $1 million annually is deductible provided the compensation meets the performance based exception requirements. Typically, stock options awarded at fair market value under a shareholder approved plan meet the performance based exception in Regulation Section 1.162-27. Normally, stock options granted by us under our equity-based compensation plans meet the performance based compensation exception. However, any income realized under a misdated stock option (an option issued at less than fair market value on the relevant measurement date) is deemed (in whole) to be non-performance based compensation. We have accounted for nondeductible employee compensation as limited by Section 162(m) in 2007 and all prior periods in the restatement.

Where compensation expense has been recorded with respect to a misdated stock option in 2007 or prior periods and the employee s compensation expense will likely be subject to Section 162(m) when deducted for tax purposes in 2008 or future accounting periods, we have recorded a valuation allowance against the deferred tax asset where we believe realization of the deferred tax asset does not meet the more likely than not standard of SFAS No. 109 *Accounting for Income Taxes* (SFAS 109). This valuation allowance was established in the first quarter of 2007 and is adjusted quarterly to reflect changes in the expected future deductibility of these expenses. Also, to the extent employees subject to Section 162(m), in 2007 and prior periods exercised misdated stock options, the amounts realized have been accounted for as non-performance based compensation expense subject to the $1 million limitation.

Judgments

As discussed above, some of the revised measurement dates could not be determined with certainty. As a result, we established revised measurement dates based on judgments that we made considering all of the available relevant information. Judgments different from ours regarding the timing of the revised measurement dates would have resulted in compensation expense charges different than those recorded by us in the restatement. Because of their potential variability, we prepared a sensitivity analysis to determine a hypothetical minimum and maximum compensation expense charge that could occur if different judgments were utilized to determine the revised measurement dates. In reviewing all available data including information, findings and conclusions from the Audit Committee s Review and our own review, we considered other possible alternative measurement dates within a reasonable minimum and maximum range that might have been used in the preparation of a sensitivity analysis. In this process, we found nothing that we believed would have supported conclusions that any other form or

39

Table of Contents

content for a sensitivity analysis would be more appropriate or helpful than the sensitivity analysis that we have prepared.

We applied our sensitivity methodology on a grant-by-grant basis using the largest reasonably possible variations in equity-based compensation expense within a range of possible approval dates for each grant event. We developed this range by starting with the first available dating evidence through the earlier of final management approval or the record creation date of the grant in our equity accounting system. In some cases, the earliest possible date was the stated date of grant, while for others it was based on the documentary evidence, including, among other things, the employment offer letters, acquisition documents, Board or Board committee meeting dates, UWC dates, facsimile and e-mail dates, electronic and printed dating evidence on grant recommendation listings, and creation dates in our equity accounting system. Based upon all available evidence, we were unable to identify dates that would provide a more reasonable range of dates for this sensitivity analysis. While we believe the evidence and methodology used to determine the revised measurement dates to be the most appropriate, we also believe that illustrating differences in equity-based compensation expense using these alternative date ranges provides some insight into the extent to which hypothetical equity-based compensation expense would have fluctuated had we used other dates.

After developing the range for each grant event, we selected the highest closing price of our stock within the range and calculated the equity-based compensation expense to determine the maximum possible compensation expense. We then selected the lowest closing price within the range and calculated the equity-based compensation expense to determine the minimum possible compensation expense. We compared these aggregated amounts to the equity-based compensation expense that we recorded. If we had used the highest closing price of our stock within the range for each grant, our total restated equity-based compensation expense relating to the revision in measurement dates would have increased to approximately $87.1 million. Conversely, had we used the lowest closing price of our stock within the range for each grant, our total restated compensation expense would have decreased to approximately $62.7 million.

Our hypothetical ranges of equity-based compensation expense were affected by the high level of volatility in our stock price and the date ranges used in our sensitivity analysis, generally the time period between the original grant dates of certain stock options and the revised measurement dates. For example, in 1999 (the year in our restatement period with the largest sensitivity range based on option grant date), our stock price closed at a low of $5.56 per share and a high of $34.06 per share during the range of potential alternative measurement dates. Since we do not have evidence that the grant dates and exercise prices were selected on the date when our stock price was at its highest or lowest during each period, we concluded that selecting a revised measurement date on the highest or lowest closing price when measuring compensation expense would not have been consistent with the requirements of APB 25, which looks to the first date on which the terms of the grants were fixed with finality.

Table of Contents

The following table sets forth the effect on earnings before income taxes (net of estimated forfeitures) that would have resulted from using different alternate measurement dates as compared to the measurement dates selected in our evaluation and used for accounting purposes. The table below illustrates the actual amortization of the pre-tax equity-based compensation recognized in our Consolidated Financial Statements and the hypothetical equity-based compensation expense in the period that the options are earned.

	Pre-Tax Sensitivity Analysis (Amounts in Thousands)				
	Equity-Based Compensation Expense Previously Recorded	Equity-Based Compensation Expense Adjustments	Total Equity-Based Compensation Expense	Hypothetical Equity-Based Compensation Expense at Lowest Closing Price	Hypothetical Equity-Based Compensation Expense at Highest Closing Price
Pre-IPO through 1996	$	$ 763	$ 763	$ 763	$ 772
1997		1,776	1,776	1,755	2,046
1998		2,396	2,396	2,346	3,117
1999		12,779	12,779	10,912	13,524
2000		26,684	26,684	22,940	32,661
2001	1,269	5,648	6,917	4,776	8,945
2002		6,105	6,105	3,075	7,834
2003		2,214	2,214	1,972	2,998
2004	458	237	695	641	1,152
Cumulative effect at December 31, 2004	1,727	58,602	60,329	49,180	73,049
2005	(291)	965	674	584	789
2006	6,921	611	7,532	7,413	7,665
First quarter 2007	2,891	(209)	2,682	2,665	2,689
Second quarter 2007	3,191	(272)	2,919	2,901	2,925
Totals	$ 14,439	$ 59,697	$ 74,136	$ 62,743	$ 87,117

Lease Accounting

As part of our internal audit process, we identified the incorrect recording of certain leases under SFAS No. 13 *Accounting for Leases*. In addition, we incorrectly applied SFAS No. 143 *Accounting for Asset Retirement Obligations* (SFAS 143) to certain leases when it became effective in 2003. Specifically, we did not correctly identify capital versus operating leases for certain of our delivery centers and improperly accounted for certain relevant contractual provisions, including lease inducements, construction allowances, rent holidays, escalation clauses, lease commencement dates and asset retirement obligations. The lease classification changes and recognition of other lease provisions resulted in an adjustment to deferred rent, the recognition of appropriate asset retirement obligations, and the amortization of the related leasehold improvement assets. We recorded a pre-tax, non-cash cumulative charge of $5.9 million in our Consolidated Financial Statements through June 30, 2007 to reflect these additional lease related expenses.

Other Accounting Adjustments

We made other corrections to accounts receivable and related revenue, accruals and related expense, as well as adjustments to reclassify restricted cash in a foreign entity to other assets. The adjustments resulted in a net reduction of other expenses of $0.3 million in our Consolidated Financial Statements through June 30, 2007.

Income Tax Adjustments and Income Tax Payables

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

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

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

Cost of Restatement

We have incurred substantial expenses for accounting, legal, tax and other professional services in connection with the Audit Committee s Review, our internal review, and preparation of our Consolidated Financial Statements and restated Consolidated Financial Statements and related matters. These third-party expenses, which are included in selling, general and administrative expenses, were $8.6 million in 2007, and are expected to be approximately $10 million in 2008. In addition, in the quarter ended December 31, 2007 we recorded additional compensation expense of $2.9 million for incremental federal, state and employment taxes, assessed upon employees under Section 409A, including penalties, interest and tax gross-ups . We have committed to make the employees whole for any adverse tax consequences arising as a result of the vesting or exercise of mispriced options in 2006 and 2007.

Cost of Securities Class Action Lawsuits

Two class action lawsuits, which have now been consolidated, have been filed against us, certain directors and officers and others, alleging violations of the federal securities laws. The complaints allege, among other things, false and misleading statements in (i) a Registration Statement and Prospectus relating to a March 2007 secondary offering of common stock; and (ii) various periodic reports filed with the SEC between February 8, 2007 and November 8, 2007. Although we expect the majority of expenses related to the class action lawsuits to be covered by insurance, there can be no assurance that all of such expenses will be reimbursed.

Regulatory Inquiries Related to Historical Equity-Based Compensation Practices

The Audit Committee s independent counsel has met and discussed the results of the Review with the staff of the SEC. Furthermore, the IRS is conducting an inquiry of the tax implications of our historical equity-based compensation practices. The SEC and IRS are reviewing the Audit Committee s findings and may pursue inquiries of their own, which could lead to further investigations and regulatory action. At this time, we cannot predict what, if any, actions by the SEC, the IRS or any other regulatory authority or agency may result from the Audit Committee s Review. We can provide no assurances that there will be no additional inquiries or proceedings by the SEC, the IRS or other regulatory authorities or agencies.

Table of Contents

NASDAQ Delisting Proceedings

We did not timely file with the SEC our Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008 in addition to this Form 10-K as a result of the Audit Committee s and our own review of our historical equity-based compensation practices and the resulting restatements of previously issued financial statements. As a result, we received three NASDAQ Staff Determination notices, dated November 14, 2007, March 5, 2008 and May 15, 2008, stating that we are not in compliance with NASDAQ Marketplace Rule 4310(c)(14) and, therefore, we are subject to potential delisting from the NASDAQ Global Select Market. We appealed the NASDAQ Staff s delisting notice dated November 14, 2007 and, ultimately, the NASDAQ Listing and Hearing Review Council requested that we provide an update on our efforts to file the delayed periodic reports by May 30, 2008. We provided that update on May 30, 2008. Upon the filing of this Form 10-K and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2007 and March 31, 2008, we believe we will return to full compliance with SEC reporting requirements and NASDAQ listing requirements.

Amendment of Credit Facility

Since November 2007, we have entered into three amendments to our Amended and Restated Credit Agreement, dated as of September 28, 2006 (the Credit Facility), with our lenders. These amendments extended the time for us to deliver our financial statements for the quarter ended September 30, 2007, for the year ended December 31, 2007 and for the quarter ended March 31, 2008, until August 15, 2008. In the amendments, our lenders also consented to (i) the filing of our delayed periodic reports with the SEC by August 15, 2008; (ii) the restatement of our previously filed financial statements; and (iii) the NASDAQ Staff Determination notices with respect to the possible delisting of our common stock from the NASDAQ Global Select Market due to the delayed periodic reports. As a result of these amendments and the filing of the delayed periodic reports, there is presently no basis for our lenders to declare an event of default under our Credit Facility and we may continue to borrow funds thereunder.

For more information regarding the restatement of our financial statements, see the Explanatory Note to this Form 10-K and Note 2 to the Consolidated Financial Statements.

Business Overview

We serve our clients through two primary businesses, BPO and Database Marketing and Consulting. Our BPO business provides outsourced business process and customer management services for a variety of industries through global delivery centers and represents approximately 99% of total annual revenue. In September 2007, we sold, through Newgen Results Corporation, our wholly-owned subsidiary, and related companies (hereinafter collectively referred to as Newgen), substantially all of the assets and certain liabilities of this business which represented our entire Database Marketing and Consulting business. As a result, in 2008, our BPO business will represent 100% of total annual revenue. When we begin operations in a new country, we determine whether the country is intended to primarily serve U.S. based clients, in which case we include the country in our North American BPO segment, or if the country is intended to serve both domestic clients from that country and U.S. based clients, in which case we include the country in our International BPO segment. This is consistent with our management of the

Table of Contents

business, internal financial reporting structure and operating focus. Operations for each segment of our BPO business are conducted in the following countries:

North American BPO	International BPO
United States	Argentina
Canada	Australia
Philippines	Brazil
	China
	Costa Rica
	England
	Germany
	Malaysia
	Mexico
	New Zealand
	Northern Ireland
	Scotland
	Singapore
	South Africa
	Spain

On June 30, 2006, we acquired 100 percent of the outstanding common shares of Direct Alliance Corporation (DAC), a provider of e-commerce, professional sales and account management solutions primarily to Fortune 500 companies that sell into and maintain long-standing relationships with small and medium businesses. This acquisition was consistent with our strategy to grow and focus on providing outsourced marketing, sales and BPO solutions to large multinational clients. DAC is included in our North American BPO segment. The acquisition of DAC contributed approximately $34.1 million of revenue to our consolidated results during the last six months of 2006 and $61.8 million during the year ended December 31, 2007. See Note 3 to the Consolidated Financial Statements for further discussion of this acquisition.

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. See Note 4 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 was reduced by $20.4 million related to asset impairment and restructuring charges for this business. During 2007, our income from operations before income taxes and minority interest was reduced by $24.3 million. This includes the $20.4 million of asset impairment and restructuring charges discussed above along with a $3.9 million net charge related to the above disposal. The disposal charge includes 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 8 to the Consolidated Financial Statements for further discussion on the impairment charges. See Note 4 to the Consolidated Financial Statements for further discussion of this disposition.

See Note 5 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, cable and communications, financial services, 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 it will continue to be. However, we do provide certain client programs on a short-term basis.

We have historically experienced annual attrition of existing client programs of approximately 7% to 15% of our revenue. Attrition of existing client programs during 2007 was 7%. However, we experienced annual net growth of existing client programs of 10% and 6% in 2007 and 2006, respectively (growth of existing client programs was greater than the attrition of existing client programs). We believe this trend is attributable to our investment in an account management and operations team focused on client service.

Our invoice terms with clients typically range from 30 to 60 days, with longer terms in Spain.

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 companies that provide BPO on an outsourced basis. 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.

We have improved our revenue and profitability in both the North American and the International BPO segments by:

Capitalizing 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, 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; and

- Better integrate front and back office processes.

Deepening and broadening relationships with existing clients;

Winning business with new clients and focusing on targeted high growth industry verticals;

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

Increasing capacity utilization during peak and non-peak hours;

Scaling our work-from-home initiative to increase operational flexibility; and

Completing select acquisitions that extend our core BPO capabilities or vertical expertise.

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 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

Table of Contents

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.

As discussed above, our profitability is influenced, in part, by the number of new or expanded client programs. We defer revenue for the initial training that occurs upon commencement of a new client contract (Start-Up Training) if that training is billed separately to the client. Accordingly, the corresponding training costs, consisting primarily of labor and related expenses, are also deferred. In these circumstances, both the training revenue and costs are amortized straight-line over the life of the contract. In situations where Start-Up Training is not billed separately, but rather included in the production rates paid by the client over the life of the contract, there is no deferral as all revenue is recognized over the life of the contract and the associated training expenses are expensed as incurred. For the years ended December 31, 2007 and 2006, we incurred $0.7 million and $0.4 million, respectively, of training expenses for client programs for which we did not separately bill Start-Up Training.

For programs that we have billed the client separately for training, the net impact of deferred Start-up Training (new deferrals less recognition of previous amounts deferred) on our reported revenue for the years ended December 31, 2007 and 2006 was $0.0 million and a decrease of $4.0 million, respectively. Correspondingly, the net impact on our reported cost of services from these deferrals was an increase of $0.1 million for the year ended December 31, 2007 and a decrease of $1.6 million for the year ended December 31, 2006. The net impact of these deferrals on our reported income from operations for the years ended December 31, 2007 and 2006 was a decrease of $0.1 million and $2.4 million, respectively. The impact from these deferrals decreased significantly in 2007 as the new amounts deferred during the period were consistent with the revenue recognized from prior deferrals. In contrast, during 2006, new deferrals for Start-up Training were almost twice the revenue recognized from prior period deferrals due to growth in new client programs during the period and the clients agreement to pay for this training separately.

As of December 31, 2007, we had deferred Start-up Training revenue, net of deferred costs, of $7.3 million that will be recognized into our income from operations over the remaining life of the corresponding contracts (approximately 15 months).

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. As a result, we expanded our capacity in 2007 by approximately 7,700 gross workstations in primarily offshore locations including the Philippines and Latin America. These gross additions were partially offset by workstation reductions primarily related to the sale of our Indian joint venture and Database Marketing and Consulting business.

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 a client contract as we concentrate our marketing efforts toward obtaining large, complex BPO programs.

We internally target capacity utilization in our delivery centers at 85% to 90% of our available workstations. As of December 31, 2007, the overall capacity utilization in our Multi-Client Centers was 79%. The table below presents workstation data for our multi-client centers as of December 31, 2007 and 2006. Dedicated and Managed Centers (10,055 workstations) 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.

	December 31, 2007			**December 31, 2006**		
	Total Production Workstations	**In Use**	**% In Use**	**Total Production Workstations**	**In Use**	**% In Use**
North American BPO	16,097	13,043	81%	13,137	10,362	79%
International BPO	12,248	9,225	75%	10,121	8,129	80%
Total	28,345	22,268	79%	23,258	18,491	80%

As shown above, there was an increase in the total production workstations resulting from our revenue growth in 2007. We added 2,400 new production workstations in the fourth quarter 2007 due to new business wins. These additional workstations were in process of being ramped for new client programs during the fourth quarter 2007 and resulted in a slight decrease in the total utilization percentage on a year-over-year basis.

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 4 to the Consolidated Financial Statements for further discussion of this disposition.

The revenue from this business was generated utilizing a database and contact system to promote the sales and service business of automobile dealership customers using targeted marketing solutions through the phone, mail, email, and the Web. This business generated a loss from operations including additional impairment and restructuring charges of approximately $32.6 million after corporate allocations for the year ended December 31, 2007.

We entered into an agreement with the buyer of our Database Marketing and Consulting business 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 criteria under SFAS No. 144 A*ccounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) 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 under the guidance of SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS 142) as discussed in Note 8 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.

Overall

As shown below in the Results of Operations, we have improved income from operations due to a variety of factors, including the following: expansion of work on certain existing client programs, our multi-phased cost reduction plan, transitioning work on certain client programs to lower cost delivery centers, increased capacity utilization, improving individual client program profitability and/or eliminating certain underperforming client programs.

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 number of 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, performance and volume.

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.

Hybrid Hybrid models include production rate and performance-based elements. For these types of arrangements, the Company allocates 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.

Table of Contents

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.

From time to time, we make certain expenditures related to acquiring contracts (recorded as Contract Acquisition Costs in the accompanying Consolidated Balance Sheets). Those expenditures are capitalized and amortized in proportion to the initial expected future revenue from the contract, which in most cases results in straight-line amortization over the life of the contract. Amortization of these costs is recorded as a reduction of revenue.

Income Taxes

We account for income taxes in accordance with SFAS No. 109 *Accounting for Income Taxes* (SFAS 109), 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 enacted 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.

As required by SFAS 109, 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, SFAS 109 requires that all available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is required.

In the future, our effective tax rate could be adversely affected by several factors, many of which are outside of 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 rulings 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.

The Financial Accounting Standards Board recently issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS 109. FIN 48 was effective for our 2007 year. See Note 1 and Note 12 to the Consolidated Financial Statements for a discussion of the impact FIN 48 has had on our Consolidated Financial Statements.

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 our individual delivery centers in accordance with SFAS 144, which requires that a long-lived asset group be reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the long-lived asset group may not be recoverable. When the operating results of a delivery center have deteriorated to the point it is likely that losses will continue for the foreseeable future, or we expect that a delivery center will be closed or otherwise disposed of before the end of its estimated useful life, we select the delivery center for further review.

For delivery centers selected for further review, we estimate the probability-weighted future cash flows resulting from operating the delivery center over its useful life. Significant judgment is involved in projecting future capacity utilization, pricing, labor costs and the estimated useful life of the delivery center. We do not subject to the same test delivery centers that have been operated for less than two years or those delivery centers that have been impaired within the past two years (the Two Year Rule) because we believe sufficient time is necessary to establish a market presence and build a client base for such new or modified delivery centers in order to adequately assess recoverability. However, such delivery centers are nonetheless evaluated in case other factors would indicate an impairment had occurred. For impaired delivery centers, we write the assets down to their estimated fair market value. If the assumptions used in performing the impairment test prove insufficient, the fair market value estimate of the delivery centers may be significantly lower, thereby causing the carrying value to exceed fair market value and indicating an impairment had occurred.

We assess the realizable value of capitalized software development costs based upon current estimates of future cash flows from services utilizing the underlying software. No impairment had occurred as of December 31, 2007.

Goodwill

We assess the realizability of goodwill annually and whenever events or changes in circumstances indicate it 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. Fair value can be determined based on discounted cash flows, comparable sales, or valuations of other similar businesses. Our policy is to test goodwill for impairment in the fourth quarter of each year unless an indicator of impairment arises during a prior period.

The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we generally use the financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services and projected labor costs. We then use a discount rate we consider appropriate for the country where the business unit is providing services. 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. Based on the analyses performed in the fourth quarter of 2007, there was no impairment to the December 31, 2007 goodwill balances of our reporting units. If projected revenue used in the analysis of goodwill was 10% less than forecast (the projections assumed average revenue growth rates ranging from 2% to 18% per annum over a three-year period), there would still be no impairment to goodwill.

Alternatively, our Database Marketing and Consulting business continued to incur operating losses through the second quarter of 2007. As we continued to consider strategic alternatives for this segment, we determined in June 2007 that it was more likely than not that we would dispose of our Database Marketing and Consulting business, which was then completed in September 2007. These two items triggered impairment testing on an interim basis for this reporting unit under SFAS 142.

The first step of the impairment testing indicated that the carrying value of the Database Marketing and Consulting business exceeded its fair value. We determined the fair value of the business by weighting discounted cash flow analyses based on the probability of the different outcomes. The decrease in the fair value as compared to the calculation in the step one test performed in prior quarters was due to two factors. The first factor was that the expectations regarding future results of the reporting unit used in the discounted cash flow analyses were below the expectations reflected in the analyses of the prior quarter. While the revenue declines and operating losses for this segment had generally stabilized, returning this business to profitability was expected to take longer than previously forecasted. The second factor was that the indications of fair market value received from interested third-parties were less than the carrying value of the reporting unit. Given these indications of a possible impairment, we performed the second step of the impairment testing.

The second step of the impairment testing indicated that the book value of the business goodwill exceeded the implied fair value of that goodwill. The implied fair value was determined by reviewing the current assets and liabilities; property, plant and equipment; and other identifiable intangible assets (both those recorded and not recorded) to determine the appropriate fair value of the business assets and liabilities in a hypothetical purchase accounting analysis. The fair value of these items based on the hypothetical analysis was then compared to the fair value used in the step one test (the hypothetical purchase price) to calculate the implied fair value of the business goodwill. The implied fair value of the goodwill was zero. As a result, an impairment charge of $13.4 million for the entirety of the Database Marketing and Consulting business goodwill was recorded during the second quarter of 2007. This was recorded in Impairment Losses in the accompanying Consolidated Statement of Operations and Comprehensive Income.

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 follow SFAS 146, which specifies that a liability for a cost associated with an exit or disposal activity be 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.

Adoption of SFAS No. 123(R) and Equity-Based Compensation Expense

During the first quarter of 2006, we adopted SFAS 123(R) applying the modified prospective method. SFAS 123(R) requires all equity-based payments to employees to be recognized in the Consolidated Statement of Operations and Comprehensive Income based on the grant date fair value of the award. Prior to the adoption of SFAS 123(R), we accounted for equity-based awards under the intrinsic value method, which followed recognition and measurement principles of APB 25 and related interpretations, and equity-based compensation was included as pro-forma disclosure within the notes to the financial statements. We did not modify the terms of any previously granted options in anticipation of the adoption of SFAS 123(R).

Derivatives

We use forward and option contracts to manage risks generally associated with foreign exchange rate volatility. We enter into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies. These transactions are designated as cash flow hedges in accordance with the criteria established in SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133).

SFAS 133 requires that changes in a derivative s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 also requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. Based on the criteria established by SFAS 133, all of our cash flow hedge contracts are deemed effective. Our cash flow hedges are recorded in our Consolidated

Balance Sheets as either an asset or liability measured at its fair value, with changes in the fair value of qualifying hedges recorded in Accumulated Other Comprehensive Income, a component of Stockholders Equity. The settlement of these derivatives will result in reclassifications from Accumulated Other Comprehensive Income to earnings in the period during which the hedged transactions affect earnings and gains or losses will be recorded to Revenue.

While we expect that our derivative instruments will continue to meet the conditions for hedge accounting, if the hedges did not qualify as highly effective or if we do not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected currently in earnings.

Contingencies

We record a liability in accordance with SFAS No. 5 *Accounting for Contingencies* for pending litigation and claims where losses are both probable and reasonably estimable. Each quarter, management, with the advice of legal counsel, reviews all litigation and claims on a case-by-case basis and assigns probability of loss and range of loss based upon the assessments of in-house counsel and outside counsel, as appropriate.

Explanation of Key Metrics and Other Items

Cost of Services

Cost of services principally includes 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 time-to-time 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 grants, debt and capitalized lease obligations.

Other Income

The main components of other income are miscellaneous receipts not directly related to our operating activities, such as foreign exchange transaction gains and income from the sale of a software and intellectual property license agreement.

Other Expenses

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

Table of Contents

Presentation of Non-GAAP Measurements

Free Cash Flow

Free cash flow is a non-GAAP liquidity measurement. We believe that free cash flow is useful to our investors because it measures, during a given period, the amount of cash generated that is available for debt obligations and investments other than purchases of property, plant and equipment. Free cash flow is not a measure determined by GAAP and should not be considered a substitute for income from operations, net income, net cash provided by operating activities, or any other measure determined in accordance with GAAP. We believe this non-GAAP liquidity measure is useful, in addition to the most directly comparable GAAP measure of net cash provided by operating activities, because free cash flow includes investments in operational assets. Free cash flow does not represent residual cash available for discretionary expenditures, since it includes cash required for debt service. Free cash flow also excludes cash that may be necessary for acquisitions, investments and other needs that may arise.

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

	Year Ended December 31,		
	2007	2006 As restated	2005 As restated
Free cash flow	$ 42,431	$ 33,231	$ 7,328
Purchases of property, plant and equipment	61,083	66,016	37,606
Net cash provided by operating activities	$ 103,514	$ 99,247	$ 44,934

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

Table of Contents

RESULTS OF OPERATIONS

Year Ended December 31, 2007 Compared to December 31, 2006

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, 2007 and 2006 (dollar amounts in thousands):

	Year Ended December 31,					
	2007	% of Segment Revenue	2006 As restated	% of Segment Revenue As restated	$ Change	% Change
Revenue						
North American BPO	$ 955,810	69.8%	$ 814,419	67.3%	$ 141,391	17.4%
International BPO	396,080	28.9%	356,106	29.4%	39,974	11.2%
Database Marketing and Consulting	17,742	1.3%	40,228	3.3%	(22,486)	(55.9)%
	$ 1,369,632	100.0%	$ 1,210,753	100.0%	$ 158,879	13.1%
Cost of services						
North American BPO	$ 689,793	72.2%	$ 587,984	72.2%	$ 101,809	17.3%
International BPO	299,927	75.7%	271,986	76.4%	27,941	10.3%
Database Marketing and Consulting	11,739	66.2%	22,839	56.8%	(11,100)	(48.6)%
	$ 1,001,459	73.1%	$ 882,809	72.9%	$ 118,650	13.4%
Selling, general and administrative						
North American BPO	$ 126,517	13.2%	$ 112,688	13.8%	$ 13,829	12.3%
International BPO	66,700	16.8%	62,434	17.5%	4,266	6.8%
Database Marketing and Consulting	14,311	80.7%	24,873	61.8%	(10,562)	(42.5)%
	$ 207,528	15.2%	$ 199,995	16.5%	$ 7,533	3.8%
Depreciation and amortization						
North American BPO	$ 31,964	3.3%	$ 27,918	3.4%	$ 4,046	14.5%
International BPO	20,076	5.1%	16,569	4.7%	3,507	21.2%
Database Marketing and Consulting	3,913	22.1%	7,502	18.6%	(3,589)	(47.8)%
	$ 55,953	4.1%	$ 51,989	4.3%	$ 3,964	7.6%
Restructuring charges, net						
North American BPO	$ 1,280	0.1%	$ 103	0.0%	$ 1,177	1142.7%

International BPO	1,050	0.3%	1,420	0.4%	(370)	(26.1)%
Database Marketing and Consulting	4,785	27.0%	107	0.3%	4,678	4372.0%
	$ 7,115	0.5%	$ 1,630	0.1%	$ 5,485	336.5%
Impairment losses						
North American BPO	$ 154	0.0%	$ 87	0.0%	$ 67	77.0%
International BPO		0.0%	478	0.1%	(478)	(100.0)%
Database Marketing and Consulting	15,635	88.1%		0.0%	15,635	100.0%
	$ 15,789	1.2%	$ 565	0.0%	$ 15,224	2694.5%
Income (loss) from operations						
North American BPO	$ 106,102	11.1%	$ 85,639	10.5%	$ 20,463	23.9%
International BPO	8,327	2.1%	3,219	0.9%	5,108	158.7%
Database Marketing and Consulting	(32,641)	(184.0)%	(15,093)	(37.5)%	(17,548)	(116.3)%
	$ 81,788	6.0%	$ 73,765	6.1%	$ 8,023	10.9%
Other income (expense)	$ (6,437)	(0.5)%	$ (4,442)	(0.4)%	$ (1,995)	(44.9)%
Provision for income taxes	$ (19,562)	(1.4)%	$ (16,474)	(1.4)%	$ (3,088)	(18.7)%

Revenue

Revenue for the North American BPO for 2007 compared to 2006 was $955.8 million and $814.4 million, respectively. The increase in revenue for the North American BPO between periods was due to new client programs, the expansion of existing client programs and the inclusion of a full-year of revenue from DAC.

Revenue for the International BPO for 2007 compared to 2006 was $396.1 million and $356.1 million, respectively. The increase in revenue for the International BPO between periods was due to new client programs and the expansion of existing client programs in Latin America and Europe.

Revenue for Database Marketing and Consulting for 2007 compared to 2006 was $17.7 million and $40.2 million, respectively. The decrease is due primarily to a net decline in clients and the disposition of the business in September 2007.

Cost of Services

Cost of services for the North American BPO for 2007 compared to 2006 were $689.8 million and $588.0 million, respectively. Cost of services as a percentage of revenue in the North American BPO remained consistent as compared to the prior year. In absolute dollars, the increase in cost of services corresponds to revenue growth from the implementation of new and expanded client programs.

Cost of services for the International BPO for 2007 compared to 2006 were $299.9 million and $272.0 million, respectively. Cost of services as a percentage of revenue in the International BPO decreased due to rapid expansion of our offshore capacity in lower cost locations. In absolute dollars, the increase in cost of services corresponds to revenue growth from the implementation of new or expanded client programs.

Cost of services for Database Marketing and Consulting for 2007 compared to 2006 were $11.7 million and $22.8 million, respectively. The decrease from the prior year was primarily due to cost reductions and the disposition of the business in September 2007.

Selling, General and Administrative

Selling, general and administrative expenses for the North American BPO for 2007 compared to 2006 were $126.5 million and $112.7 million, respectively. The expenses increased in absolute dollars as a result of increased business volume and third-party legal, accounting, payroll tax and consulting expenses associated with our review of equity-based compensation practices which amounted to $8.2 million, and decreased as a percentage of revenue due to headcount reductions and greater economies of scale.

Selling, general and administrative expenses for the International BPO for 2007 compared to 2006 were $66.7 million and $62.4 million, respectively. These expenses for the International BPO increased in absolute dollars as a result of higher business volumes and legal, accounting, payroll tax and consulting expenses associated with our review of equity-based compensation practices which amounted to $3.2 million, and decreased as a percentage of revenue due to headcount reductions in our operations in Europe and Asia Pacific and greater economies of scale.

Selling, general and administrative expenses for Database Marketing and Consulting for 2007 compared to 2006 were $14.3 million and $24.9 million, respectively. The decrease was primarily due to cost reductions, the lower allocation of corporate-level operating expenses and the disposition of the business in September 2007.

Depreciation and Amortization

Depreciation and amortization expense on a consolidated basis for 2007 compared to 2006 was $56.0 million and $52.0 million, respectively. Depreciation and amortization expense in the North American BPO remained relatively consistent as a percentage of revenue with the prior year and increased in the International BPO segment due to the significant expansion of capacity in certain offshore markets.

Depreciation and amortization expense in Database Marketing and Consulting decreased compared to the prior year due to assets, primarily software development costs, reaching the end of their depreciable lives and the disposition of the business in September 2007.

Table of Contents

Restructuring Charges, Net

During 2007, we recognized restructuring charges of $7.1 million related to both a reduction in force across all three segments and a $4.0 million charge for certain facility exit costs in our Database Marketing and Consulting business.

Impairment Losses

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 related to the impairment of the business goodwill in June 2007 and $2.2 million related to leasehold improvement impairments; and (ii) $0.2 million related to the reduction of the net book value of long-lived assets in the North American BPO to their estimated fair values.

Other Income (Expense)

For 2007, interest income and expense were relatively unchanged from 2006. Gain on sale of assets of $0.9 million includes a $7.0 million gain on the sale of our 60% interest in our Indian joint venture partially offset by a $6.1 million loss on sale of our Database Marketing and Consulting business. Other, net, increased by $2.9 million primarily related to foreign currency transaction losses partially offset by a $2.2 million software license.

Income Taxes

The effective tax rate for 2007 was 26.0%. This compares to an effective tax rate of 23.8% in 2006. The 2007 effective tax rate is positively influenced by earnings in international jurisdictions currently enjoying an income tax holiday and the distribution of income between the U.S. and international tax jurisdictions. The effective tax rate for 2007 is lower than expected 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 13. 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. Finally, we 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 as discussed in Note 4 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. Without these items, our effective tax rate in 2007 would have been 32.2%. This compares to an effective tax rate of 23.8% in 2006. In 2006 the effective tax rate includes the benefit from the reversal of a $4.0 million deferred tax valuation allowance recorded against tax assets recorded in prior years. In addition, we recorded new deferred tax assets of $3.3 million due to a corporate restructuring. Without these items, our effective tax rate in 2006 would have been 34.3%. Our effective tax rate could be adversely affected by several factors, many of which are outside of our control. Further, income taxes are subject to changing tax laws, regulations and interpretations in multiple jurisdictions, in which we operate, as well as the requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations. In future years, our effective tax rate is expected to return to approximately 30% to 33%, principally because we expect our distribution of pre-tax income between the U.S. and our international tax jurisdictions to return to more typical levels seen in recent years.

Table of Contents

Year Ended December 31, 2006 Compared to December 31, 2005

The following table presents results of operations by segment for the years ended December 31, 2006 and 2005 (amounts in thousands):

	Year Ended December 31,					
	2006 As restated	% of Segment Revenue As restated	2005 As restated	% of Segment Revenue As restated	$ Change	% Change
Revenue						
North American BPO	$ 814,419	67.3%	$ 678,768	62.5%	$ 135,651	20.0%
International BPO	356,106	29.4%	324,303	29.9%	31,803	9.8%
Database Marketing and Consulting	40,228	3.3%	82,832	7.6%	(42,604)	(51.4)%
	$ 1,210,753	100.0%	$ 1,085,903	100.0%	$ 124,850	11.5%
Cost of services						
North American BPO	$ 587,984	72.2%	$ 502,987	74.1%	$ 84,997	16.9%
International BPO	271,986	76.4%	261,798	80.7%	10,188	3.9%
Database Marketing and Consulting	22,839	56.8%	44,274	53.5%	(21,435)	(48.4)%
	$ 882,809	72.9%	$ 809,059	74.5%	$ 73,750	9.1%
Selling, general and administrative						
North American BPO	$ 112,688	13.8%	$ 83,553	12.3%	$ 29,135	34.9%
International BPO	62,434	17.5%	61,793	19.1%	641	1.0%
Databas						