

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1998, 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

84-1291044

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

1700 Lincoln Street, Suite 1400, Denver, Colorado

80203

(Address of Principal Executive Offices)

(Zip Code)

(303) 894-4000

(Registrant's Telephone Number, Including Area Code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
\$.01 par value per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. Yes No

As of March 25, 1999, there were 61,056,310 shares of the registrant's common stock outstanding. The aggregate market value of the registrant's voting stock that was held by non-affiliates on such date was \$154,609,728 based on the closing sale price of the registrant's common stock on such date as reported on the Nasdaq Stock Market.

Documents Incorporated by Reference:

Portions of TeleTech Holdings, Inc.'s proxy statement for its annual meeting of stockholders to be held on May 13, 1999, are incorporated by reference into Part III of this Form 10-K, as indicated.

PART I

ITEM 1. BUSINESS.

OVERVIEW

TeleTech Holdings, Inc. (together with its wholly owned subsidiaries, the Company or TeleTech) is a leading provider of customer management solutions for large and multinational companies. TeleTech helps its clients acquire, serve and retain their customers by strategically managing inbound telephone, Internet and PC-based video inquiries on their behalf. Such programs include both automated and human-assisted support and involve all stages of the customer relationship. Programs consist of a variety of customer service and product support activities, such as providing new product information, enrolling customers in client programs, providing 24-hour technical and help desk support, resolving customer complaints and conducting satisfaction surveys. The Company's customer management solution encompasses the following capabilities:

- strategic consulting and process redesign;
- infrastructure deployment including the securing, designing and building of world-class customer interaction centers;
- recruitment, education and management of client-dedicated customer care representatives;
- engineering operational process controls and quality systems;
- technology consulting and implementation, including the integration of hardware, software, network and computer-telephony technology; and
- database management, which involves the accumulation, management and analysis of customer information to deliver actionable marketing solutions.

TeleTech delivers its customer management services mostly through customer-initiated (inbound) telephone calls and over the Internet. Services are provided via automated support and by trained customer care representatives (representatives) in response to an inquiry that a customer makes by calling a toll-free telephone number or by sending an Internet message.

Representatives respond to customer inquiries from customer interaction centers utilizing state-of-the-art workstations, which operate on TeleTech's advanced technology platform, enabling the representatives to provide rapid, single-call resolution. This technology platform incorporates digital switching, client/server technology, object-oriented software modules, relational database management systems, proprietary call tracking management software, computer telephony integration and interactive voice response.

TeleTech provides services from customer interaction centers leased, equipped and staffed by TeleTech (fully outsourced programs) and from customer interaction centers leased and equipped by its clients and staffed by TeleTech (facilities management programs). The Company's fully outsourced customer interaction centers are utilized to serve either multiple clients (shared centers) or one dedicated client (dedicated centers). TeleTech typically establishes long-term, strategic relationships, formalized by multiyear contracts, with selected clients in the telecommunications, technology, transportation, financial services, government services, healthcare and utilities industries. TeleTech targets clients in these industries because of their complex product and service offerings and large customer bases, which require frequent, increasingly sophisticated, customer interactions. For example, the Company has entered into multiyear, multi-facility contracts with the U.S. Postal Service (the Postal Service) and GTE Communications Corporation (GTE).

The Company was founded in 1982 and has been providing primarily inbound customer management solutions since its inception. As of December 31, 1998, TeleTech leased or managed a total of 24 customer interaction centers, 14 located in the United States, three in Canada, two in Australia and one each in Brazil, Mexico, New Zealand, Singapore and the United Kingdom, equipped with a total of 9,435 state-of-the-art workstations. In 1999, the Company plans to deploy two dedicated centers in the U.S.: one in Topeka, Kansas, and a second in a location to be determined. In addition, the Company plans to deploy four shared centers in 1999: in Australia; Brazil; Canada; and one additional U.S. location. No other new shared centers are scheduled for construction until existing capacity is sold.

SERVICES

TeleTech offers fully integrated customer management solutions encompassing strategy, infrastructure, education, technology and marketing solutions. TeleTech works closely with its clients to rapidly design and implement large-scale, tailored customer management programs that provide comprehensive solutions to their specific business needs. An integral component of TeleTech's service offering is strategic consulting, by which the Company develops and applies improved processes to make a client's customer management or product support processes more cost-effective, productive and valuable. At the start of a potential new client relationship, TeleTech assesses the client's existing capabilities; goals and strategies; customer service or product support processes and related software, hardware and telecommunications systems; training; real estate project development; and facilities management and develops a tailored customer management solution based on its assessment. After presenting a proposed solution and being awarded a contract, TeleTech works closely with the client to further develop, refine and implement more efficient and productive customer interaction processes and technological solutions that link the customer, the client and TeleTech. These processes generally include the development of event-driven software programs for customer interactions where the script being followed by a representative changes depending upon information contained in the customer file or on information gathered during the representative's interaction with the customer.

After the Company designs and develops a customer management program, representatives provide a wide range of ongoing voice and data communications services incorporating one or more customer acquisition, service and retention or satisfaction and loyalty programs. In a typical inbound customer interaction, a customer calls a toll-free number to request product, service or technical information or assistance. TeleTech's advanced telecommunications system identifies each inbound call by its telephone number and routes the call to an appropriate representative who is trained for that particular client program. Upon receipt of the call, the representative's computer screen automatically displays the client's specific product, service or technical information to enable the representative to assist the customer. TeleTech also has extended its capabilities to incorporate multimedia technology for customer interactions, including the Internet, e-mail and interactive video.

In 1998, the Company acquired three technology companies to broaden its service offering. In February 1998, the Company acquired Intellisystems, Inc., a leading developer of patented automated product support solutions. Intellisystems' products electronically resolve a significant percentage of customer inquiries coming into a Web site or customer interaction center via the telephone, Internet, e-mail or fax-on-demand. During the year, Intellisystems also incorporated speech recognition capabilities into its system. In June 1998, the Company acquired Digital Creators, Inc., a leading developer of Web-based applications, with special emphasis on distance-based education and training. Digital Creators develops and designs Web sites, distance-based learning courses and electronic performance support systems that incorporate real-time performance feedback onto the desktop. Additionally, in December 1998, the Company acquired Cygnus Computer Associates Ltd., a Canadian provider of systems integration and call center solutions. Cygnus provides a comprehensive software and integration solution to help companies integrate both their legacy systems and customer service applications with varied customer contact channels, including the Internet, telephone and interactive voice response.

Each customer interaction, even in its simplest form, presents TeleTech and its clients with an opportunity to gather valuable customer information, including the customer's demographic profile and preferences. This information can prompt the representative to make logical, progressive inquiries about the customer's interest in additional services, identify additional revenue-generating and cross-selling opportunities, or resolve other customer issues relating to a client's products or services. The Company is looking to further strengthen its existing database management capabilities, most likely through acquisition.

TeleTech frequently provides several of the services listed below in an integrated program tailored to its clients' needs:

CUSTOMER ACQUISITION PROGRAMS. Customer acquisition programs are designed to secure new customers and can include a wide range of activities depending upon the customer inquiry. A sampling of these services includes:

- providing presales product or service education;
- processing and fulfilling information requests for product or service offerings;
- verifying sales and activating services;
- directing callers to product or service sources;
- receiving orders for and processing purchases of products or services; and
- providing initial post-sales support, including operating instructions for new product or service use.

CUSTOMER SERVICE AND RETENTION PROGRAMS. Customer service and retention programs are designed to maintain and extend the customer relationship and maximize the long-term value of a client's relationships with its customers. These programs generally are driven by the customer's purchase of a product or service, or by the customer's need for ongoing help desk resources. The majority of the Company's revenues are generated by the provision of customer service and retention programs. A sampling of these services includes:

- providing technical help desk, product or service support;
- activating product or service upgrades;
- responding to billing and other account inquiries;
- resolving complaints and product or service problems;
- registering warranty information; and
- dispatching on-site service.

CUSTOMER SATISFACTION AND LOYALTY PROGRAMS. Customer satisfaction and loyalty programs enable clients to learn from their customers, be more responsive to customers' needs and concerns, and reward customers for their continued patronage. A sampling of these services includes:

- responding to client promotional, affinity-building programs;
- developing and implementing client-branded loyalty programs;
- conducting satisfaction assessments;
- confirming receipt of promised products or services; and
- reserving and reconfirming reservations at product or service seminars.

MARKETS AND CLIENTS

TeleTech focuses its marketing efforts on large and multinational companies in the telecommunications, technology, transportation, financial services, government services and healthcare industries, which accounted for approximately 38%, 25%, 13%, 10%, 8% and 4%, respectively, of the Company's revenues in 1998. The Company is also currently developing opportunities in the utilities marketplace given the deregulation and privatization taking place in the industry. Other industries, including utilities, accounted for 2% of the Company's revenues in 1998. The Company's three largest clients in 1998 were GTE, United Parcel Service and AT&T which accounted for approximately 25%, 13% and 8%, respectively, of the Company's revenues. (See "Risk Factors -- Reliance on a Few Major Clients" on page 10.) TeleTech's Strategic Business Units (SBUs) are responsible for developing and implementing customized, industry-specific customer management solutions for clients in these target industries. TeleTech's healthcare and utilities SBUs are still in the development stage.

TELECOMMUNICATIONS. The telecommunications SBU primarily serves long-distance, local and wireless telephone service providers, including GTE and AT&T and certain regional Bell operating companies. Services include verifying long-distance service sales, responding to customer inquiries, providing consumer and business telephone service account management and providing ongoing product and service support. TeleTech believes that the Telecommunications Act of 1996, which has removed barriers to competition in and between the local and long-distance telephone markets within the United States, and the development of new wireless products, including those utilizing personal communication services (PCS) technology, are expanding the breadth of products and services that require customer service and support and will create additional demand for TeleTech's services within the telecommunications industry.

TECHNOLOGY. The growth of high technology products and services, including Internet-related products and services, has increased demand for consumer and technical product support. TeleTech provides technical support to a number of Internet Service Providers (ISPs), including GTE in the United States, and several international ISPs. TeleTech intends to further utilize its technological capabilities to serve customers over the Internet and is exploring business opportunities related to new interactive media.

TRANSPORTATION. TeleTech's transportation SBU provides a variety of services to clients in the package delivery and travel industries. Since 1996, TeleTech has managed three customer interaction centers and provided customer service and support on behalf of United Parcel Service, one of the nation's largest parcel delivery companies. Under its five-year contract, TeleTech provides services to United Parcel Service from three centers leased by United Parcel Service but staffed and managed by TeleTech.

FINANCIAL SERVICES. In 1998, TeleTech signed two multiyear agreements with leading financial services institutions, including a large Canadian insurance company and a prominent North American provider of financial services, to provide comprehensive customer management solutions. In addition, TeleTech provides customer services for several large Australian banks from its customer interaction centers in Australia and New Zealand. The Australian and New Zealand operations also provide customer management solutions to customers of insurance companies and automobile club clients. Solutions include providing emergency home repair assistance, responding to customer inquiries regarding property damage and insurance coverage, procuring emergency roadside automobile and medical assistance and facilitating motor vehicle insurance claims.

GOVERNMENT SERVICES. In August 1998, the Postal Service awarded TeleTech a second contract to develop a customer interaction center and to deploy people, infrastructure and processes to provide customer service and support to Postal Service customers. In September 1998, TeleTech was awarded a multiyear contract from Science Applications International Corporation (SAIC) to provide customer interaction support for instant background checks of prospective firearm purchasers on behalf of the Federal Bureau of Investigation (FBI). Additionally, in January 1999, TeleTech was selected to partner with EDS to provide customer interaction center support, application development and quality assurance for the Year 2000 Census.

HEALTHCARE. TeleTech provides customer management solutions on behalf of healthcare providers located primarily in Australia and New Zealand. Services include emergency and non-emergency medical information and referral services; information and assistance to parents of newborns; information about drug interventions; referrals to

community support organizations such as home care, child care and counseling options; and medical claims review services. The Company provides these services to customers by means of telephone access to registered nurses, counselors, pharmacists, medical librarians, dieticians and other specially trained representatives.

SALES AND MARKETING

As most companies consider the customer management function to be strategic in nature, the Company's business development personnel generally focus their marketing efforts on potential clients' senior executives. For each SBU, TeleTech hires business development personnel who have substantial industry expertise and can identify and generate sales leads. TeleTech employs a consultative approach in assessing the current and prospective needs of a potential client. Following initial discussions with a potentially significant client, a carefully chosen TeleTech team, usually composed of applications and systems specialists, operations experts, human resources professionals and other appropriate management personnel, thoroughly studies the client's operations. The Company invests significant resources during the development of a potentially large client relationship to understand the client's existing customer service processes, culture, decision parameters and goals and strategies. TeleTech assesses the client's customer management needs and, with input from the client, develops and implements tailored customer management solutions.

As a result of its consultative approach, TeleTech can identify new revenue-generating opportunities, customer communication possibilities and product or service improvements previously overlooked or not adequately addressed by the client. TeleTech's technological capabilities enable it to develop working prototypes of proposed customer management programs and to rapidly implement strategic customer management solutions, generally with minimal capital investment by the client.

TeleTech generally provides customer management solutions pursuant to written contracts with terms ranging from one to seven years, which often contain renewal or extension options. Under substantially all of its significant contracts, TeleTech generates revenues based on the amount of time representatives devote to a client's program. In addition, clients typically are required to pay fees relating to TeleTech's education and training of representatives to implement the client's program, setup and management of the program, and development and integration of computer software and technology. TeleTech typically negotiates a Client Services Agreement (CSA) with each of its clients. The CSA generally contains provisions that (i) allow TeleTech or the client to terminate the contract upon the occurrence of certain events, (ii) designate the manner by which TeleTech is to receive payment for its services, (iii) limit TeleTech's maximum liability to the client thereunder and (iv) protect the confidentiality and ownership of information and materials owned by TeleTech or the client that are used in connection with the performance of the contract. Many of TeleTech's contracts also require the client to pay TeleTech a contractually agreed amount in the event of early termination. TeleTech's material contracts generally have terms of at least two years and, in some cases, contain contractual provisions adjusting the amount of TeleTech's fees if there are significant variances from estimated implementation expenses.

OPERATIONS

TeleTech provides its customer management services through the operation of 24 state-of-the-art customer interaction centers located in the United States, Australia, Brazil, Canada, Mexico, New Zealand, Singapore and the United Kingdom. As of December 31, 1998, TeleTech leased 19 customer interaction centers and also managed five customer interaction centers on behalf of three clients. TeleTech expects to open three new U.S. and three new international customer interaction centers in 1999. TeleTech has received ISO 9002 certification for nine of its U.S. customer interaction centers and for its three customer interaction centers in Australia and New Zealand. TeleTech plans to certify additional customer interaction centers in 1999.

TeleTech uses standardized development procedures to minimize the time it takes to open a new customer interaction center. The Company applies predetermined site selection criteria to identify locations conducive to operating large-scale, sophisticated customer management facilities in a cost-effective manner. TeleTech can establish a new, fully operational, inbound customer interaction center containing 450 or more workstations within 90 to 180 days. TeleTech's corporate real estate delivery practices and processes drive the development and management of

world-class customer interaction centers. TeleTech site selection processes are based on extensive geographic analyses of labor demographics, economic incentives and competitive market development costs.

Customer interaction center capacity is determined both by geographical analysis and site selection as well as complexity and type of customer management programs provided. The Company's U.S.-leased, full-scale customer interaction centers range in size from 31,000 to 90,000 square feet and contain between 352 and 600 production workstations. Although the dimensions of its existing customer interaction centers currently are not uniform, the Company has developed a standardized technology and infrastructure platform for TeleTech-leased customer interaction centers. The Company expects that new U.S. customer interaction centers will contain approximately 50,000 to 65,000 square feet of space and between 300 to 450 workstations.

CUSTOMER INTERACTION CENTER MANAGEMENT. TeleTech manages its U.S. customer interaction centers through its Technology Command Center in Colorado (the Command Center). The Command Center operates 24 hours a day, seven days a week, and is responsible for monitoring, coordinating and managing TeleTech's U.S. operations. Each U.S. customer interaction center is connected to the Command Center and to other U.S. customer interaction centers through multiple fiber-optic voice/data T-1 circuits to form an integrated and redundant wide area network. This network connectivity provides a high level of security and redundancy that is integral to TeleTech's ability to ensure recovery capabilities in the event of a disaster or structural failure. If a customer interaction center were to experience extreme excess call volume or become non-operational, the Command Center would coordinate the rerouting of incoming calls to an appropriate site.

TeleTech also has established uniform operational policies and procedures to ensure the consistent delivery of high-quality service at each customer interaction center. These policies and procedures detail specific performance standards, productivity and profitability objectives and daily administrative routines designed to ensure efficient operation. All TeleTech customer interaction centers are designed to operate 24 hours a day, seven days a week. TeleTech believes that recruiting, training and managing full-time representatives who are dedicated to a single client facilitate integration between client and representative, enhance service quality and efficiency and differentiate TeleTech from its competitors.

TeleTech utilizes a number of sophisticated applications designed to minimize administrative burdens and maximize productivity. Such applications include a proprietary agent performance system that tracks representative activity at each workstation and a proprietary billing system that tracks time spent on administration, training, data processing and other processes conducted in support of client or internal tasks.

QUALITY ASSURANCE. TeleTech monitors and measures the quality and accuracy of its customer interactions through a quality assurance department located at each center. Each department evaluates, on a real-time basis, approximately 1% of calls per day. TeleTech also has the capabilities to enable its clients to monitor customer interactions as they occur. Quality assurance professionals monitor customer interactions and simultaneously evaluate representatives according to criteria mutually determined by the Company and the client. Representatives are evaluated and provided with feedback on their performance on a weekly basis and, as appropriate, recognized for superior performance or scheduled for additional training and coaching.

TECHNOLOGY

Utilizing industry standard tools and upon request, the Company creates customer relationship management systems customized for a client. These systems enable the Company to track the details of each customer interaction and consolidate that information into a customer file that can be accessed and referred to by representatives as they deliver services. TeleTech customer interaction centers employ state-of-the-art technology that incorporates digital switching technology, object-oriented software modules, relational database management systems, proprietary call tracking and workforce management systems, CTI and interactive voice response. TeleTech's digital switching technology enables calls to be routed to the next available representative who has the appropriate knowledge, skill and language sets. Call tracking and workforce management systems generate and track historical call volumes by client,

enabling the Company to schedule personnel efficiently to accommodate anticipated fluctuations in call volume. TeleTech's technology base enables it to provide single call resolution and decrease customer hold times, thereby enhancing customer satisfaction.

TeleTech-leased centers utilize "Universal Representative" workstations with inbound, outbound, Internet and fax-back capabilities, the majority of which run on Pentium-based computers. All workstations are PC-based and utilize CTI technology, which connects the computer to a telephone switch allowing calls and computer data to be transferred simultaneously. By using simple, intuitive graphical user interfaces (GUIs), which substitute easy-to-understand graphics for text, TeleTech enables its representatives to focus on assisting the customer rather than on the technology and to obtain customer information using significantly fewer keystrokes. The user-friendly interface also helps to decrease training time and increase the speed of call handling.

TeleTech's applications software uses products developed by Microsoft, Oracle, Novell, IBM and others. TeleTech has invested significant resources in designing, developing and debugging industry-specific and open-systems software applications and tools. As a result, TeleTech maintains an extensive library of reusable, object-oriented software code that is used by TeleTech's applications development professionals to develop customized customer management software. TeleTech's systems capture and download a variety of information obtained during each customer interaction into relational databases for real-time, daily, weekly or monthly reporting to clients. TeleTech runs its applications software on open-system, client-server architecture that utilizes computer processors, server components and hardware platforms produced by manufacturers such as Compaq, Hewlett Packard, IBM and Sun Microsystems. TeleTech has and will continue to invest significant resources into the development of new and emerging customer management and technical support technologies.

The Company continually evaluates acquisitions of companies that would enhance TeleTech's technological capabilities. In February 1998, the Company acquired Intellisystems, Inc., a leading developer of patented automated product support solutions. Intellisystems, through its patented technology, provides systems that automatically answer and resolve a significant percentage of customer inquiries coming into Web sites or customer interaction centers. It allows customers to diagnose their own problems and receive product information 24 hours a day, seven days a week. The information that customers need is contained in a knowledge base, which is accessible with a touch tone telephone, the Internet or a modem. The system's rule-based design enables each of the callers' answers to be stored and used to determine which questions or information will follow. Conversely, typical decision-tree systems are set up in a fixed format, requiring callers to answer all questions in the order presented regardless of its applicability to the inquiry. Additionally, Intellisystems' product allows for specific solutions to be delivered immediately over the phone, faxed directly to a customer's fax machine, e-mailed to the customer or displayed on a computer screen.

In June 1998, the Company acquired Digital Creators, Inc., a leading developer of Web-based applications, with special emphasis on distance-based education and training. Digital Creators has more than 60 employees involved in the development and design of Web sites, distance-based learning courses and electronic support systems that incorporate real-time performance feedback onto the desktop. These applications are made available to users in the corporate and higher education markets via Internet/intranet architecture and CD-ROMs.

Additionally, in December 1998, the Company acquired Cygnus Computer Associates Ltd., a Canadian provider of systems integration and call center solutions. Cygnus provides a comprehensive software and integration solution to help companies integrate both their legacy systems and customer service applications with varied customer contact channels, including the Internet, telephone and interactive voice response. Cygnus has developed several Web and telephone-based, real-time transaction processing solutions for its clients' automated customer service needs. Cygnus's expertise in systems integration, transaction processing and high-end multimedia development has enabled it to develop significant relationships with several leading Canadian telecommunications providers.

HUMAN RESOURCES

TeleTech's success in recruiting, hiring and training large numbers of skilled employees is critical to its ability to provide high-quality customer management solutions to its clients. TeleTech generally offers a competitive pay scale, hires primarily full-time employees who are eligible to receive the full range of employee benefits and provides employees with a clear, viable career path.

TeleTech is committed to the continued education and development of its employees and believes that providing TeleTech employees with access to new learning opportunities produces job satisfaction, ensures a higher quality labor force and fosters loyalty between TeleTech's employees and the clients they serve. Before taking customer calls, representatives receive from one to five weeks of on-site training in TeleTech's or the client's training facilities to learn about the client's corporate culture, specific product or service offerings, and the customer management program that TeleTech and the client will be undertaking. Representatives generally receive a minimum of six to eight hours of ongoing training per month and often receive supplemental training as needed to provide high-quality customer service and product support.

As of December 31, 1998, TeleTech had approximately 10,000 representatives, of which approximately 90% were full time. Although the Company's industry is very labor-intensive and has experienced significant personnel turnover, the Company seeks to manage employee turnover through proactive initiatives. None of TeleTech's employees are subject to a collective bargaining agreement, and TeleTech believes its relations with its employees are good.

INTERNATIONAL OPERATIONS

TeleTech operates three customer interaction centers in Canada; two customer interaction centers in Australia; and one customer interaction center in each of Brazil, Mexico, New Zealand, Singapore and the United Kingdom.

In May 1997, TeleTech acquired Telemercadeo Integral (TMI), a Mexico-based provider of customer management services. TMI employs more than 600 customer management representatives and provides services including customer acquisition, support and satisfaction to major Mexican and U.S. companies. This acquisition has allowed TeleTech to introduce its services to large Mexican companies and to aid U.S. companies in serving their Spanish-speaking customers.

In 1998 and early 1999, TeleTech entered three new countries through new client relationships and via acquisitions. In March 1998, TeleTech entered the Canadian market through a multiyear agreement with a large Canadian insurance company to provide comprehensive customer management solutions through a licensed insurance agency. Additionally, in June 1998, TeleTech acquired EDM Electronic Direct Marketing (EDM), one of Canada's largest providers of customer management solutions, and further expanded the Company's presence in Canada. EDM specializes in software technical support, customer service and fulfillment, and outbound telemarketing. In August 1998, TeleTech acquired Outsource Informatica, a Brazilian customer management provider. Outsource specializes in customer services and technical support for leading multinational and Brazilian corporations in the technology, transportation and financial services industries.

A key component of the Company's growth strategy is to continue its international expansion, which may include the acquisition of businesses with products or technologies that extend or complement TeleTech's existing

businesses. The Company is engaged in ongoing evaluations of, and discussions with, third parties regarding possible acquisitions; however, the Company currently has no agreements, commitments or understandings with respect to any material acquisitions.

COMPETITION

The Company believes that it competes primarily with the in-house teleservices and customer service operations of its current and potential clients. TeleTech also competes with certain companies that provide teleservices and customer services on an outsourced basis, including APAC Teleservices, Convergys Corporation, Precision Response Corporation, SITEL Corporation, Sykes Enterprises Incorporated, TeleSpectrum Worldwide, Inc. and West Teleservices Corporation. Additionally, EDS and IBM announced the creation of customer relationship management divisions this year, although not historically in the customer service business. TeleTech competes primarily on the basis of quality and scope of services provided, speed and flexibility of implementation, and technological expertise. Although the teleservices industry is very competitive and highly fragmented with numerous small participants, management believes that TeleTech generally does not directly compete with traditional telemarketing companies, which provide primarily outbound "cold calling" services.

RISK FACTORS

RELIANCE ON A FEW MAJOR CLIENTS. The Company strategically focuses its marketing efforts on developing long-term relationships with large and multinational companies in targeted industries. As a result, the Company derives a substantial portion of its revenues from relatively few clients. The Company's three largest clients in 1998, GTE, United Parcel Service and AT&T, accounted for 25%, 13% and 8%, respectively, of the Company's 1998 revenues. The Company's three largest clients in 1997, United Parcel Service, AT&T and GTE, accounted for 23%, 18% and 15%, respectively, of the Company's 1997 revenues. The Company believes its customer concentration will continue because the Company's programs are becoming larger and more complex and because the lead time necessary to execute a new sales agreement with a client has been steadily increasing. In at least one instance, almost two years elapsed from the time of the Company's initial sales presentation until the time a written agreement was signed and the client program commenced. As a result of the longer sales cycle, it may become more difficult for the Company to replace lost clients or completed programs in a timely manner. There can be no assurance that the Company will not become more dependent on a few significant clients, that the Company will be able to retain any of its largest clients, that the volumes or profit margins of its most significant programs will not be reduced, or that the Company would be able to replace such clients or programs with clients or programs that generate a comparable amount of profits. Consequently, the loss of one or more of the Company's significant clients could have a material adverse effect on the business, results of operations or financial condition of the Company.

RISKS ASSOCIATED WITH THE COMPANY'S CONTRACTS. The Company's contracts do not ensure that it will generate a minimum level of revenues, and the profitability of each client program may fluctuate, sometimes significantly, throughout the various stages of such program. Although the Company seeks to sign multiyear contracts with its clients, the Company's contracts generally enable the clients to terminate the contract, or terminate or reduce program call volumes, on relatively short notice. Although many of such contracts require the client to pay a contractually agreed amount in the event of early termination, there can be no assurance that the Company will be able to collect such amount or that such amount, if received, will sufficiently compensate the Company for its investment in the canceled program or for the revenues it may lose as a result of the early termination. The Company usually is not designated as its client's exclusive service provider; however, the Company believes that meeting its clients' expectations can have a more significant impact on revenues generated by the Company than the specific terms of its client contracts. In addition, some of the Company's contracts limit the aggregate amount the Company can charge for its services, and several prohibit the Company from providing services to the client's direct competitor that are similar to the services the Company provides to such client.

A few of the Company's contracts allow the Company to increase its service fees if and to the extent certain cost or price indices increase; however, most of the Company's significant contracts do not contain such provisions and some contracts require the Company to decrease its service fees if, among other things, the Company does not achieve certain performance objectives. Increases in the Company's service fees that are based upon increases in cost or price indices may not fully compensate the Company for increases in labor and other costs incurred in providing services.

DIFFICULTIES OF MANAGING CAPACITY UTILIZATION. The Company's profitability is influenced significantly by its customer interaction center capacity utilization. The Company attempts to maximize utilization; however, because almost all of the Company's business is inbound, the Company has significantly higher utilization during peak (weekday) periods than during off-peak (night and weekend) periods. The Company has experienced periods of excess capacity, particularly in its shared customer interaction centers, and occasionally has accepted short-term assignments to utilize the excess capacity. In addition, the Company has experienced, and in the future may experience, at least short-term, excess peak period capacity when it opens a new customer interaction center or terminates or completes a large client program. There can be no assurance that the Company will be able to achieve or maintain optimal customer interaction center capacity utilization.

DIFFICULTIES OF MANAGING RAPID GROWTH. The Company has experienced rapid growth over the past several years. Continued future growth will depend on a number of factors, including the Company's ability to (i) initiate, develop and maintain new client relationships and expand its existing client programs; (ii) recruit, motivate and retain qualified management and hourly personnel; (iii) rapidly identify, acquire or lease suitable customer interaction center facilities on acceptable terms and complete buildouts of such facilities in a timely and economic fashion; and (iv) maintain the high quality of the services and products that it provides to its clients. There can be no assurance that the Company will be able to effectively manage its expanding operations or maintain its profitability. If the Company is unable to effectively manage its growth, its business, results of operations or financial condition could be materially adversely affected.

RISKS ASSOCIATED WITH RAPIDLY CHANGING TECHNOLOGY. The Company's business is highly dependent on its computer and telecommunications equipment and software capabilities. The Company's failure to maintain the superiority of its technological capabilities or to respond effectively to technological changes could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, a variety of automated customer support technologies, such as interactive voice response and interactive Internet e-mail, have been and are being developed that could supplement, compete with or replace the Company's services. For some client applications, these alternative automated customer support technologies may achieve similar results and be more cost-effective to the client than the services currently provided by the Company. The Company's continued growth and future profitability will be highly dependent on a number of factors, including the Company's ability to (i) expand its existing service offerings to include automated customer support capabilities; (ii) achieve cost efficiencies in the Company's existing customer interaction center operations through the integration of alternative automated technologies; and (iii) introduce new services and products that leverage and respond to changing technological developments. There can be no assurance that technologies or services developed by the Company's competitors will not render the Company's products or services non-competitive or obsolete, that the Company can successfully develop and market any new services or products, that any such new services or products will be commercially successful or that the integration of automated customer support capabilities will achieve intended cost reductions.

DEPENDENCE ON KEY PERSONNEL. The Company's success to date has largely been the result of the skills and efforts of Kenneth D. Tuchman, the Company's founder, chairman of the board, president and chief executive officer. Continued growth and profitability will depend upon the Company's ability to strengthen its leadership infrastructure by recruiting and retaining qualified, experienced executive personnel. Competition in the Company's industry for executive-level personnel is fierce and there can be no assurance that the Company will be able to hire, motivate and retain other executive employees, or that the Company can do so on economically feasible terms. The loss of Mr. Tuchman or the Company's inability to hire or retain such other executive employees could have a material adverse effect on the Company's business, growth, results of operations or financial condition.

POTENTIAL YEAR 2000 PROBLEMS. The Company currently is unable to ascertain the exact magnitude of its Year 2000 issues because it has not yet completed the assessment phase of the program. Many potential risks exist related to the infrastructures supporting the Company's various facilities, including the telephone and power grids supporting the Company's global operations. The Company believes that it is unlikely a prolonged or long-term telephone or power outage will occur at one or more of its key operation centers as a result of Year 2000 problems, however the occurrence of such an outage would cause major challenges and would significantly impact the Company's ability to generate revenues during the outage. Methods to reduce this risk are being evaluated based on the probability of occurrence. The inability to support one or more of the Company's clients due to the Company's own technology issues is less likely, although a possibility. This risk is being minimized by the assessment of the compliance levels of the Company's vendor products and by the implementation of inspection, analysis and test activities.

The Company is unable to predict with certainty the extent to which its suppliers will be affected by the Year 2000 issue, or the extent to which the Company may be vulnerable to a supplier's inability to remediate any issues in a timely manner. Additionally, the Company utilizes a computer interface with many of its large customers as a key component of the client program. Should these client systems contain Year 2000 problems, the Company may be unable to provide services under the program. TeleTech is working with its clients to determine the extent of the clients' readiness, but the Company has not completed this assessment.

Currently contingency planning is being addressed but is still uncertain pending the completion of the internal and client assessments. TeleTech is assuming that system failures can occur not only as the result of incorrect data or calculations, but also due to external problems with power, telecommunications or other business dependencies. The Company's contingency planning will entail the preparation of alternative work processes in the event of possible system or process failures. If the Company does not adequately address the Year 2000 issues, the failure could have a material adverse effect on the Company's business, growth, results of operations or financial condition.

DEPENDENCE ON LABOR FORCE. The Company's success is largely dependent on its ability to recruit, hire, train and retain qualified employees. The Company's industry is very labor-intensive and has experienced high personnel turnover. A significant increase in the Company's employee turnover rate could increase the Company's recruiting and training costs and decrease operating effectiveness and productivity. Also, if the Company obtains several significant new clients or implements several new, large-scale programs, it would be required to recruit, hire and train qualified personnel at an accelerated rate. The Company may not be able to continue to hire, train and retain sufficient qualified personnel to adequately staff new customer management programs. Because a significant portion of the Company's operating costs relate to labor costs, an increase in wages, costs of employee benefits or employment taxes could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, certain of the Company's customer interaction centers are located in geographic areas with relatively low unemployment rates, which could make it more difficult and costly to hire qualified personnel.

HIGHLY COMPETITIVE MARKET. The Company believes that the market in which it operates is fragmented and highly competitive and that competition is likely to intensify in the future. The Company competes with small firms offering specific applications, divisions of large entities, large independent firms and, most significantly, the in-house operations of clients or potential clients. A number of competitors have or may develop greater capabilities and resources than those of the Company. Similarly, there can be no assurance that additional competitors with greater resources than the Company will not enter the Company's market. Because the Company's primary competitors are the in-house operations of existing or potential clients, the Company's performance and growth could be adversely affected if its existing or potential clients decide to provide in-house customer management services that currently are outsourced, or retain or increase their in-house customer service and product support capabilities. A variety of automated customer support technologies have been developed that may make it easier and more cost-effective for clients and potential clients to provide customer management services in-house. In addition, competitive pressures from current or future competitors also could cause the Company's services to lose market acceptance or result in significant price erosion, with a material adverse effect upon the Company's business, results of operations or financial condition.

DIFFICULTIES OF COMPLETING AND INTEGRATING ACQUISITIONS AND JOINT VENTURES. One component of the Company's growth strategy is to pursue strategic acquisitions of companies that have services, technologies, industry specializations or geographic coverage that extend or complement the Company's existing business. There can be no assurance that the Company will be successful in acquiring such companies on favorable terms or in integrating such companies into the Company's existing businesses, or that any completed acquisition will enhance the Company's business, results of operations or financial condition. The Company has faced, and in the future may continue to face, increased competition for acquisition opportunities, which may inhibit the Company's ability to consummate suitable acquisitions on favorable terms. The Company may require additional debt or equity financing for future acquisitions, which financing may not be available on terms favorable to the Company, if at all. As part of its growth strategy, the Company also may pursue strategic alliances in the form of joint ventures. Joint ventures involve many of the same risks as acquisitions, as well as additional risks associated with possible lack of control of the joint ventures.

RISK OF BUSINESS INTERRUPTION. The Company's operations are dependent upon its ability to protect its customer interaction centers, computer and telecommunications equipment and software systems against damage from fire, power loss, telecommunications interruption or failure, natural disaster and other similar events. In the event the Company experiences a temporary or permanent interruption at one or more of its customer interaction centers, through casualty, operating malfunction or otherwise, the Company's business could be materially adversely affected and the Company may be required to pay contractual damages to some clients or allow some clients to terminate or renegotiate their contracts with the Company. The Company maintains property and business interruption insurance; however, such insurance may not adequately compensate the Company for any losses it may incur.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS AND EXPANSION. The Company currently conducts business in Australia, Brazil, Canada, Mexico, New Zealand, Singapore and the United Kingdom. The Company's international operations accounted for approximately 24% and 17% of its revenues for 1998 and 1997, respectively. In addition, a key component of the Company's growth strategy is continued international expansion. There can be no assurance that the Company will be able to (i) increase its market share in the international markets in which the Company currently conducts business and (ii) successfully market, sell and deliver its services in additional international markets. In addition, there are certain risks inherent in conducting international business, including exposure to currency fluctuations, longer payment cycles, greater difficulties in accounts receivable collection, difficulties in complying with a variety of foreign laws, unexpected changes in regulatory requirements, difficulties in managing capacity utilization and in staffing and managing foreign operations, political instability and potentially adverse tax consequences. Any one or more of such factors could have a material adverse effect on the Company's international operations and, consequently, on the Company's business, results of operations or financial condition.

VARIABILITY OF QUARTERLY OPERATING RESULTS. The Company has experienced and could continue to experience quarterly variations in revenues as a result of a variety of factors, many of which are outside the Company's control. Such factors include the timing of new contracts; labor strikes and slowdowns; reductions or other modifications in its clients' marketing and sales strategies; the timing of new product or service offerings; the expiration or termination of existing contracts or the reduction in existing programs; the timing of increased expenses incurred to obtain and support new business; changes in the revenue mix among the Company's various service offerings; and the seasonal pattern of certain of the businesses serviced by the Company. In addition, the Company makes decisions regarding staffing levels, investments and other operating expenditures based on its revenue forecasts. If the Company's revenues are below expectations in any given quarter, its operating results for that quarter would likely be materially adversely affected.

DEPENDENCE ON KEY INDUSTRIES. The Company generates a majority of its revenues from clients in the telecommunications, technology, transportation, financial services and government services industries. The Company's growth and financial results are largely dependent on continued demand for the Company's services from clients in these industries and current trends in such industries to outsource certain customer management services. A general economic downturn in any of these industries or a slowdown or reversal of the trend in any of these industries to outsource certain customer management services could have a material adverse effect on the Company's business, results of operations or financial condition. The Company also provides services to clients in the healthcare and utilities industries; however, these SBUs are still in the development stage and there can be no assurance that the Company can successfully develop them.

A significant percentage of the revenues generated from clients in the telecommunications industry relate to the Company's provision of third-party verification of long-distance telephone service sales. Third-party verification services, which are required by the rules of the Federal Communications Commission, accounted for 4% and 8% of the Company's total revenues in 1998 and 1997, respectively. Revenues generated from third-party verification services were significantly lower than expected in the second half of 1997 as a result of reductions implemented by a large telecommunications client in its direct marketing program. The Company's business, results of operations or financial condition could be materially adversely affected if its clients further reduce their direct marketing expenditures and their corresponding need for third-party sales verification and/or the Federal Communications Commission no longer requires such verification.

DEPENDENCE ON THE SUCCESS OF ITS CLIENTS' PRODUCTS. In substantially all of its client programs, the Company generates revenues based, in large part, on the amount of time that the Company's personnel devotes to a client's customers. Consequently, and due to the inbound nature of the Company's business, the amount of revenues generated from any particular client program is dependent upon consumers' interest in, and use of, the client's products and/or services. Furthermore, a significant portion of the Company's expected revenues and planned capacity utilization relate to recently introduced product or service offerings of the Company's clients. There can be no assurance as to the number of consumers who will be attracted to the products and services of the Company's clients and who will therefore need the Company's services, or that the Company's clients will develop new products or services that will require the Company's services.

ITEM 2. PROPERTIES.

TeleTech's corporate headquarters are located in Denver, Colorado, in approximately 39,000 square feet of leased office space. As of December 31, 1998, TeleTech leased (unless otherwise noted) and operated the following customer interaction centers:

LOCATION	YEAR OPENED OR ACQUIRED	NUMBER OF PRODUCTION WORKSTATIONS	NUMBER OF TRAINING WORKSTATIONS (1)	TOTAL NUMBER OF WORKSTATIONS
	-----	-----	-----	-----
U.S. OUTSOURCED CENTERS				
Burbank, California	1995	416	67	483
Enfield, Connecticut	1998	84 (2)	60	144
Kansas City, Kansas	1998	500	230	730
Moundsville, West Virginia	1998	500	62	562
Niagara Falls, New York	1997	550	60	610
Sherman Oaks, California	1985	512	48	560
Thornton, Colorado, Center 1 (3)	1996	575	60	635
Thornton, Colorado, Center 2 (3)	1996	415	58	473
Uniontown, Pennsylvania	1998	600	40	640
Van Nuys, California	1996	352	38	390
INTERNATIONAL OUTSOURCED CENTERS				
Auckland, New Zealand	1996	170	28	198
Sheppard, Canada	1998	265	18	283
Casebridge, Canada	1998	82	0	82
Glasgow, Scotland	1996	200	46	246
Melbourne, Australia	1997	223	24	247
Mexico City, Mexico	1997	646	72	718
Sao Paulo, Brazil	1998	156	0	156
Tampines, Singapore	1998	68	0	68
Sydney, Australia	1996	258	20	278
MANAGED CENTERS (4)				
Greenville, South Carolina	1996	686	105	791
Montbello, Colorado	1996	500	182	682
Tampa, Florida	1996	651	90	741
Toronto, Canada	1998	397	60	457
Tucson, Arizona	1996	629	90	719
Total number of workstations		9,435	1,458	10,893

(1) Training workstations are fully operative as production workstations should the Company require additional capacity.

(2) The Enfield customer interaction center is expected to have 450 seats when fully operational.

(3) TeleTech operates each floor in the Thornton facility as an independent customer interaction center, and each of Thornton center 1 and Thornton center 2 employs its own management and representatives.

(4) Centers are leased or owned by TeleTech's clients, and managed by TeleTech on behalf of such clients pursuant to facilities management agreements.

The leases for TeleTech's U.S. customer interaction centers have terms ranging from one to 15 years and generally contain renewal options. These leases are being structured with specific business terms that allow for flexibility in response to changing business conditions. The Company believes that its existing customer interaction centers are suitable and adequate for its current operations and targets capacity utilization in its fully outsourced centers at 85% of its available workstations during peak (weekday). During 1998, the Company experienced excess capacity in newly constructed shared centers in Moundsville, West Virginia; Uniontown, Pennsylvania; and Mexico City. In 1999, the Company plans to deploy two dedicated centers in the United States: one in Topeka, Kansas, and a second location to be determined. In addition, the Company plans to deploy four shared centers in 1999: in Australia; Brazil; Canada; and one additional U.S. location. No other new shared centers are scheduled for construction until existing capacity is sold.

Due to the inbound nature of the Company's business, the Company experiences significantly higher capacity utilization during peak periods than during off-peak (night and weekend) periods. The Company has been and will be required to open or expand customer interaction centers to create the additional peak period capacity necessary to accommodate new or expanded customer management programs. The opening or expansion of a customer interaction center may result, at least in the short term, in excess capacity during peak periods until any new or expanded program is implemented fully.

ITEM 3. LEGAL PROCEEDINGS.

In late November 1996, CompuServe notified TeleTech that CompuServe was withdrawing its WOW! Internet service from the marketplace and that effective January 31, 1997, it would terminate all the programs TeleTech provided to CompuServe. Pursuant to its agreement with TeleTech, CompuServe was entitled to terminate the agreement for reasonable business purposes upon 120 days' advance notice and payment to TeleTech of a termination fee calculated in accordance with the agreement. In December 1996, TeleTech filed suit against CompuServe in the Federal District Court for the Southern District of Ohio to enforce these termination provisions and collect the termination fee. CompuServe filed a counterclaim in December 1996 alleging that the Company breached other provisions of this agreement and seeking unspecified monetary damages. In March 1997, CompuServe asserted a right to offset certain accounts receivable it owes to the Company for services rendered against the amount that may be awarded to CompuServe on its counterclaim, if any. These accounts receivable total \$4.3 million. In mid-1997, because of the proposed acquisition of CompuServe by WorldCom, the parties agreed to delay proceedings in the lawsuit. In December 1997, proceedings related to the lawsuit were recommenced and then stayed again pending settlement negotiations, which currently are moving forward. Although the Company believes that these legal proceedings will not have a material adverse effect on the Company's financial condition or results of operations, the ultimate outcome of the proceedings is uncertain. (See Note 8 of "Notes to Consolidated and Combined Financial Statements.")

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.

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of its fiscal year ended December 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

In August 1996, the Company completed an initial public offering of the common stock (the Initial Public Offering) at an initial price to public of \$14.50 per share. The market price of the common stock has been highly volatile and could continue to be subject to wide fluctuations in response to quarterly variations in operating results; announcements of new contracts or contract cancellations; announcements of technological innovations or new products or services by the Company or its competitors; changes in financial estimates by securities analysts; or other events or factors. The market price of the common stock also may be affected by the Company's ability to meet analysts' expectations, and any failure to meet such expectations, even if minor, could have a material adverse effect on the market price of the common stock.

The common stock is traded on the Nasdaq Stock Market under the symbol "TTEC." The following table sets forth the range of the high and low closing sale prices of the common stock for the fiscal quarters indicated as reported on the Nasdaq Stock Market:

	HIGH	LOW
First Quarter 1997	34-1/4	17-1/4
Second Quarter 1997	27-1/8	16-5/8
Third Quarter 1997	25-1/2	12-7/8
Fourth Quarter 1997	14-5/16	9-7/8
First Quarter 1998	14-1/2	8-1/2
Second Quarter 1998	17	12
Third Quarter 1998	12	6-3/8
Fourth Quarter 1998	11-3/8	8

As of December 31, 1998, there were 60,769,724 shares of common stock outstanding, held by approximately 144 shareholders of record.

TeleTech did not declare or pay any dividends on its common stock in 1998 and it does not expect to do so in the foreseeable future. The board of directors anticipates that all cash flow generated from operations in the foreseeable future will be retained and used to develop and expand TeleTech's business. Any future payment of dividends will depend upon TeleTech's results of operations, financial condition, cash requirements and other factors deemed relevant by the board of directors.

The registration statement for the Company's initial public offering was effective July 30, 1996. The net proceeds to the Company from the initial public offering were \$52,565,000. The following is the amount of net offering proceeds used by the Company for each of the purposes listed below. The following use of proceeds does not represent a material change in the use of proceeds described in the initial public offering prospectus.

	DIRECT OR INDIRECT PAYMENTS TO DIRECTORS, OFFICERS, GENERAL PARTNERS OF THE ISSUER OR THEIR ASSOCIATES: TO PERSONS OWNING TEN PERCENT OF MORE OF ANY CLASS OF EQUITY SECURITIES OF THE ISSUER; AND TO AFFILIATES OF THE ISSUER	DIRECT OR INDIRECT PAYMENTS TO OTHERS
	-----	-----
Purchase and installation of machinery and equipment		\$21,735,000
Acquisition of other businesses		4,337,000
Repayment of indebtedness		9,950,000
Working Capital	\$500,000	15,055,000
Acquisition of 98,810 shares of Treasury Stock		988,000

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and the related notes appearing elsewhere in this report. The financial information for years prior to 1998 has been restated to reflect the June 1998 business combinations with EDM Electronic Direct Marketing Ltd. and Digital Creators, Inc., accounted for using the pooling of interests method of accounting.

	Year Ended December 31,				
	1994	1995	1996	1997	1998
	(in thousands, except per share and operating data)				
STATEMENT OF OPERATIONS DATA:					
Revenues	\$35,462	\$54,933	\$171,265	\$279,057	\$369,045
Costs of services	17,406	30,941	104,142	178,702	241,230
SG&A expenses	15,860	19,230	43,504	67,208	96,077
Income from operations	2,196	4,762	23,619	33,147	31,738
Other income (expense)	(481)	2,468 (2)	18	2,310	159 (3)
Provision for income taxes	20	2,992	9,773	14,123	12,695
Net income	\$ 1,695	\$ 4,238 (2)	\$ 13,864	\$ 21,334	\$ 19,202
Pro forma net income	\$ 1,037 (1)				
Net income per share:					
Basic	\$.03 (1)	\$.08 (2)	\$ 0.25	\$ 0.37	\$ 0.32
Diluted	\$.02 (1)	\$.08 (2)	\$ 0.24	\$ 0.35	\$ 0.31
Average shares outstanding:					
Basic	40,700	52,624	54,522	58,435	59,950
Diluted	43,753	55,882	58,152	61,646	62,052
OPERATING DATA:					
Number of production workstations	560	1,040	5,600	6,800	9,400
Number of customer interaction centers	2	5	16	20	24
BALANCE SHEET DATA:					
Working capital surplus (deficit)	\$ (780)	\$11,305	\$ 88,511	\$ 81,750	\$ 63,145
Total assets	10,102	30,583	147,011	192,367	230,910
Long-term debt, net of current portion	2,463	3,590	10,144	9,891	6,353
Total stockholders' equity	2,197	4,068	108,530	138,252	165,493

(1) During 1994, the Company was an S corporation and, accordingly, was not subject to federal income taxes. Pro forma net income includes a provision for income taxes at an effective rate of 39.5% for the year ended December 31, 1994.

(2) Includes the \$2.4 million pretax net proceeds of a one-time payment made by a former client to TeleTech in connection with such client's early termination of a contract.

(3) Includes \$1.3 million of business combination expenses relating to the pooling of interests transactions.

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

OVERVIEW

TeleTech generates its revenues by providing customer management solutions, both from TeleTech-leased customer interaction centers (fully outsourced) and client-owned customer interaction centers (facilities management). The Company's fully outsourced customer interaction centers are utilized to serve either multiple clients (shared centers) or one dedicated client (dedicated centers). The Company currently has dedicated centers only in the United States. The Company bills for its services based primarily on the amount of time TeleTech representatives devote to a client's program, and revenues are recognized as services are provided. The Company also derives revenues from consulting services, including the sale of customer interaction center and customer service technology, automated customer support, systems integration and Web-based education. These consulting and technology revenues historically have not been a significant component of the Company's revenues although the Company believes that these services will become more significant in future years. The Company seeks to enter into multiyear contracts with its clients that cannot be terminated early except upon the payment of a contractually agreed amount. The majority of the Company's revenues are, and the Company anticipates that the majority of its future revenues will continue to be, from multiyear contracts. However, the Company does provide some significant programs on a short-term basis. The Company's agreements with its clients do not ensure that TeleTech will generate a specific level of revenue and may be canceled by clients on short notice.

TeleTech's profitability is significantly influenced by its customer interaction center capacity utilization. The Company seeks to optimize new and existing capacity utilization during both peak (weekday) and off-peak (night and weekend) periods to achieve maximum fixed cost absorption. TeleTech may be adversely impacted by excess capacity in its fully outsourced centers if prior to the opening or expansion of a customer interaction center, the Company has not contracted for the provision of services or if a client program does not reach its intended level of operations on a timely basis. In addition, the Company can also be adversely impacted by excess capacity in its facilities management contracts. In a facilities management contract, the Company does not incur the costs of the facilities and equipment; however the costs of the management team supporting the customer interaction center are semifixed in nature and absorption of these costs will be negatively impacted if the customer interaction center has idle capacity. The Company attempts to plan the development and opening of new customer interaction centers to minimize the financial impact resulting from excess capacity. In planning the opening of new centers or the expansion of existing centers, management considers numerous factors that affect its capacity utilization, including anticipated expirations, reductions, terminations or expansions of existing programs, and the size and timing of new client contracts that the Company expects to obtain. The Company has concentrated its marketing efforts toward obtaining larger, more complex, strategic customer management programs. As a result, the time required to negotiate and execute an agreement with the client has increased. To enable the Company to respond rapidly to changing market demands, implement new programs and expand existing programs, TeleTech may be required to commit to additional capacity prior to the contracting of additional business, which may result in excess capacity. TeleTech targets capacity utilization in its fully outsourced centers at 85% of its available workstations during the weekday period.

The Company was adversely impacted by excess capacity in its fully outsourced centers during 1997 and 1998 that has resulted in a decline in operating margins from those achieved during 1997. During 1998, the Company experienced excess capacity in newly constructed shared centers in Moundsville, West Virginia; Uniontown, Pennsylvania; and Mexico City. Capacity utilization was also adversely affected in the second half of 1997 and throughout 1998 when one of the Company's telecommunications clients significantly reduced call volumes in the Company's program for this client. The Company also has incurred reduced operating margins on one of its significant facilities management contracts due to reduced volumes and excess capacity in certain centers operated by the Company. In 1999, the Company plans to deploy two dedicated centers in the United States: one in Topeka, Kansas, and a second location to be determined. In addition, the Company plans to deploy four shared centers in 1999: in Perth, Australia; Sao Paulo, Brazil; Sudbury, Canada; and one additional U.S. location. No other new shared centers are scheduled for construction until existing capacity is sold.

The Company records costs specifically associated with client programs as costs of services. These costs, which include direct labor wages and benefits, telecommunication charges, sales commissions and certain facility costs, are primarily variable in nature. Labor costs represent in excess of 80% of costs of services. All other expenses of operations, including technology support, depreciation and amortization, sales and marketing, human resource management and other administrative functions and customer interaction center operational expenses that are not allocable to specific programs are recorded as selling, general and administrative (SG&A) expenses. SG&A expenses tend to be either semivariable or fixed in nature. The majority of the Company's operating expenses have consisted of labor costs. Representative wage rates, which comprise the majority of the Company's labor costs, have been and are expected to continue to be a key component of the Company's expenses.

The cost characteristics of TeleTech's fully outsourced programs differ significantly from the cost characteristics of its facilities management programs. Under facilities management programs, customer interaction centers and the related equipment are owned by the client but are staffed and managed by TeleTech. Accordingly, facilities management programs have higher costs of services as a percentage of revenues and lower SG&A expenses as a percentage of revenues than fully outsourced programs. As a result, the Company expects its overall gross margin will continue to fluctuate as revenues attributable to fully outsourced programs vary in proportion to revenues attributable to facilities management programs. Management believes the Company's operating margin, which is income from operations expressed as a percentage of revenues, is a better measure of "profitability" on a period-to-period basis than gross margin. Operating margin may be less subject to fluctuation as the proportion of the Company's business portfolio attributable to fully outsourced programs versus facilities management programs changes. The Company's first facilities management agreement began in the second quarter of 1996. Revenue from facilities management contracts represented 31% and 24% of consolidated revenues in 1997 and 1998, respectively.

The Company has used business combinations and acquisitions to expand the Company's international customer management operations and to obtain complementary technology solution offerings. The following is a summary of this activity.

INTERNATIONAL OPERATIONS:

	LOCATIONS	CONSIDERATION		DATE
		SHARES	CASH	
Outsource Informatica, Ltda.	Sao Paulo, Brazil	606,343	--	August 1998
EDM Electronic Direct Marketing Ltd.	Toronto, Ontario, Canada	1,783,444	--	June 1998
Telemercadeo Integral, S.A.	Mexico City, Mexico	100,000	\$2.4 million	May 1997
TeleTech International Pty Limited	Sydney, Australia, and Auckland, New Zealand	970,240	\$2.3 million	January 1996

TECHNOLOGY AND SERVICES:

	COMPANY DESCRIPTION	CONSIDERATION		DATE
		SHARES	CASH	
Cygnus Computer Associates	Provider of systems integration and call center software solutions	324,744	\$0.7 million	December 1998
Digital Creators, Inc.	Developer of Web-based applications and distance-based learning and education	1,069,000	--	June 1998
Intellisystems, Inc.	Developer of automated product support systems	344,487	\$2.0 million	February 1998

RESULTS OF OPERATIONS

The following table sets forth certain income statement data as a percentage of revenues:

	1996	1997	1998
	----	----	----
Revenues	100.0%	100.0%	100.0%
Costs of services	60.8	64.0	65.4
SG&A expenses	25.4	24.1	26.0
Income from operations	13.8	11.9	8.6
Other income	--	0.8	--
Provision for income taxes	5.7	5.1	3.4
Net income	8.1	7.6	5.2

1998 COMPARED TO 1997

REVENUES. Revenues increased \$89.9 million, or 32.2%, to \$369.0 million in 1998 from \$279.1 million in 1997. The increase resulted from \$56.0 million in revenues from new clients and \$81.0 million in increased revenues from existing clients. These increases were offset in part by contract expirations and other client reductions. Client reductions reflect a \$35.6 million decline in 1998 revenue from two significant clients. Revenues for 1998 include a \$5.0 million sale of technology consulting and call center technology products to an existing client for use in its internal call centers. The Company has not historically sold its technology or significant levels of consulting services as a separate product and only provided such services to clients as part of a long-term outsourcing agreement. As a result of the acquisition of Intellisystems, Digital Creators and Cygnus, the Company anticipates that sales of technology deployment and systems integration services, Web-based education platforms and customer-centric marketing solutions will become a more significant portion of revenues in the future. Revenues for 1998 include approximately \$85.7 million from facilities management contracts as compared with \$84.0 million during 1997. Total international revenues represent 24% of consolidated revenues during 1998 as compared with 18% during 1997.

COSTS OF SERVICES. Costs of services increased \$62.5 million, or 35.0%, to \$241.2 million in 1998 from \$178.7 million in 1997. Costs of services as a percentage of revenues increased from 64.0% in 1997 to 65.4% in 1998. This increase in costs of services as a percentage of revenues is primarily the result of reduced volumes in one of the company's facilities management contracts. This reduced volume resulted in excess capacity in three customer interaction centers managed by the Company and reduced gross margins on the client program. This resulted in a \$4.5 million decrease in operating income from the Company's facilities management business. The increase in costs of services as a percent of revenues relating to this was partially offset by the favorable impact of the technology sale discussed earlier. This sale had significantly lower costs of services as a percentage of revenues when compared with the Company's recurring revenues from outsourcing.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses increased \$28.9 million, or 43.0%, to \$96.1 million in 1998, from \$67.2 million in 1997 resulting from the Company's increased number of customer interaction centers, global expansion and increased investment in technology. SG&A expenses as a percentage of revenues increased from 24.1% in 1997 to 26.0% in 1998. This increase is the result of excess capacity in several of the Company's outsourced domestic and international customer interaction centers discussed earlier.

INCOME FROM OPERATIONS. As a result of the foregoing factors, income from operations decreased \$1.4 million, or 4.3%, to \$31.7 million in 1998 from \$33.1 million in 1997. Income from operations as a percentage of revenues decreased from 11.9% in 1997 to 8.6% in 1998. Operating income as a percentage of revenues in 1998 has been favorably impacted by approximately 700 basis points resulting from the technology sale discussed earlier. Operating income as a percentage of revenues is not anticipated to significantly improve until the Company increases capacity utilization.

OTHER INCOME (EXPENSE). Other income decreased \$2.2 million to \$159,000 in 1998 compared to \$2.3 million in 1997. Included in other income (expense) in 1998 is \$1.3 million in business combination expenses relating to the business combinations accounted for under the pooling of interests method. Interest expense increased \$104,000 to \$1.3 million in 1998 compared to \$1.2 million in 1997. This increase is primarily the result of increased borrowings in the Company's international locations offset by debt reductions in the United States. Interest income decreased \$325,000 to \$3.1 million in 1998 compared to \$3.4 million in 1997. This decrease is the result of the decrease in short-term investments during 1998.

INCOME TAXES. The Company's effective tax rate was 39.8% in 1997 and 1998. This resulted from a slight increase in the effective rate due primarily to higher taxes on the Company's operations in Canada offset by increases in state income tax credits received from certain states for employment incentives. It is anticipated that the effective rate will increase slightly in 1999 as a result of the Company's increased international operations.

NET INCOME. As a result of the foregoing factors, net income decreased \$2.1 million, or 10.0%, to \$19.2 million in 1998 from \$21.3 million in 1997. Diluted earnings per share decreased from 35 cents to 31 cents. Excluding the one-time business combination expenses, net income in 1998 would have been \$20.0 million, representing a \$1.3 million decrease from 1997, and diluted earnings per share would have been 32 cents.

1997 COMPARED TO 1996

REVENUES. Revenues increased \$107.8 million, or 62.9%, to \$279.1 million in 1997 from \$171.3 million in 1996. The increase resulted from \$73.1 million in revenues from new clients and \$62.8 million in increased revenues from existing clients. These increases were offset in part by contract expirations and other client reductions, including the loss of \$21.3 million from the termination of the CompuServe contract in the first quarter of 1997. Revenues for 1997 include approximately \$84.0 million from facilities management contracts as compared with \$48.4 million during 1996.

COSTS OF SERVICES. Costs of services increased \$74.6 million, or 71.6%, to \$178.7 million in 1997 from \$104.1 million in 1996. Costs of services as a percentage of revenues increased from 60.8% in 1996 to 64.0% in 1997. This increase in the costs of services as a percentage of revenues is a result of reduced capacity utilization due to lower third and fourth quarter 1997 volumes in two significant client programs. These lower volumes resulted from a labor strike experienced by a client in the transportation industry, for which TeleTech manages three of the client's facilities, coupled with increased efficiencies in this client's call centers and a reduction in marketing spending by a telecommunications client.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses increased \$23.7 million, or 54.5%, to \$67.2 million in 1997, from \$43.5 million in 1996. This increase is almost entirely the result of the increased level of operations during 1997. SG&A expenses as a percentage of revenues decreased from 25.4% in 1996 to 24.1% in 1997.

INCOME FROM OPERATIONS. As a result of the foregoing factors, income from operations increased \$9.5 million, or 40.3%, to \$33.1 million in 1997 from \$23.6 million in 1996. Income from operations as a percentage of revenues decreased from 13.8% in 1996 to 11.9% in 1997. This decline resulted from the lower third and fourth quarter volumes associated with two significant clients in the telecommunications and transportation industries.

OTHER INCOME (EXPENSE). Other income increased \$2.3 million to \$2.3 million in 1997 compared to \$18,000 in 1996. Interest expense increased \$6,000 to \$1.2 million in 1997. This increase is the result of increased borrowings of the Company's international subsidiaries offset by a slight decrease in borrowings under capital leases in the United States during 1997. Interest income increased \$2.0 million to \$3.4 million in 1997 compared to \$1.4 million in 1996. This increase is the result of the increase in short-term investments during 1997 arising from the proceeds of the Company's two public stock offerings during the second half of 1996.

INCOME TAXES. The Company's effective tax rate decreased from 41.4% in 1996 to 39.8% in 1997. This is primarily the result of decreased state income taxes resulting from tax credits received from certain states for employment incentives offset by increased taxes in the Company's foreign subsidiaries.

NET INCOME. As a result of the foregoing factors, net income increased \$7.5 million, or 53.8%, to \$21.3 million in 1997 from \$13.9 million in 1996. Diluted earnings per share increased 11 cents to 35 cents in 1997 from 24 cents in 1996.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was \$24.8 million in 1998 as compared to \$29.4 million in 1997. Cash provided by operating activities consists of \$38.5 million of total net income before depreciation and amortization, offset in part by \$13.7 million of changes in working capital.

The amount of cash used by the Company in investing activities was \$19.7 million in 1998. During 1998, the Company's capital expenditures (inclusive of \$2.8 million in assets acquired under capital leases) were \$41.1 million, and the Company used \$2.7 million in cash for the Intellisystems and Cygnus acquisitions. In addition, the Company paid \$10.9 million in cash for the acquisition of a long-term customer contract. These expenditures were offset in part by the reduction of \$32.6 million in short-term investments. Cash used in investing activities was \$31.6 million for 1997, resulting primarily from \$34.8 million in capital expenditures, and \$2.4 million for the purchase of Telemercadeo offset by reductions in the Company's short-term investments.

Historically, capital expenditures have been, and future capital expenditures are anticipated to be, primarily for the development of customer interaction centers, as well as expansion of the Company's customer management consulting, technology deployment and systems integration, Web-based education platforms, Internet customer care and customer-centric marketing solutions. The Company currently expects total capital expenditures in 1999 to be approximately \$50 million to \$65 million, which includes capital expenditures to be made in connection with the Year 2000 remediation discussed on page 25. The Company expects that such capital expenditures will be used primarily to open up two new dedicated and four new shared customer interaction centers during 1999. Such expenditures will be financed with internally generated funds, existing cash balances and additional borrowings. The level of capital expenditures incurred in 1999 will be dependent upon new client contracts obtained by the Company and the corresponding need for additional capacity. In addition, if the Company's future growth is generated through facilities management contracts, the anticipated level of capital expenditures could be reduced significantly.

Cash used in financing activities in 1998 was \$3.5 million. This primarily resulted from an increase in capital lease and long-term debt payments offset in part by the exercise of stock options and the related tax benefit. In 1997, cash provided by financing activities of \$3.9 million resulted from the exercise of stock options and the related tax benefit offset in part by capital lease and long-term debt payments.

In November 1998, the Company obtained a three-year, \$50 million, unsecured revolving line of credit with a syndicate of five banks. The Company also has the option to secure at any time up to \$25 million of the line with available cash investments. The Company has two interest rate options: an offshore rate option or a bank base rate option. The Company will pay interest at a spread of 50 to 150 basis points over the applicable offshore or bank base rate, depending upon the Company's leverage. Interest on the secured portion is based on the applicable rate plus 22.5 basis points. The Company had no borrowings under the line of credit at December 31, 1998.

The Company believes that existing cash and short-term investments together with available borrowings under its line of credit will be sufficient to finance the Company's current operations, planned capital expenditures and anticipated growth through 1999. However, if the Company were to make any significant acquisitions for cash, it may be necessary for the Company to obtain additional debt or equity financing. The Company is engaged in ongoing evaluations of, and discussions with, third parties regarding possible acquisitions; however, the Company currently has no definitive agreements with respect to any significant acquisitions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk in the areas of changes in U.S. interest rates and changes in foreign currency exchange rates as measured against the U.S. dollar. These exposures are directly related to its normal operating and funding activities. Historically, and as of December 31, 1998, the Company has not used derivative instruments or engaged in hedging activities.

INTEREST RATE RISK

The interest on the Company's line of credit and its Canadian subsidiary's operating loan is variable based on the bank's base rate or offshore rate, and therefore, affected by changes in market interest rates. At December 31, 1998, there were approximately \$778,000 in borrowings outstanding on the operating loan. The Company monitors interest rates frequently and has sufficient cash balances to pay off the line of credit and any early termination penalties, should interest rates increase significantly. The Company's investments are typically short-term in nature and as a result do not expose the Company to significant risk from interest rate fluctuations. Therefore, the Company does not believe that reasonably possible near-term changes in interest rates will result in a material effect on future earnings, fair values or cash flows of the Company.

FOREIGN CURRENCY RISK

The Company has wholly owned subsidiaries in Australia, Brazil, Canada, Mexico, New Zealand, Singapore and the United Kingdom. Revenues and expenses from these operations are typically denominated in local currency, thereby creating exposures to changes in exchange rates. The changes in the exchange rate may positively or negatively affect the Company's revenues and net income attributed to these subsidiaries.

YEAR 2000

The Year 2000 problem results from date-sensitive computer programs being written using two digits, rather than four digits, to define the applicable year. Computer programs that are not Year 2000 compliant will be unable, for example, to determine whether date references to "00" refers to the year 1900 or 2000. Determining whether the Company's and its clients' systems are Year 2000 compliant is critical because the Company utilizes a significant number of software programs and operating systems throughout its organization, and the Company's systems regularly interface with the various information systems of its clients. The Company's or its clients' failure to detect and remediate Year 2000 related problems in its or their computer and information systems could have a material adverse effect on the business, results of operations or financial condition of the Company.

The Company, in conjunction with an outside consulting firm, has implemented a multiphased program to inventory, assess, remediate and test its systems for Year 2000 compliance (the "Program"). The Company has nearly completed the enterprisewide inventory, and the target date for the completion of the assessment, analysis and remediation associated with the Year 2000 issues is September 1999. The targeted completion date includes addressing the technology and non-technology interfaces with its clients and suppliers.

The consulting firm works with full-time Company employees who are dedicated to the Program. The assessments completed to date have led to the need to migrate several human resource- and payroll-oriented applications to Year 2000 compliant software, upgrade several telephone switches and procure several hundred replacement workstations. Analysis and testing of Company-generated software applications have been initiated. The Company anticipates that the need for software conversion caused by Year 2000 issues is not anticipated to be significant, given the Company's extensive use of off-the-shelf products.

While the cost to address Year 2000 issues continues to be developed as the assessment phase nears completion, the Company currently anticipates that the total cost of assessment and remediation will be between \$5 million and \$10 million. Of this total approximately 50% is anticipated to be new capital expenditures to replace non-compliant computer hardware and software. As of December 31, 1998, the Company has incurred approximately \$623,000 in inventory and assessment work on Year 2000 issues, which have been expensed in the accompanying statement of operations and were funded by cash flow from operations. Expenditures in 1999 will be funded primarily through cash flow from operations and available cash on hand.

DISCLOSURE OF RISKS AND UNCERTAINTIES

The Company currently is unable to ascertain the exact magnitude of its Year 2000 issues because it has not yet completed the assessment phase of the program. Many potential risks exist related to the infrastructures supporting the Company's various facilities, including the telephone and power grids supporting the Company's global operations. The Company believes that it is unlikely a prolonged or long-term telephone or power outage will occur at one or more of its key operation centers as a result of Year 2000 problems, however the occurrence of such an outage would cause major challenges and would significantly impact the Company's ability to generate revenues during the outage. Methods to reduce this risk are being evaluated based on the probability of occurrence. The inability to support one or more of the Company's clients due to the Company's own technology issues is less likely, although a possibility. This risk is being minimized by the assessment of the compliance levels of the Company's vendor products and by the implementation of inspection, analysis and test activities.

The Company is unable to predict with certainty the extent its suppliers will be affected by the Year 2000 issue, or the extent to which the Company may be vulnerable to a supplier's inability to remediate any issues in a timely manner. Additionally, the Company utilizes a computer interface with many of its large customers as a key component of the client program. Should these client systems contain Year 2000 problems, the Company may be unable to provide services under the program. TeleTech is working with its clients to determine the extent of the clients' readiness, but the Company has not completed this assessment.

Currently contingency planning is being addressed but is still uncertain pending the completion of the internal and client assessments. TeleTech is assuming that system failures can occur not only as the result of incorrect data or calculations, but also due to external problems with power, telecommunications or other business dependencies. The Company's contingency planning will entail the preparation of alternative work processes in the event of possible system or process failures.

FORWARD-LOOKING STATEMENTS

All statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" or elsewhere in this annual report that are not statements of historical facts are forward-looking statements that involve substantial risks and uncertainties. Forward-looking statements include (a) the Company's expectation that customer management consulting, systems integration, Web-based education and customer-centric marketing sales will represent a more significant portion of revenues in future years, (b) the Company's expectation that operating margins will not significantly improve until the Company has sold its excess capacity, (c) the expected opening of additional customer interaction centers in 1999 and the Company's expectation that there will be sufficient business to utilize existing and additional customer interaction center capacity; (d) the amount and nature of planned capital expenditures; (e) the Company's belief that existing cash, short-term investments and available borrowing will be sufficient to finance the Company's near-term operations and Year 2000 requirements; (f) the Company's assessment of the impact of the Year 2000 issues; (g) the Company's belief that reasonably possible near-term changes in interest rates will not result in a material effect on future earnings; and (h) 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 expressed or implied by such forward-looking statements as a result of various factors, including the following: TeleTech has not yet completed the assessment phase of its Year 2000 Program and, thus, TeleTech cannot know with certainty the full magnitude of costs to remediate, or effect on its business of, any Year 2000 problems resident in TeleTech's or its clients' systems. The Company historically has not sold its technology or significant consulting services to its clients. Therefore, TeleTech does not know the potential volume or profitability of any such future technology or consulting sales. TeleTech's agreements with 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 unproven in the marketplace. 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 program. The loss of a significant client or the termination, reduction or completion of a significant client program may have a material adverse effect on TeleTech's capacity utilization and results of operations. See "Risk Factors" on page 10 for other factors that may cause actual results to differ materially from the forward-looking statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this item are located beginning on page 34 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

There is hereby incorporated by reference the information to appear in TeleTech's definitive proxy statement for its 1999 Annual Meeting of Stockholders under the captions "Information Concerning the Nominees for Election as Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION.

There is hereby incorporated by reference the information to appear under the caption "Executive Officers - Executive Compensation" in TeleTech's definitive proxy statement for its 1999 Annual Meeting of Stockholders, provided, however, that neither the Report of the Compensation Committee on Executive Compensation nor the performance graph set forth therein shall be incorporated by reference herein or in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

There is hereby incorporated by reference the information to appear under the caption "Security Ownership of Certain Beneficial Owners and Management" in TeleTech's definitive proxy statement for its 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

There is hereby incorporated by reference the information to appear under the caption "Certain Relationships and Related Party Transactions" in TeleTech's definitive proxy statement for its 1999 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:

- (1) Consolidated Financial Statements
The Index to Financial Statements is set forth on page 32 of this report.
- (2) Financial Statement Schedules
Schedule II--Valuation and Qualifying Accounts and Reserves of TeleTech Holdings, Inc. for periods ending December 31, 1998, 1997, and 1996
- (3) Exhibits

EXHIBIT NO.	DESCRIPTION
3.1	Restated Certificate of Incorporation of TeleTech [1] {Exhibit 3.1}
3.2	Amended and Restated Bylaws of TeleTech [1] {Exhibit 3.2}
10.1	Employment Agreement dated as of January 1, 1995, between Joseph D. Livingston and TeleTech [1] {Exhibit 10.2}
10.2	Amendment to the Employment Agreement between Joseph D. Livingston and TeleTech dated May 14, 1996 [1] {Exhibit 10.3}
10.3	Employment Agreement dated as of April 1, 1996, between Steven B. Coburn and TeleTech [1] {Exhibit 10.4}
10.4	TeleTech Holdings, Inc. Stock Plan, as amended and restated [1] {Exhibit 10.7}
10.5	TeleTech Holdings, Inc. Directors Stock Option Plan [1] {Exhibit 10.8}
10.6	Form of Client Services Agreement, 1996 version [1] {Exhibit 10.12}
10.7	Agreement for Customer Interaction Center Management Between United Parcel General Services Co. and TeleTech [1] {Exhibit 10.13}
10.8	Business Loan Agreement dated March 29, 1996, among TeleTech Telecommunications, Inc.; TeleTech Teleservices, Inc.; and TeleTech, as borrower, and First Interstate Bank of California, as lender; addendum dated March 29, 1996 [1] {Exhibit 10.15}
10.9	Master Lease Agreement dated as of July 11, 1995, among First Interstate Bank of California; TeleTech; TeleTech Telecommunications, Inc.; and TeleTech Teleservices, Inc. [1] {Exhibit 10.17}
10.10	TeleTech Holdings, Inc. Employee Stock Purchase Plan [3] {Exhibit 10.22}
10.11	Employment Agreement dated as of January 1, 1998, between Kenneth D. Tuchman and TeleTech [4] {Exhibit 10.11}
10.12	Client Services Agreement dated May 1, 1997, between TeleTech Customer Care Management (Telecommunications), Inc. and GTE Card Services Incorporated d/b/a GTE Solutions [4] {Exhibit 10.12}

EXHIBIT

NO. DESCRIPTION
- - - - -

- 10.13* \$50.0 Million Revolving Credit Agreement dated as of November 20, 1998.
- 10.14* Employment Agreement dated as of February 26, 1998 between Morton H. Meyerson and TeleTech.
- 21.1* List of subsidiaries
- 23.1* Consent of Arthur Andersen LLP to incorporation by reference of the financial statements into TeleTech's previously filed Registration Statements on Form S-8 and Form S-3.
- 27* Financial Data Schedule

- - - - -
* Filed herewith.

[] Such exhibit previously filed with the Securities and Exchange Commission as exhibits to the filings indicated below, under the exhibit number indicated in brackets { }, and is incorporated by reference.

[1] TeleTech's Registration Statement on Form S-1, as amended (Registration Statement No. 333-04097).

[2] TeleTech's Registration Statements on Form S-1, as amended (Registration Statement Nos. 333-13833 and 333-15297).

[3] TeleTech's Annual Report on Form 10-K for the year ended December 31, 1996.

[4] TeleTech's Annual Report on Form 10-K for the year ended December 31, 1997.

(b) REPORT ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Denver, State of Colorado, on March 20, 1998.

TELETECH HOLDINGS, INC.

/s/ KENNETH D. TUCHMAN

By: Kenneth D. Tuchman
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 22, 1999, by the following persons on behalf of the registrant and in the capacities indicated:

SIGNATURE -----	TITLE -----
/s/ KENNETH D. TUCHMAN ----- Kenneth D. Tuchman	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ STEVEN B. COBURN ----- Steven B. Coburn	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ ROD DAMMEYER ----- Rod Dammeyer	Director
/s/ GEORGE HEILMEIER ----- George Heilmeyer	Director
/s/ JOHN T. MCLENNAN ----- John T. McLennan	Director
/s/ MORTON H. MEYERSON ----- Morton H. Meyerson	Director
/s/ ALAN SILVERMAN ----- Alan Silverman	Director

INDEX TO FINANCIAL STATEMENTS
TELETECH HOLDINGS, INC.

	PAGE

Report of Independent Public Accountants	33
Consolidated Balance Sheets as of December 31, 1997 and 1998	34
Consolidated Statements of Income for the Years Ended December 31, 1996, 1997, and 1998	36
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1996, 1997, and 1998	37
Consolidated Statements of Cash Flows for the Years Ended December 31, 1996, 1997, and 1998	38
Notes to Consolidated Financial Statements for the Years Ended December 31, 1996, 1997, and 1998	40

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To TeleTech Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of TELETECH HOLDINGS, INC. (a Delaware corporation) and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TeleTech Holdings, Inc. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Denver, Colorado
February 8, 1999.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

ASSETS -----	DECEMBER 31,	
	1997 -----	1998 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,338	\$ 8,796
Short-term investments	69,633	37,082
Accounts receivable, net of allowance for doubtful accounts of \$2,327 and \$2,900, respectively	43,664	68,830
Prepays and other assets	1,220	2,811
Deferred tax asset	2,902	3,855
	-----	-----
Total current assets	124,757	121,374
	-----	-----
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$21,812 and \$38,432, respectively	53,738	77,546
	-----	-----
OTHER ASSETS:		
Long-term accounts receivable	4,274	4,274
Goodwill, net of amortization of \$587 and \$1,599, respectively	7,295	15,022
Contract acquisition cost	--	10,900
Investment in affiliated company accounted for under the equity method	981	--
Other assets	1,322	1,794
	-----	-----
Total assets	\$192,367	\$230,910
	-----	-----
	-----	-----

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

LIABILITIES AND STOCKHOLDERS' EQUITY -----	DECEMBER 31,	
	1997	1998
-----	-----	-----
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 5,910	\$ 7,989
Bank overdraft	1,094	778
Accounts payable	8,086	11,814
Accrued employee compensation	12,244	18,134
Accrued income taxes	2,507	4,191
Other accrued expenses	11,694	11,520
Customer advances, deposits and deferred income	1,472	3,803
	-----	-----
Total current liabilities	43,007	58,229
DEFERRED TAX LIABILITIES	1,217	835
LONG-TERM DEBT, net of current portion:		
Capital lease obligations	9,432	4,208
Other debt	459	2,145
	-----	-----
Total liabilities	54,115	65,417
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock; \$.01 par value; 150,000,000 shares authorized; 59,262,397 and 60,769,724 shares, respectively, issued; and 59,163,587 and 60,769,724 shares, respectively, outstanding	592	606
Additional paid-in capital	104,016	111,080
Accumulated other comprehensive income	(922)	(1,610)
Unearned compensation-restricted stock	(127)	--
Treasury stock, 98,810 shares, at cost	(988)	--
Retained earnings	35,681	55,417
	-----	-----
Total stockholders' equity	138,252	165,493
	-----	-----
Total liabilities and stockholders' equity	\$192,367	\$230,910
	-----	-----

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998
 (AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)

	1996	1997	1998
	-----	-----	-----
REVENUES	\$171,265	\$279,057	\$369,045
	-----	-----	-----
OPERATING EXPENSES:			
Costs of services	104,142	178,702	241,230
Selling, general and administrative Expenses	43,504	67,208	96,077
	-----	-----	-----
Total operating expenses	147,646	245,910	337,307
	-----	-----	-----
INCOME FROM OPERATIONS	23,619	33,147	31,738
	-----	-----	-----
OTHER INCOME (EXPENSE):			
Interest expense	(1,166)	(1,270)	(1,160)
Interest income	1,406	3,399	3,074
Equity in income (losses) of affiliate	(70)	302	70
Business combination expenses	--	--	(1,321)
Other	(158)	(225)	(394)
	-----	-----	-----
	18	2,310	159
	-----	-----	-----
INCOME BEFORE INCOME TAXES	23,637	35,457	31,897
	-----	-----	-----
Provision for income taxes	9,773	14,123	12,695
	-----	-----	-----
NET INCOME	\$ 13,864	\$ 21,334	\$ 19,202
	-----	-----	-----
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	54,522	58,435	59,950
	-----	-----	-----
Diluted	58,152	61,646	62,052
	-----	-----	-----
NET INCOME PER SHARE			
Basic	\$.25	\$.37	\$.32
	-----	-----	-----
Diluted	\$.24	\$.35	\$.31
	-----	-----	-----

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998
(AMOUNTS IN THOUSANDS)

	MANDATORILY REDEEMABLE, CONVERTIBLE		TREASURY STOCK		COMMON STOCK	
	PREFERRED STOCK					
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
BALANCES, December 31, 1995	1,860	\$ 12,867	--	\$ --	40,700	\$ 407
Purchase of Access 24					970	10
Translation adjustments						
Dividends on Preferred Stock		422				
Issuance of restricted stock					76	1
Compensation expense on restricted stock						
Conversion of Preferred Stock	(1,860)	(13,289)			9,300	93
Issuance of common stock					5,944	59
Acquisition of treasury stock			99	(988)		
Exercise of stock options					166	1
Net income						
Comprehensive income						
Distribution to stockholder						
BALANCES, December 31, 1996	--	--	99	(988)	57,156	571
Employee stock purchase plan					28	
Acquisition of TMI					100	1
Translation adjustments						
Compensation expense on restricted stock						
Exercise of stock options					470	5
Issuance of common stock					1,508	15
Net income						
Comprehensive income						
Distribution to stockholder						
BALANCES, December 31, 1997	--	--	99	(988)	59,262	592
Employee stock purchase plan					28	
Acquisition of Intellisystems			(99)	988	245	2
Acquisition of Cygnus					325	3
Combination with Outsource					606	6
Translation adjustments						
Brokerage fee on EDM combination					42	
Year-end change for EDM						
Exercise of stock options					249	3
Other stock issuances					13	
Compensation expense on restricted stock						
Net income						
Comprehensive income						
Distribution to stockholder						
BALANCES, December 31, 1998	--	\$ --	--	\$ --	60,770	\$ 606

	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	UNEARNED COMPENSATION- RESTRICTED STOCK	RETAINED EARNINGS	COMPREHENSIVE INCOME	TOTAL STOCKHOLDER EQUITY
BALANCES, December 31, 1995	\$ 1,847	\$ --	\$ --	\$ 1,814		\$ 4,068
Purchase of Access 24	4,841					4,851
Translation adjustments		98			\$ 98	98
Dividends on Preferred Stock				(422)		(422)
Issuance of restricted stock	379		(380)			--
Compensation expense on restricted stock			126			126
Conversion of Preferred Stock	13,196					13,289
Issuance of common stock	71,939					71,998
Acquisition of treasury stock						(988)
Exercise of stock options	1,857					1,858
Net income				13,864	13,864	13,864
Comprehensive income					\$ 13,962	--
Distribution to stockholder				(212)		(212)

BALANCES, December 31, 1996	94,059	98	(254)	15,044		108,530
Employee stock purchase plan	440					440
Acquisition of TMI	1,797					1,798
Translation adjustments		(1,020)			\$ (1,020)	(1,020)
Compensation expense on restricted stock			127			127
Exercise of stock options	5,072					5,077
Issuance of common stock	2,648					2,663
Net income				21,334	21,334	21,334
Comprehensive income					\$ 20,314	--
Distribution to stockholder				(697)		(697)
BALANCES, December 31, 1997	104,016	(922)	(127)	35,681		138,252
Employee stock purchase plan	334					334
Acquisition of Intellisystems	2,089					3,079
Acquisition of Cygnus	2,658					2,661
Combination with Outsource				804		810
Translation adjustments		(688)			\$ (688)	(688)
Brokerage fee on EDM combination	485					485
Year-end change for EDM				(270)		(270)
Exercise of stock options	1,457					1,460
Other stock issuances	41					41
Compensation expense on restricted stock			127			127
Net income				19,202	19,202	19,202
Comprehensive income					\$ 18,514	--
BALANCES, December 31, 1998	\$111,080	\$ (1,610)	\$ --	\$55,417		\$165,493

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998
(AMOUNTS IN THOUSANDS)

	1996	1997	1998
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 13,864	\$ 21,334	\$ 19,202
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,242	11,331	19,293
Allowance for doubtful accounts	673	865	573
Deferred income taxes	(585)	(1,169)	(1,235)
Equity in (income) losses of affiliate	70	(302)	(70)
Deferred compensation expense	126	127	127
Business combination expenses paid in stock	--	--	485
Changes in assets and liabilities:			
Accounts receivable	(21,702)	(15,421)	(24,585)
Prepays and other assets	(1,170)	175	(799)
Deferred contract costs	(2,015)	--	--
Accounts payable and accrued expenses	11,500	12,012	9,827
Customer advances, deposits and deferred income	7	455	2,030
	-----	-----	-----
Net cash provided by operating activities	8,010	29,407	24,848
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(8,212)	(34,803)	(38,246)
Purchase of Intellisystems	--	--	(2,000)
Purchase of Cygnus, net of cash acquired	--	--	(308)
Purchase of TMI, net of cash acquired	--	(2,440)	--
Purchase of Access 24, net of cash acquired	(2,461)	--	--
Contract acquisition costs	--	--	(10,900)
Proceeds from sale of interest in Access 24 UK Limited	3,905	--	981
Temporary deposit	(3,000)	3,000	--
Changes in accounts payable and accrued liabilities related to investing activities	1,196	(190)	(1,762)
Decrease (increase) in short-term investments	(62,151)	2,841	32,551
	-----	-----	-----
Net cash used in investing activities	(70,723)	(31,592)	(19,684)
	-----	-----	-----

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998
(AMOUNTS IN THOUSANDS)

	1996	1997	1998
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in bank overdraft	\$ (1,065)	\$ 745	\$ (316)
Net increase (decrease) in short-term borrowings	(1,000)	--	351
Payments on long-term debt	(936)	(216)	(1,126)
Proceeds from long-term debt borrowings	42	593	3,227
Payments under capital lease obligations	(1,530)	(4,933)	(7,466)
Proceeds from common stock issuances	71,998	3,240	375
Proceeds from exercise of stock options	250	1,917	1,008
Tax benefit from stock option exercises	1,608	3,160	452
Acquisition of treasury stock	(988)	--	--
Payments under subordinated notes payable to stockholder	--	29	--
Distributions to stockholder	(212)	(678)	--
	-----	-----	-----
Net cash provided by (used in) financing activities	68,167	3,857	(3,495)
	-----	-----	-----
Effect of exchange rate changes on cash	48	102	(211)
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,502	1,774	1,458
CASH AND CASH EQUIVALENTS, beginning of period	62	5,564	7,338
	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 5,564	\$ 7,338	\$ 8,796
	-----	-----	-----
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	\$ 1,099	\$ 1,296	\$ 1,269
	-----	-----	-----
Cash paid for income taxes	\$ 6,808	\$ 12,189	\$ 10,553
	-----	-----	-----
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired through capital leases	\$ 10,483	\$ 5,229	\$ 2,811
	-----	-----	-----
Stock issued in purchase of Access 24	\$ 4,851	\$ --	\$ --
	-----	-----	-----
Stock issued in purchase of TMI	\$ --	\$ 1,798	\$ --
	-----	-----	-----
Stock issued in purchase of Intellisystems	\$ --	\$ --	\$ 3,079
	-----	-----	-----
Stock issued in pooling of EDM (brokerage fee)	\$ --	\$ --	\$ 485
	-----	-----	-----
Stock issued in purchase of Cygnus	\$ --	\$ --	\$ 2,661
	-----	-----	-----
Restricted stock issued under employment agreements	\$ 380	\$ --	\$ --
	-----	-----	-----

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

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998

TeleTech Holdings, Inc. ("THI" or the "Company") is a provider of outsourced customer management solutions for large and multinational companies in the United States, Australia, Brazil, Canada, Mexico, New Zealand, Singapore and the United Kingdom. Customer management encompasses a wide range of customer acquisition, retention and satisfaction programs designed to maximize the lifetime value of the relationship between the Company's clients and their customers.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements are composed of the accounts of THI and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

As more fully discussed in Note 16, during June 1998, the Company entered into business combinations with Digital Creators, Inc. ("Digital") and EDM Electronic Marketing Ltd. ("EDM"). The business combinations have been accounted for as pooling of interests and the historical consolidated financial statements of the Company for all years prior to the business combination have been restated in the accompanying consolidated financial statements to include the financial position, results of operations and cash flows of Digital and EDM.

The consolidated financial statements of the Company include reclassifications made to conform the financial statement presentation of Digital and EDM to that of the Company.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of the Company's foreign subsidiaries, whose functional currency is other than the U.S. dollar, are translated at the exchange rates in effect on the reporting date, and income and expenses are translated at the weighted average exchange rate during the period. The net effect of translation gains and losses is not included in determining net income, but is accumulated as a separate component of stockholders' equity. The net effect of translation gains on the Company's Mexican subsidiary is included in determining net income, as Mexico is considered a highly inflationary economy. Foreign currency transaction gains and losses are included in determining net income. Such gains and losses were not material for any period presented.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Additions, improvements and major renewals are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. Amounts paid for software licenses and third-party packaged software are capitalized.

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, as follows:

Computer equipment and software	4-5 years
Telephone equipment	5-7 years
Furniture and fixtures	5-7 years
Leasehold improvements	5-10 years
Vehicles	5 years

Assets acquired under capital lease obligations are amortized over the life of the applicable lease of four to seven years (or the estimated useful lives of the assets, of four to seven years, where title to the leased assets passes to the Company upon termination of the lease).

REVENUE RECOGNITION

The Company recognizes revenues at the time services are performed. The Company has certain contracts that are billed in advance. Accordingly, amounts billed but not earned under these contracts are excluded from revenues and included in deferred income.

The Company maintains ongoing training programs for its employees. The cost of this training is expensed as incurred. In addition, certain contracts require clients to reimburse the Company for specific training. These costs are billed to the clients as incurred.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations when incurred and are included in operating expenses. Research and development costs were not material for any period presented.

DEFERRED CONTRACT COSTS

The Company previously deferred certain incremental direct costs incurred in connection with preparing to provide services under certain long-term facilities management agreements. Costs that were deferred included the costs of hiring dedicated personnel to manage client-owned facilities, their related payroll and other directly associated costs from the time long-term facilities management agreements were entered into until the beginning of providing services. Such costs were amortized over 12 months. For the years ended December 31, 1996 and 1997, the Company recorded amortization expense of \$1,658,000 and \$703,000, respectively. There were no deferred contract costs remaining on the December 31, 1997 and 1998, balance sheets.

INTANGIBLE ASSETS

The excess of cost over the fair market value of tangible net assets and trademarks of acquired businesses is amortized on a straight-line basis over the periods of expected benefit of 9 to 25 years. Amortization of goodwill for the years ended December 31, 1996, 1997, and 1998, was \$238,000, \$349,000 and \$1,012,000, respectively.

Subsequent to an acquisition, the Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of an intangible asset may warrant revision or that the remaining balance of an intangible asset may not be recoverable. When factors indicate that an intangible asset should be evaluated for possible impairment, the Company uses an estimate of the related business' undiscounted future cash flows over the remaining life of the asset in measuring whether the intangible asset is recoverable. Management does not believe that any provision for impairment of intangible assets is required.

CONTRACT ACQUISITION COSTS

Amounts paid to a client to obtain a long-term contract are being amortized on a straight-line basis over the term of the contract commencing with the date of the first revenues from the contract. There was no amortization expense during 1998.

INCOME TAXES

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes," which requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the 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 bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Net deferred tax assets then may be reduced by a valuation allowance for amounts that do not satisfy the realization criteria of SFAS 109.

EARNINGS PER SHARE

Earnings per share are computed based upon the weighted average number of common shares and common share equivalents outstanding.

Basic earnings per share are computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. No dilution for any potentially dilutive securities is included. Diluted earnings per share reflect the potential dilution assuming the issuance of common shares for all dilutive potential common shares outstanding during the period. For purposes of the calculation of basic earnings per share for 1996, net income was reduced by \$422,000, representing dividends on Preferred Stock, to arrive at net income available for common shareholders. The difference between diluted and basic shares outstanding relates to outstanding stock options.

RESTRICTED STOCK AWARDS

In January 1996, the Company awarded 76,000 restricted shares of the Company's common stock to certain employees as compensation to be earned over the term of the employees' related employment agreements (three years). The market value of the stock at the date of award was \$380,000. This amount was recorded as unearned compensation-restricted stock and shown as a separate component of stockholders' equity. For the years ended December 31, 1996, 1997, and 1998, the Company recognized compensation expense of \$126,000, \$127,000 and \$127,000, respectively, related to these awards.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

For the purposes of the statement of cash flows, the Company considers all cash and investments with an original maturity of 90 days or less to be cash equivalents.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SEGMENT REPORTING

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The adoption of SFAS 131 in 1998 resulted in additional disclosures by the Company.

COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 does not require a specific format for that financial statement but requires that the enterprise display an amount representing total comprehensive income for the period in that financial statement. The adoption of SFAS 130 in 1998 resulted in displaying comprehensive income on the statements of stockholders' equity.

LONG-LIVED ASSETS

Long-lived assets and certain identifiable intangibles to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired when future undiscounted cash flows are estimated to be insufficient to recover the carrying amount. If impaired, an asset is written down to its fair value.

SELF-INSURANCE PROGRAM

The Company self-insures for certain levels of workers' compensation and employee health insurance. Estimated costs of these self-insurance programs were accrued at the projected settlements for known and anticipated claims. The Company has a \$250,000 per occurrence stop loss limit. Self-insurance liabilities of the Company amounted to \$3.2 million and \$3.2 million at December 31, 1998 and 1997, respectively.

EFFECTS OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. It also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS 133 may not be applied retroactively, and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired or substantively modified after December 31, 1997 (and, at the Company's election, before January 1, 1998). Management believes that the impact of SFAS 133 will not significantly affect its financial reporting.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Opinion ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities." This statement is effective for financial statements for fiscal years beginning after December 15, 1998. In general, SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. Initial application of SOP 98-5 should be reported as the cumulative effect of a change in accounting principle. Management believes SOP 98-5 will not have a material impact on the financial statements.

(2) SEGMENT INFORMATION AND CUSTOMER CONCENTRATIONS

The Company classified its business activities into four fundamental areas: outsourced operations in the United States, facilities management operations, international outsourced operations, and technology services and consulting. These areas are separately managed and each has significant differences in capital requirements and cost structures. Outsourced, facilities management and international outsourced operations are reportable business segments with their respective financial performance detailed herein. Technology services and consulting is included in corporate activities as it is not a material business segment. Also included in corporate activities are general corporate expenses and overall operational management expenses. Assets of corporate activities include unallocated cash, short-term investments and deferred income taxes. There are no significant transactions between the reported segments for the periods presented.

(in thousands)	1996	1997	1998
	-----	-----	-----
REVENUES:			
Outsourced	\$ 103,151	\$ 143,627	\$ 200,514
Facilities Management	48,445	84,033	85,694
International Outsourced	19,669	50,314	74,065
Corporate Activities	--	1,083	8,772
	-----	-----	-----
Total	\$ 171,265	\$ 279,057	\$ 369,045
	-----	-----	-----
OPERATING INCOME (LOSS):			
Outsourced	\$ 24,258	\$ 30,243	\$ 41,495
Facilities Management	9,936	16,159	11,648
International Outsourced	1,520	4,258	5,675
Corporate Activities	(12,095)	(17,513)	(27,080)
	-----	-----	-----
Total	\$ 23,619	\$ 33,147	\$ 31,738
	-----	-----	-----
DEPRECIATION AND AMORTIZATION INCLUDED IN OPERATING INCOME:			
Outsourced	\$ 4,232	\$ 7,463	\$ 12,688
Facilities Management	1,693	522	239
International Outsourced	1,259	3,102	5,054
Corporate Activities	58	244	1,312
	-----	-----	-----
Total	\$ 7,242	\$ 11,331	\$ 19,293
	-----	-----	-----

(in thousands)	1996	1997	1998
	-----	-----	-----
ASSETS:			
Outsourced Assets	\$ 44,460	\$ 88,829	\$101,105
Facilities Management Assets	10,839	6,759	18,121
International Outsourced Assets	12,727	34,934	50,764
Corporate Activities Assets	75,728	54,550	45,898
International Outsourced Goodwill, Net	3,257	7,295	6,803
Corporate Activities Goodwill, Net	--	--	8,219
	-----	-----	-----
Total	\$147,011	\$192,367	\$230,910
	-----	-----	-----
CAPITAL EXPENDITURES (INCLUDING CAPITAL LEASES):			
Outsourced	\$ 16,090	\$ 22,337	\$ 28,144
Facilities Management	378	50	1,169
International Outsourced	2,015	15,963	4,697
Corporate Activities	212	1,682	7,047
	-----	-----	-----
Total	\$ 18,695	\$ 40,032	\$ 41,057
	-----	-----	-----

The following geographic data include revenues based on the location the services are provided and gross property and equipment based on the physical location (in thousands).

	1996	1997	1998
	-----	-----	-----
REVENUES:			
United States	\$151,596	\$228,743	\$281,077
Australia	13,264	29,790	36,958
Canada	5,761	14,497	36,852
Rest of world	644	6,027	14,158
	-----	-----	-----
Total	\$171,265	\$279,057	\$369,045
	-----	-----	-----
GROSS PROPERTY AND EQUIPMENT:			
United States	\$ 30,787	\$ 54,912	\$ 86,189
Australia	3,484	10,622	11,956
Canada	1,700	4,790	5,645
Rest of world	644	5,226	12,188
	-----	-----	-----
Total	\$ 36,615	\$ 75,550	\$115,978
	-----	-----	-----

The Company's revenues from major customers (revenues in excess of 10% of total sales) are from entities involved in the telecommunications, technology and transportation industries. The revenues from such customers as a percentage of total revenues for each of the three years ended December 31 are as follows:

	1996	1997	1998
	----	----	----
Customer A	26%	18%	8%
Customer B	14%	2%	--
Customer C	27%	23%	13%
Customer D	--	15%	25%
	----	----	----
	67%	58%	46%
	----	----	----
	----	----	----

At December 31, 1997, accounts receivable from Customers A, B, C and D were \$6.2 million, \$4.3 million, \$4.3 million and \$8.4 million, respectively. At December 31, 1998, accounts receivable from Customers A, C and D.

were \$5.2 million, \$4.7 million and \$8.2 million, respectively. There were no other customers with receivable balances in excess of 10% of consolidated accounts receivable. Customers A, B and D are included in the outsourced reporting segment. Customer C is included in the facilities management reporting segment.

The loss of one or more of its significant customers could have a material adverse effect on the Company's business, operating results or financial condition. To limit the Company's credit risk, management performs ongoing credit evaluations of its customers and maintains allowances for potentially uncollectible accounts. Although the Company is directly impacted by economic conditions in the telecommunications, technology, transportation, healthcare, financial services and government services industries, management does not believe significant credit risk exists at December 31, 1998.

(3) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 1997 and 1998 (in thousands):

	1997	1998
	-----	-----
Computer equipment and software	\$ 34,213	\$ 55,547
Telephone equipment	6,530	7,773
Furniture and fixtures	17,014	23,350
Leasehold improvements	17,456	29,280
Other	337	28
	-----	-----
	75,550	115,978
Less accumulated depreciation	(21,812)	(38,432)
	-----	-----
	\$ 53,738	\$ 77,546
	-----	-----

Included in the cost of property and equipment is the following equipment obtained through capitalized leases as of December 31, 1997 and 1998 (in thousands):

	1997	1998
	-----	-----
Computer equipment and software	\$ 15,545	\$ 16,928
Telephone equipment	1,078	1,906
Furniture and fixtures	7,471	8,071
	-----	-----
	24,094	26,905
Less accumulated depreciation	(9,060)	(14,160)
	-----	-----
	\$ 15,034	\$ 12,745
	-----	-----

Depreciation expense was \$5.4 million, \$10.3 million and \$18.3 million for the years ended December 31, 1996, 1997, and 1998, respectively. Depreciation expense related to leased equipment under capital leases was \$3.2 million, \$4.7 million and \$5.1 million for the years ended December 31, 1996, 1997, and 1998, respectively.

(4) CAPITAL LEASE OBLIGATIONS

The Company has financed property and equipment under non-cancelable capital lease obligations. Accordingly, the fair value of the equipment has been capitalized and the related obligation recorded. The average implicit interest rate on these leases was 8.3% at December 31, 1998. Interest is charged to expense at a level rate applied to declining principal over the period of the obligation.

The future minimum lease payments under capitalized lease obligations as of December 31, 1998, are as follows (in thousands):

Year Ended December 31,	
1999	\$ 7,452
2000	3,479
2001	921
2002	388
2003	146

	12,386
Less amount representing interest	(2,474)

	9,912
Less current portion	(5,704)

	\$4,208

Interest expense on the outstanding obligations under such leases was \$892,000, \$1,106,000 and \$1,015,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

(5) LONG-TERM DEBT

As of December 31, 1997 and 1998, long-term debt consisted of the following notes (in thousands):

	1997	1998
	-----	-----
Note payable, interest at 8% per annum, principal and interest payable monthly, maturing May 2000	\$ 95	\$ 58
Note payable, interest at 5% per annum, principal and interest payable quarterly, maturing December 1999	422	222
Note payable, interest at 8% per annum, principal and interest payable quarterly, maturing March 2001	--	1,673
Note payable, interest at 7% per annum, principal and interest payable quarterly, maturing December 1999	--	449
Note payable, interest at 5% per annum, principal and interest payable quarterly, maturing January 2000	174	89
Note payable, interest at 8.78% per annum, principal and interest payable quarterly, maturing December 2002	97	80
Note payable, interest at 4% per annum, principal and interest payable monthly, maturing December 2004	--	375
Note payable, interest at 8% per annum, principal and interest payable monthly, maturing January 2001	--	1,448
Other notes payable	26	36
	-----	-----
	814	4,430
Less current portion	(355)	(2,285)
	-----	-----
	\$ 459	\$ 2,145
	-----	-----

Annual maturities of the long-term debt described on page 47 are as follows (in thousands):

Year Ended December 31,

1999	\$2,285
2000	1,594
2001	337
2002	79
2003	66
Thereafter	69

	\$4,430

(6) REVOLVING LINE OF CREDIT

In November 1998, the Company entered into a three-year unsecured revolving line of credit agreement with a syndicate of five commercial banks under which it may borrow up to \$50 million. Interest is payable at various interest rates. The borrowings can be made at (a) the bank's base rate or (b) the bank's offshore rate (approximating LIBOR) plus a margin ranging from 50 to 150 basis points depending upon the Company's leverage. In addition, the Company, at its option, can elect to secure up to \$25 million of the line with existing cash investments. Advances under the secured portion will be made at a margin of 22.5 basis points. At December 31, 1998, there were no amounts outstanding under this facility. The Company is required to comply with certain minimum financial ratios under covenants in connection with the agreement described above. As of December 31, 1998, the Company was in compliance with all covenants under the agreement.

The Company's Canadian subsidiary has available an operating loan of CDN\$2.0 million, which is due on demand and bears interest at the bank's prime rate, which was 6.75% and 6.5% at December 31, 1998 and 1997, respectively. The operating loan is collateralized by a general security agreement, a partial assignment of accounts receivable insurance in the amount of CDN\$500,000, a partial assignment of life insurance on the former majority shareholder in the amount of CDN\$400,000 and an assignment of fire insurance. As of December 31, 1997 and 1998, there was \$1,094,000 and \$778,000, respectively, outstanding under this operating loan.

(7) INCOME TAXES

The components of income before income taxes are as follows (in thousands):

	1996	1997	1998
	-----	-----	-----
Domestic	\$22,163	\$31,325	\$23,518
Foreign	1,474	4,132	8,379
	-----	-----	-----
Total	\$23,637	\$35,457	\$31,897
	-----	-----	-----

The components of the provision for income taxes are as follows
(in thousands):

	1996	1997	1998
	-----	-----	-----
Current provision:			
Federal	\$ 7,653	\$11,116	\$ 8,297
State	1,784	2,490	1,865
Foreign	921	1,686	3,768
	-----	-----	-----
	10,358	15,292	13,930
	-----	-----	-----
Deferred provision:			
Federal	(474)	(1,036)	(834)
State	(111)	(190)	(195)
Foreign	--	57	(206)
	-----	-----	-----
	(585)	(1,169)	(1,235)
	-----	-----	-----
	\$ 9,773	\$14,123	\$12,695
	-----	-----	-----

The following reconciles the Company's effective tax rate to the federal statutory rate for the years ended December 31, 1996, 1997, and 1998 (in thousands):

	1996	1997	1998
	-----	-----	-----
Income tax expense per federal statutory rate	\$ 8,273	\$ 12,410	\$ 11,152
State income taxes, net of federal deduction	1,144	1,491	1,100
Permanent differences	150	(100)	(315)
Foreign income taxed at higher rate	206	322	758
	-----	-----	-----
	\$ 9,773	\$ 14,123	\$ 12,695
	-----	-----	-----

The Company's deferred income tax assets and liabilities are summarized as follows (in thousands):

	1997	1998
	-----	-----
Deferred tax assets:		
Allowance for doubtful accounts	\$ 876	\$ 1,024
Vacation accrual	1,062	1,202
Compensation	358	954
Insurance reserves	475	644
Other	131	31
	-----	-----
	2,902	3,855
Deferred tax liabilities:		
Excess depreciation for tax	(1,217)	(835)
	-----	-----
Net deferred income tax asset	\$ 1,685	\$ 3,020
	-----	-----

A valuation allowance has not been recorded as the Company expects that all deferred tax assets will be realized in the future.

(8) COMMITMENTS AND CONTINGENCIES

LEASES. The Company has various operating leases for equipment, customer interaction centers and office space. Lease expense under operating leases was approximately \$4,327,000, \$8,163,000 and \$12,336,000 for the years ended December 31, 1996, 1997, and 1998, respectively.

The future minimum rental payments required under non-cancelable operating leases as of December 31, 1998, are as follows (in thousands):

Year ended December 31,

1999	\$ 11,128
2000	8,989
2001	7,947
2002	6,062
2003	5,357
Thereafter	25,841

	\$ 65,324

LEGAL PROCEEDINGS. In November 1996, the Company received notice that CompuServe Incorporated ("CompuServe") was withdrawing its WOW! Internet service from the marketplace and that effective January 31, 1997, it would terminate all the programs provided to CompuServe by the Company. Pursuant to the terms of its agreement with the Company, CompuServe was entitled to terminate the agreement for reasonable business purposes upon 120 days advance notice and by payment of a termination fee calculated in accordance with the agreement. In December 1996, the Company filed suit against CompuServe to enforce these termination provisions and collect the termination fee. CompuServe filed a counterclaim in December 1996 alleging that the Company breached other provisions of this agreement and seeking unspecified monetary damages. In March 1997, CompuServe asserted a right to offset, against the amount that may be awarded to CompuServe on its counterclaim, if any, certain accounts receivable it owes to the Company for services rendered. These accounts receivable total \$4.3 million as of December 31, 1997 and 1998.

In mid-1997, CompuServe announced it had agreed to sell its worldwide on-line services business to America Online, Inc. and its network services business to a wholly owned subsidiary of WorldCom, Inc. The Company and CompuServe agreed to delay proceedings pending the sale, which was completed in January 1998. In December 1997, proceedings related to the lawsuit were recommenced and then stayed again pending settlement negotiations. The Company has been in negotiation with America Online, Inc. and WorldCom, Inc. to resolve these matters and the Company believes that this will be settled without a material adverse effect on the Company's financial condition or results of operations, although the ultimate outcome is still uncertain. Because it is uncertain when this matter will be concluded, the Company has reclassified the \$4.3 million receivable as a long-term asset in the accompanying balance sheets.

(9) COMMON STOCK OFFERINGS

In August 1996, the Company completed an initial public offering of 4.0 million shares of common stock at a price of \$14.50 per share. Selling shareholders sold an additional 3.2 million shares of common stock in the Company's initial public offering. Immediately prior to the offering, the Company acquired 98,810 shares of treasury stock at a price of \$10 per share.

In November 1996, the Company completed a secondary offering of 600,000 shares of common stock at a price of \$31.00 per share. Selling shareholders sold an additional 4.0 million shares of common stock in connection with the secondary offering of which 155,600 shares were sold upon the exercise of stock options.

(10) EMPLOYEE BENEFIT PLAN

The Company has a 401(k) profit-sharing plan that covers all employees who have completed one year of service, as defined, and are 21 or older. Participants may defer up to 15% of their gross pay up to a maximum limit determined by law. Participants are always 100% vested in their contributions. Participants are also eligible for a matching contribution by the Company of 50% of the first 5% of compensation a participant contributes to the plan. Participants vest in all matching contributions over a four-year period.

(11) MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

In January 1995, the Company issued 1.86 million shares of convertible Preferred Stock at \$6.45 per share for gross proceeds of \$12.0 million. The 1.86 million shares of Preferred Stock initially were convertible into 9.3 million shares of common stock. In connection with and immediately prior to the Company's initial public offering in July 1996, all 1.86 million outstanding shares of Preferred Stock together with all accrued dividends thereon were converted into 9.3 million shares of common stock.

(12) STOCK COMPENSATION PLANS

The Company adopted a stock option plan during 1995 and amended and restated the plan in January 1996 for directors, officers, employees, consultants and independent contractors. The plan reserves 7.0 million shares of common stock and permits the award of incentive stock options, non-qualified options, stock appreciation rights and restricted stock. Outstanding options vest over a three- to five-year period and are exercisable for 10 years from the date of grant.

In January 1996, the Company adopted a stock option plan for non-employee directors (the "Director Plan"), covering 750,000 shares of common stock. All options are to be granted at fair market value at the date of grant. Options vest as of the date of the option and are not exercisable until six months after the option date. Options granted are exercisable for 10 years from the date of grant unless a participant is terminated for cause or one year after a participant's death. The Director Plan had options to purchase 418,750 and 337,500 shares outstanding at December 31, 1998 and 1997, respectively.

In July 1996, the Company adopted an employee stock purchase plan (the "ESPP"). Pursuant to the ESPP, an aggregate of 200,000 shares of common stock of the Company will be sold in periodic offerings to eligible employees of the Company. The price per share purchased in any offering period is equal to the lesser of 90% of the fair market value of the common stock on the first day of the offering period or on the purchase date. The offering periods have a term of six months. Contributions to the plan for the years ended December 31, 1996, 1997, and 1998, were \$166,000, \$419,000 and \$334,000, respectively.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123 (SFAS 123)

The FASB's SFAS 123, "Accounting for Stock Based Compensation," defines a fair value based method of accounting for an employee stock option, employee stock purchase plan or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the method of accounting prescribed by the Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Entities electing to remain with the accounting in APB 25 must make pro forma disclosures of net income and earnings per share as if the fair value based method of accounting defined in SFAS 123 has been applied.

The Company has elected to account for its stock-based compensation plans under APB 25; however, the Company has computed, for pro forma disclosure purposes, the value of all options granted using the Black-Scholes option pricing model as prescribed by SFAS 123 and the following weighted average assumptions used for grants:

	1996 ----	1997 ----	1998 ----
Risk-free interest rate	6.3%	5.4%	5.2%
Expected dividend yield	0%	0%	0%
Expected lives	4.1 years	3.2 years	6.0 years
Expected volatility	59%	70%	70%

The pro forma compensation expense was computed to be the following approximate amounts:

Year ended December 31, 1996	\$3,922,000
Year ended December 31, 1997	\$4,121,000
Year ended December 31, 1998	\$8,652,000

If the Company had accounted for these plans in accordance with SFAS 123, the Company's net income and pro forma net income per share would have been reported as follows:

NET INCOME (IN THOUSANDS)

	1996 ----	1997 ----	1998 ----
As reported	\$13,864	\$21,334	\$19,202
Pro forma	\$11,491	\$18,820	\$14,010

PRO FORMA NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

	1996 ----	1997 ----	1998 ----
As reported:			
Basic	\$.25	\$.37	\$.32
Diluted	\$.24	\$.35	\$.31
Pro forma:			
Basic	\$.21	\$.32	\$.23
Diluted	\$.20	\$.31	\$.23

A summary of the status of the Company's two stock option plans for the three years ended December 31, 1998, together with changes during each of the years then ended, is presented in the following table:

	SHARES	WEIGHTED AVERAGE PRICE PER SHARE
	-----	-----
Outstanding, December 31, 1995	2,355,000	\$ 1.90
Grants	2,929,405	8.78
Exercises	(165,600)	1.51
Forfeitures	(79,115)	9.36
	-----	-----
Outstanding, December 31, 1996	5,039,690	5.79
	-----	-----
Grants	880,500	17.79
Exercises	(470,272)	4.08
Forfeitures	(519,600)	9.95
	-----	-----
Outstanding, December 31, 1997	4,930,318	7.61
	-----	-----
Grants	3,163,074	12.03
Exercises	(249,440)	4.03
Forfeitures	(1,563,802)	13.73
	-----	-----
Outstanding, December 31, 1998	6,280,150	8.54
	-----	-----
Options exercisable at year-end:		
1996	990,234	\$ 3.32
	-----	-----
1997	1,498,425	\$ 4.90
	-----	-----
1998	2,076,578	\$ 5.62
	-----	-----
Weighted average fair value of options granted during the year:		
1996		\$ 4.25

1997		\$ 7.68

1998		\$ 8.14

The following table sets forth the exercise price range, number of shares, weighted average exercise price and remaining contractual lives at December 31, 1998:

EXERCISE PRICE RANGE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE CONTRACTUAL LIFE
-----	-----	-----	-----
\$1.29 - \$1.30	941,100	\$ 1.29	7
\$2.00 - \$5.00	1,171,696	\$ 3.52	7
\$7.25 - \$8.00	919,765	\$ 7.95	8
\$8.75 - \$11.50	975,994	\$ 9.79	9
\$11.87 - \$12.63	1,053,750	\$ 12.32	10
\$12.69 - \$14.50	1,062,845	\$ 14.06	9
\$18.00 - \$27.13	155,000	\$ 22.62	8

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of cash equivalents and other current accounts receivable and payable approximate the carrying amounts due to their short-term nature. Short-term investments include primarily U.S. government Treasury bills, investments in commercial paper, short-term corporate bonds and other short-term corporate obligations. These investments are classified as held to maturity securities and are measured at amortized cost. The carrying values of these investments approximate their fair values.

Debt and long-term receivables carried on the Company's consolidated balance sheet at December 31, 1997 and 1998, respectively, have a carrying value that is not significantly different than its estimated fair value. The fair value is based on discounting future cash flows using current interest rates adjusted for risk. The fair value of the short-term debt approximates its recorded value due to its short-term nature.

(14) RELATED PARTY TRANSACTIONS

The Company has entered into agreements pursuant to which Avion, LLC, a Colorado limited liability company, and AirMax LLC, a related Colorado limited liability company, provide certain aviation flight services to and as requested by the Company. Such services include the use of an aircraft and flight crew. Kenneth D. Tuchman, chairman and chief executive officer of the Company, is the owner, directly or indirectly, of Avion, LLC and AirMax LLC. During 1998, the Company paid an aggregate of \$480,000 to Avion, LLC and AirMax LLC for services they provided to the Company.

During 1998 the Company entered into an employment agreement with Morton H. Meyerson, a director of the Company, pursuant to which Mr. Meyerson has agreed to render certain advisory and consulting services to the Company. As compensation for such services, the Company has granted to Mr. Meyerson an option with an exercise price of \$9.50 per share. The option vests over five years and is subject to accelerated vesting if and to the extent that the closing sales price of the common stock during the term equals or exceeds certain levels. Under the terms of the option, the exercise price is required to be paid by delivery of TeleTech shares to the Company and provides that Mr. Meyerson will receive no more than 200,000 shares of common stock, net of the shares received by the Company for exercise consideration.

The Company utilizes the services of EGI Risk Services, Inc. for reviewing, obtaining and/or renewing various insurance policies. EGI Risk Services, Inc. is a wholly owned subsidiary of The Equity Group Investments, Inc., of which Samuel Zell, a former director of the Company, is chairman of the board. During the years ended December 31, 1996, 1997, and 1998, the Company incurred \$448,000, \$1,166,000 and \$2,288,000, respectively, for such services.

During 1996, 1997 and 1998, the Company paid \$115,000, \$4,000 and \$8,500, respectively, to various subsidiaries of Jacor Communications, Inc. for broadcasting radio advertisements regarding employment opportunities at the Company. Rod Dammeyer, a director of the Company, is a director of Jacor Communications, Inc.

The Company provided reservation call handling services to Midway Airlines Corporation ("Midway"), a majority-owned subsidiary of Zell/Chilmark Fund, L.P. Samuel Zell, a former director of the Company, is an affiliate of Zell/Chilmark Fund, L.P., and Rod Dammeyer, a director of the Company and a member of the Audit Committee of the board of directors, is the managing director of Zell/Chilmark Fund, L.P. During the years ended December 31, 1996 and 1997, the Company charged Midway an aggregate of \$2,324,000 and \$841,000, respectively, for services rendered by the Company. Services to Midway were discontinued in 1997.

In May 1996, the board of directors approved the payment of fees to The Equity Group Investments, Inc., an affiliate of Samuel Zell, a former director of the Company, for advice and assistance in consummating the following transactions:

Access 24 purchase.....	\$ 300,000
The Company's initial public offering of stock.....	500,000
Sale of Access 24 Limited stock to PPP (Note 16).....	200,000

	\$1,000,000

Fees associated with the Access 24 purchase were allocated to the purchase price. Fees associated with the initial public offering of common stock were netted against the offering proceeds received by the Company. Fees associated with the sale of stock to PPP were netted against the proceeds from this sale.

(15) CONTRACT ACQUISITION COSTS

In September 1998, the Company paid \$10.9 million to obtain a long-term contract with a significant client in the telecommunications industry. This amount is recorded as contract acquisition cost in the accompanying balance sheet and will be amortized over the six-year term of the contract commencing with the opening of the first customer interaction center in the first quarter of 1999.

(16) ACQUISITIONS

On February 17, 1998, the Company acquired the assets of Intellisystems, Inc. ("Intellisystems") for \$2.0 million in cash and 344,487 shares of common stock, which included 98,810 shares of treasury stock. Intellisystems is a leading developer of patented automated product support systems. Intellisystems' products can electronically resolve a significant percentage of calls coming into customer interaction centers through telephone, Internet or fax-on-demand. The acquisition has been accounted for as a purchase.

On June 8, 1998, and June 17, 1998, the Company consummated business combinations with Digital Creators, Inc. ("Digital"), which included the issuance of 1,069,000 shares of Company common stock, and Electronic Direct Marketing, Ltd. ("EDM"), which included the obligation to issue 1,783,444 shares of Company common stock. These business combinations were accounted for as poolings of interests and, accordingly, the historical financial statements of the Company have been restated to include the financial statements of Digital and EDM for all periods presented.

The consolidated balance sheet of the Company as of December 31, 1997, includes the balance sheet of EDM for the fiscal year ended February 28, 1998. Accordingly, the Company's retained earnings have been adjusted during the quarter ended March 31, 1998, for the effect of utilizing different fiscal year-ends for this period. During 1998, the fiscal year-end of EDM has been changed from February to December to conform to the Company's year-end.

The consolidated financial statements have been prepared to give retroactive effect to the business combinations with Digital and EDM.

The table below sets forth the results of operations of the previously separate enterprises for the period prior to the consummation of the June 1998 business combinations during the periods ended December 31, 1998 and 1997 (in thousands):

	TELETECH -----	DIGITAL -----	EDM ---	ADJUSTMENTS -----	COMBINED -----
1998:					
Revenues	\$ 136,244	\$ 2,038	\$ 10,258	\$ (1,171)	\$ 147,369
Net income	6,972	136	654	--	7,762
1997					
Revenues	\$ 263,477	\$ 2,521	\$ 14,497	\$ (1,438)	\$ 279,057
Net income	20,273	276	785	--	21,334

On August 26, 1998, the Company consummated a business combination with Outsource Informatica Ltda. ("Outsource"), a leading Brazilian customer management provider, which included the issuance of 606,343 shares of Company common stock. This business combination was accounted for as a pooling of interests. The operations of Outsource prior to the acquisition are immaterial to all periods presented.

On December 31, 1998, the Company acquired 100% of the common stock of Cygnus Computer Associates Ltd. ("Cygnus") for approximately \$660,000 in cash and 324,744 shares of common stock in the Company. Cygnus is a Canadian provider of systems integration and call center solutions. The transaction has been accounted for as a purchase and goodwill will be amortized using the straight-line method over 10 years. The Company has also agreed to pay contingent consideration of up to CDN\$4.8 million if Cygnus achieves certain levels of operating income in 1999 and 2000. Due to the uncertainty surrounding the achievement of these targets, none of the contingent consideration has been reflected as a liability in the accompanying financial statements. The operations of Cygnus 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.

In May 1997, the Company acquired 100% of the common stock of Telemercadeo Integral, S.A. ("TMI") for total consideration of \$4.2 million, consisting of 100,000 shares of the Company's common stock and cash of \$2.4 million. TMI is a customer management 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 \$4.4 million is being amortized using the straight-line method over 25 years.

On January 1, 1996, the Company acquired 100% of the common stock of Access 24 Services Corporation Pty Limited (with its subsidiaries, "Access 24") for total consideration of \$7.6 million, consisting of cash of \$2.3 million; 970,240 shares of common stock in the Company; and expenses related to the acquisition. Access 24 provides inbound, toll-free customer service primarily to the healthcare and financial services sector in Australia, the United Kingdom and New Zealand.

On April 30, 1996, the Company completed the sale of 50% of the common stock of Access 24 Limited ("Access 24 UK") to PPP Health Care Group plc ("PPP") for \$3.8 million in cash. Access 24 UK was the United Kingdom subsidiary of Access 24, acquired by the Company as part of the Access 24 acquisition, which operates a customer interaction center in Reigate, England. In addition, PPP also purchased 1.0 million preferred shares of Access 24 UK for consideration of \$1.5 million. The preferred shares have a par value of 1 British pound per share and dividends are cumulative at the rate of 7% per annum. A portion of the proceeds from the sale of the Preferred Stock was used to repay outstanding advances from Access 24.

The acquisition of Access 24 has been accounted for using the purchase method. The proceeds from the sale of 50% of the stock of Access 24 UK in excess of the proportionate share of the carrying amounts of the Access 24 UK assets and liabilities have been reflected as a reduction of the goodwill arising from the Access 24 acquisition. The Company's remaining 50% interest in Access 24 UK was accounted for using the equity method of accounting. The excess of the cost of the investment over the underlying net assets of Access 24 UK was amortized using the straight-line method over 15 years.

(17) SALE OF JOINT VENTURE

On September 21, 1998, the Company sold its 50% interest in Access 24 UK to Priplan Investments, Ltd. for cash consideration of approximately \$1.0 million. The Company incurred \$129,000 in costs relating to the disposal of this joint venture in the third quarter 1998.

(18) QUARTERLY FINANCIAL DATA (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
YEAR ENDED DECEMBER 31, 1998:				
Revenues	\$80,244	\$88,099	\$92,366	\$108,336
Income from operations	7,126	7,646	8,138	8,828
Net income	4,552	4,464	4,715	5,471
Net income per common share:				
Basic	.08	.07	.08	.09
	-----	-----	-----	-----
Diluted	.07	.07	.08	.09
	-----	-----	-----	-----

	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
YEAR ENDED DECEMBER 31, 1997:				
Revenues	\$61,258	\$67,648	\$70,374	\$79,777
Income from operations	8,564	10,244	6,773	7,566
Net income	5,352	6,497	4,544	4,941
Net income per common share:				
Basic	.09	.11	.08	.09
	-----	-----	-----	-----
Diluted	.09	.11	.07	.08
	-----	-----	-----	-----

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To TeleTech Holdings, Inc.:

We have audited in accordance with generally accepted auditing standards the financial statements of TeleTech Holdings, Inc. for each of the three years in the period ended December 31, 1998, included in this Form 10-K and have issued our report thereon dated February 8, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II following this report is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Denver, Colorado
February 8, 1999.

SCHEDULE II

TELETECH HOLDINGS, INC. AND SUBSIDIARIES
 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
 YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998
 (AMOUNTS IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO INCOME	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES (a)	BALANCE AT END OF PERIOD
	-----	-----	-----	-----	-----
Allowance for doubtful accounts:					
Year ended December 31, 1996	\$ 789	\$ 771	\$ --	\$ (98)	\$ 1,462
	-----	-----	-----	-----	-----
Year ended December 31, 1997	\$ 1,462	\$ 1,018	\$ --	\$ (153)	\$ 2,327
	-----	-----	-----	-----	-----
Year ended December 31, 1998	\$ 2,327	\$ 1,060	\$ --	\$ (487)	\$ 2,900
	-----	-----	-----	-----	-----

- - - - -

(a) Uncollectible accounts written off.

\$50,000,000

REVOLVING CREDIT AGREEMENT

DATED AS OF NOVEMBER 20, 1998

AMONG

TELETECH HOLDINGS, INC.,

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION,
AS ADMINISTRATIVE AGENT,

THE CO-AGENTS PARTY THERETO

AND

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO

ARRANGED BY

NATIONSBANC MONTGOMERY SECURITIES LLC

TABLE OF CONTENTS

Section - - - - -	Page -----
ARTICLE I DEFINITIONS	1
1.01 Certain Defined Terms	1
1.02 Other Interpretive Provisions . . . . .	.21
1.03 Accounting Principles . . . . .	.22
ARTICLE II THE CREDITS . . . . .	.23
2.01 Amounts and Terms of Commitments; Tranche Modifications . . . . .	.23
2.02 Loan Accounts . . . . .	.24
2.03 Procedure for Borrowing . . . . .	.24
2.04 Conversion and Continuation Elections . . . . .	.26
2.05 Voluntary Termination or Reduction of Commitments . . . . .	.27
2.06 Optional Prepayments . . . . .	.27
2.07 Repayment . . . . .	.28
2.08 Interest . . . . .	.28
2.09 Fees . . . . .	.29
(a) Arrangement, Agency Fees . . . . .	.29
(b) Commitment Fees . . . . .	.29
2.10 Computation of Fees and Interest . . . . .	.29
2.11 Payments by the Company . . . . .	.30
2.12 Payments by the Lenders to the Administrative Agent . . . . .	.31
2.13 Sharing of Payments, Etc. . . . .	.31
2.14 Security and Guaranty . . . . .	.32
2.15 Extensions of the Commitments . . . . .	.32
ARTICLE III TAXES, YIELD PROTECTION AND ILLEGALITY . . . . .	.33
3.01 Taxes . . . . .	.33
3.02 Illegality . . . . .	.34
3.03 Increased Costs and Reduction of Return . . . . .	.35
3.04 Funding Losses . . . . .	.35
3.05 Inability to Determine Rates . . . . .	.36
3.06 Reserves on Offshore Rate Loans . . . . .	.36
3.07 Certificates of Lenders . . . . .	.37
3.08 Substitution of Lenders . . . . .	.37
3.09 Survival . . . . .	.37
ARTICLE IV CONDITIONS PRECEDENT . . . . .	.37
4.01 Conditions of Initial Loans . . . . .	.37

	(a) Credit Agreement and Notes . . . . .	.37
	(b) Resolutions; Incumbency. . . . .	.37
	(c) Organization Documents; Good Standing. . . . .	.38
	(d) Legal Opinions . . . . .	.38
	(e) Payment of Fees. . . . .	.38
	(f) Collateral Documents . . . . .	.38
	(g) Certificate. . . . .	.39
	(h) Year 2000. . . . .	.39
	(i) Other Documents. . . . .	.39
4.02	Conditions to All Borrowings. . . . .	.39
	(a) Notice of Borrowing or Conversion/Continuation . . . . .	.39
	(b) Continuation of Representations and Warranties . . . . .	.39
	(c) No Existing Default. . . . .	.39
	(d) Maximum Loan Balance . . . . .	.40
	(e) No Future Advance Notice . . . . .	.40
ARTICLE V	REPRESENTATIONS AND WARRANTIES . . . . .	.40
5.01	Corporate Existence and Power . . . . .	.40
5.02	Corporate Authorization; No Contravention . . . . .	.40
5.03	Governmental Authorization. . . . .	.41
5.04	Binding Effect. . . . .	.41
5.05	Litigation. . . . .	.41
5.06	No Default. . . . .	.42
5.07	ERISA Compliance. . . . .	.42
5.08	Use of Proceeds; Margin Regulations . . . . .	.42
5.09	Title to Properties . . . . .	.43
5.10	Taxes . . . . .	.43
5.11	Financial Condition . . . . .	.43
5.12	Environmental Matters . . . . .	.43
5.13	Collateral Documents. . . . .	.44
5.14	Regulated Entities. . . . .	.44
5.15	No Burdensome Restrictions. . . . .	.45
5.16	Copyrights, Patents, Trademarks and Licenses, etc. . . . .	.45
5.17	Subsidiaries. . . . .	.45
5.18	Insurance . . . . .	.45
5.19	Solvency. . . . .	.45
5.20	Swap Obligations. . . . .	.45
5.21	Year 2000 Compliance . . . . .	.46
5.22	Full Disclosure . . . . .	.46
ARTICLE VI	AFFIRMATIVE COVENANTS . . . . .	.46

6.01	Financial Statements and Other Reports. . . . .	.46
6.02	Certificates; Other Information . . . . .	.47
6.03	Notices . . . . .	.48
6.04	Preservation of Corporate Existence, Etc. . . . .	.50
6.05	Maintenance of Property . . . . .	.50
6.06	Insurance . . . . .	.50
6.07	Payment of Obligations. . . . .	.50
6.08	Compliance with Laws. . . . .	.51
6.09	Compliance with ERISA . . . . .	.51
6.10	Inspection of Property and Books and Records. . . . .	.51
6.11	Environmental Laws. . . . .	.51
6.12	Use of Proceeds . . . . .	.52
6.13	Further Assurances. . . . .	.52
ARTICLE VII NEGATIVE COVENANTS . . . . .		.53
7.01	Limitation on Liens . . . . .	.53
7.02	Disposition of Assets . . . . .	.54
7.03	Consolidations and Mergers. . . . .	.55
7.04	Loans and Investments . . . . .	.55
7.05	Limitation on Indebtedness. . . . .	.56
7.06	Transactions with Affiliates. . . . .	.56
7.07	Use of Proceeds . . . . .	.57
7.08	Contingent Obligations. . . . .	.57
7.09	Joint Ventures. . . . .	.57
7.10	Lease Obligations . . . . .	.57
7.11	Restricted Payments . . . . .	.58
7.12	ERISA . . . . .	.58
7.13	Amendments to Charter Documents . . . . .	.58
7.14	Change in Business. . . . .	.58
7.15	Accounting Changes. . . . .	.59
7.16	Debt to EBITDAR Ratio . . . . .	.59
7.17	Fixed Charge Coverage Ratio . . . . .	.59
7.18	Quarterly Profitability . . . . .	.59
7.19	Maximum Combination of Cash Capital Expenditures and Permitted Acquisitions. . . . .	.59
7.20	Permitted Acquisitions. . . . .	.59
7.21	Secured Amount. . . . .	.59
7.22	Restrictive Agreements. . . . .	.59
ARTICLE VIII EVENTS OF DEFAULT. . . . .		.60
8.01	Event of Default. . . . .	.60

(a) Non-Payment. . . . .	.60
(b) Representation or Warranty . . . . .	.60
(c) Specific Defaults. . . . .	.60
(d) Other Defaults . . . . .	.60
(e) Cross-Default. . . . .	.60
(f) Insolvency; Voluntary Proceedings. . . . .	.61
(g) Involuntary Proceedings. . . . .	.61
(h) ERISA. . . . .	.61
(i) Monetary Judgments . . . . .	.62
(j) Non-Monetary Judgments . . . . .	.62
(k) Change of Control. . . . .	.62
(l) Loss of Licenses . . . . .	.62
(m) Adverse Change . . . . .	.62
(n) Guarantor Defaults . . . . .	.62
(o) Collateral . . . . .	.63
8.02 Remedies. . . . .	.63
8.03 Rights Not Exclusive. . . . .	.63

ARTICLE IX THE ADMINISTRATIVE AGENT . . . . .	.64
9.01 Appointment and Authorization; "Administrative Agent" . . . . .	.64
9.02 Delegation of Duties. . . . .	.64
9.03 Liability of Administrative Agent . . . . .	.64
9.04 Reliance by Administrative Agent. . . . .	.65
9.05 Notice of Default . . . . .	.65
9.06 Credit Decision . . . . .	.66
9.07 Indemnification of Administrative Agent . . . . .	.66
9.08 Administrative Agent in Individual Capacity . . . . .	.67
9.09 Successor Agent . . . . .	.67
9.10 Withholding Tax . . . . .	.67
9.11 Collateral Matters. . . . .	.69
9.12 Co-Agents . . . . .	.70

ARTICLE X MISCELLANEOUS . . . . .	.70
10.01 Amendments and Waivers . . . . .	.70
10.02 Notices. . . . .	.71
10.03 No Waiver; Cumulative Remedies . . . . .	.72
10.04 Costs and Expenses . . . . .	.72
10.05 Company Indemnification. . . . .	.73
10.06 Marshalling; Payments Set Aside. . . . .	.73
10.07 Successors and Assigns . . . . .	.74
10.08 Assignments, Participations, etc. . . . .	.74

10.09	Confidentiality. . . . .	.76
10.10	Set-off. . . . .	.77
10.11	Automatic Debits of Fees . . . . .	.77
10.12	Notification of Addresses, Lending Offices, Etc. . . . .	.77
10.13	Counterparts . . . . .	.78
10.14	Severability . . . . .	.78
10.15	No Third Parties Benefited . . . . .	.78
10.16	Governing Law and Jurisdiction . . . . .	.78
10.17	Waiver of Jury Trial . . . . .	.78
10.18	Entire Agreement . . . . .	.79

SCHEDULES

Schedule 2.01 Commitments

REVOLVING CREDIT AGREEMENT

This REVOLVING CREDIT AGREEMENT is entered into as of November 20, 1998, among TeleTech Holdings, Inc., a Delaware corporation (the "COMPANY"), the several financial institutions from time to time party to this Agreement (collectively, the "LENDERS"; individually, a "LENDER"), Bank of America National Trust and Savings Association, as Administrative Agent for the Lenders, and the parties identified on the signature pages hereto as Co-Agents in such capacity.

WHEREAS, the Lenders have agreed to make available to the Company a revolving credit facility that is partially secured upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

1.01 CERTAIN DEFINED TERMS. The following terms have the following meanings:

"ACQUISITION" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person, or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Company or the Subsidiary is the surviving entity.

"ADMINISTRATIVE AGENT" means BofA in its capacity as Administrative Agent for the Lenders hereunder, and any successor agent arising under SECTION 9.09.

"AFFILIATE" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise.

"AGENT-RELATED PERSONS" means the initial Administrative Agent and any successor agent arising under SECTION 9.09, together with their respective Affiliates (including, in the case of BofA, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"AGENT'S PAYMENT OFFICE" means the address for payments set forth on SCHEDULE 10.02 or such other address as the Administrative Agent may from time to time specify.

"AGGREGATE COMMITMENT" means the aggregate Commitments of the Lenders.

"AGREEMENT" means this Revolving Credit Agreement.

"APPLICABLE COMMITMENT FEE PERCENTAGE" means (a) with respect to the Tranche A Commitment Amount, .125% and (b) with respect to the Tranche B Commitment Amount, subject to the last sentence of this definition, for any period, the applicable of the following percentages in effect with respect to such period as the Debt to EBITDAR Ratio of the Company shall fall within the indicated ranges:

Debt to EBITDAR Ratio	Commitment Fee
> = 2.50 to 1.0	0.35%
> = 2.0 to 1.0 and < 2.50 to 1.0	0.30
> = 1.0 to 1.0 and < 2.0 to 1.0	0.25
< 1.0 to 1.0	0.20

The Debt to EBITDAR Ratio shall be calculated by the Company as of the end of each fiscal quarter, commencing with the fiscal quarter ended September 30, 1998, and shall be reported to the Administrative Agent pursuant to a Compliance Certificate executed by a Responsible Officer of the Company and delivered pursuant to SUBSECTION 6.02(b) hereof. The Applicable Commitment Fee Percentage with respect to the Tranche B Commitment Amount shall be adjusted, if necessary, on the third Business Day after the delivery of such certificate; PROVIDED, that if such certificate, together with the financial statements to which such certificate relates, is not delivered to the Administrative Agent by the fifth Business Day after the date on which the related financial statements are due to be delivered to the Administrative Agent pursuant to SUBSECTION 6.01(a) or (b), then, from such fifth Business Day until the third Business Day after delivery of such certificate, the Applicable Commitment Fee Percentage with respect to the Tranche B

Commitment Amount shall be equal to 0.35%. From the Closing Date until adjusted as described above, the Applicable Commitment Fee Percentage with respect to the Tranche B Commitment Amount shall be equal to .25 %.

"APPLICABLE MARGIN" means (a) with respect to Tranche A Loans, .225% per annum and (b) with respect to Tranche B Loans, subject to the last sentence of this definition, for any period, the applicable of the following percentages in effect with respect to such period as the Debt to EBITDAR Ratio of the Company shall fall within the indicated ranges:

Debt to EBITDAR Ratio	Applicable Margin
> = 2.5 to 1.0	1.50%
> = 2.0 to 1.0 and < 2.50 to 1.0	1.25
> = 1.0 to 1.0 and < 2.0 to 1.0	1.00
> = 0.5 to 1.0 and < 1.0 to 1.0	0.75
< 0.5 to 1.0	0.50

The Debt to EBITDAR Ratio shall be calculated by the Company as of the end of each fiscal quarter, commencing with the fiscal quarter ended September 30, 1998, and shall be reported to the Administrative Agent pursuant to a Compliance Certificate executed by a Responsible Officer of the Company and delivered pursuant to SUBSECTION 6.02(b). The Applicable Margin with respect to Tranche B Loans shall be adjusted, if necessary, on the third Business Day after the delivery of such certificate, with such adjustment to apply to all Interest Periods then outstanding and beginning thereafter until the next adjustment date; PROVIDED, that if such certificate, together with the financial statements to which such certificate relates, is not delivered to the Administrative Agent by the fifth Business Day after the date on which the related financial statements are due to be delivered to the Administrative Agent pursuant to SUBSECTION 6.01(a) or (b), then, from such fifth Business Day until the third Business Day after delivery of such certificate, the Applicable Margin with respect to Tranche B Loans shall be equal to 1.50%. From the Closing Date until

adjusted as described above, the Applicable Margin with respect to Tranche B Loans shall be equal to 1.0%.

"ARRANGER" means NationsBanc Montgomery Securities LLC, a Delaware limited liability company.

"ASSIGNEE" has the meaning specified in SUBSECTION 10.08(a).

"ATTORNEY COSTS" means and includes all fees and disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"BANKRUPTCY CODE" means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. Section 101, ET SEQ.).

"BASE RATE" means, for any day, the higher of: (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by BofA in San Francisco, California, as its "reference rate." (The "reference rate" is a rate set by BofA based upon various factors including BofA's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the reference rate announced by BofA shall take effect at the opening of business on the day specified in the public announcement of such change.

"BASE RATE LOAN" means a Loan that bears interest based on the Base Rate.

"BOFA" means Bank of America National Trust and Savings Association, a national banking association.

"BORROWING" means a borrowing hereunder consisting of Loans of the same Type made to the Company on the same day by the Lenders under ARTICLE II, and in the case of Offshore Rate Loans, having the same Interest Period.

"BORROWING DATE" means any date on which a Borrowing occurs under SECTION 2.03.

"BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City, Chicago or San Francisco are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means such a day on which dealings are carried on in the applicable offshore dollar interbank market.

"CAPITAL ADEQUACY REGULATION" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"CAPITAL EXPENDITURES" means, without duplication, any expenditures for any purchase or other acquisition for value of any asset that is classified on the consolidated balance sheet of the Company and the Subsidiaries prepared in accordance with GAAP as a fixed or capital asset (other than expenditures incurred to effect an Acquisition) excluding (a) the cost of assets acquired under Capitalized Lease Obligations, (b) expenditures of insurance proceeds to rebuild or replace any assets after a casualty loss, and (c) leasehold improvement expenditures for which the Borrower or a Subsidiary is reimbursed promptly by the lessor.

"CAPITALIZED LEASE" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"CAPITALIZED LEASE OBLIGATIONS" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

"CASH EQUIVALENTS" means Investments maturing within one year from the date of investment in (a) certificates of deposit, Eurodollar time deposits, other interest bearing deposits or accounts and repurchase agreements with high quality United States commercial banks having a combined capital and surplus of at least \$500,000,000, (b) certificates of deposit, other interest bearing accounts or deposits and demand deposits with other United States commercial banks, which deposits and accounts are in amounts fully insured by the Federal Deposit Insurance Corporation, (c) obligations issued or unconditionally guaranteed by the United States government or issued by an agency thereof, (d) direct obligations issued by any state of the United States or any political subdivision thereof which have the highest short-term or long-term rating obtainable from Standard & Poor's Ratings Group or Moody's Investors Services, Inc. on the date of investment, (e) commercial paper rated A-1 or better by Standard & Poor Ratings Group or P-1 or better by Moody's Investors Services, Inc. or (f) money market mutual funds investing in investments of the types described in clauses (a) through (e).

"CERCLA" has the meaning specified in the definition of "Environmental Laws."

"CHANGE OF CONTROL" means (a) any acquisition by any Person, or two or more Persons acting in concert, including without limitation any acquisition effected by means

of any transaction contemplated by SECTION 7.03, of beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Exchange Act) of 25% or more of the outstanding shares of voting stock of the Company or (b) during any period of 25 consecutive calendar months, commencing on the date of this Agreement, the ceasing of those individuals (the "CONTINUING DIRECTORS") who either (i) were directors of the Company on the first day of each such period or (ii) subsequently became directors of the Company and whose actual election or initial nomination for election subsequent to that date was approved by a majority of the Continuing Directors then on the board of directors of the Company, to constitute a majority of the board of directors of the Company.

"CLOSING DATE" means the date on which all conditions precedent set forth in SECTION 4.01 are satisfied or waived by all Lenders (or, in the case of SUBSECTION 4.01(e), waived by the Person entitled to receive such payment).

"CODE" means the Internal Revenue Code of 1986, and regulations promulgated thereunder.

"COLLATERAL" means all property and interests in property and proceeds thereof now owned or hereafter acquired by the Company in or upon which a Lien now or hereafter exists in favor of the Lenders, or the Administrative Agent on behalf of the Lenders, whether under this Agreement, the Collateral Documents or any other documents executed by any such Person and delivered to the Administrative Agent or the Lenders.

"COLLATERAL ACCOUNTS" means the securities accounts and deposit accounts maintained by the Company with BofA or other Lenders, which accounts, the Eligible Securities (if applicable) and amounts therein and all rights with respect thereto have been pledged for the benefit of the Administrative Agent and the Lenders pursuant to the Security Agreement.

"COLLATERAL DOCUMENTS" means (a) the Security Agreement, the Control Agreements and the Subsidiary Guaranty and (b) any amendments, supplements, modifications, renewals, replacements, consolidations, substitutions and extensions of any of the foregoing.

"COMMITMENT", as to each Lender, has the meaning specified in SECTION 2.01.

"COMPANY" has the meaning specified in the introductory clause hereto.

"COMPLIANCE CERTIFICATE" means a certificate substantially in the form of EXHIBIT C.

"CONTINGENT OBLIGATION" means, as to any Person, any direct or indirect liability of that Person (without duplication), whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "PRIMARY OBLIGATIONS") of another Person (the "PRIMARY OBLIGOR"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the holder of any such primary obligation against loss in respect thereof (each, a "GUARANTY OBLIGATION"); (b) with respect to any Surety Instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered; or (d) in respect of any Swap Contract. The amount of any Contingent Obligation shall, in the case of Guaranty Obligations, be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof, and in the case of other Contingent Obligations shall be equal to the maximum reasonably anticipated liability in respect thereof.

"CONTRACTUAL OBLIGATION" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"CONTROL AGREEMENT" means an agreement in substantially the form of EXHIBIT F hereto entered into among the Company, the Administrative Agent and the Lender establishing the applicable account.

"CONVERSION/CONTINUATION DATE" means any date on which, under SECTION 2.04, the Company (a) converts Loans of one Type to another Type, or (b) continues as Loans of the same Type, but with a new Interest Period, Loans having Interest Periods expiring on such date.

"CURRENT COMMITMENT TERMINATION DATE" has the meaning specified in SUBSECTION 2.15(a).

"DEBT" means as of the end of any fiscal quarter an amount equal to the sum of (a) all Indebtedness as of such date and (b) five (5) times Rental Expenses for the period of four fiscal quarters then ended, in each case of the Company and its Subsidiaries on a consolidated basis.

"DEBT TO EBITDAR RATIO" means, as of the end of any fiscal quarter, the ratio of Debt calculated as of such date to EBITDAR for the period of four fiscal quarters then ended.

"DEFAULT" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"DOLLARS", "DOLLARS" and "\$" each mean lawful money of the United States.

"EBITDAR" means, for any period, for the Company and its Subsidiaries on a consolidated basis, determined in accordance with GAAP, the sum of (a) the Net Income (or net loss) for such period, PLUS (b) all amounts treated as expenses for depreciation and interest and the amortization of intangibles of any kind to the extent deducted in the determination of such Net Income (or net loss), PLUS (c) all accrued taxes on or measured by income to the extent included in the determination of such Net Income (or net loss), LESS (d) any nonrecurring gains (or PLUS any nonrecurring losses resulting directly from or incurred directly as a consequence of the sale or closure of any operating facilities by the Company and its Subsidiaries), PLUS (e) Rental Expenses for such period.

"ELIGIBLE ASSIGNEE" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$100,000,000; (b) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000, PROVIDED that such bank is acting through a branch or agency located in the United States; (c) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of a Lender, (ii) a Subsidiary of a Person of which a Lender is a Subsidiary, or (iii) a Person of which a Lender is a Subsidiary; (d) (i) an "accredited investor", as such term is defined in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended (other than the Company or an Affiliate of the Company) or (ii) a finance company, insurance company or other financial institution or fund (whether a corporation, partnership, trust or other entity) that

is primarily engaged in the business of making, purchasing or otherwise investing in commercial loans, which, in any such case, has assets in excess of \$10,000,000; and (e) any other entity approved by the Company and the Administrative Agent.

"ELIGIBLE SECURITIES" means "Investment Property" (as defined in Article 9 of the Uniform Commercial Code as now and hereafter in effect in the State of Illinois or any other applicable jurisdiction to which the Administrative Agent shall agree) in which a security interest may be perfected by the execution of a control agreement among the Company, the Administrative Agent and the Lender with which the applicable Collateral Account is maintained, consisting exclusively of Investments meeting the criteria specified in clauses (a) through (e) of the definition of "Cash Equivalents".

"ENVIRONMENTAL CLAIMS" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment or threat to public health, personal injury (including sickness, disease or death), property damage, natural resources damage, or otherwise alleging liability or responsibility for damages (punitive or otherwise), investigation, cleanup, removal, remedial or response costs, restitution, civil or criminal penalties, injunctive relief, or other type of relief, resulting from or based upon the presence, placement, discharge, emission or release (including intentional and unintentional, negligent and non-negligent, sudden or non-sudden, accidental or non-accidental, placement, spills, leaks, discharges, emissions or releases) of any Hazardous Material at, in, or from any property, whether or not owned by the Company or any Subsidiary or taken as collateral, or in connection with any operations of the Company or any Subsidiary.

"ENVIRONMENTAL LAWS" means all federal, state or local laws, statutes, common law duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters; including without limitation the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), the Clean Air Act, the Federal Water Pollution Control Act of 1972, the Solid Waste Disposal Act, the Federal Resource Conservation and Recovery Act, the Toxic Substances Control Act and the Emergency Planning and Community Right-to-Know Act.

"ENVIRONMENTAL PERMITS" has the meaning specified in SUBSECTION 5.12(b).

"ERISA" means the Employee Retirement Income Security Act of 1974, and regulations promulgated thereunder.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA EVENT" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a substantial cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate.

"EURODOLLAR RESERVE PERCENTAGE" has the meaning specified in the definition of "Offshore Rate".

"EVENT OF DEFAULT" means any of the events or circumstances specified in SECTION 8.01.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, and regulations promulgated thereunder.

"EXTENDED TERMINATION DATE" has the meaning specified in SUBSECTION 2.15(b).

"EXTENSION CONFIRMATION DATE" has the meaning specified in SUBSECTION 2.15(b).

"EXTENSION CONFIRMATION NOTICE" has the meaning specified in SUBSECTION 2.15(b).

"EXTENSION REQUEST" has the meaning specified in SUBSECTION 2.15(a).

"FDIC" means the Federal Deposit Insurance Corporation, and any Governmental Authority succeeding to any of its principal functions.

"FEDERAL FUNDS RATE" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Administrative Agent of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent.

"FEE LETTER" has the meaning specified in SUBSECTION 2.09(a).

"FIXED CHARGES" means, with respect to the Company and its Subsidiaries on a consolidated basis, as of any date of determination, (a) interest expenses paid or accrued on outstanding Indebtedness for the period of four fiscal quarters ending on the date of determination, PLUS (b) principal payments on Indebtedness which are required to be made for the next succeeding twelve months, PLUS (c) Rental Expenses incurred during the period of four fiscal quarters ending on the date of determination.

"FRB" means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

"FURTHER TAXES" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges (including, without limitation, net income taxes and franchise taxes), and all liabilities with respect thereto, imposed by any jurisdiction on account of amounts payable or paid pursuant to SECTION 3.01.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"GOVERNMENTAL AUTHORITY" means (a) any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing and (b) the National Association of Insurance Commissioners.

"GUARANTORS" means each Subsidiary of the Company from time to time party to the Subsidiary Guaranty. The initial Guarantors shall be the domestic Subsidiaries listed on SCHEDULE 5.17.

"GUARANTY OBLIGATION" has the meaning specified in the definition of "Contingent Obligation."

"HAZARDOUS MATERIALS" means all those substances that are regulated by, or which form the basis of liability or a standard of conduct under, any Environmental Law, including any substance identified under any Environmental Law as a pollutant, contaminant, hazardous waste, hazardous constituent, special waste, hazardous substance, hazardous material, or toxic substance, or petroleum or petroleum derived substance or waste.

"INDEBTEDNESS" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all Contingent Obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all Capitalized Lease Obligations; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such indebtedness (with the amount of such Indebtedness to be equal to the lesser of the face amount thereof and the fair market value of the property made subject to such Lien); and (h) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (g) above. For all purposes of this Agreement, (x) the Indebtedness of any Person shall include all recourse Indebtedness of any partnership or joint venture or limited liability company in which such Person is a general partner or a joint venturer or a member and as to which such Person is directly liable and (y) the amount of any Indebtedness of any Person which respect to which the creditor may, by its terms, have only limited recourse to the assets of the obligor, shall be equal to the lesser of the face amount thereof and the fair market value of the assets to which recourse may be obtained.

"INDEMNIFIED LIABILITIES" has the meaning specified in SECTION 10.05.

"INDEMNIFIED PERSON" has the meaning specified in SECTION 10.05.

"INDEPENDENT AUDITOR" has the meaning specified in SUBSECTION 6.01(a).

"INSOLVENCY PROCEEDING" means, with respect to any Person, (a) any case, action or proceeding with respect to such Person before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors; in each case, undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"INTEREST EXPENSE" means, for any period, an amount equal to the interest expense of the Company and its Subsidiaries on a consolidated basis during such period, determined in accordance with GAAP.

"INTEREST PAYMENT DATE" means, as to any Offshore Rate Loan, the last day of each Interest Period applicable to such Loan and, as to any Base Rate Loan, the last Business Day of each calendar quarter, PROVIDED, HOWEVER, that if any Interest Period for an Offshore Rate Loan exceeds three months, the date that falls three months after the beginning of such Interest Period and three months after each Interest Payment Date thereafter is also an Interest Payment Date.

"INTEREST PERIOD" means, as to any Offshore Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as an Offshore Rate Loan, and ending on the date one, two, three or six months thereafter as selected by the Company in its Notice of Borrowing or Notice of Conversion/Continuation;

PROVIDED that:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day

in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period for any Loan shall extend beyond the Current Commitment Termination Date.

"INVESTMENTS" has the meaning specified in SECTION 7.04.

"IRS" means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

"JOINT VENTURE" means a single-purpose corporation, partnership, limited liability company, joint venture or other similar legal arrangement (whether created by contract or conducted through a separate legal entity) now or hereafter formed by the Company or any of its Subsidiaries with another Person in order to conduct a common venture or enterprise with such Person.

"LENDER" has the meaning specified in the introductory clause hereto.

"LENDING OFFICE" means, as to any Lender, the office or offices of such Lender specified as its "Lending Office" or "Domestic Lending Office" or "Offshore Lending Office", as the case may be, on SCHEDULE 10.02, or such other office or offices as such Lender may from time to time notify the Company and the Administrative Agent.

"LIEN" means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a Capitalized Lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law) and any contingent or other agreement to provide any of the foregoing, but not including the interest of a lessor under an operating lease.

"LOAN" means an extension of credit by a Lender to the Company under ARTICLE II, and may be a Base Rate Loan or an Offshore Rate Loan (each, a "TYPE" of Loan) and includes each Tranche A Loan and Tranche B Loan.

"LOAN DOCUMENTS" means this Agreement, any Notes, the Collateral Documents, the Fee Letter, and all other documents delivered to the Administrative Agent or any Lender in connection with the transactions contemplated by this Agreement.

"MARGIN STOCK" means "margin stock" as such term is defined in Regulation T, U or X of the FRB.

"MATERIAL ADVERSE EFFECT" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties or financial condition of the Company or the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company or any Subsidiary to perform its obligations under any Loan Document and to avoid any Event of Default; or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against the Company or any Subsidiary of any Loan Document, or (ii) the perfection or priority of any Lien granted under any of the Collateral Documents.

"MAXIMUM LOAN BALANCE" means, as of any date of determination, the lesser of (a) the sum of (i) the cash and Cash Equivalents held by the Company and its domestic Subsidiaries as of such date, PLUS (ii) the amount equal to the lesser of (A) 75% of the aggregate consolidated accounts receivable of the Company and its Subsidiaries as of such date and (B) 85% of the aggregate consolidated accounts receivable of the Company and its domestic Subsidiaries as of such date, and (b) the Aggregate Commitment.

"MULTIEMPLOYER PLAN" means a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA, to which the Company or any ERISA Affiliate makes, is making, or is obligated to make contributions or, during the preceding three calendar years, has made, or been obligated to make, contributions.

"NET INCOME" means, for any period, the net income of the Company and its Subsidiaries, on a consolidated basis, determined in accordance with GAAP.

"NOTE" means a promissory note executed by the Company in favor of a Lender pursuant to SUBSECTION 2.02(b), in substantially the form of EXHIBIT E.

"NOTICE OF BORROWING" means a notice in substantially the form of EXHIBIT A.

"NOTICE OF CONVERSION/CONTINUATION" means a notice in substantially the form of EXHIBIT B.

"OBLIGATIONS" means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by the Company to any Lender,

the Administrative Agent, or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising.

"OFFSHORE RATE" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/16th of 1%) determined by the Administrative Agent as follows:

$$\text{Offshore Rate} = \frac{\text{IBOR}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

Where,

"EURODOLLAR RESERVE PERCENTAGE" means for any day for any Interest Period the maximum reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day (whether or not applicable to any Lender) under regulations issued from time to time by the FRB for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "EUROCURRENCY LIABILITIES"); and

"IBOR" means the rate of interest per annum determined by the Administrative Agent as the rate at which dollar deposits in the approximate amount of BofA's Offshore Rate Loan for such Interest Period would be offered by BofA's Grand Cayman Branch, Grand Cayman B.W.I. (or such other office as may be designated for such purpose by BofA), to major banks in the offshore dollar interbank market at their request at approximately 11:00 a.m. (New York City time) two Business Days prior to the commencement of such Interest Period.

The Offshore Rate shall be adjusted automatically as to all Offshore Rate Loans then outstanding as of the effective date of any change in the Eurodollar Reserve Percentage.

"OFFSHORE RATE LOAN" means a Loan that bears interest based on the Offshore Rate.

"ORGANIZATION DOCUMENTS" means, for any corporation, the certificate or articles of incorporation, the bylaws, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation.

"OTHER TAXES" means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Documents.

"PARTICIPANT" has the meaning specified in SUBSECTION 10.08(e).

"PBOGC" means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

"PENSION PLAN" means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA in respect of which the Company or any ERISA Affiliate has or may have any liability.

"PERMITTED ACQUISITIONS" means Acquisitions that meet all the following criteria: (a) the Acquisition has been approved by the Board of Directors (or functional equivalent thereof) of the Person whose stock or assets are being acquired; (b) the Person or assets being acquired are in the same or a similar or complementary line of business as the Company; (c) the Person or assets being acquired had positive net income before net, non-recurring expenses for the most recently ended 12 calendar months; and (d) both immediately before and after giving effect to the Acquisition, no Default or Event of Default exists.

"PERMITTED LIENS" has the meaning specified in SECTION 7.01.

"PERMITTED SWAP OBLIGATIONS" means all obligations (contingent or otherwise) of the Company or any Subsidiary existing or arising under Swap Contracts, provided that each of the following criteria is satisfied: (a) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments or assets held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person in conjunction with a securities repurchase program not otherwise prohibited hereunder, and not for purposes of speculation or taking a "market view;" (b) such Swap Contracts do not contain any provision ("walk-away" provision) exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party.

"PERSON" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

"PLAN" means an employee benefit plan (as defined in Section 3(3) of ERISA) in respect of which the Company or any ERISA Affiliate has or may have any liability.

"PRINCIPAL BALANCE" means the aggregate outstanding principal balance of the Loans.

"PRO RATA SHARE" means, as to any Lender at any time, the percentage equivalent (expressed as a decimal, rounded to the ninth decimal place) (a) at any time at which the Aggregate Commitments remain outstanding, such Lender's Commitment divided by the Aggregate Commitments of all Lenders, and (b) after the termination of the Aggregate Commitment, the principal amount of such Lender's outstanding Loans divided by the aggregate principal amount of the outstanding Loans of all the Lenders.

"RENTAL EXPENSE" means, for any period, the sum of the aggregate payments of the Company and its Subsidiaries on a consolidated basis under noncancellable agreements to rent or lease any real or personal property (exclusive of Capital Lease Obligations and exclusive of agreements to rent or lease real or personal property which are not cancellable at the option of the lessee without penalty within a three month period), all as determined on a consolidated basis for the Company and its Subsidiaries in accordance with GAAP.

"REPLACEMENT LENDER" has the meaning specified in SECTION 3.08.

"REPORTABLE EVENT" means, any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"REQUIRED LENDERS" means at any time Lenders then holding at least 51% of the then aggregate unpaid principal amount of the Loans, or, if no amounts are outstanding, Lenders then having at least 51% of the aggregate amount of the Commitments.

"REQUIREMENT OF LAW" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.

"RESPONSIBLE OFFICER" means the chief executive officer or the president of the Company, or any other officer having substantially the same authority and responsibility; or, with respect to compliance with financial covenants, the chief financial officer or the treasurer of the Company, or any other officer having substantially the same authority and responsibility.

"REVOLVING TERMINATION DATE" means the earlier to occur of:

(a) the Current Commitment Termination Date; and

(b) the date on which the Aggregate Commitment terminates in accordance with the provisions of this Agreement.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"SECURED AMOUNT" means the sum of (a) the aggregate cash balances in the Collateral Accounts and (b) the aggregate fair market value of the Eligible Securities held in the Collateral Accounts, as to which, in each case, the Administrative Agent shall have a first priority perfected security interest.

"SECURITY AGREEMENT" means that certain Security Agreement dated as of the date hereof between the Company and the Administrative Agent with respect to the various Collateral Accounts.

"SOLVENT" means, as to any Person at any time, that (a) the fair value of the property of such Person is greater than the amount of such Person's liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated for purposes of Section 101(31) of the Bankruptcy Code and, in the alternative, for purposes of the Illinois Uniform Fraudulent Transfer Act; (b) the present fair saleable value of the property of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (c) such Person is able to realize upon its property and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business; (d) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital; PROVIDED, that in each case, the liabilities of any Subsidiary shall be determined without regard to the Indebtedness of such Subsidiary owing to the Company or any Wholly-Owned Subsidiary.

"SUBSIDIARY" of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than 50% of the voting stock, membership interests or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof. Unless the context

otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary of the Company.

"SUBSIDIARY GUARANTY" means that certain Subsidiary Guaranty dated as of the date hereof by each domestic Subsidiary in favor of the Administrative Agent and the Lenders.

"SURETY INSTRUMENTS" means all letters of credit (including standby and commercial), banker's acceptances, bank guaranties, shipside bonds, surety bonds and similar instruments.

"SWAP CONTRACT" means any agreement, whether or not in writing, relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

"SWAP TERMINATION VALUE" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined by the Company based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include any Lender).

"TAXES" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of each Lender and the Administrative Agent, respectively, taxes imposed on or measured by its net income by the jurisdiction (or any political subdivision thereof) under the laws of which such Lender or the Administrative Agent, as the case may be, is organized or maintains a lending office.

"TRANCHE A COMMITMENT AMOUNT" means, at any time, the amount of the Tranche A Loan Limit at such time.

"TRANCHE A LOAN LIMIT" means \$15,000,000, as such limit may be adjusted up to \$30,000,000 from time to time in accordance with SUBSECTION 2.01(b).

"TRANCHE A LOANS" means, subject to SUBSECTION 2.01(c) OR (e), all Loans that are not Tranche B Loans.

"TRANCHE B COMMITMENT AMOUNT" means, at any time (a) the Aggregate Commitment at such time MINUS (b) the Tranche A Loan Limit at such time.

"TRANCHE B LOANS" means, subject to SUBSECTION 2.01(c) OR (e), (a) all Loans made at a time when the Principal Balance (before giving effect to such Loans) exceeds the Tranche A Loan Limit and (b) all Loans made at a time when, before giving effect to such Loans, the Principal Balance is less than or equal to the Tranche A Loan Limit, but after giving effect to such Loans, the Principal Balance exceeds the Tranche A Loan Limit, but only to the extent of the amount by which, after giving effect to such Loans, the Principal Balance exceeds the Tranche A Loan Limit.

"TYPE" has the meaning specified in the definition of "Loan".

"UNFUNDED PENSION LIABILITY" means the excess of a Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"UNITED STATES" and "U.S." each means the United States of America.

"WHOLLY-OWNED SUBSIDIARY" means any corporation in which (other than directors' qualifying shares required by law) 100% of the capital stock of each class having ordinary voting power, and, except with respect to EDM Electronic Direct Marketing Ltd. (which shall be deemed to be a Wholly-Owned Subsidiary), 100% of the capital stock of every other class, in each case (or, in the case of Persons other than corporations, membership interests or other equity interests), at the time as of which any determination is being made, is owned, beneficially and of record, by the Company, or by one or more of the other Wholly-Owned Subsidiaries, or both.

1.02 OTHER INTERPRETIVE PROVISIONS. (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation".

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including".

(iv) The term "property" includes any kind of property or asset, real, personal or mixed, tangible or intangible.

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments, supplements and other modifications thereto, but only to the extent such amendments and other modifications are in writing and not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(f) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms. This Agreement and each of the other Loan Documents shall be construed, to the extent reasonable, to be consistent one with the other; PROVIDED, that to the extent that the terms and conditions of this Agreement are actually inconsistent with the terms and conditions of any other Loan Document, this Agreement shall govern. Unless otherwise expressly provided, any reference to any action of the Administrative Agent or the Lenders by way of consent, approval or waiver shall be deemed modified by the phrase "in its/their sole reasonable discretion".

(g) This Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Administrative Agent, the Company and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or the Administrative Agent merely because of the Administrative Agent's or Lenders' involvement in their preparation.

1.03 ACCOUNTING PRINCIPLES. (a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied.

(b) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Company.

(c) In the event that any changes in GAAP occur after the date of this Agreement and such changes result in a material variation in the method of calculation of financial covenants or other terms of this Agreement, then the Company, the Administrative Agent and the Lenders agree to amend such provisions of this Agreement so as to equitably reflect such changes so that the criteria for evaluating the Company's financial condition will be substantially the same after such changes as if such changes had not occurred.

ARTICLE II

THE CREDITS

2.01 AMOUNTS AND TERMS OF COMMITMENTS; TRANCHE MODIFICATIONS. (a) Each Lender severally agrees, on the terms and conditions set forth herein, to make Loans to the Company from time to time on any Business Day during the period from the Closing Date to the Revolving Termination Date, in an aggregate amount not to exceed at any time outstanding the lesser of (i) the amount set forth next to its name on SCHEDULE 2.01 (such amount shall be, as the same may be reduced under SECTION 2.05 or as a result of one or more assignments under SECTION 10.08, the Lender's "COMMITMENT") and (ii) its Pro Rata Share of the Aggregate Commitment; PROVIDED, HOWEVER, that, after giving effect to any Borrowing, the aggregate principal amount of all outstanding Loans, shall not at any time exceed the Maximum Loan Balance. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Company may borrow under this Section, prepay under SECTION 2.06 and reborrow under this Section.

(b) Not more than once each fiscal quarter the Company may, upon 10 Business Days' prior written notice to the Administrative Agent elect, as of any Business Day, to increase or decrease the Tranche A Loan Limit by an amount of not less than \$500,000 or any integral multiple of \$100,000 in excess thereof; PROVIDED, HOWEVER, that (i) the Tranche A Loan Limit may not exceed the lesser of (A) \$30,000,000 and (B) the Aggregate Commitment; (ii) the Tranche A Loan Limit may not be increased to an amount in excess of the Secured Amount; and (iii) the Tranche A Loan Limit may not be decreased during the continuance of any Default or Event of Default. The Administrative Agent will promptly notify each Lender of its receipt of a notice from the Company pursuant to this subsection and the effective date of any changes in the Tranche A Loan Limit.

(c) Loans shall be made as Tranche A Loans until the Principal Balance equals the Tranche A Loan Limit, after which all Loans shall be made as Tranche B Loans. Upon any increase in the Tranche A Loan Limit, Tranche B Loans shall be automatically converted to Tranche A Loans in an aggregate principal amount equal to the lesser of (i) the aggregate

outstanding Principal Balance of the Tranche B Loans and (ii) the new Tranche A Loan Limit MINUS the old Tranche A Loan Limit. Such conversion shall be made on a pro rata (relative to Commitment amount) basis among the Lenders.

(d) If at any time the outstanding principal amount of the Loans exceeds the Maximum Loan Balance, the Company shall immediately repay such Loans in an amount sufficient to eliminate any such excess.

(e) If at any time the outstanding principal amount of the Tranche A Loans exceeds the lesser of the Secured Amount and the Tranche A Loan Limit, then the Company shall immediately repay such Loans in an amount sufficient to eliminate any such excess; PROVIDED, HOWEVER, that if no Default or Event of Default shall then have occurred and is continuing and SECTION 2.01(d) is not applicable, Tranche A Loans in a principal amount equal to such excess shall be automatically converted to Tranche B Loans to the extent of the amount of the then unutilized Tranche B Commitment.

2.02 LOAN ACCOUNTS. (a) The Loans made by each Lender shall be evidenced by one or more loan accounts or records maintained by such Lender in the ordinary course of business. The loan accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Company and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Company hereunder to pay any amount owing with respect to the Loans.

(b) Upon the request of any Lender made through the Administrative Agent, the Loans made by such Lender may be evidenced by one or more Notes, instead of or in addition to loan accounts. Each such Lender shall endorse on the schedules annexed to its Note(s) the date, amount and maturity of each Loan made by it and the amount of each payment of principal made by the Company with respect thereto. Each such Lender is irrevocably authorized by the Company to endorse its Note(s) and each Lender's record shall be conclusive absent manifest error; PROVIDED, HOWEVER, that the failure of a Lender to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Company hereunder or under any such Note to such Lender.

2.03 PROCEDURE FOR BORROWING. (a) Each Borrowing shall be made upon the Company's irrevocable notice delivered to the Administrative Agent in the form of a Notice of Borrowing (which notice must be received by the Administrative Agent prior to 10:00 a.m. (Chicago time) (i) two (2) Business Days prior to the requested Borrowing Date, in the case of Offshore Rate Loans; and (ii) on the requested Borrowing Date, in the case of Base Rate Loans, specifying:

(A) the amount of the Borrowing, which shall be in an aggregate minimum amount of \$500,000 or any multiple of \$100,000 in excess thereof;

(B) the requested Borrowing Date, which shall be a Business Day;

(C) the Type of Loans comprising the Borrowing;

(D) with respect to Offshore Rate Loans, the duration of the Interest Period applicable to such Loans included in such notice. If the Notice of Borrowing fails to specify the duration of the Interest Period for any Borrowing comprised of Offshore Rate Loans, such Interest Period shall be three months; and

(E) the amount of the requested Loans comprising Tranche A Loans and Tranche B Loans, respectively;

PROVIDED, HOWEVER, that with respect to the Borrowing to be made on the Closing Date, such Borrowing will consist of Base Rate Loans only; and further provided that if the Administrative Agent has determined in its sole discretion that syndication of the Loans has not been completed, then all Borrowings during the first 60 days following the Closing Date shall have the same Interest Period and shall be Base Rate Loans or Offshore Rate Loans for Interest Periods no longer than one month.

(b) The Administrative Agent will promptly notify each Lender of its receipt of any Notice of Borrowing and of the amount of such Lender's Pro Rata Share of that Borrowing.

(c) Each Lender will make the amount of its Pro Rata Share of each Borrowing available to the Administrative Agent for the account of the Company at the Administrative Agent's Payment Office by 1:00 p.m. (Chicago time) on the Borrowing Date requested by the Company in funds immediately available to the Administrative Agent. The proceeds of all such Loans will then be made available to the Company by the Administrative Agent at such office by crediting the account of the Company on the books of BofA with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent or by wire transfer in accordance with the directions of the Company.

(d) After giving effect to any Borrowing, unless the Administrative Agent shall otherwise consent, there may not be more than six (6) different Interest Periods in effect.

(e) The Company hereby authorizes the Lenders and the Administrative Agent to accept Notices of Borrowing based on telephonic notices made by any person or persons the Administrative Agent or any Lender believes to be acting on behalf of the Company. The

Company agrees to deliver promptly to the Administrative Agent a written confirmation of each telephonic notice, signed by a Responsible Officer or an authorized designee. If the written confirmation differs in any material respect from the action taken by the Administrative Agent and the Lenders, the records of the Administrative Agent and the Lenders shall govern absent manifest error.

2.04 CONVERSION AND CONTINUATION ELECTIONS. (a) The Company may, upon irrevocable notice to the Administrative Agent in accordance with SUBSECTION 2.04(b):

(i) elect, as of any Business Day, in the case of Base Rate Loans, or as of the last day of the applicable Interest Period, in the case of any other Type of Loans, to convert any such Loans (or any part thereof in an amount not less than \$500,000, or that is in an integral multiple of \$100,000 in excess thereof) into Loans of any other Type; or

(ii) elect, as of the last day of the applicable Interest Period, to continue any Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than \$500,000, or that is in an integral multiple of \$100,000 in excess thereof);

PROVIDED, that if at any time the aggregate amount of Offshore Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than \$500,000, such Offshore Rate Loans shall automatically convert into Base Rate Loans, and on and after such date the right of the Company to continue such Loans as, and convert such Loans into Offshore Rate Loans shall terminate.

(b) The Company shall deliver a Notice of Conversion/Continuation to be received by the Administrative Agent not later than 10:00 a.m. (Chicago time) (i) at least two (2) Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Offshore Rate Loans; and (ii) on the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date;

(B) the aggregate amount of Loans to be converted or continued;

(C) the Type of Loans resulting from the proposed conversion or continuation; and

(D) other than in the case of conversions into Base Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Offshore Rate Loans, the Company has failed to select timely a new Interest Period to be applicable to such Offshore Rate Loans, or if any Default or Event of Default then exists, the Company shall be deemed to have elected to convert such Offshore Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period.

(d) The Administrative Agent will promptly notify each Lender of its receipt of a Notice of Conversion/Continuation, or, if no timely notice is provided by the Company, the Administrative Agent will promptly notify each Lender of the details of any automatic conversion. All conversions and continuations shall be made ratably according to the respective outstanding principal amounts of the Loans with respect to which the notice was given held by each Lender.

(e) Unless the Required Lenders otherwise consent, during the existence of a Default or Event of Default, the Company may not elect to have a Loan converted into or continued as an Offshore Rate Loan.

(f) After giving effect to any conversion or continuation of Loans, unless the Administrative Agent shall otherwise consent, there may not be more than six (6) different Interest Periods in effect.

(g) The Company hereby authorizes the Lenders and the Administrative Agent to accept Notices of Conversion/Continuation based on telephonic notices made by any person or persons the Administrative Agent or any Lender believes to be acting on behalf of the Company. The Company agrees to deliver promptly to the Administrative Agent a written confirmation of each telephonic notice, signed by a Responsible Officer. If the written confirmation differs in any material respect from the action taken by the Administrative Agent and the Lenders, the records of the Administrative Agent and the Lenders shall govern absent manifest error.

2.05 VOLUNTARY TERMINATION OR REDUCTION OF COMMITMENTS. The Company may, upon not less than five (5) Business Days' prior notice to the Administrative Agent, terminate the Commitments, or permanently reduce the Commitments by an aggregate minimum amount of \$5,000,000 or any multiple of \$1,000,000 in excess thereof; UNLESS, after giving effect thereto and to any prepayments of Loans made on the effective date thereof, the then-outstanding principal amount of the Loans would exceed the amount of the Aggregate Commitment then in effect. Once reduced in accordance with this Section, the Commitments may not be increased. Any reduction of the Commitments shall be applied to each Lender according to its Pro Rata Share. All accrued commitment fees to, but not including the effective date of any reduction or termination of Commitments, shall be paid on the effective date of such reduction or termination.

2.06 OPTIONAL PREPAYMENTS. Subject to SECTION 3.04, the Company may, at any time or from time to time, upon not less than one (1) Business Day's irrevocable notice to the

Administrative Agent for Base Rate Loans and not less than three (3) Business Days' irrevocable notice to the Administrative Agent for Offshore Rate Loans, ratably prepay Loans in whole or in part, in minimum amounts of \$500,000 or any multiple of \$100,000 in excess thereof. Such notice of prepayment shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of any such notice, and of such Lender's Pro Rata Share of such prepayment. If such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together, in the case of Offshore Rate Loans, with accrued interest to each such date on the amount prepaid and any amounts required pursuant to SECTION 3.04. All prepayments (other than payments out of proceeds of the Collateral) shall be applied first to reduce the Tranche B Loans and thereafter to reduce the Tranche A Loans.

2.07 REPAYMENT. The Company shall repay to the Lenders on the Revolving Termination Date the aggregate principal amount of Loans outstanding on such date.

2.08 INTEREST. (a) Each Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to (i) the Base Rate or (ii) the Offshore Rate PLUS the Applicable Margin.

(b) Interest on each Loan shall be paid in arrears on each Interest Payment Date. Interest on Base Rate Loans shall also be paid on the date of any payment (including prepayment) in full thereof. Interest on Offshore Rate Loans shall also be paid on the date of any prepayment of Offshore Rate Loans under SECTION 2.01(D) or 2.06 for the portion of the Loans so prepaid and upon payment (including prepayment) in full thereof. During the existence of any Event of Default, interest on all Loans shall be paid on demand of the Administrative Agent at the request or with the consent of the Required Lenders.

(c) Notwithstanding subsection (a) of this Section, while any Event of Default exists or after acceleration, the Company shall pay interest (after as well as before any entry of judgment thereon to the extent permitted by law) on the principal amount of all outstanding Loans, at a fluctuating rate per annum equal to the Base Rate plus 2%.

(d) Anything herein to the contrary notwithstanding, the obligations of the Company to any Lender hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by such Lender would be contrary to the provisions of any law applicable to such Lender limiting the highest rate of interest that may be lawfully contracted for, charged or received by such Lender, and in such event the Company shall pay such Lender interest at the highest rate permitted by applicable law.

2.09 FEES. (a) ARRANGEMENT, AGENCY FEES. The Company shall pay such fees to the Administrative Agent and the Arranger as are required by the letter agreement ("FEE LETTER") among the Company, the Arranger and the Administrative Agent dated August 7, 1998.

(b) COMMITMENT FEES. The Company shall pay to the Administrative Agent for the account of each Lender a commitment fee on the average daily unused portion of such Lender's Commitment, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter based upon the daily utilization and mix of the Tranche A Loans and Tranche B Loans for that quarter as calculated by the Administrative Agent, equal to the Applicable Commitment Fee Percentage per annum. Such commitment fees shall accrue from the Closing Date to the Revolving Termination Date and shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter commencing on the Closing Date through the Revolving Termination Date, with the final payment to be made on the Revolving Termination Date; PROVIDED that, in connection with any reduction or termination of Commitments under SECTION 2.05, the accrued commitment fee calculated for the period ending on such date shall also be paid on the date of such reduction or termination, with the following quarterly payment being calculated on the basis of the period from such reduction or termination date to such quarterly payment date. The commitment fees provided in this subsection shall accrue at all times during the period described above, including at any time during which one or more conditions in ARTICLE IV are not met.

2.10 COMPUTATION OF FEES AND INTEREST. (a) All computations of interest for Base Rate Loans when the Base Rate is determined by BofA's "reference rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) Each determination of an interest rate by the Administrative Agent shall be conclusive and binding on the Company and the Lenders in the absence of manifest error.

2.11 PAYMENTS BY THE COMPANY. (a) All payments to be made by the Company shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Company shall be made to the Administrative Agent for the account of the Lenders at the Administrative Agent's Payment Office, and shall be made in dollars and in immediately available funds, no later than 12:00 noon (Chicago time) on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as expressly provided herein) of such payment in like funds as received. Any payment received by the Administrative Agent later than 2:00 p.m. (Chicago time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Subject to the provisions set forth in the definition of "Interest Period" herein, whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

(c) Unless the Administrative Agent receives notice from the Company prior to the date on which any payment is due to the Lenders that the Company will not make such payment in full as and when required, the Administrative Agent may assume that the Company has made such payment in full to the Administrative Agent on such date in immediately available funds and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, distribute to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Company has not made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent on demand such amount distributed to such Lender, together with interest thereon at the Federal Funds Rate for each day from the date such amount is distributed to such Lender until the date repaid.

(d) All payments received by the Administrative Agent in respect of the Loans shall be applied first to Tranche B Loans and then to Tranche A Loans, other than (i) payments from the proceeds of Collateral (which shall be applied first to Tranche A Loans to the extent thereof), (ii) payments of principal in respect of Tranche A Loans required pursuant to SECTION 2.01(d) and (iii) payments to be applied to the payment of interest in respect of Offshore Rate Loans due on the date of receipt in accordance with SUBSECTION 2.08(b).

2.12 PAYMENTS BY THE LENDERS TO THE ADMINISTRATIVE AGENT. (a) Unless the Administrative Agent receives notice from a Lender on or prior to the Closing Date or, with respect to any Borrowing after the Closing Date, at least one Business Day prior to the date of such Borrowing, that such Lender will not make available as and when required hereunder to the Administrative Agent for the account of the Company the amount of that Lender's Pro Rata Share of the Borrowing, the Administrative Agent may assume that each Lender has made such amount available to the Administrative Agent in immediately available funds on the Borrowing Date and the Administrative Agent may (but shall not be so required), in reliance upon such assumption, make available to the Company on such date a corresponding amount. If and to the extent any Lender shall not have made its full amount available to the Administrative Agent in immediately available funds and the Administrative Agent in such circumstances has made available to the Company such amount, that Lender shall on the Business Day following such Borrowing Date make such amount available to the Administrative Agent, together with interest at the Federal Funds Rate for each day during such period. A notice of the Administrative Agent submitted to any Lender with respect to amounts owing under this subsection (a) shall be conclusive, absent manifest error. If such amount is so made available, such payment to the Administrative Agent shall constitute such Lender's Loan on the date of Borrowing for all purposes of this Agreement. If such amount is not made available to the Administrative Agent on the Business Day following the Borrowing Date, the Administrative Agent will notify the Company of such failure to fund and, upon demand by the Administrative Agent, the Company shall pay such amount to the Administrative Agent for the Administrative Agent's account, together with interest thereon for each day elapsed since the date of such Borrowing, at a rate per annum equal to the interest rate applicable at the time to the Loans comprising such Borrowing.

(b) The failure of any Lender to make any Loan on any Borrowing Date shall not relieve any other Lender of any obligation hereunder to make a Loan on such Borrowing Date, but no Lender shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender on any Borrowing Date.

2.13 SHARING OF PAYMENTS, ETC. If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of the Loans made by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder), such Lender shall immediately (a) notify the Administrative Agent of such fact, and (b) purchase from the other Lenders such participations in the Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment pro rata with each of them; PROVIDED, HOWEVER, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender, such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable

by the purchasing Lender in respect of the total amount so recovered. The Company agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to SECTION 10.10) with respect to such participation as fully as if such Lender were the direct creditor of the Company in the amount of such participation. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments.

2.14 SECURITY AND GUARANTY. The cash and the Eligible Securities held in the Collateral Accounts from time to time shall secure the repayment of the Tranche A Loans in accordance with the Security Agreement and the Control Agreements. The Company shall provide that the Tranche A Loan Limit shall at no time exceed the Secured Amount.

(b) All Obligations of the Company under this Agreement, each of the Notes and all other Documents shall be unconditionally guaranteed by the Guarantors pursuant to the Guaranty.

2.15 EXTENSIONS OF THE COMMITMENTS.

(a) "CURRENT COMMITMENT TERMINATION DATE" shall initially mean November 20, 2001. On any Business Day that is not less than 60 days nor more than 90 days prior to an anniversary of the Closing Date, the Company may, by written notice (an "EXTENSION REQUEST") given to the Administrative Agent, request that the Current Commitment Termination Date be extended. Each such Extension Request shall contemplate an extension of the Current Commitment Termination Date to a date that is one year after the Current Commitment Termination Date then in effect. Notwithstanding anything to the contrary in this SECTION 2.15, the Company may only request two (2) additional Extension Requests during the term of this Agreement.

(b) The Administrative Agent shall promptly advise each Lender of its receipt of any Extension Request. Each Lender may, in its sole discretion, consent to a requested extension by giving written notice thereof to the Administrative Agent by not later than the Business Day (the "EXTENSION CONFIRMATION DATE") immediately preceding the date that is 31 days after the date of the Extension Request. Failure on the part of any Lender to respond to an Extension Request by the applicable Extension Confirmation Date shall be deemed to be a denial of such request by such Lender. If all Lenders shall consent in writing to the requested extension, such request shall be granted. Promptly following the opening of business on the first Business Day following the applicable Extension Confirmation Date, the Administrative Agent shall notify the Company in writing as to whether the Extension Request has been granted (such written notice being an "EXTENSION CONFIRMATION NOTICE") and, if granted, such extension shall be confirmed upon the issuance of such Extension Confirmation Notice. The Administrative Agent shall promptly

thereafter provide a copy of such Extension Confirmation Notice to each Lender. Each Extension Confirmation Notice shall specify therein the date to which the Current Commitment Termination Date is to be extended (such date being referred to herein as the "EXTENDED TERMINATION DATE"), which shall be the date one year following the Current Commitment Termination Date then in effect.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 TAXES. (a) Any and all payments by the Company to each Lender or the Administrative Agent under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Other Taxes.

(b) If the Company shall be required by law to deduct or withhold any Taxes, Other Taxes or Further Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Administrative Agent, then:

(i) the sum payable shall be increased as necessary so that, after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section), such Lender or the Administrative Agent, as the case may be, receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make such deductions and withholdings;

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Company shall also pay to each Lender or the Administrative Agent for the account of such Lender, at the time interest is paid, Further Taxes in the amount that the respective Lender specifies as necessary to preserve the after-tax yield the Lender would have received if such Taxes, Other Taxes or Further Taxes had not been imposed.

(c) The Company agrees to indemnify and hold harmless each Lender, the Administrative Agent and the Arranger and each of their affiliates for the full amount of (i) Taxes, (ii) Other Taxes, and (iii) Further Taxes in the amount that the respective Lender, in good faith, specifies as necessary to preserve the after-tax yield the Lender, Administrative Agent or Arranger

would have received if such Taxes, Other Taxes or Further Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and expenses) arising therefrom or with respect thereto, whether or not such Taxes, Other Taxes or Further Taxes were correctly or legally asserted. Payment under this indemnification shall be made within 30 days after the date the Lender, the Administrative Agent or Arranger makes written demand therefor.

(d) Within 30 days after the date of any payment by the Company of Taxes, Other Taxes or Further Taxes, the Company shall furnish to each Lender or the Administrative Agent the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment reasonably satisfactory to such Lender or the Administrative Agent.

(e) If the Company is required to pay any amount to any Lender or the Administrative Agent pursuant to subsection (b) or (c) of this Section, then such Lender shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Company which may thereafter accrue, if such change in the sole reasonable judgment of such Lender is not otherwise disadvantageous to such Lender.

3.02 ILLEGALITY. (a) If any Lender reasonably determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make Offshore Rate Loans, then, on notice thereof by the Lender to the Company through the Administrative Agent, any obligation of that Lender to make Offshore Rate Loans shall be suspended until the Lender notifies the Administrative Agent and the Company that the circumstances giving rise to such determination no longer exist.

(b) If a Lender determines that it is unlawful to maintain any Offshore Rate Loan, the Company shall, upon its receipt of notice of such fact and demand from such Lender (with a copy to the Administrative Agent), prepay in full such Offshore Rate Loans of that Lender then outstanding, together with interest accrued thereon and amounts required under SECTION 3.04, either on the last day of the Interest Period thereof, if the Lender may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if the Lender may not lawfully continue to maintain such Offshore Rate Loan. If the Company is required to so prepay any Offshore Rate Loan, then concurrently with such prepayment, the Company shall borrow from the affected Lender, in the amount of such repayment, a Base Rate Loan.

(c) If the obligation of any Lender to make or maintain Offshore Rate Loans has been so terminated or suspended, the Company may elect, by giving notice to the Lender through the Administrative Agent that all Loans which would otherwise be made by the Lender as Offshore Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Administrative Agent under this Section, the affected Lender shall designate a different Lending Office with respect to its Offshore Rate Loans if such designation will avoid the need for giving such notice or making such demand and will not, in the reasonable judgment of the Lender, be illegal or otherwise disadvantageous to the Lender.

3.03 INCREASED COSTS AND REDUCTION OF RETURN. (a) If any Lender reasonably determines that, due to either (i) the introduction of or any change (other than any change by way of imposition of or increase in reserve requirements included in the calculation of the Offshore Rate) in or in the interpretation of any law or regulation or (ii) the compliance by that Lender with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining any Offshore Rate Loans, then the Company shall be liable for, and shall from time to time, upon demand (with a copy of such demand to be sent to the Administrative Agent), pay to the Administrative Agent for the account of such Lender, additional amounts as are sufficient to compensate such Lender for such increased costs.

(b) If any Lender shall have reasonably determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by the Lender (or its Lending Office) or any corporation controlling the Lender with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by the Lender or any corporation controlling the Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines, in good faith, that the amount of such capital is increased as a consequence of its Commitment, loans, credits or obligations under this Agreement, then, upon demand of such Lender to the Company through the Administrative Agent, the Company shall pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender for such increase.

3.04 FUNDING LOSSES. The Company shall reimburse each Lender and hold each Lender harmless from any loss or expense which the Lender may sustain or incur as a consequence of:

(a) the failure of the Company to make on a timely basis any payment of principal of any Offshore Rate Loan;

(b) the failure of the Company to borrow, continue or convert a Loan after the Company has given (or is deemed to have given) a Notice of Borrowing or a Notice of Conversion/ Continuation;

(c) the failure of the Company to make any prepayment in accordance with any notice delivered under SECTION 2.06;

(d) the prepayment (including pursuant to SECTION 2.01(d), 2.05 or 2.06) or other payment (including after acceleration thereof) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period; or

(e) the automatic conversion under SECTION 2.04 of any Offshore Rate Loan to a Base Rate Loan on a day that is not the last day of the relevant Interest Period;

including any such loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain its Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained. For purposes of calculating amounts payable by the Company to the Lenders under this Section and under SUBSECTION 3.03(a), each Offshore Rate Loan made by a Lender (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the IBOR used in determining the Offshore Rate for such Offshore Rate Loan by a matching deposit or other borrowing in the offshore dollar interbank market for a comparable amount and for a comparable period, whether or not such Offshore Rate Loan is in fact so funded.

3.05 INABILITY TO DETERMINE RATES. If the Administrative Agent determines, in good faith, that for any reason adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, or that the Offshore Rate applicable pursuant to SUBSECTION 2.08(a) for any requested Interest Period with respect to a proposed Offshore Rate Loan does not adequately and fairly reflect the cost to the Lenders of funding such Loan, the Administrative Agent will promptly so notify the Company and each Lender. Thereafter, the obligation of the Lenders to make or maintain Offshore Rate Loans hereunder shall be suspended until the Administrative Agent revokes such notice in writing. Upon receipt of such notice, the Company may revoke any Notice of Borrowing or Notice of Conversion/Continuation then submitted by it. If the Company does not revoke such Notice, the Lenders shall make, convert or continue the Loans, as proposed by the Company, in the amount specified in the applicable notice submitted by the Company, but such Loans shall be made, converted or continued as Base Rate Loans instead of Offshore Rate Loans, as the case may be.

3.06 RESERVES ON OFFSHORE RATE LOANS. The Company shall pay to each Lender, as long as such Lender shall be required under regulations of the FRB to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "EUROCURRENCY LIABILITIES"), additional costs on the unpaid principal amount of each Offshore Rate Loan equal to the actual costs of such reserves allocated to such Loan by the Lender (as determined by the Lender in good faith, which determination shall be conclusive absent manifest

error), payable on each date on which interest is payable on such Loan, provided the Company shall have received at least 15 days' prior written notice (with a copy to the Administrative Agent) of such additional interest from the Lender. If a Lender fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be payable 15 days from the Company's receipt of such notice.

3.07 CERTIFICATES OF LENDERS. Any Lender claiming reimbursement or compensation under this ARTICLE III shall deliver to the Company (with a copy to the Administrative Agent) a certificate setting forth in reasonable detail the amount payable to the Lender hereunder and such certificate shall be conclusive and binding on the Company in the absence of manifest error.

3.08 SUBSTITUTION OF LENDERS. Upon the receipt by the Company from any Lender (an "AFFECTED LENDER") of a claim for compensation under SECTION 3.01 OR 3.03 or a notice under SECTION 3.02, the Company may: (a) obtain a replacement bank or financial institution reasonably satisfactory to the Company and to the Administrative Agent to acquire and assume all or a ratable part of all of such Affected Lender's Loans and Commitment at the face amount thereof (a "REPLACEMENT LENDER"), or (b) request one or more of the other Lenders to acquire and assume all or part of such Affected Lender's Loans and Commitment. Any assignment and assumption pursuant to this Section shall be consummated in compliance with SECTION 10.08 and shall be subject to the prior written consent of the Administrative Agent (which consent shall not be unreasonably delayed or withheld).

3.09 SURVIVAL. The agreements and obligations of the Company in this ARTICLE III shall survive the payment of all other Obligations.

ARTICLE IV

CONDITIONS PRECEDENT

4.01 CONDITIONS OF INITIAL LOANS. The obligation of each Lender to make its initial Loan hereunder is subject to the condition that the Administrative Agent shall have received on or before the Closing Date all of the following, in form and substance satisfactory to the Administrative Agent and each Lender, and in sufficient copies for each Lender:

(a) CREDIT AGREEMENT AND NOTES. This Agreement and any Notes requested pursuant to SECTION 2.02 executed by each party thereto;

(b) RESOLUTIONS; INCUMBENCY.

(i) Copies of the resolutions of the board of directors of the Company and each Subsidiary party to a Loan Document authorizing the transactions contemplated hereby, certified as of the Closing Date by the Secretary or an Assistant Secretary of such Person; and

(ii) A certificate of the Secretary or Assistant Secretary of the Company, and each Subsidiary party to a Loan Document certifying the names and true signatures of the officers of the Company or such Subsidiary authorized to execute, deliver and perform, as applicable, this Agreement, and all other Loan Documents to be delivered by it hereunder;

(c) ORGANIZATION DOCUMENTS; GOOD STANDING. Each of the following documents:

(i) the articles or certificate of incorporation and the bylaws of the Company and each Subsidiary party to any Loan Document as in effect on the Closing Date, certified by the Secretary or Assistant Secretary of the Company or such Subsidiary as of the Closing Date; and

(ii) a good standing certificate for the Company and each Subsidiary party to any Loan Document from the Secretary of State (or similar, applicable Governmental Authority) of its state of incorporation and each state where the Company or such Subsidiary is qualified to do business as a foreign corporation as of a recent date;

(d) LEGAL OPINIONS. An opinion of Neal, Gerber & Eisenberg, counsel to the Company and addressed to the Administrative Agent and the Lenders, in form and substance satisfactory to the Administrative Agent;

(e) PAYMENT OF FEES. Evidence of payment by the Company of all accrued and unpaid fees, costs and expenses payable by the Company pursuant to Sections 2.09 and 10.04 to the extent then due and payable on the Closing Date, together with Attorney Costs of BofA to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute BofA's reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Company and BofA);

(f) COLLATERAL DOCUMENTS. The Collateral Documents, executed by the Company and its Subsidiaries, together with evidence that all other actions necessary or, in the opinion of the Administrative Agent or the Lenders, desirable to perfect and protect the first priority Lien created by the Collateral Documents, and to enhance the Administrative Agent's ability to preserve and protect its interests in and access to the Collateral, have been taken;

(g) CERTIFICATE. A certificate signed by a Responsible Officer, dated as of the Closing Date, stating that:

(i) the representations and warranties contained in ARTICLE V are true and correct on and as of such date, as though made on and as of such date;

(ii) no Default or Event of Default exists or would result from the initial Borrowing; and

(iii) there has occurred since December 31, 1997 no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect;

(h) YEAR 2000. The Company shall have delivered to the Administrative Agent such information with respect to year 2000 issues as the Administrative Agent may have reasonably requested; and

(i) OTHER DOCUMENTS. Such other approvals, opinions, documents or materials as the Administrative Agent or any Lender may reasonably request.

4.02 CONDITIONS TO ALL BORROWINGS. The obligation of each Lender to make any Loan to be made by it (including its initial Loan) or to continue or convert any Loan under SECTION 2.04 is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date or Conversion/Continuation Date:

(a) NOTICE OF BORROWING OR CONVERSION/CONTINUATION. The Administrative Agent shall have received (with, in the case of the initial Loan only, a copy for each Lender) a Notice of Borrowing or a Notice of Conversion/Continuation, as applicable;

(b) CONTINUATION OF REPRESENTATIONS AND WARRANTIES. The representations and warranties in ARTICLE V shall be true and correct in all material respects on and as of such Borrowing Date or Conversion/Continuation Date with the same effect as if made on and as of such Borrowing Date or Conversion/Continuation Date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date);

(c) NO EXISTING DEFAULT. No Default or Event of Default shall exist or shall result from such Borrowing or continuation or conversion;

(d) MAXIMUM LOAN BALANCE. The outstanding principal amount of the Loans, after giving effect to such Borrowing, conversion or continuation shall not exceed the Maximum Loan Balance; and

(e) NO FUTURE ADVANCE NOTICE. Neither the Administrative Agent nor any Lender shall have received from the Company any notice that the Security Agreement will no longer secure on a first priority basis Tranche A Loans made or to be made under this Agreement.

Each Notice of Borrowing and Notice of Conversion/Continuation submitted by the Company hereunder shall constitute a representation and warranty by the Company hereunder, as of the date of each such notice and as of each Borrowing Date or Conversion/Continuation Date, as applicable, that the conditions in this SECTION 4.02 are satisfied.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Administrative Agent and each Lender that:

5.01 CORPORATE EXISTENCE AND POWER. The Company and each of its Subsidiaries:

(a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation;

(b) has the corporate power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, to carry on its business and to execute, deliver, and perform its obligations under the Loan Documents;

(c) is duly qualified as a foreign corporation and is licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license; and

(d) is in compliance with all Requirements of Law;

except, in each case referred to in clause (c) or clause (d) of this SECTION 5.01, to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.02 CORPORATE AUTHORIZATION; NO CONTRAVENTION. The execution, delivery and performance by the Company and its Subsidiaries of this Agreement and each other Loan Document to which

such Person is party, have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of any of the Company's or any Subsidiary's Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any Contractual Obligation to which the Company or any Subsidiary is a party or any order, injunction, writ or decree of any Governmental Authority to which the Company or any Subsidiary or any of such Person's property is subject; or

(c) violate any Requirement of Law.

5.03 GOVERNMENTAL AUTHORIZATION. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required by or in respect of the Company or any Subsidiary in connection with the execution, delivery or performance by, or enforcement against, the Company or any of its Subsidiaries of the Agreement or any other Loan Document.

5.04 BINDING EFFECT. This Agreement and each other Loan Document to which the Company or any of its Subsidiaries is a party constitute the legal, valid and binding obligations of the Company and any of its Subsidiaries to the extent it is a party thereto, enforceable against such Person in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

5.05 LITIGATION. There are no actions, suits, proceedings, claims or disputes pending or, to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company, or its Subsidiaries or any of their respective properties:

(a) which purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) as to which (either individually or in the aggregate) there exists a substantial likelihood of an adverse determination, which determination could reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

5.06 NO DEFAULT. No Default or Event of Default exists or would result from the incurring of any Obligations by the Company or from the grant or perfection of the Liens of the Administrative Agent and the Lenders on the Collateral. As of the Closing Date (after giving effect to the incurring of any Obligations by the Company and the grant or perfection of the Liens of the Administrative Agent and the Lenders on the Collateral), neither the Company nor any Subsidiary is in default under or with respect to any Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date, create an Event of Default under SUBSECTION 8.01(e).

5.07 ERISA COMPLIANCE. Except as specifically disclosed in SCHEDULE 5.07:

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Company, nothing has occurred which would cause the loss of such qualification. The Company and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Company, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) the Pension Plans do not have aggregate Unfunded Pension Liabilities in excess of \$1,000,000; (iii) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

5.08 USE OF PROCEEDS; MARGIN REGULATIONS. The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by SECTION 6.12 and SECTION 7.07. Neither the

Company nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock.

5.09 TITLE TO PROPERTIES. The Company and each Subsidiary have good title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As of the Closing Date, the property of the Company and its Subsidiaries is subject to no Liens, other than Permitted Liens.

5.10 TAXES. The Company and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed, and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Company or any Subsidiary that would, if made, have a Material Adverse Effect.

5.11 FINANCIAL CONDITION. (a) Each of (i) the audited consolidated financial statements of the Company and its Subsidiaries as of December 31, 1997, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal year ended on that date and (ii) the unaudited consolidated financial statements of the Company and its Subsidiaries as of June 30, 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the period ended on that date:

(i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein;

(ii) fairly present the financial condition of the Company and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(iii) except as specifically disclosed in SCHEDULE 5.11, show in accordance with GAAP all material indebtedness and other liabilities, direct or contingent, of the Company and its consolidated Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Contingent Obligations.

(b) Since December 31, 1997 there has been no Material Adverse Effect.

5.12 ENVIRONMENTAL MATTERS. (a) Except as specifically disclosed in SCHEDULE 5.12, the on-going operations of the Company and each of its Subsidiaries comply in all respects with all

Environmental Laws, except such noncompliance which would not (if enforced in accordance with applicable law) result in liability in excess of \$1,000,000 in the aggregate.

(b) Except as specifically disclosed in SCHEDULE 5.12, the Company and each of its Subsidiaries have obtained all licenses, permits, authorizations and registrations required under any Environmental Law and necessary for their respective ordinary course operations ("ENVIRONMENTAL PERMITS"), all such Environmental Permits are in good standing, and the Company and each of its Subsidiaries are in compliance with all material terms and conditions of such Environmental Permits.

(c) Except as specifically disclosed in SCHEDULE 5.12, none of the Company, any of its Subsidiaries or any of their respective present property or operations, is subject to any outstanding written order from or agreement with any Governmental Authority, nor subject to (i) any judicial or docketed administrative proceeding, respecting any Environmental Law, Environmental Claim or Hazardous Material or (ii) any claim, proceeding or written notice from any Person regarding any Environmental Law, Environmental Claim or Hazardous Material.

(d) Except as specifically disclosed in SCHEDULE 5.12, there are no Hazardous Materials or other conditions or circumstances existing with respect to any property of the Company or any Subsidiary, or arising from operations prior to the Closing Date, of the Company or any of its Subsidiaries that would reasonably be expected to give rise to Environmental Claims with a potential liability of the Company and its Subsidiaries in excess of \$5,000,000 in the aggregate for all such conditions, circumstances and properties. In addition, to the Company's knowledge, (i) neither the Company nor any Subsidiary has any underground storage tanks (x) that are not properly registered or permitted under applicable Environmental Laws, or (y) that are leaking or disposing of Hazardous Materials off-site, which in any such case could reasonably be expected to have a Material Adverse Effect, and (ii) the Company and its Subsidiaries have met all material notification requirements under Title III of CERCLA and all other Environmental Laws.

5.13 COLLATERAL DOCUMENTS. (a) The provisions of each of the Collateral Documents are effective to create in favor of the Administrative Agent for the benefit of the Lenders, a legal, valid and enforceable and, assuming that the secured party has taken all necessary action required by it, first priority security interest in all right, title and interest of the Company and its Subsidiaries in the collateral described therein.

(b) All representations and warranties of the Company and any of its Subsidiaries party thereto contained in the Collateral Documents are true and correct in all material respects.

5.14 REGULATED ENTITIES. None of the Company, any Person controlling the Company, or any Subsidiary, is an "Investment Company" within the meaning of the Investment Company Act

of 1940. The Company is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

5.15 NO BURDENSOME RESTRICTIONS. Neither the Company nor any Subsidiary is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which could reasonably be expected to have a Material Adverse Effect, other than any Material Adverse Effect arising as a result of any reduction in billable services provided by the Company or any Subsidiary or any termination of any customer service agreement (in either case, by parties other than the Company and its Subsidiaries) pursuant to any provision included in the Contractual Obligations.

5.16 COPYRIGHTS, PATENTS, TRADEMARKS AND LICENSES, ETC. The Company and its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without infringing upon or violating the legal rights of any other Person. To the best knowledge of the Company, no material slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the Company's knowledge, threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Company, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

5.17 SUBSIDIARIES. As of the Closing Date, the Company has no Subsidiaries other than those specifically disclosed in part (a) of SCHEDULE 5.17 hereto and has no equity investments in any other corporation or entity other than those specifically disclosed in part (b) of SCHEDULE 5.17.

5.18 INSURANCE. The properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Company or such Subsidiary operates.

5.19 SOLVENCY. The Company and each of its Subsidiaries are Solvent.

5.20 SWAP OBLIGATIONS. Neither the Company nor any of its Subsidiaries has incurred any outstanding obligations under any Swap Contracts, other than Permitted Swap Obligations. The Company has undertaken its own independent assessment of its consolidated assets, liabilities and commitments and has considered appropriate means of mitigating and managing risks associated

with such matters and has not relied on any swap counterparty or any Affiliate of any swap counterparty in determining whether to enter into any Swap Contract.

5.21 YEAR 2000 COMPLIANCE. As of the Closing Date, the Company and its Subsidiaries are conducting a comprehensive review and assessment of their computer applications and have made inquiry of their material suppliers, vendors and customers with respect to the year 2000 problem (that is, the risk that computer applications may not be able to properly perform date sensitive functions after December 31, 1999). The Company believes any year 2000 problem resident in its computer system could not reasonably be expected to have a Material Adverse Effect.

5.22 FULL DISCLOSURE. None of the representations or warranties made by the Company or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Company or any Subsidiary in connection with the Loan Documents (including the offering and disclosure materials delivered by or on behalf of the Company to the Lenders prior to the Closing Date), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

ARTICLE VI

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Required Lenders waive compliance in writing:

6.01 FINANCIAL STATEMENTS AND OTHER REPORTS. The Company shall deliver to the Administrative Agent, in form and detail reasonably satisfactory to the Administrative Agent, with sufficient copies for each Lender:

(a) as soon as available, but not later than the earlier of (i) five (5) days after the filing thereof with the SEC and (ii) 90 days after the end of each fiscal year (commencing with the fiscal year ended December 31, 1998), a copy of the audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such year and the related consolidated statements of income or operations, shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of Arthur Andersen LLP or another nationally-recognized independent public accounting firm ("INDEPENDENT AUDITOR") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company's or any Subsidiary's records; and

(b) as soon as available, but not later than the earlier of (i) five (5) days after the filing thereof with the SEC and (ii) 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ended September 30, 1998), a copy of the unaudited consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter and the related consolidated statements of income, shareholders' equity and cash flows for the period commencing on the first day and ending on the last day of such quarter, setting forth in each case in comparative form the figures for the previous fiscal year and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to ordinary, good faith year-end audit adjustments), the financial position and the results of operations of the Company and the Subsidiaries.

6.02 CERTIFICATES; OTHER INFORMATION. The Company shall furnish to the Administrative Agent, with sufficient copies for each Lender:

(a) concurrently with the delivery of the financial statements referred to in SUBSECTION 6.01(a), a certificate of the Independent Auditor stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in SUBSECTIONS 6.01(a) and (b), a Compliance Certificate executed by a Responsible Officer, which shall include a statement of the Maximum Loan Balance as of the last day of the applicable period;

(c) concurrently with the delivery of the financial statements referred to in SUBSECTION 6.01(a), (i) a consolidating income statement for such year (which need not be audited), and (ii) a budget for the next succeeding fiscal year;

(d) concurrently with the delivery of the financial statements referred to in SUBSECTION 6.01(b), a consolidating income statement for such quarter;

(e) promptly, copies of all financial statements and reports that the Company sends to its shareholders and within five (5) days of filing with the SEC, copies of all financial statements and regular, periodic or special reports (including Forms 10K, 10Q and 8K) that the Company or any Subsidiary may make to, or file with, the SEC;

(f) promptly, such additional information regarding the business, financial or corporate affairs of the Company or any Subsidiary as the Administrative Agent, at the request of any Lender, may from time to time reasonably request;

(g) promptly, upon the request of the Administrative Agent, a computation of the Maximum Loan Balance; and

(h) within ten (10) Business Days after the end of each month and at any other time, as soon as practicable after requested by the Administrative Agent, a current listing of the Collateral Accounts (including a list of the Eligible Securities deposited therein) and a current calculation of the Secured Amount.

6.03 NOTICES. The Company shall notify the Administrative Agent and each Lender promptly after any executive officer of the Company obtains knowledge:

(a) of the occurrence of any Default or Event of Default, and of the occurrence or existence of any event or circumstance that foreseeably will become a Default or Event of Default;

(b) of (i) any breach or non-performance of, or any default under, any Contractual Obligation of the Company or any of its Subsidiaries which could reasonably be expected to result in a Material Adverse Effect; (ii) any material dispute, litigation, investigation, proceeding or suspension which may exist at any time between the Company or any of its Subsidiaries and any Governmental Authority; and (iii) any other matter or circumstance which has had or could reasonably be expected to have a Material Adverse Effect;

(c) of the commencement of, or any material development in, any litigation or proceeding affecting the Company or any Subsidiary (i) in which the amount of damages claimed is \$5,000,000 (or its equivalent in another currency or currencies) or more, (ii) in which injunctive or similar relief is sought and which, if adversely determined, would reasonably be expected to have a Material Adverse Effect, or (iii) in which the relief sought is an injunction or other stay of the performance of this Agreement or any Loan Document;

(d) of (but in no event later than 10 days after becoming aware of) (i) any and all material enforcement, investigation, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened against the Company or any Subsidiary or any of their respective properties pursuant to any applicable Environmental Laws, (ii) all other material Environmental Claims, and (iii) any environmental or similar condition on any real property adjoining or in the vicinity of the property of the Company or any Subsidiary that could reasonably be expected to have a Material Adverse Effect;

(e) of any other litigation or proceeding affecting the Company or any of its Subsidiaries which the Company would be required to report to the SEC pursuant to the Exchange Act, within four days after reporting the same to the SEC;

(f) of the occurrence of any of the following events affecting the Company or any ERISA Affiliate (but in no event more than 10 days after such event), and deliver to the Administrative Agent and each Lender a copy of any notice with respect to such event that is filed with a Governmental Authority and any notice delivered by a Governmental Authority to the Company or any ERISA Affiliate with respect to such event:

(i) an ERISA Event;

(ii) a material increase in the Unfunded Pension Liability of any Pension Plan;

(iii) the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by the Company or any ERISA Affiliate; or

(iv) the adoption of any amendment to a Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability; and

(g) of any material change in accounting policies or financial reporting practices by the Company or any of its consolidated Subsidiaries.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein, and stating what action the Company or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under SUBSECTION 6.03(a) shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been (or foreseeably will be) breached or violated.

6.04 PRESERVATION OF CORPORATE EXISTENCE, ETC. Except in connection with transactions permitted by SECTION 7.03 and sales of assets permitted by SECTION 7.02, the Company shall, and shall cause each Subsidiary to:

(a) preserve and maintain in full force and effect its corporate existence and good standing under the laws of its state or jurisdiction of incorporation;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary in the normal conduct of its business;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.05 MAINTENANCE OF PROPERTY. The Company shall maintain, and shall cause each Subsidiary to maintain, and preserve all its property, including intellectual property, which is used or useful in its business in good working order and condition, ordinary wear and tear excepted and make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, except as permitted by SECTION 7.02. The Company and each Subsidiary shall use the standard of care typical in the industry in the operation and maintenance of its facilities.

6.06 INSURANCE. The Company shall maintain, and shall cause each of its Subsidiaries to maintain, with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons; PROVIDED, that the Company and its Subsidiaries may self-insure against liabilities in respect of medical and workers' compensation coverage.

6.07 PAYMENT OF OBLIGATIONS. The Company shall, and shall cause each Subsidiary to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including:

(a) all material tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith and,

to the extent necessary, by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary;

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property which would not be permitted under SECTION 7.01; and

(c) all Indebtedness (unless such Indebtedness is being contested in good faith and, if necessary, by appropriate proceedings), as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.08 COMPLIANCE WITH LAWS. The Company shall comply, and shall cause each Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist.

6.09 COMPLIANCE WITH ERISA. The Company shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

6.10 INSPECTION OF PROPERTY AND BOOKS AND RECORDS. The Company shall maintain and shall cause each Subsidiary to maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company and such Subsidiary. The Company shall permit, and shall cause each Subsidiary to permit, representatives and independent contractors of the Administrative Agent and the Lenders, together, to visit and inspect any of their respective properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Company; PROVIDED, HOWEVER, when an Event of Default exists the Administrative Agent or any Lender may do any of the foregoing at the expense of the Company at any time during normal business hours and without advance notice.

6.11 ENVIRONMENTAL LAWS. (a) The Company shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in material compliance with all Environmental Laws.

(b) Upon the written request of the Administrative Agent or, through the Administrative Agent, any Lender, the Company shall submit and cause each of its Subsidiaries to submit, to the Administrative Agent with sufficient copies for each Lender, at the Company's

sole cost and expense, at reasonable intervals, a report providing an update of the status of any environmental, health or safety compliance, hazard or liability issue identified in any notice or report required pursuant to SUBSECTION 6.03(d), that could, individually or in the aggregate, result in liability in excess of \$1,000,000.

6.12 USE OF PROCEEDS. The Company shall use the proceeds of the Loans for working capital and other general corporate purposes, including Permitted Acquisitions and Capital Expenditures, not in contravention of any Requirement of Law or of any Loan Document.

6.13 FURTHER ASSURANCES. (a) The Company shall ensure that all written information, exhibits and reports furnished to the Administrative Agent or the Lenders do not and will not contain any untrue statement of a material fact and do not and will not omit to state any material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and will promptly disclose to the Administrative Agent and the Lenders and correct any material defect or error that may be discovered therein or in any Loan Document or in the execution, acknowledgment or recordation thereof.

(b) Promptly upon request by the Administrative Agent or the Required Lenders, the Company shall (and shall cause any of its Subsidiaries to) do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register, any and all such further acts, deeds, conveyances, security agreements, mortgages, assignments, estoppel certificates, financing statements and continuations thereof, termination statements, notices of assignment, transfers, certificates, assurances and other instruments the Administrative Agent or such Lenders, as the case may be, may reasonably require from time to time in order (i) to carry out more effectively the purposes of this Agreement or any other Loan Document, (ii) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests covered by any of the Collateral Documents, (iii) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (iv) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Administrative Agent and Lenders the rights granted or now or hereafter intended to be granted to the Lenders under any Loan Document or under any other document executed in connection therewith.

(c) The Company shall cause each domestic Subsidiary which is acquired or formed after the Closing Date to enter into the Subsidiary Guaranty.

ARTICLE VII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Required Lenders waive compliance in writing:

7.01 LIMITATION ON LIENS. The Company shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any part of its property, whether now owned or hereafter acquired, other than the following ("PERMITTED LIENS"):

(a) any Lien (other than a Lien on the Collateral) existing on property of the Company or any Subsidiary on the Closing Date and set forth in SCHEDULE 7.01 securing Indebtedness outstanding on such date;

(b) any Lien created under any Loan Document;

(c) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by SECTION 6.07, provided that no notice of lien has been filed or recorded under the Code;

(d) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(e) Liens (other than any Lien imposed by ERISA and other than a Lien on the Collateral) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(f) Liens (other than Liens on the Collateral) on the property of the Company or its Subsidiaries securing (i) the non-delinquent performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, (ii) contingent obligations on surety and appeal bonds, and (iii) other non-delinquent obligations of a like nature; in each case, incurred in the ordinary course of business; PROVIDED, that all such Liens in the aggregate could not (even if enforced) reasonably be expected to cause a Material Adverse Effect;

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries;

(h) Liens on assets of corporations which become Subsidiaries after the date of this Agreement, PROVIDED, HOWEVER, that such Liens existed at the time the respective corporations became Subsidiaries and were not created in anticipation thereof;

(i) purchase money security interests on any property acquired or held by the Company or its Subsidiaries in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; PROVIDED THAT (i) any such Lien attaches to such property concurrently with or within 45 days after the acquisition thereof, (ii) such Lien attaches solely to the property so acquired in such transaction, (iii) the principal amount of the debt secured thereby does not exceed 100% of the cost of such property, and (iv) the principal amount of the Indebtedness secured by any and all such purchase money security interests shall not at any time exceed \$2,500,000;

(j) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; PROVIDED THAT (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company or any Subsidiary in excess of those set forth by regulations promulgated by the FRB, and (ii) such deposit account is not intended by the Company or any Subsidiary to provide collateral to the depository institution; and

(k) Liens on any property (other than the Collateral) securing Indebtedness permitted to be incurred pursuant to SUBSECTION 7.05(e) or 7.10(c); PROVIDED THAT such secured Indebtedness shall not exceed \$2,500,000 in aggregate principal amount.

7.02 DISPOSITION OF ASSETS. The Company shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, (x) issue any equity interests of any Subsidiary to any Person which is not the Company or a Subsidiary or (y) sell, assign, lease (as lessor), convey, transfer or otherwise dispose of (whether in one or a series of transactions) any property (including accounts and notes receivable, with or without recourse) or enter into any agreement to do any of the foregoing, except:

(a) dispositions of inventory, or used, worn-out or surplus equipment, all in the ordinary course of business;

(b) the sale of equipment to the extent that such equipment is exchanged for credit against the purchase price of similar replacement equipment, or the proceeds of such sale are reasonably promptly applied to the purchase price of such replacement equipment; and

(c) the license or sale of software or other proprietary assets of the Company and its Subsidiaries to their clients in the ordinary course of business; and

(d) dispositions not otherwise permitted hereunder which are made for fair market value; PROVIDED, that (i) at the time of any disposition, no Event of Default shall exist or shall result from such disposition, (ii) the aggregate sales price from such disposition shall be paid in cash, and (iii) the aggregate value of all assets so sold by the Company and its Subsidiaries, together, shall not exceed in any fiscal year \$5,000,000.

7.03 CONSOLIDATIONS AND MERGERS. The Company shall not, and shall not suffer or permit any Subsidiary to, merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except:

(a) any Subsidiary may merge with the Company or with any one or more Subsidiaries, provided that (i) the Company shall be the continuing or surviving corporation, and (ii) if any transaction shall be between a Subsidiary and a Wholly-Owned Subsidiary, the Wholly-Owned Subsidiary shall be the continuing or surviving corporation;

(b) any Subsidiary may sell all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Company or another Wholly-Owned Subsidiary; and

(c) any Subsidiary may merge with any Person in order to effect a Permitted Acquisition or a Joint Venture expressly permitted hereunder.

7.04 LOANS AND INVESTMENTS. The Company shall not purchase or acquire, or suffer or permit any Subsidiary to purchase or acquire, or make any commitment therefor, any capital stock, equity interest, or any obligations or other securities of, or any interest in, any Person, or make or commit to make any Acquisitions, or make or commit to make any advance, loan, extension of credit or capital contribution to or any other investment in, any Person including any Affiliate of the Company (together, "INVESTMENTS"), except for:

(a) Investments held by the Company or Subsidiary in the form of (i) Cash Equivalents or (ii) debt obligations of United States corporations rated BBB or better by Standard & Poor's Ratings Group or Baa or better by Moody's Investors Services, Inc. and maturing within one year from the date of investment;

(b) extensions of credit in the nature of accounts receivable, notes receivable or other trade credit arising from the sale or lease of goods or services in the ordinary course of business;

(c) extensions of credit by the Company to any of its Wholly-Owned Subsidiaries or by any of its Wholly-Owned Subsidiaries to another of its Wholly-Owned Subsidiaries;

(d) Investments constituting Permitted Swap Obligations or payments or advances under Swap Contracts relating to Permitted Swap Obligations;

(e) advances to employees in an aggregate amount not to exceed \$3,000,000 at any one time outstanding;

(f) Permitted Acquisitions as permitted under SECTIONS 7.19 and 7.20;

(g) Investments in Wholly-Owned Subsidiaries; and

(h) Investments in Joint Ventures permitted hereunder in an aggregate amount not in excess of \$2,000,000 after the Closing Date.

7.05 LIMITATION ON INDEBTEDNESS. The Company shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement;

(b) Indebtedness consisting of Contingent Obligations permitted pursuant to SECTION 7.08;

(c) Indebtedness existing on the Closing Date and set forth in SCHEDULE 7.05;

(d) Indebtedness incurred in connection with leases permitted pursuant to SECTION 7.10; and

(e) other Indebtedness in an aggregate amount outstanding not at any time to exceed \$5,000,000.

7.06 TRANSACTIONS WITH AFFILIATES. The Company shall not, and shall not suffer or permit any Subsidiary to, enter into any transaction with any Affiliate of the Company, except upon terms

no less favorable to the Company or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate of the Company or such Subsidiary.

7.07 USE OF PROCEEDS. The Company shall not, and shall not suffer or permit any Subsidiary to, use any portion of the proceeds of any Loan, directly or indirectly, (i) to purchase or carry Margin Stock, (ii) to repay or otherwise refinance indebtedness of the Company or others incurred to purchase or carry Margin Stock, (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock or (iv) to acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

7.08 CONTINGENT OBLIGATIONS. The Company shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume or suffer to exist any Contingent Obligations except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) Permitted Swap Obligations;

(c) Contingent Obligations of the Company and its Subsidiaries existing as of the Closing Date and listed in SCHEDULE 7.08; and

(d) Contingent Obligations with respect to Surety Instruments incurred in the ordinary course of business and not exceeding at any time \$1,000,000 in the aggregate in respect of the Company and its Subsidiaries together.

7.09 JOINT VENTURES. Subject to the limitations of Section 7.04(h), the Company shall not, and shall not suffer or permit any Subsidiary to enter into any Joint Venture, other than with respect to any entity whose primary business, if conducted by the Company or any Subsidiary, would be considered to be in the ordinary course of the Company's business.

7.10 LEASE OBLIGATIONS. The Company shall not, and shall not suffer or permit any Subsidiary to, create or suffer to exist any obligations for the payment of rent for any property under lease or agreement to lease, except for:

(a) leases of the Company and of Subsidiaries in existence on the Closing Date and any renewal, extension or refinancing thereof;

(b) operating leases entered into by the Company or any Subsidiary after the Closing Date in the ordinary course of business; and

(c) Capitalized Leases other than those permitted under clause (a) of this Section, entered into by the Company or any Subsidiary after the Closing Date to finance the acquisition of equipment or real property.

7.11 RESTRICTED PAYMENTS. The Company shall not, and shall not suffer or permit any Subsidiary to, declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any shares of any class of its capital stock, or purchase, redeem or otherwise acquire for value any shares of its capital stock or any warrants, rights or options to acquire such shares, now or hereafter outstanding, except that (a) any Subsidiary may make unlimited payments and distributions to the Company or to any Wholly-Owned Subsidiary and (b) the Company may:

(i) declare and make dividend payments or other distributions payable solely in its common stock;

(ii) purchase, redeem or otherwise acquire shares of its common stock or warrants or options to acquire any such shares with the proceeds received from the substantially concurrent issue of new shares of its common stock; and

(iii) declare or pay cash dividends to its stockholders and purchase, redeem or otherwise acquire shares of its capital stock or warrants, rights or options to acquire any such shares for cash in an amount not exceeding \$5,000,000 in any calendar year; PROVIDED, that, immediately after giving effect to such proposed action, no Default or Event of Default would exist.

7.12 ERISA. The Company shall not, and shall not suffer or permit any of its ERISA Affiliates to: (a) engage in a prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in liability of the Company in an aggregate amount in excess of \$1,000,000; or (b) engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

7.13 AMENDMENTS TO CHARTER DOCUMENTS. The Company will not, nor will it permit any Subsidiary to make any amendment or modification to any terms or provisions of its Certificate or Articles of Incorporation or bylaws which is materially adverse to the Administrative Agent or the Lenders without the prior written consent of the Required Lenders.

7.14 CHANGE IN BUSINESS. The Company shall not, and shall not suffer or permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on by the Company and its Subsidiaries on the date hereof.

7.15 ACCOUNTING CHANGES. The Company shall not, and shall not suffer or permit any Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the fiscal year of the Company or of any Subsidiary.

7.16 DEBT TO EBITDAR RATIO. The Company shall not, as of the last day of any fiscal quarter, permit its Debt to EBITDAR Ratio to be greater than 3.0 to 1.0.

7.17 FIXED CHARGE COVERAGE RATIO. The Company shall not, as of the last day of any fiscal quarter, permit its ratio of (a) EBITDAR for the period of four fiscal quarters then ending to (b) Fixed Charges for such four fiscal quarter period to be less than (x) 2.75 to 1.0 for the period from the Closing Date through March 31, 1999 and (y) 3.0 to 1.0 thereafter.

7.18 QUARTERLY PROFITABILITY. The Company shall have Net Income for each fiscal quarter of at least \$1.00.

7.19 MAXIMUM COMBINATION OF CASH CAPITAL EXPENDITURES AND PERMITTED ACQUISITIONS. The Company shall not permit the total amount of the sum of (a) Capital Expenditures PLUS (b) expenditures incurred to effect Permitted Acquisitions, in each case made or committed to be made by the Company and its Subsidiaries and paid for with consideration consisting of cash and other property, to exceed \$75,000,000 in any calendar year; PROVIDED, that to the extent such sum in any calendar year is less than \$75,000,000, the \$75,000,000 limit for the following calendar year shall be increased by the amount of such shortfall; PROVIDED, FURTHER, the Company shall first use the initial amount permitted for the current year (without regard to the amount carried over from the previous calendar year, if any) and then the amount carried over from the previous calendar year to meet the requirements of this SECTION 7.19 and any carried over amount not so utilized shall expire.

7.20 PERMITTED ACQUISITIONS. The Company shall not permit the fair market value of common stock and common stock equivalents of the Company paid by the Company as consideration for any single Permitted Acquisition to exceed \$50,000,000.

7.21 SECURED AMOUNT. The Company shall not at any time permit the Secured Amount to be less than the Tranche A Loan Limit.

7.22 RESTRICTIVE AGREEMENTS. The Company shall not, nor shall it permit any of its Subsidiaries to, enter into any indenture, agreement, instrument or other arrangement which directly or indirectly prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the ability of any Subsidiary to (a) pay dividends or make other distributions (i) on its capital stock or (ii) with respect to any other interest or participation in, or measured by, its profits, (b) make loans or advances to the Company or any Subsidiary, (c) repay loans or advances from the Company or any Subsidiary, (d) grant Liens on

any of its assets (other than assets which are subject to Permitted Liens and as to which the Company or such Subsidiary has agreed not to extend a second Lien) in favor of the Administrative Agent or any Lender to secure the Obligations or (e) transfer any of its properties or assets to the Company or any Subsidiary; PROVIDED, that any such agreement or arrangement to which any Subsidiary which is the subject of a Permitted Acquisition is a party at the time of such Permitted Acquisition may remain in effect for a period of thirty (30) days following the consummation of such Permitted Acquisition.

ARTICLE VIII

EVENTS OF DEFAULT

8.01 EVENT OF DEFAULT. Any of the following shall constitute an "EVENT OF DEFAULT":

(a) NON-PAYMENT. The Company fails to make, (i) when and as required to be made herein, payments of any amount of principal of any Loan, or (ii) within five (5) Business Days after the same becomes due, payment of any interest, fee or any other amount payable hereunder or under any other Loan Document; or

(b) REPRESENTATION OR WARRANTY. Any representation or warranty by the Company or any Subsidiary made or deemed made herein or in any other Loan Document, or contained in any certificate, document or financial or other statement by the Company, any Subsidiary, or any Responsible Officer, furnished at any time under this Agreement, or in or under any other Loan Document is incorrect in any material respect on or as of the date made or deemed made; or

(c) SPECIFIC DEFAULTS. The Company fails to perform or observe any term, covenant or agreement contained in any of SECTIONS 6.01, 6.02, 6.03 or 6.09 or in ARTICLE VII; or

(d) OTHER DEFAULTS. The Company or any Subsidiary party thereto fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 20 days after the earlier of (i) the date upon which a Responsible Officer knew of such failure or (ii) the date upon which written notice thereof is given to the Company by the Administrative Agent or any Lender; or

(e) CROSS-DEFAULT. (i) The Company or any Subsidiary (A) fails to make any payment in respect of any Indebtedness or Contingent Obligation (other than in respect of Swap Contracts), having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$2,500,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) giving effect to applicable grace periods; or

(B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness or Contingent Obligation, if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or Administrative Agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness to be declared to be due and payable or to be required to be repurchased prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (1) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (2) any Termination Event (as so defined) as to which the Company or any Subsidiary is an Affected Party (as so defined), and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than \$1,000,000; or

(f) INSOLVENCY; VOLUNTARY PROCEEDINGS. The Company or any Subsidiary

(i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

(g) INVOLUNTARY PROCEEDINGS. (i) Any involuntary Insolvency

Proceeding is commenced or filed against the Company or any Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of the Company's or any Subsidiary's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the Company or any Subsidiary admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the Company or any Subsidiary acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) ERISA. (i) An ERISA Event shall occur with respect to a Pension

Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Company or any ERISA Affiliate under Title IV of ERISA to such Pension Plan or Multiemployer Plan or to the PBGC in an aggregate amount for all such Pension Plans and Multiemployer Plans in excess of \$1,000,000; or (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans and Multiemployer Plans at any time exceeds \$1,000,000 (determined, in respect of Multiemployer Plans, by reference to the Unfunded Pension Liability for which the Company

or any ERISA Affiliate may be liable); or (iii) the Company or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$1,000,000; or

(i) MONETARY JUDGMENTS. One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Company or any Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of \$1,000,000 or more, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 30 days after the entry thereof; or

(j) NON-MONETARY JUDGMENTS. Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) CHANGE OF CONTROL. There occurs any Change of Control; or

(l) LOSS OF LICENSES. Any Governmental Authority revokes or fails to renew any material license, permit or franchise of the Company or any Subsidiary, or the Company or any Subsidiary for any reason loses any material license, permit or franchise, or the Company or any Subsidiary suffers the imposition of any restraining order, escrow, suspension or impound of funds in connection with any proceeding (judicial or administrative) with respect to any material license, permit or franchise; or

(m) ADVERSE CHANGE. There occurs a Material Adverse Effect; or

(n) GUARANTOR DEFAULTS. Any Guarantor fails in any material respect to perform or observe any term, covenant or agreement in the Subsidiary Guaranty; or the Subsidiary Guaranty is for any reason in any material respect (including with respect to future advances) or wholly revoked or invalidated, or otherwise ceases to be in full force and effect, or any Guarantor or any other Person contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder; or any event described in subsection (f) or (g) of this Section occurs with respect to a Guarantor; or

(o) COLLATERAL.

(i) any provision of any Collateral Document shall for any reason cease to be valid and binding on or enforceable against the Company or any Subsidiary party thereto or the Company or any Subsidiary shall so state in writing or bring an action to limit its obligations or liabilities thereunder; or

(ii) any Collateral Document shall for any reason (other than pursuant to the terms thereof) cease to create a valid security interest in the Collateral purported to be covered thereby or such security interest shall for any reason cease to be a perfected and first priority security interest.

8.02 REMEDIES. If any Event of Default occurs, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders,

(a) declare the Commitment of each Lender to make Loans to be terminated, whereupon such Commitments shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(c) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

PROVIDED, HOWEVER, that upon the occurrence of any event specified in subsection (f) or (g) of SECTION 8.01 (in the case of clause (i) of subsection (g) upon the expiration of the 60-day period mentioned therein), the obligation of each Lender to make Loans shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Administrative Agent or any Lender.

8.03 RIGHTS NOT EXCLUSIVE. The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

ARTICLE IX

THE ADMINISTRATIVE AGENT

9.01 APPOINTMENT AND AUTHORIZATION; "ADMINISTRATIVE AGENT". Each Lender hereby irrevocably (subject to SECTION 9.09) appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

9.02 DELEGATION OF DUTIES. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.03 LIABILITY OF ADMINISTRATIVE AGENT. None of the Agent-Related Persons shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by the Company or any Subsidiary or Affiliate of the Company, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document, or for the value of or title to any Collateral, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of the Company or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of

the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Company or any of the Company's Subsidiaries or Affiliates.

9.04 RELIANCE BY ADMINISTRATIVE AGENT. (a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Company), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

(b) For purposes of determining compliance with the conditions specified in SECTION 4.01, each Lender that has executed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Administrative Agent to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to such Lender.

9.05 NOTICE OF DEFAULT. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent for the account of the Lenders, unless the Administrative Agent shall have received written notice from a Lender or the Company referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with ARTICLE VIII; PROVIDED, HOWEVER, that unless and until the Administrative Agent has received any such request, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Lenders except to the extent that other provisions of this Agreement expressly require that any such action be taken or not be taken only with the consent and authorization or at the request of the Lenders or the Required Lenders, as applicable.

9.06 CREDIT DECISION. Each Lender acknowledges that none of the Agent-Related Persons has made any representation or warranty to it, and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Company and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Company and its Subsidiaries, the value of and title to any Collateral, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Company hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Company. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders by the Administrative Agent and financial statements and other materials provided pursuant to SECTION 6.01 or 6.02, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Company which may come into the possession of any of the Agent-Related Persons.

9.07 INDEMNIFICATION OF ADMINISTRATIVE AGENT. Whether or not the transactions contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of the Company and without limiting the obligation of the Company to do so), in accordance with such Lender's Pro Rata Share of all Loans, from and against any and all Indemnified Liabilities; PROVIDED, HOWEVER, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Administrative Agent is not reimbursed for such expenses by or on behalf of the Company. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Administrative Agent.

9.08 ADMINISTRATIVE AGENT IN INDIVIDUAL CAPACITY. BofA and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Company and its Subsidiaries and Affiliates as though BofA were not the Administrative Agent hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, BofA or its Affiliates may receive information regarding the Company or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Company or such Subsidiary) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, BofA shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Lender" and "Lenders" include BofA in its individual capacity.

9.09 SUCCESSOR AGENT. The Administrative Agent may, and at the request of the Required Lenders, shall resign as Administrative Agent upon 30 days' notice to the Lenders. If the Administrative Agent resigns under this Agreement, the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders. If no successor agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Company, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this ARTICLE IX and SECTIONS 10.04 and 10.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

9.10 WITHHOLDING TAX. (a) (i) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the Code and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Lender agrees with and in favor of the Administrative Agent, to deliver to the Administrative Agent:

(A) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, two properly completed and executed copies of IRS Form 1001 before the payment of any interest in the first calendar year and

before the payment of any interest in each third succeeding calendar year during which interest may be paid under this Agreement;

(B) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form 4224 before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement; and

(C) such other form or forms as may be required under the Code or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees to promptly notify the Administrative Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(ii) If any foreign Lender claims exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", such Lender agrees with and in favor of the Administrative Agent and the Company to deliver to the Administrative Agent and the Company a Form W-8, or any subsequent versions thereof or successors thereto (and, if such Lender delivers a Form W-8, a certificate representing that such Lender is not a "bank" for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(b) of the Code) of the Company and is not a controlled foreign corporation related to the Company (within the meaning of Section 864(d)(4) of the Code)).

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form 1001 and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Lender, such Lender agrees to notify the Administrative Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Company to such Lender. To the extent of such percentage amount, the Administrative Agent will treat such Lender's IRS Form 1001 as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form 4224 with the Administrative Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Company to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, the Administrative Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. However, if the forms or other documentation required by subsection (a) of this Section are not delivered to the Administrative Agent, then the Administrative Agent may withhold from any interest payment to such Lender not providing such forms or other documentation an amount equivalent to the applicable withholding tax imposed by Sections 1441 and 1442 of the Code, without reduction.

(e) If the IRS or any other Governmental Authority of the United States or other jurisdiction asserts a claim that the Administrative Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or was not properly executed, or because such Lender failed to notify the Administrative Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify the Administrative Agent fully for all amounts paid, directly or indirectly, by the Administrative Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Administrative Agent under this Section, together with all costs and expenses (including Attorney Costs). The obligation of the Lenders under this subsection shall survive the payment of all Obligations and the resignation or replacement of the Administrative Agent.

9.11 COLLATERAL MATTERS. (a) The Administrative Agent is authorized on behalf of all the Lenders, without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any Collateral or the Collateral Documents which may be necessary to perfect and maintain perfected the security interest in and Liens upon the Collateral granted pursuant to the Collateral Documents.

(b) The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any Collateral (i) upon termination of the Commitments and payment in full of all Loans and all other Obligations known to the Administrative Agent and payable under this Agreement or any other Loan Document; (ii) consisting of an instrument evidencing Indebtedness or other debt instrument, if the Indebtedness evidenced thereby has been paid in full; or (iii) if approved, authorized or ratified in writing by the Required Lenders or all the Lenders, as the case may be, as provided in SUBSECTION 10.01(g). Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant to this SUBSECTION 9.11(b), provided that the absence of any such confirmation for whatever reason shall not affect the Administrative Agent's rights under this SECTION 9.11.

(c) Each Lender agrees with and in favor of each other (which agreement shall not be for the benefit of the Company or any Subsidiary) that the Company's obligation to such Lender under this Agreement and the other Loan Documents is not and shall not be secured by any real property collateral now or hereafter acquired by such Lender.

9.12 CO-AGENTS. None of the Lenders identified on the facing page or signature pages of this Agreement as a "Co-Agent" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders so identified as a "Co-Agent" shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied and will not rely, on any of the Lenders so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE X

MISCELLANEOUS

10.01 AMENDMENTS AND WAIVERS. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Company or any applicable Subsidiary therefrom, shall be effective unless the same shall be in writing and signed by the Required Lenders (or by the Administrative Agent at the written request of the Required Lenders) and the Company and acknowledged by the Administrative Agent, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; PROVIDED, HOWEVER, that no such waiver, amendment, or consent shall, unless in writing and signed by all the Lenders and the Company and acknowledged by the Administrative Agent, do any of the following:

(a) increase or extend the Commitment of any Lender (or reinstate any Commitment terminated pursuant to SECTION 8.02);

(b) postpone or delay any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document;

(c) reduce the principal of, or the rate of interest specified herein on any Loan, or (subject to clause (ii) below) any fees or other amounts payable hereunder or under any other Loan Document;

(d) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans which is required for the Lenders or any of them to take any action hereunder;

(e) amend this Section, the definition of "Required Lenders", or SECTION 2.13, or any provision herein providing for consent or other action by all Lenders;

(f) increase the Tranche A Loan Limit to an amount in excess of \$30,000,000 or amend SECTION 7.21; or

(g) discharge any Guarantor, or release all or any material portion of the Collateral except as otherwise may be provided in the Collateral Documents or except where the consent of the Required Lenders only is specifically provided for;

and, PROVIDED FURTHER, that (i) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Required Lenders or all the Lenders, as the case may be, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document, and (ii) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed by the parties thereto.

10.02 NOTICES. (a) All notices, requests, consents, approvals, waivers and other communications shall be in writing (including, unless the context expressly otherwise provides, by facsimile transmission, provided that any matter transmitted by the Company by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on SCHEDULE 10.02, and (ii) shall be followed promptly by delivery of a hard copy original thereof) and mailed, faxed or delivered, to the address or facsimile number specified for notices on SCHEDULE 10.02; or, as directed to the Company or the Administrative Agent, to such other address as shall be designated by such party in a written notice to the other parties, and as directed to any other party, at such other address as shall be designated by such party in a written notice to the Company and the Administrative Agent.

(b) All such notices, requests and communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the U.S. mail, or if delivered, upon delivery; except that notices pursuant to ARTICLE II or IX to the Administrative Agent shall not be effective until actually received by the Agent.

(c) Any agreement of the Administrative Agent and the Lenders herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Company. The Administrative Agent and the Lenders shall be entitled to rely on the authority

of any Person purporting to be a Person authorized by the Company to give such notice and the Administrative Agent and the Lenders shall not have any liability to the Company or other Person on account of any action taken or not taken by the Administrative Agent or the Lenders in reliance upon such telephonic or facsimile notice. The obligation of the Company to repay the Loans shall not be affected in any way or to any extent by any failure by the Administrative Agent and the Lenders to receive written confirmation of any telephonic or facsimile notice or the receipt by the Administrative Agent and the Lenders of a confirmation which is at variance with the terms understood by the Administrative Agent and the Lenders to be contained in the telephonic or facsimile notice.

10.03 NO WAIVER; CUMULATIVE REMEDIES. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

10.04 COSTS AND EXPENSES. The Company shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse BofA (including in its capacity as Administrative Agent) and the Arranger within five (5) Business Days after demand (subject to SUBSECTION 4.01(e)) for all reasonable costs and expenses incurred by BofA (including in its capacity as Administrative Agent) and the Arranger in connection with the development, preparation, delivery, administration, syndication and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including reasonable Attorney Costs incurred by BofA (including in its capacity as Administrative Agent) and the Arranger with respect thereto;

(b) pay or reimburse the Administrative Agent, the Arranger and each Lender within five (5) Business Days after demand (subject to SUBSECTION 4.01(e)) for all costs and expenses (including Attorney Costs) incurred by them in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans, and including in any Insolvency Proceeding or appellate proceeding); and

(c) pay or reimburse BofA (including in its capacity as Administrative Agent) within five (5) Business Days after demand (subject to SUBSECTION 4.01(e)) for all appraisal (including the allocated cost of internal appraisal services), audit, environmental inspection and review (including the allocated cost of such internal services), search and filing costs, fees and

expenses, incurred or sustained by BofA (including in its capacity as Administrative Agent) in connection with the matters referred to under subsections (a) and (b) of this Section.

10.05 COMPANY INDEMNIFICATION. (a) The Company shall indemnify, defend and hold the Agent-Related Persons, and each Lender and each of its respective officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "INDEMNIFIED PERSON") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans and the termination, resignation or replacement of the Administrative Agent or replacement of any Lender or assignment by any Lender of its Loans or Commitment) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "INDEMNIFIED LIABILITIES"); PROVIDED, that the Company shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

(b) Survival; Defense. The obligations in this Section shall survive payment of all other Obligations. At the election of any Indemnified Person, the Company shall defend such Indemnified Person using legal counsel satisfactory to such Indemnified Person in such Person's sole discretion, at the sole cost and expense of the Company. All amounts owing under this Section shall be paid within 30 days after demand.

10.06 MARSHALLING; PAYMENTS SET ASIDE. Neither the Administrative Agent nor the Lenders shall be under any obligation to marshal any assets in favor of the Company or any other Person or against or in payment of any or all of the Obligations. To the extent that the Company makes a payment to the Administrative Agent or the Lenders, or the Administrative Agent or the Lenders exercise their right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then (a) to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its pro rata share of any amount so recovered from or repaid by the Administrative Agent.

10.07 SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent and each Lender.

10.08 ASSIGNMENTS, PARTICIPATIONS, ETC. (a) Any Lender may, with the written consent of the Company at all times other than during the existence of an Event of Default and the Administrative Agent, which consent of the Company shall not be unreasonably withheld or delayed, at any time assign and delegate to one or more Eligible Assignees (provided that no written consent of the Company or the Administrative Agent shall be required in connection with any assignment and delegation by a Lender to an Eligible Assignee that is an Affiliate of such Lender) (each an "ASSIGNEE") all, or any ratable part of all, of the Loans, the Commitments and the other rights and obligations of such Lender hereunder, in a minimum amount of \$5,000,000 or, if less, 100% of such Lender's outstanding Loans and/or Commitment; PROVIDED, HOWEVER, that the Company and the Administrative Agent may continue to deal solely and directly with such Lender in connection with the interest so assigned to an Assignee until (A) written notice of such assignment, together with payment instructions, addresses and related information with respect to the Assignee, shall have been given to the Company and the Administrative Agent by such Lender and the Assignee, (B) such Lender and its Assignee shall have delivered to the Company and the Administrative Agent an Assignment and Acceptance in the form of EXHIBIT D ("ASSIGNMENT AND ACCEPTANCE") together with any Note or Notes subject to such assignment and (C) the assignor Lender or Assignee has paid to the Administrative Agent a processing fee in the amount of \$3,500; PROVIDED, FURTHER, that upon receipt of notice from any Lender that such Lender intends, pursuant to this SECTION 10.08, to make any such assignment and delegation to an Assignee other than an Affiliate of such Lender or another Lender, then, so long as no Event of Default has occurred and is continuing, the Company shall have 10 days from the date of receipt of such notice to obtain an Assignee (which Assignee shall be reasonably satisfactory to the Administrative Agent and the assignor Lender) to accept such assignment and delegation from such Lender, in lieu of the Assignee specified by such assignor Lender, with such assignment to be made otherwise in compliance with this SECTION 10.08, except that the \$3,500 processing fee shall be paid by the Company or the Assignee chosen by the Company; PROVIDED, FURTHER, that if any Assignee chosen by the Company pursuant to preceding proviso is found to be unsatisfactory to the assignor Lender, then the Company shall have an additional 10-day period to obtain another Assignee.

(b) From and after the date that the Administrative Agent notifies the assignor Lender that it has received (and, if required, provided its consent with respect to) an executed Assignment and Acceptance and payment of the above-referenced processing fee, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of a Lender under the Loan Documents, and (ii) the assignor Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been

assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under the Loan Documents.

(c) Within five (5) Business Days after its receipt of notice by the Administrative Agent that it has received an executed Assignment and Acceptance and payment of the processing fee, (and provided that it consents to such assignment in accordance with SUBSECTION 10.08(a)), the Company shall execute and deliver to the Administrative Agent, new Notes evidencing such Assignee's assigned Loans and Commitment and, if the assignor Lender has retained a portion of its Loans and its Commitment, replacement Notes in the principal amount of the Loans retained by the assignor Lender (such Notes to be in exchange for, but not in payment of, the Notes held by such Lender). Immediately upon each Assignee's making its processing fee payment under the Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the Commitments arising therefrom. The Commitment allocated to each Assignee shall reduce such Commitments of the assigning Lender PRO TANTO.

(d) The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders and the Commitments of, and principal amount of the Loans owing to, each Lender from time to time. The entries in such register shall be conclusive, in the absence of manifest error, and the Company, the Administrative Agent and the Lenders shall treat each person whose name is recorded in such register as the owner of the Commitments and the Loans recorded therein for all purposes of this Agreement. The register shall be available for inspection by the Company, any Lender and their representatives, at any reasonable time and from time to time upon reasonable prior notice.

(e) Any Lender may at any time sell to one or more commercial banks or other Persons not Affiliates of the Company (a "PARTICIPANT") participating interests in any Loans, the Commitment of that Lender and the other interests of that Lender (the "ORIGINATING LENDER") hereunder and under the other Loan Documents; PROVIDED, HOWEVER, that (i) the originating Lender's obligations under this Agreement shall remain unchanged, (ii) the originating Lender shall remain solely responsible for the performance of such obligations, (iii) the Company and the Administrative Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Loan Documents, and (iv) no Lender shall transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment, consent or waiver would require unanimous consent of the Lenders as described in clause (a) (but only in respect of any increase of any Commitment of any originating Lender), (b) or (c) of the FIRST PROVISOR to SECTION 10.01. In the case of any such participation, the Participant shall be entitled to the benefit of SECTIONS 3.01, 3.03 and 10.05 as though it were also a Lender hereunder, and if

amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement.

(f) Notwithstanding any other provision in this Agreement, (i) any Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement and the Note held by it in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR Section 203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law and (ii) any Lender that is a fund that invests in bank loans may, without the consent of the Administrative Agent or the Company, pledge all or any portion of its rights under and interest in this Agreement to any trustee or to any other representative of holders of obligations owed or securities issued by such fund as security for such obligations or securities; PROVIDED, that any transfer to any Person upon the enforcement of such pledge or security interest may only be made subject to SECTION 10.08.

10.09 CONFIDENTIALITY. Each Lender agrees to take and to cause its Affiliates to take normal and reasonable precautions, in accordance with such Lender's customary procedures for handling confidential information of this nature, and exercise due care to maintain the confidentiality of all information identified as "nonpublic", "confidential" or "secret" by the Company and provided to it by the Company or any Subsidiary, or by the Administrative Agent on the Company's or such Subsidiary's behalf, under this Agreement or any other Loan Document, and neither it nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with the Company or any Subsidiary; except to the extent such information (a) was or becomes generally available to the public other than as a result of disclosure by the Lender or its Affiliates, or (b) was or becomes available on a non-confidential basis from a source other than the Company or any Subsidiary, provided that such source is not bound by a confidentiality agreement with the Company or such Subsidiary known to the Lender; PROVIDED, HOWEVER, that any Lender may disclose such information (i) at the request or pursuant to any requirement of any Governmental Authority to which the Lender is subject or in connection with an examination of such Lender by any such authority; (ii) pursuant to subpoena or other court process; (iii) when required to do so in accordance with the provisions of any applicable Requirement of Law; (iv) to the extent reasonably required in connection with any litigation or proceeding to which the Administrative Agent, any Lender or their respective Affiliates may be party; (v) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (vi) to such Lender's independent auditors and other professional advisors, provided that such Person agrees in writing to keep such information confidential to the same extent required of the Lenders hereunder; (vii) to any

Participant or Assignee, actual or potential, provided that such Person agrees in writing to keep such information confidential to the same extent required of the Lenders hereunder; (viii) as to any Lender or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Company or any Subsidiary is party or is deemed party with such Lender or such Affiliate; (ix) to its Affiliates; and (x) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about such Lender's investment portfolio in connection with ratings issued with respect to such Lender.

10.10 SET-OFF. In addition to any rights and remedies of the Lenders provided by law and regardless of the adequacy of any of the Collateral, if an Event of Default exists or the Loans have been accelerated, each Lender is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the Company against any and all Obligations owing to such Lender, now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. Each Lender agrees promptly to notify the Company and the Administrative Agent after any such set-off and application made by such Lender; PROVIDED, HOWEVER, that the failure to give such notice shall not affect the validity of such set-off and application.

10.11 AUTOMATIC DEBITS OF FEES. With respect to any commitment fee, arrangement fee, or other fee, or any other cost or expense (including Attorney Costs) due and payable to the Administrative Agent, BofA or the Arranger under the Loan Documents, the Company hereby irrevocably authorizes BofA to debit any deposit account of the Company with BofA in an amount such that the aggregate amount debited from all such deposit accounts does not exceed such fee or other cost or expense. If there are insufficient funds in such deposit accounts to cover the amount of the fee or other cost or expense then due, such debits will be reversed (in whole or in part, in BofA's sole discretion) and such amount not debited shall be deemed to be unpaid. No such debit under this Section shall be deemed a set-off.

10.12 NOTIFICATION OF ADDRESSES, LENDING OFFICES, ETC. Each Lender shall notify the Administrative Agent in writing of any changes in the address to which notices to the Lender should be directed, of addresses of any Lending Office, of payment instructions in respect of all payments to be made to it hereunder and of such other administrative information as the Administrative Agent shall reasonably request.

10.13 COUNTERPARTS. This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument.

10.14 SEVERABILITY. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

10.15 NO THIRD PARTIES BENEFITED. This Agreement is made and entered into for the sole protection and legal benefit of the Company, the Lenders, the Administrative Agent and the Agent-Related Persons, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

10.16 GOVERNING LAW AND JURISDICTION. (a) THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAW OF THE STATE OF ILLINOIS (WITHOUT REGARD TO CONFLICTS OF LAWS PROVISIONS THEREOF); PROVIDED THAT THE ADMINISTRATIVE AGENT AND THE LENDERS SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE COMPANY, THE ADMINISTRATIVE AGENT AND THE LENDERS EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY ILLINOIS LAW.

10.17 WAIVER OF JURY TRIAL. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE

TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE COMPANY, THE LENDERS AND THE ADMINISTRATIVE AGENT EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

10.18 ENTIRE AGREEMENT. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Company, the Lenders and the Administrative Agent, and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in Chicago, Illinois by their proper and duly authorized officers as of the day and year first above written.

TELETECH HOLDINGS, INC.

By: /s/ Kenneth Tuchman

Title: President and Chief Executive Officer

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,
as Administrative Agent

By: /s/ David A. Johanson

Title: Vice President

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,
as a Lender

By: /s/ Steve Standbridge

Title: Senior Vice President

FIRST UNION NATIONAL BANK, individually and as Co-Agent

By: /s/ David C. Hanglid

Title: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

U.S. BANK NATIONAL ASSOCIATION, individually and as Co-Agent

By: /s/ Joni M. Fish

Title: Vice President

WELLS FARGO BANK N.A., individually and as Co-Agent

By: /s/ Nancy S. Martorano

Title: Vice President

FLEET NATIONAL BANK

By: /s/ Jeff Lynch

Title: Senior Vice President

[SIGNATURES CONTINUED FROM PRECEDING PAGE]

SCHEDULE 2.01

COMMITMENTS
AND PRO RATA SHARES

Lender -----	Commitment -----	Pro Rata Share -----
Bank of America National Trust and Savings Association	\$ 12,000,000	24%
First Union National Bank	\$ 9,500,000	19%
Fleet National Bank	\$ 9,500,000	19%
U.S. Bank National Association	\$ 9,500,000	19%
Wells Fargo Bank N.A.	\$ 9,500,000	19%
 TOTAL	 \$50,000,000	 100%

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of February 26, 1998 between TeleTech Holdings, Inc., a Delaware corporation (collectively with its subsidiaries, "TeleTech"), and Morton H. Meyerson ("Employee").

W I T N E S S E T H:

WHEREAS, TeleTech is engaged in the business of, among other things, providing customer care solutions on an outsourced or facilities management basis, primarily over the telephone and the Internet, using state-of-the-art computer and software systems, telephony integration and interactive voice response systems (collectively, the "BUSINESS");

WHEREAS, TeleTech desires to employ Employee, and Employee desires to all as more fully described and subject to the terms and conditions set forth herein;

WHEREAS, in consideration of TeleTech's employment of Employee, the terms, conditions and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Employee and TeleTech agree to execute and be bound by this Agreement; and

WHEREAS, Employee has had an opportunity to review the terms and conditions of this Agreement, to negotiate the terms hereof and to engage independent legal counsel on his behalf.

NOW THEREFORE, intending to be legally bound, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT. TeleTech hereby employs Employee to provide, and Employee accepts employment with TeleTech and agrees to provide, advisory and on-going consulting services including, among other things, (a) strategic planning and advice regarding general management and operational matters, (b) the identification, hiring and compensation of senior level management, (c) the identification, contact and initiation of relationships with potential clients, technology suppliers and venture partners, and (d) such other matters as TeleTech's Chief Executive Officer may reasonably request from time to time (collectively, the "Services"). Employee agrees to devote such time and effort as may be necessary to adequately and properly perform the Services, as agreed by TeleTech and Employee; however, Employee is employed as and shall remain a part-time employee of TeleTech.

2. COMPENSATION. In consideration of TeleTech's employment of Employee hereunder, TeleTech shall grant to Employee a Non-qualified Stock Option with respect to up to 365,744 shares

which shall enable Employee (pursuant to the terms hereof and thereof) to retain net of exercise consideration and withholding tax up to 200,000 shares of TeleTech's common stock, par value \$.01 per share, at an exercise price of \$9.50 per share (the "Option"). The Option shall be subject to the terms and conditions of the TeleTech Holdings, Inc. Stock Plan, as Amended and Restated, and as it may hereafter be amended (the "Stock Plan"), and the Non-qualified Stock Option Agreement, in the form attached hereto as EXHIBIT A (the "Option Agreement"), to be executed concurrently with the execution of this Agreement.

3. EXPENSES. TeleTech shall reimburse Employee for travel and out-of-pocket expenses actually and reasonably incurred by Employee in rendering the Services hereunder, subject to the approval of the Chairman of the Board of Directors of TeleTech.

4. TERM AND TERMINATION. This Agreement shall commence on the date hereof and shall continue for ten years from the date hereof; PROVIDED HOWEVER that either party may terminate this Agreement upon 30 days' prior written notice to the other party.

5. CONFIDENTIAL INFORMATION.

(a) Employee acknowledges that he will occupy a position of trust with TeleTech and that, as part of his employment, Employee will have access to or obtain certain Confidential Information (as defined herein). Employee acknowledges and agrees that (i) any and all Confidential Information obtained by Employee is the property of TeleTech and its affiliates and (ii) he shall not use or disclose, directly or indirectly, any Confidential Information to any person, other than such authorized personnel or agents of TeleTech or Employee as may be necessary for Employee's proper performance of the Services. Employee shall return to TeleTech, promptly upon termination of this Agreement or otherwise upon the request of TeleTech, all copies of any books, papers, documents, files or other materials containing or embodying any Confidential Information. The provisions of this Section 5 shall survive termination of this Agreement for any reason.

(b) "Confidential Information" means all information, know-how, systems and procedures of a technical, business or financial nature developed or owned by or relating to the Business, including but not limited to all ideas, concepts, experimental and research data; computer software, data bases, files, documentation and related materials; service techniques and protocols, business and marketing plans; information relating to financial information, pricing, margins, call volumes, cost and sales information; contractual arrangements, advertising and promotions, market research data, client lists and other information about TeleTech's actual and prospective employees, clients, suppliers and competitors; patents and patent

applications, inventions and improvements (whether patentable or not), development projects, designs, practices, processes, methods and techniques; and all other trade secrets and information of a confidential and proprietary nature.

6. NON-SOLICITATION AND NON-INTERFERENCE. Employee acknowledges that TeleTech has invested substantial time and effort in assembling its present staff and agrees that, so long as this Agreement is in effect and for a period of 24 months thereafter, he shall not (irrespective of the time, manner or cause of termination of this Agreement), either directly or indirectly solicit, attempt to solicit or cause the solicitation or attempted solicitation of any employee of TeleTech respectively, to leave his or her employment and accept employment with Employee or any other person.

7. REASONABLENESS OF SCOPE; INJUNCTIVE RELIEF.

(a) Employee agrees that the restrictions contained in Section 6 are reasonable as to time and geographic scope because of the nature of the Business.

(b) Employee acknowledge that damages would be an inadequate remedy for Employee's breach of any of the provisions of Sections 5 or 6 and that any breach thereof will result in immeasurable and irreparable harm to TeleTech. Therefore, in addition to any other remedy to which TeleTech may be entitled by reason of Employee's breach or threatened breach of any such provision, TeleTech shall be entitled to seek and obtain a temporary restraining order, a preliminary and/or permanent injunction, or any other form of equitable relief from any court of competent jurisdiction restraining Employee from committing or continuing any breach of Section 5 or 6 without the necessity of posting a bond. It is further agreed that the existence of any claim or cause of action on the part of Employee against TeleTech, whether arising from this Agreement or otherwise, shall in no way constitute a defense to the enforcement of the provisions of this Section 7.

8. INDEMNIFICATION. TeleTech agrees to indemnify and hold harmless Employee with respect to any claims or liabilities (including reasonable costs and expenses incurred in defending such claims or liabilities, including without limitation reasonable attorney's fees) that may be asserted or imposed against any Employee arising out of, relating to or in connection with the performance of the Services hereunder, except for any such claims that may be asserted or liabilities that may be imposed by virtue of Employee's gross negligence or willful misconduct.

9. NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed to have been

made upon the earliest to occur of (a) receipt, if made by personal service, (b) two days after delivery to a reputable overnight courier service, (c) upon the delivering party's receipt of a written confirmation of a transmission made by facsimile, or (d) five days after being mailed by registered or certified air mail (postage prepaid, return receipt requested). All notices and other communications hereunder to (i) TeleTech shall be sent to its principal executive offices, to the attention of its Chief Executive Officer, and (ii) Employee shall be sent to his home address as then recorded on the books of TeleTech.

10. GOVERNING LAW. This Agreement shall be governed as to its validity and effect by the laws of the State of Colorado, without regard to its choice of law rules.

11. ARBITRATION. Any and all disputes arising out of or in any way relating to this Agreement, the Option and/or the Option Agreement will be decided by arbitration in Denver, Colorado by a single arbitrator who shall be a retired judge of the federal or State district courts of Colorado, in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Discovery shall be limited to reasonable document requests. All documents so requested shall be produced within 10 days after the requests are made. The arbitrator's decision shall be final and binding, and shall be enforceable upon the parties by any court of competent jurisdiction. The prevailing party shall be entitled to an award of fees and costs.

12. SUCCESSORS AND ASSIGNS. This Agreement may not be assigned by any party without the prior written consent of all other parties; PROVIDED, HOWEVER, that this Agreement shall be binding upon and shall inure to the benefit of the heirs, executors and legal representatives of Employee, upon Employee's death, and any successor of TeleTech.

13. INTEGRATION. This Agreement and the Option Agreement constitute the entire agreement between the parties with respect to the matters that are the subject hereof and supersede all prior oral or written understandings and agreements relating to its subject matter.

14. NO MODIFICATION. This Agreement may be modified only by a written instrument executed by the parties, which is designated as an amendment to this Agreement.

15. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

16. SEVERABILITY. Any provision of this Agreement (or any portion thereof) that is deemed invalid, illegal or unenforceable

in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions thereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant shall be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

TELETECH HOLDINGS, INC.

By: /s/ Steven B. Coburn

Name: Steven B. Coburn
Title: Chief Financial Officer

/s/ Morton H. Meyerson

Morton H. Meyerson

LIST OF SUBSIDIARIES OF
TELETECH HOLDINGS, INC.

Name of Subsidiary *	Jurisdiction of Incorporation
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1. T-TEC Labs, Inc. [fka TeleTech (Technology Development and Integration), Inc.].....	State of Delaware
(a) Digital Creators, Inc.....	State of Colorado
2. TeleTech Customer Care Management (California), Inc. [fka TeleTech Telecommunications, Inc.].....	State of California
3. TeleTech Customer Care Management (Colorado), Inc. [fka TeleTech Teleservices, Inc.].....	State of Colorado
4. EDM Electronic Direct Marketing Ltd.....	Province of Ontario, Canada
5. TeleTech South America Holdings, Inc.....	State of Delaware
(a) Outsource Informatica Ltda.....	Brazil
6. Cygnus Computer Associates Ltd.....	Province of Ontario, Canada
7. Telemercadeo Integral, S.A. de C.V.....	Mexico
8. TeleTech Services Corporation	State of Colorado
(a) Access 24 Limited.....	United Kingdom
(b) TeleTech Financial Services Management, Inc.....	State of Delaware
(c) TeleTech Facilities Management (Postal Customer Support), Inc.	State of Delaware
(d) TeleTech Facilities Management (Parcel Customer Support), Inc.	State of Delaware
(e) TeleTech Health Services Management, Inc.....	State of Delaware
(f) TeleTech Customer Care Management (West Virginia), Inc..	State of West Virginia
(g) TeleTech Customer Care Management (New York), Inc.	State of New York
(h) TeleTech Customer Care Management, Inc.....	State of Delaware
(i) TeleTech Customer Care Management (Pennsylvania), Inc...	State of Pennsylvania

(j)	TeleTech Customer Care Solutions (Japan), Inc.....	State of Delaware
(k)	TeleTech Customer Care Management (General), Inc. [fka Maxwell Leasing Company, Inc.].....	State of Delaware
(l)	TeleTech Customer Care Management (Telecommunications), Inc.....	State of Delaware
(m)	TeleTech Customer Care Management (Texas), Inc.	State of Texas
(n)	TeleTech Customer Care Management (South America), Inc..	State of Delaware
(o)	TeleTech Customer Care Management (GS), Inc.....	State of Delaware
(p)	TeleTech Financial Services Management (WV), Inc.....	State of Delaware
(q)	Pamet River, Inc.....	State of Delaware
9.	TeleTech International Pty Limited.....	New South Wales, Australia
(a)	TeleTech Limited.....	New Zealand
(b)	High Performance Healthcare Limited.....	Queensland, Australia
10.	TeleTech (UK) Limited.....	United Kingdom

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* Each of the subsidiaries conducts business under its legal corporate name listed above.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 8, 1999, included in this Form 10-K, into TeleTech Holdings, Inc.'s previously filed Registration Statement File No. 333-17569 on Form S-8, Registration Statement File No. 333-64575 on Form S-3 and Registration Statement File No. 333-60001 on Form S-3.

/s/ Arthur Andersen LLP

Denver, Colorado
March 26, 1999.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TELETECH HOLDINGS, INC.'S 1998 FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR		
DEC-31-1998		
JAN-01-1998		
DEC-31-1998		8,796
	37,082	
	71,730	
	2,900	
	0	
	121,374	
		115,978
	38,432	
	230,910	
58,229		6,353
0		9
		606
	164,887	
230,910		369,045
	369,045	
		241,230
	337,307	
	(1,429)	
	0	
	1,270	
	31,897	
	12,695	
19,202		0
	0	
		0
	19,202	
	.32	
	.31	