

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended: June 30, 1997

OR

TRANSITION REPORT PURSUANT TO Section 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-21055

TELETECH HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

84-1291044
(I.R.S. Employer
Identification No.)

1700 LINCOLN STREET, SUITE 1400
DENVER, COLORADO
(Address of principal
executive office)

80203
(Zip Code)

(303) 894-4000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months, and (2) has been subject to such filing
requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

| Class of Common Stock | Outstanding at August 8, 1997 |
|---|----------------------------------|
| Common Stock, par value \$.01 per share | 56,265,486 |

TELETECH HOLDINGS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

ASSETS

| | December 31, 1996 | June 30, 1997 |
|--|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| CURRENT ASSETS: | | |
| Cash and cash equivalents..... | \$ 5,564 | \$ 4,335 |
| Short-term investments..... | 71,573 | 66,952 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,462 and \$1,766, respectively..... | 31,731 | 38,475 |
| Prepays and other assets..... | 4,141 | 1,267 |
| Deferred tax asset..... | 1,128 | 1,699 |
| | ----- | ----- |
| Total current assets..... | 114,137 | 112,728 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$11,231 and \$14,948, respectively..... | 23,684 | 38,620 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Deferred contract costs (net of amortization of \$1,658 and \$2,361, respectively)..... | 703 | - |
| Goodwill (net of amortization of \$238 and \$493, respectively)..... | 3,257 | 7,286 |
| Long-term accounts receivable... | - | 4,274 |
| Investment in affiliated company accounted for under the equity method..... | 679 | 782 |
| Other assets..... | 918 | 950 |
| | ----- | ----- |
| Total assets..... | \$143,378 | \$164,640 |
| | ----- | ----- |
| | ----- | ----- |

The accompanying notes are an integral part of these balance sheets.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 31, 1996 | June 30, 1997 |
|--|----------------------|------------------|
| | ----- | ----- |
| | | (Unaudited) |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt..... | 4,985 | 5,667 |
| Accounts payable..... | 6,108 | 7,995 |
| Accrued employee compensation..... | 8,484 | 7,368 |
| Accrued income taxes..... | 2,952 | 543 |
| Other accrued expenses..... | 3,246 | 7,464 |
| Customer advances, deposits and deferred income..... | 787 | 982 |
| | ----- | ----- |
| Total current liabilities..... | 26,562 | 30,019 |
| DEFERRED TAX LIABILITIES | 564 | 717 |
| LONG-TERM DEBT, net of current portion: | | |
| Capital lease obligations..... | 9,675 | 9,041 |
| Other debt..... | 262 | 162 |
| | ----- | ----- |
| Total liabilities..... | 37,063 | 39,939 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, 10,000,000 shares authorized zero shares issued and outstanding..... | - | - |
| Common stock, \$.01 par value, 150,000,000 shares authorized, 55,811,840 and 56,364,296 shares issued, 55,713,030 and 56,265,486 shares outstanding..... | 558 | 564 |
| Additional paid-in capital..... | 92,030 | 99,138 |
| Cumulative translation adjustment..... | 98 | (183) |
| Unearned compensation-restricted stock..... | (254) | (190) |
| Treasury stock, 98,810 shares, at cost..... | (988) | (988) |
| Retained earnings..... | 14,871 | 26,360 |
| | ----- | ----- |
| Total stockholders' equity..... | 106,315 | 124,701 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$143,378 | \$ 164,640 |
| | ----- | ----- |

The accompanying notes are an integral part of these balance sheets.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|-----------|
| | 1996 | 1997 |
| REVENUES | \$ 34,599 | \$ 65,134 |
| <hr style="border-top: 1px dashed black;"/> | | |
| OPERATING EXPENSES: | | |
| Costs of services..... | 20,526 | 40,911 |
| Selling, general and administrative expenses..... | 10,517 | 14,490 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total operating expenses..... | 31,043 | 55,401 |
| <hr style="border-top: 1px dashed black;"/> | | |
| INCOME FROM OPERATIONS | 3,556 | 9,733 |
| <hr style="border-top: 1px dashed black;"/> | | |
| OTHER INCOME (EXPENSE): | | |
| Interest expense..... | (226) | (314) |
| Investment income..... | 103 | 818 |
| Equity in income (loss) of affiliated company..... | (56) | 50 |
| Other..... | 101 | (5) |
| <hr style="border-top: 1px dashed black;"/> | | |
| | (78) | 549 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Income before income taxes..... | 3,478 | 10,282 |
| PROVISION FOR INCOME TAXES | 1,415 | 4,086 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net income..... | \$ 2,063 | \$ 6,196 |
| <hr style="border-top: 1px dashed black;"/> | | |
| WEIGHTED AVERAGE SHARES OUTSTANDING..... | 54,328 | 59,580 |
| <hr style="border-top: 1px dashed black;"/> | | |
| NET INCOME PER COMMON SHARE..... | \$.04 | \$.10 |
| <hr style="border-top: 1px dashed black;"/> | | |

The accompanying notes are an integral part of these statements.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-----------|
| | 1996 | 1997 |
| REVENUES | \$ 56,619 | \$124,332 |
| OPERATING EXPENSES: | | |
| Costs of services..... | 31,721 | 78,373 |
| Selling, general and administrative expenses..... | 18,619 | 27,879 |
| Total operating expenses..... | 50,340 | 106,252 |
| INCOME FROM OPERATIONS | 6,279 | 18,080 |
| OTHER INCOME (EXPENSE): | | |
| Interest expense..... | (460) | (617) |
| Investment income..... | 214 | 1,691 |
| Equity in income (loss) of affiliated company..... | (56) | 103 |
| Other..... | (242) | (26) |
| | (544) | 1,151 |
| Income before income taxes..... | 5,735 | 19,231 |
| PROVISION FOR INCOME TAXES | 2,417 | 7,742 |
| Net income..... | \$ 3,318 | \$ 11,489 |
| WEIGHTED AVERAGE SHARES OUTSTANDING..... | 54,328 | 59,534 |
| NET INCOME PER COMMON SHARE..... | \$.06 | \$.19 |

The accompanying notes are an integral part of these statements.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 1996 AND 1997
(DOLLARS IN THOUSANDS)
(Unaudited)

| | 1996 | 1997 |
|---|------------|------------|
| | ---- | ---- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income..... | \$ 3,318 | \$11,489 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation and amortization..... | 2,380 | 4,675 |
| Allowance for doubtful accounts..... | 482 | 304 |
| Equity in (income) loss of affiliated company..... | 56 | (103) |
| Deferred taxes on income..... | (161) | (571) |
| Deferred compensation expense..... | 63 | 64 |
| Changes in assets and liabilities- | | |
| Accounts receivable..... | (15,704) | (10,924) |
| Prepays and other assets..... | (1,216) | 58 |
| Deferred contract costs..... | (2,067) | - |
| Accounts payable and accrued liabilities..... | 9,065 | 2,053 |
| Customer advances and deferred income..... | 926 | - |
| | ----- | ----- |
| Net cash provided by (used in) operating activities..... | (2,858) | 7,045 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment..... | \$ (4,022) | \$(15,890) |
| Purchase of Access 24..... | (2,431) | - |
| Proceeds from sale of interest in Access 24 UK Limited..... | 3,946 | - |
| Purchase of TMI..... | - | (2,337) |
| Return of deposit on new Call Center..... | - | 3,000 |
| Changes in accounts payable and accrued liabilities relating to investing activities.. | - | 912 |
| Decrease in short-term investments..... | 2,057 | 4,621 |
| | ----- | ----- |
| Net cash used in investing activities..... | (450) | (9,694) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in short-term borrowings..... | \$ 8,000 | \$ - |
| Net decrease in bank overdraft..... | (1,427) | - |
| Payments on long-term debt and capital leases..... | (2,081) | (2,507) |
| Exercise of stock options including tax benefit.... | - | 4,208 |
| | ----- | ----- |
| Net cash provided by financing activities..... | 4,492 | 1,701 |
| | ----- | ----- |
| Effect of exchange rate changes on cash..... | 101 | (281) |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS... | 1,285 | (1,229) |
| CASH AND CASH EQUIVALENTS, beginning of period..... | 42 | 5,564 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period..... | \$ 1,327 | \$ 4,335 |
| | ----- | ----- |

The accompanying notes are an integral part of these statements.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 1997

NOTE (1)--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring accruals) which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of TeleTech Holdings, Inc. and subsidiaries as of June 30, 1997 and 1996 and for the periods then ended. Operating results for the three and six month periods ended June 30, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997.

The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements and footnotes thereto included in the Company's Form 10-K for the year ended December 31, 1996.

NOTE (2)--EARNINGS PER SHARE

Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, for purposes of determining the average number of common shares outstanding for periods prior to completion of the Company's initial public offering in August 1996, common stock and common stock equivalent shares issued by the Company at prices below the initial public offering price during the 12 month period prior to the offering date (using the treasury stock method) have been included in the calculation as if they were outstanding for all periods presented. The shares of convertible preferred stock were considered common stock equivalents due to the mandatory conversion provision.

The weighted average number of common shares for the three and six months ended June 30, 1997 and 1996 were calculated as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 1996 | 1997 | 1996 | 1997 |
| Average common shares outstanding | 41,746 | 56,014 | 41,746 | 55,864 |
| Convertible Preferred Stock | 9,300 | - | 9,300 | - |
| Equivalent common shares from outstanding stock options | 3,282 | 3,566 | 3,282 | 3,670 |
| | ----- | ----- | ----- | ----- |
| | 54,328 | 59,580 | 54,328 | 59,534 |
| | ----- | ----- | ----- | ----- |

In February 1997, the Financial Accounting Standards Board issued SFAS 128, "Earnings Per Share". Under SFAS 128 primary earnings per share previously required under Accounting Principles Board No. 15 is replaced with basic earnings per share. Basic earnings per share is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. No dilution for any potentially dilutive securities is included. Fully diluted earnings per share as defined under Accounting Principles Board No. 15 is called diluted earnings per share under SFAS 128. Diluted earnings per share reflects the potential dilution assuming the issuance of common shares for all dilutive potential common shares outstanding during the period. SFAS 128 is effective for financial statements for periods ending after December 15, 1997. The pro forma earnings per share for the three and six months ended June 30, 1997 and 1996 utilizing the requirements of SFAS 128 is as follows:

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1997-CONTINUED

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|--------|------------------|--------|
| | June 30, | | June 30, | |
| | 1996 | 1997 | 1996 | 1997 |
| | ----- | ----- | ----- | ----- |
| Basic Earnings Per Share | \$0.04 | \$0.11 | \$0.06 | \$0.21 |
| Diluted Earnings Per Share | 0.04 | 0.10 | 0.06 | 0.19 |

For purposes of the calculation of basic earnings per share for the three and six months ended June 30, 1996 net income was reduced by \$211,000 and \$422,000, respectively, representing dividends on preferred stock, to arrive at net income available for common shareholders.

NOTE (3)--SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION AND NONCASH INVESTING AND FINANCING ACTIVITIES (IN THOUSANDS):

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 1996 | 1997 |
| | ----- | ----- |
| Cash paid for interest | \$ 438 | \$ 633 |
| Cash paid for income taxes | \$ 1,050 | \$ 9,360 |
| Noncash investing and financing activities: | | |
| Assets acquired through capital leases | \$ 5,752 | \$ 2,148 |
| Stock issued in purchase of Access 24 | \$ 4,851 | \$ - |
| Stock issued in purchase of TMI | \$ - | \$ 1,797 |
| Restricted stock issued under employment agreements | \$ 380 | \$ - |

NOTE (4)--ACQUISITION OF TELEMERCATEO INTERNATIONAL, S.A.:

In May 1997 the Company acquired 100% of the common stock of Telemercateo Integral, S.A. ("TMI") for consideration of \$4.2 million, consisting of 100,000 shares of the Company's common stock and cash of \$2.2 million. TMI is an inbound customer care provider in Mexico. The acquisition was accounted for using the purchase method. The excess of cost of the acquisition over the underlying net assets of TMI is being amortized using the straight-line method over 25 years. The operations of TMI for all periods prior to the acquisition are immaterial to the results of the Company and accordingly no pro forma financial information has been presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND 1996

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations in this Form 10-Q should be read in conjunction with the risk factors included in the Company's Form 10-K for the year ended December 31, 1996. Specifically, the Company has experienced, and in the future could experience, quarterly variations in revenues and earnings as a result of a variety of factors, many of which are outside the Company's control, including: the timing of new contracts; the timing of new product or service offerings or modifications in client strategies; the expiration or termination of existing contracts; the timing of increased expenses incurred to obtain and support new business; and the seasonal pattern of certain of the businesses serviced by the Company. In addition, the Company has concentrated its marketing efforts towards obtaining larger, more complex, strategic customer care programs. As a result, the time required to negotiate and execute an agreement with the client has increased. This may lead to short-term delays in the anticipated start-up of new client programs and in the Company achieving full capacity utilization. The Company's planned staffing levels, investments and other operating expenditures are also based on revenue forecasts. If revenues are below expectations in any given quarter as a result of such delay or for other reasons, the Company's operating results would likely be adversely affected for that quarter.

During the second quarter of 1997 the Company and GTE announced that they entered into a five-year master agreement, which is renewable for two additional one-year terms, under which the Company will provide support for a new national sales service and marketing unit of GTE. Initially, the Company is expected to use approximately 1,200 production workstations in several dedicated call centers in support of this contract. The Company anticipates that GTE will become a major customer and that revenues from GTE will exceed 10% of the Company's consolidated revenues for the year ended December 31, 1997.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1997 COMPARED TO THREE MONTHS ENDED JUNE 30, 1996

Revenues increased \$30.5 million or 88.3% to \$65.1 million for the three months ended June 30, 1997 from \$34.6 million for the three months ended June 30, 1996. The increase resulted primarily from \$25.4 million in revenues from new clients and \$16.0 million in increased revenue from existing clients. These increases were offset in part by contract expirations and other client reductions. Revenues for the three months ended June 30, 1997 include approximately \$20.8 million from facilities management contracts as compared with \$6.6 million for the three months ended June 30, 1996.

Costs of services increased \$20.4 million, or 99.3%, to \$40.9 million for the three months ended June 30, 1997 from \$20.5 million for the three months ended June 30, 1996. Costs of services as a percentage of revenues increased from 59.3% for the three months ended June 30, 1996 to 62.8% for the three months ended June 30, 1997. The increase in the costs of services as a percentage of revenues is a result of the significant incremental revenues received in 1997 from the Company's facilities management programs. Facilities management programs, under which the Company provides services from facilities owned or leased by the clients, have higher costs of services as a percentage of revenues than fully outsourced programs.

Selling, general and administrative expenses increased \$4.0 million, or 37.8% to \$14.5 million for the three months ended June 30, 1997 from \$10.5 million for the three months ended June 30, 1996. This increase is primarily the result of increased revenues during the period. Selling, general and administrative expenses as a percentage of revenues decreased from 30.4% for the three months ended June 30, 1996 to 22.2% for the three months ended June 30, 1997 primarily as a result of spreading fixed costs over a larger revenue base as well as the impact of the increased revenue

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-CONTINUED

during the quarter from the Company's facilities management programs, which have insignificant incremental selling, general and administrative expenses.

As a result of the foregoing factors, income from operations increased \$6.2 million or 173.7%, to \$9.7 million for the three months ended June 30, 1997 from \$3.6 million for the three months ended June 30, 1996. Operating income as a percentage of revenues increased from 10.3% for the three months ended June 30, 1996 to 14.9% for the three months ended June 30, 1997. This is primarily the result of the spreading of fixed costs over a larger revenue base.

Other income totaled \$549,000 for the three months ended June 30, 1997 compared with other expense of \$78,000 during the three months ended June 30, 1996. This is primarily related to the \$715,000 increase in investment income to \$818,000 for the three months ended June 30, 1997 from \$103,000 for the three months ended June 30, 1996. This increase is a result of the increase in short-term investments resulting from the Company's July 1996 and October 1996 public stock offerings.

As a result of the foregoing factors, net income increased \$4.1 million or 200.3%, to \$6.2 million for the three months ended June 30, 1997 from \$2.1 million for the three months ended June 30, 1996.

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

Revenues increased \$67.7 million or 119.6% to \$124.3 million for the six months ended June 30, 1997 from \$56.6 million for the six months ended June 30, 1996. The increase resulted from \$40.9 million in revenues from new clients and \$43.9 million in increased revenue from existing clients. These increases were offset in part by contract expirations and other client reductions. Revenues for the six months ended June 30, 1997 include approximately \$42.7 million from facilities management contracts as compared with \$7.1 million in the six months ended June 30, 1996.

Costs of services increased \$46.7 million, or 147.1%, to \$78.4 million for the six months ended June 30, 1997 from \$31.7 million for the six months ended June 30, 1996. Costs of services as a percentage of revenues increased from 56.0% for the six months ended June 30, 1996 to 63.0% for the six months ended June 30, 1997. The increase in the costs of services as a percentage of revenues is a result of the significant incremental revenues received in 1997 from the Company's facilities management programs. Facilities management programs, under which the Company provides services from facilities owned or leased by the clients, have higher costs of services as a percentage of revenues than fully outsourced programs.

Selling, general and administrative expenses increased \$9.3 million, or 49.7% to \$27.9 million for the six months ended June 30, 1997 from \$18.6 million for the six months ended June 30, 1996. This increase is primarily the result of increased revenues during the period. Selling, general and administrative expenses as a percentage of revenues decreased from 32.9% for the six months ended June 30, 1996 to 22.4% for the six months ended June 30, 1997 primarily as a result of spreading fixed costs over a larger revenue base as well as the impact of the Company's facilities management programs, which have insignificant incremental selling, general and administrative expenses.

As a result of the foregoing factors, income from operations increased \$11.8 million or 187.9%, to \$18.1 million for the six months ended June 30, 1997 from \$6.3 million for the six months ended June 30, 1996. Operating income as a percentage of revenues increased from 11.1% for the six months ended June 30, 1996 to 14.5% for the six months ended June 30, 1997. This is primarily the result of the spreading of fixed costs over a larger revenue base.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-CONTINUED

Other income totaled \$1.2 million for the six months ended June 30, 1997 compared with other expense of \$544,000 during the six months ended June 30, 1996. This is primarily related to the \$1.5 million increase in investment income to \$1.7 million for the six months ended June 30, 1997 from \$214,000 for the six months ended June 30, 1996. This increase is a result of the increase in short-term investments resulting from the Company's July 1996 and October 1996 public stock offerings.

As a result of the foregoing factors, net income increased \$8.2 million or 246.3%, to \$11.5 million for the six months ended June 30, 1997 from \$3.3 million for the six months ended June 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1997 the Company had cash and cash equivalents of \$4.3 million and short-term investments of \$67.0 million. Cash provided by operating activities was \$7.0 million for the six months ended June 30, 1997.

Cash used in investing activities was \$9.7 million for the six months ended June 30, 1997 resulting primarily from \$15.9 million in capital expenditures and \$2.3 million in cash used to acquire TMI offset in part by the reduction in short-term investments of \$4.6 million and the return of a \$3.0 million temporary deposit on a new call center which was made by the Company in December 1996.

Cash provided by financing activities was \$1.7 resulting primarily from \$4.2 million of proceeds from the exercise of stock options and the related tax benefit offset in part by debt and capital lease repayments.

The Company has a \$15 million unsecured revolving operating line of credit which expires on May 31, 1998. At June 30, 1997, there were no outstanding borrowings under this agreement. In addition, the Company has two master lease agreements. Under one agreement the Company may lease equipment up to an aggregate value of \$15.0 million. As of June 30, 1997, amounts outstanding under this agreement were approximately \$8.0 million. Under the second agreement, the Company's borrowings are approved, and specific terms are set, on a case-by-case basis.

The Company currently expects total capital expenditures in 1997 to be approximately \$36 million of which \$18.0 million was expended in the first six months of 1997 (inclusive of expenditures under capital leases), most of which will be used for the expansion and development of the Company's call centers. The Company believes that existing cash on hand together with cash from operations and available borrowings under the line of credit and master lease agreements, will be sufficient to finance the Company's operations, planned capital expenditures and anticipated growth through mid 1998.

RECENT DEVELOPMENTS

The Company's facilities management contract with United Parcel Service ("UPS") accounted for 24% and 26% of the Company's revenues during the three and six month periods ended June 30, 1997, respectively. On August 4, 1997 the International Brotherhood of Teamsters commenced a strike against UPS. UPS reports that it continues to operate on a contingency basis, relying on management and other non union employees, and that the strike has caused a significant loss in its volume. The Company's contracts with UPS do not ensure that TeleTech will generate any minimum level of revenue. In addition, the amount of revenue the Company generates is dependent upon customers' use of UPS's services. A decline in the volume of UPS customer calls as a result of the strike would likely lead to reductions in the Company's operations for UPS and a corresponding decline in revenues generated by the Company from the UPS contracts. A prolonged strike could force the Company to reduce or even discontinue operations at any or all of the three UPS sites the Company manages.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-CONTINUED

This could have a material adverse impact on the Company's future revenues and profitability levels. At this time management does not believe that the Company will suffer a material adverse impact if the strike does not continue beyond two weeks, however the long-term effects of the strike on UPS's business are unknown. If the strike were to result in a significant loss of UPS's market share, the Company could incur a long-term reduction in the level of revenues attributable to the UPS project. At this time the Company is unable to determine the long-term effects of this strike.

FORWARD-LOOKING STATEMENTS

All statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" or elsewhere in this quarterly report, that are not statements of historical facts are forward-looking statements that involve substantial risks and uncertainties. Forward looking statements include (i) the anticipated level of capital expenditures for 1997; (ii) the Company's belief that existing cash, short-term investments and available borrowing will be sufficient to finance the Company's near term operations; (iii) the significance of GTE, the anticipated percentage of 1997 revenues represented by the GTE contract and the number of workstations to be dedicated initially to the GTE program (iv) the anticipated short-term and long-term impact of the UPS strike; and (iv) statements relating to the Company or its operations that are preceded by terms such as "anticipates", "expects", "believes" and similar expressions.

The Company's actual results, performance or achievements may differ materially from those implied by such forward-looking statements as a result of various factors, including the following: TeleTech's agreements with its clients do not ensure that TeleTech will generate a specific level of revenue and may be canceled by the clients on short notice. The amount of revenue TeleTech generates from a particular client is dependent upon customers' interest in and use of the client's products or services, some of which are recently-introduced or untested. Any event that adversely affects the demand for and customers' use of a client's products or services, whether increased competition, labor shortage or strike, unavailability of raw materials or otherwise, may adversely affect the Company's revenues attributable to such client's program. The loss of a significant client or the termination, completion or substantial reduction of a significant client program may have a material adverse effect on TeleTech's capacity utilization and results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in the Company's 1996 Annual Report on Form 10-K, in late November 1996, CompuServe Incorporated ("CompuServe") terminated all the programs the Company provided to CompuServe effective January 31, 1997. In December 1996, the Company filed suit against CompuServe to enforce certain contract termination provisions and to collect the termination fee specified in the agreement with CompuServe. CompuServe filed a counterclaim in December 1996 alleging that the Company breached other provisions of the agreement and seeking unspecified monetary damages.

In March 1997, CompuServe asserted a right to offset \$4.3 million of accounts receivable it owes to the Company for services it rendered to CompuServe against the amount that may be awarded to CompuServe on its counterclaim, in the event it were to be successful in its counterclaim against the Company and the Company were to be unsuccessful in its claims against CompuServe. While the Company believes that the adjudication of CompuServe's counterclaim will not have a material adverse effect on the Company's financial condition or results of operations, the proceedings are still in an early stage and the ultimate outcome is uncertain. It is possible that a settlement or trial may take in excess of 12 months and accordingly the Company has reclassified the CompuServe receivable as a long-term asset in the accompanying June 30, 1997 condensed consolidated balance sheet.

From time to time the Company is involved in litigation, most of which is incidental to its business. In the Company's opinion, no litigation to which the Company currently is a party is likely to have a material adverse effect on the Company's results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

On May 20, 1997, the Company held its annual meeting of stockholders, at which there were 49,595,037 shares present or represented by proxy, which is approximately 89% of the shares entitled to vote. At the annual meeting, the following matters were approved by more than the requisite number of stockholders:

All of the directors of the Company were re-elected. The number of votes cast for and withheld for each director were as follows:

| | Votes Cast | |
|--------------------|------------|----------|
| | For | Withheld |
| Kenneth D. Tuchman | 49,571,489 | 23,548 |
| Rod Dammeyer | 49,571,839 | 23,198 |
| Alan Silverman | 49,571,839 | 23,198 |
| Sturart M. Sloan | 49,571,839 | 23,198 |
| Samuel Zell | 49,570,839 | 24,198 |

A performance-based compensation arrangement for the Company's President and Chief Executive Officer was approved with 47,930,476 shares voted for the arrangement, 73,771 shares voted against and 21,394 shares abstaining. In addition, there were 1,569,396 broker non-votes.

The engagement of Arthur Andersen LLP as the Company's independent auditors for fiscal 1997 was ratified by the affirmative vote of 49,579,006 shares, with 9,536 shares voted against and 6,495 shares abstaining and no broker non-votes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following document is filed as an exhibit to this report:

27.1 Financial Data Schedule

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended June 30, 1997.

SIGNATURES

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

TELETECH HOLDINGS, INC.

(Registrant)

Date: August 8, 1997

/s/ KENNETH D. TUCHMAN

Kenneth D. Tuchman
Chairman of the Board, President and
Chief Executive Officer

Date: August 8, 1997

/s/ STEVEN B. COBURN

Steven B. Coburn, Chief Financial
Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM
 TELETECH HOLDINGS, INC.'S 1997 SECOND QUARTER FORM 10-Q AND IS
 QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q FILING.

| | | |
|---------|-------------|---------|
| 6-MOS | | |
| | DEC-31-1997 | |
| | JUN-30-1997 | |
| | | 4,335 |
| | | 66,952 |
| | | 40,241 |
| | | 1,766 |
| | | 0 |
| | 112,728 | 53,568 |
| | | 14,948 |
| | | 164,640 |
| | 30,019 | 9,203 |
| | 0 | 0 |
| | | 564 |
| | | 124,137 |
| 164,640 | | 124,332 |
| | 124,332 | 78,373 |
| | | 106,252 |
| | (1,768) | 0 |
| | | 617 |
| | | 19,231 |
| | | 7,742 |
| | 11,489 | 0 |
| | | 0 |
| | | 0 |
| | | 11,489 |
| | | 0.19 |
| | | 0.19 |