

SYKES ENTERPRISES INC

Form 10-Q

November 05, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2013

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **0-28274**

***Sykes Enterprises, Incorporated***

(Exact name of Registrant as specified in its charter)

**Florida**

(State or other jurisdiction of incorporation or organization)

**56-1383460**

(IRS Employer Identification No.)

**400 North Ashley Drive, Suite 2800, Tampa, FL 33602**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (813) 274-1000**

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 at least the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 30, 2013, there were 43,978,408 outstanding shares of common stock.

**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**

**Form 10-Q**

**INDEX**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<b><u>Item 1. Financial Statements</u></b>	3
<b><u>Condensed Consolidated Balance Sheets – September 30, 2013 and December 31, 2012 (Unaudited)</u></b>	3
<b><u>Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u></b>	4
<b><u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u></b>	5
<b><u>Condensed Consolidated Statements of Changes in Shareholders’ Equity – Nine Months Ended September 30, 2013 (Unaudited)</u></b>	6
<b><u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u></b>	7
<b><u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u></b>	9
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	43
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	56
<b><u>Item 4. Controls and Procedures</u></b>	58
<b><u>Part II. OTHER INFORMATION</u></b>	58
<b><u>Item 1. Legal Proceedings</u></b>	58
<b><u>Item 1A. Risk Factors</u></b>	58
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	59
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	59
<b><u>Item 4. Mine Safety Disclosures</u></b>	59
<b><u>Item 5. Other Information</u></b>	59
<b><u>Item 6. Exhibits</u></b>	60
<b><u>SIGNATURE</u></b>	61

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets**

(Unaudited)

(in thousands, except per share data)	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 196,735	\$ 187,322
Receivables, net	274,207	247,633
Prepaid expenses	17,233	12,370
Other current assets	21,280	20,017
<b>Total current assets</b>	<b>509,455</b>	<b>467,342</b>
Property and equipment, net	114,868	101,295
Goodwill, net	201,514	204,231
Intangibles, net	80,189	92,037
Deferred charges and other assets	43,865	43,784
	<b>\$ 949,891</b>	<b>\$ 908,689</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 23,432	\$ 24,985
Accrued employee compensation and benefits	78,487	73,103
Current deferred income tax liabilities	916	92
Income taxes payable	1,880	800
Deferred revenue	37,187	34,283
Other accrued expenses and current liabilities	32,647	31,320
<b>Total current liabilities</b>	<b>174,549</b>	<b>164,583</b>
Deferred grants	7,040	7,607
Long-term debt	105,000	91,000
Long-term income tax liabilities	25,192	26,162
Other long-term liabilities	12,889	13,073
<b>Total liabilities</b>	<b>324,670</b>	<b>302,425</b>
<b>Commitments and loss contingency (Note 15)</b>		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value, 200,000 shares authorized; 44,048 and 43,790 shares issued, respectively	440	438
Additional paid-in capital	278,992	277,192
Retained earnings	339,067	315,187
Accumulated other comprehensive income	9,519	14,856
Treasury stock at cost: 191 shares and 108 shares, respectively	(2,797)	(1,409)
<b>Total shareholders' equity</b>	<b>625,221</b>	<b>606,264</b>
	<b>\$ 949,891</b>	<b>\$ 908,689</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Statements of Operations**

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	2013	2012	2013	2012
Revenues	\$ 322,143	\$ 280,526	\$ 928,122	\$ 823,426
Operating expenses:				
Direct salaries and related costs	215,001	183,628	628,848	536,758
General and administrative	73,987	75,747	222,967	217,653
Depreciation, net	10,677	9,583	30,863	30,033
Amortization of intangibles	3,699	2,774	11,171	6,644
Impairment of long-lived assets	-	122	-	271
Total operating expenses	303,364	271,854	893,849	791,359
Income from continuing operations	18,779	8,672	34,273	32,067
Other income (expense):				
Interest income	216	297	648	1,015
Interest (expense)	(630)	(421)	(1,716)	(1,049)
Other income (expense)	356	(715)	142	(1,804)
Total other income (expense)	(58)	(839)	(926)	(1,838)
Income from continuing operations before income taxes	18,721	7,833	33,347	30,229
Income taxes	4,575	(309)	7,087	3,569
Income from continuing operations, net of taxes	14,146	8,142	26,260	26,660
(Loss) from discontinued operations, net of taxes	-	-	-	(820)
(Loss) on sale of discontinued operations, net of taxes	-	-	-	(10,707)
Net income	\$ 14,146	\$ 8,142	\$ 26,260	\$ 15,133
Net income (loss) per common share:				
Basic:				
Continuing operations	\$ 0.33	\$ 0.19	\$ 0.61	\$ 0.62
Discontinued operations	-	-	-	(0.27)
Net income (loss) per common share	\$ 0.33	\$ 0.19	\$ 0.61	\$ 0.35
Diluted:				
Continuing operations	\$ 0.33	\$ 0.19	\$ 0.61	\$ 0.62
Discontinued operations	-	-	-	(0.27)
Net income (loss) per common share	\$ 0.33	\$ 0.19	\$ 0.61	\$ 0.35

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Weighted average common shares outstanding:

Basic	<b>42,785</b>	43,014	<b>42,918</b>	43,130
Diluted	<b>42,836</b>	43,031	<b>42,948</b>	43,179

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 14,146	\$ 8,142	\$ 26,260	\$ 15,133
Other comprehensive income (loss), net of taxes:				
Foreign currency translation gain (loss), net of taxes	7,200	5,802	(2,905)	7,977
Unrealized gain (loss) on net investment hedge, net of taxes	(797)	-	(774)	-
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(27)	(5)	(123)	16
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	827	(1,369)	(1,351)	1,339
Unrealized gain (loss) on postretirement obligation, net of taxes	(95)	(5)	(184)	44
Other comprehensive income (loss), net of taxes	7,108	4,423	(5,337)	9,376
Comprehensive income (loss)	\$ 21,254	\$ 12,565	\$ 20,923	\$ 24,509

*See accompanying Notes to Condensed Consolidated Financial Statements.*



**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**

**Nine Months Ended September 30, 2013**

(Unaudited)

(in thousands)	Common Stock			Accumulated			Total
	Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	
<b>Balance at December 31, 2012</b>	43,790	\$ 438	\$ 277,192	\$ 315,187	\$ 14,856	\$ (1,409)	\$ 606,264
Issuance of common stock	10	-	59	-	-	-	59
Stock-based compensation expense	-	-	3,581	-	-	-	3,581
Excess tax benefit (deficiency) from stock-based compensation	-	-	(34)	-	-	-	(34)
Vesting of common stock and restricted stock under equity award plans, net of forfeitures	520	5	105	-	-	(203)	(93)
Repurchase of common stock	-	-	-	-	-	(5,479)	(5,479)
Retirement of treasury stock	(272)	(3)	(1,911)	(2,380)	-	4,294	-
Comprehensive income (loss)	-	-	-	26,260	(5,337)	-	20,923
<b>Balance at September 30, 2013</b>	<b>44,048</b>	<b>\$ 440</b>	<b>\$ 278,992</b>	<b>\$ 339,067</b>	<b>\$ 9,519</b>	<b>\$ (2,797)</b>	<b>\$ 625,221</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,260	\$ 15,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	31,620	30,827
Amortization of intangibles	11,171	6,644
Amortization of deferred grants	(859)	(794)
Impairment losses	-	271
Unrealized foreign currency transaction (gains) losses, net	4,496	(646)
Stock-based compensation expense	3,581	3,111
Deferred income tax provision (benefit)	(801)	(3,981)
Net (gain) loss on disposal of property and equipment	60	83
Bad debt expense	398	806
Unrealized (gains) losses on financial instruments, net	201	(584)
Amortization of deferred loan fees	194	303
Loss on sale of discontinued operations	-	10,707
Other	74	219
Changes in assets and liabilities, net of acquisition:		
Receivables	(25,912)	(9,955)
Prepaid expenses	(4,723)	98
Other current assets	(2,000)	5,198
Deferred charges and other assets	(938)	(11,568)
Accounts payable	(1,958)	(2,206)
Income taxes receivable / payable	(2,080)	1,950
Accrued employee compensation and benefits	6,304	8,842
Other accrued expenses and current liabilities	337	7,193
Deferred revenue	4,011	2,486
Other long-term liabilities	1,086	(8,803)
Net cash provided by operating activities	<b>50,522</b>	55,334
<b>Cash flows from investing activities:</b>		
Capital expenditures	(45,647)	(26,355)
Cash paid for business acquisition, net of cash acquired	-	(147,094)
Proceeds from sale of property and equipment	89	422
Investment in restricted cash	(262)	(63)
Release of restricted cash	-	356
Cash divested on sale of discontinued operations	-	(9,100)
Other	-	228
Net cash (used for) investing activities	<b>(45,820)</b>	(181,606)



**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(Continued)

(in thousands)	Nine Months Ended September 30,	
	2013	2012
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(18,000)	(10,000)
Proceeds from issuance of long-term debt	32,000	108,000
Proceeds from issuance of common stock	59	-
Cash paid for repurchase of common stock	(5,479)	(7,908)
Proceeds from grants	151	88
Shares repurchased for minimum tax withholding on equity awards	(93)	(1,412)
Cash paid for loan fees related to long-term debt	-	(857)
<b>Net cash provided by financing activities</b>	<b>8,638</b>	<b>87,911</b>
<b>Effects of exchange rates on cash</b>	<b>(3,927)</b>	<b>3,807</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,413</b>	<b>(34,554)</b>
Cash and cash equivalents beginning	187,322	211,122
Cash and cash equivalents ending	\$ 196,735	\$ 176,568
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during period for interest	\$ 1,593	\$ 1,726
Cash paid during period for income taxes	\$ 12,304	\$ 25,673
<b>Non-cash transactions:</b>		
Property and equipment additions in accounts payable	\$ 4,433	\$ 3,427
Unrealized gain (loss) on postretirement obligation in accumulated other comprehensive income (loss)	\$ (184)	\$ 44

*See accompanying Notes to Condensed Consolidated Financial Statements.*

---

**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**Nine Months Ended September 30, 2013 and 2012**

(Unaudited)

**Note 1. Overview and Basis of Presentation**

**Business** Sykes Enterprises, Incorporated and consolidated subsidiaries ( SYKES or the Company ) provides comprehensive outsourced customer contact management solutions and services in the business process outsourcing arena to companies, primarily within the communications, financial services, technology/consumer, transportation and leisure, and healthcare industries. SYKES provides flexible, high-quality outsourced customer contact management services (with an emphasis on inbound technical support and customer service), which includes customer assistance, healthcare and roadside assistance, technical support and product sales to its clients' customers. Utilizing SYKES integrated onshore/offshore global delivery model, SYKES provides its services through multiple communication channels encompassing phone, e-mail, Internet, text messaging and chat. SYKES complements its outsourced customer contact management services with various enterprise support services in the United States that encompass services for a company's internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, SYKES also provides fulfillment services including multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery and product returns handling. The Company has operations in two reportable segments entitled (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, in which the client base is primarily companies in the United States that are using the Company's services to support their customer management needs; and (2) EMEA, which includes Europe, the Middle East and Africa.

**Acquisition** In August 2012, the Company completed the acquisition of Alpine Access, Inc. ( Alpine ), a Delaware corporation, pursuant to the Agreement and Plan of Merger, dated July 27, 2012. The Company has reflected the operating results in the Condensed Consolidated Statements of Operations since August 20, 2012. See Note 2, Acquisition of Alpine Access, Inc., for additional information on the acquisition of this business.

**Discontinued Operations** In March 2012, the Company sold its operations in Spain (the Spanish operations ), pursuant to an asset purchase agreement dated March 29, 2012 and a stock purchase agreement dated March 30, 2012. The Company reflected the operating results related to the Spanish operations as discontinued operations in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2012. Cash flows from discontinued operations are included in the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012. See Note 3, Discontinued Operations, for additional information on the sale of the Spanish operations.

**Basis of Presentation** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( generally accepted accounting principles or U.S. GAAP ) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2013. For further information, refer to the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission ( SEC ).

**Principles of Consolidation** The condensed consolidated financial statements include the accounts of SYKES and its wholly-owned subsidiaries and controlled majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

**Use of Estimates** The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

---

**Table of Contents**

**Subsequent Events** Subsequent events or transactions have been evaluated through the date and time of issuance of the condensed consolidated financial statements. There were no material subsequent events that required recognition or disclosure in the accompanying condensed consolidated financial statements.

**Goodwill** The Company accounts for goodwill and other intangible assets under Accounting Standards Codification ( ASC ) 350 *Intangibles Goodwill and Other* ( ASC 350 ). The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. For goodwill and other intangible assets with indefinite lives not subject to amortization, the Company reviews goodwill and intangible assets for impairment at least annually in the third quarter, and more frequently in the presence of certain circumstances. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the Company is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values, as appropriate, and an analysis of our market capitalization. Under ASC 350, the carrying value of assets is calculated at the reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

The Company elected to forgo the option to first assess qualitative factors and completed its annual two-step goodwill impairment test during the three months ended September 30, 2013, which included the consideration of certain economic factors, and determined that the fair value of each reporting unit was substantially in excess of its carrying value and goodwill was not impaired.

***New Accounting Standards Not Yet Adopted***

In March 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-05 *Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ( ASU 2013-05 ). The amendments in ASU 2013-05 indicate that a cumulative translation adjustment ( CTA ) is attached to the parent's investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. Thus, the entire amount of the CTA associated with the foreign entity would be released when there has been a sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, a loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated), or a step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. The amendments in ASU 2013-05 are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. The Company does not expect the adoption of ASU 2013-05 to materially impact its financial condition, results of operations and cash flows.

In July 2013, the FASB issued ASU 2013-11 *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ( ASU 2013-11 ). The amendments in ASU 2013-11 indicate that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a

**Table of Contents**

net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of ASU 2013-11 to materially impact its financial condition, results of operations and cash flows.

***New Accounting Standards Recently Adopted***

In December 2011, the FASB issued ASU 2011-11 *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* ( ASU 2011-11 ). The amendments in ASU 2011-11 enhanced disclosures by requiring improved information about financial and derivative instruments that are either 1) offset (netting assets and liabilities) in accordance with Section 210-20-45 or Section 815-10-45 of the FASB Accounting Standards Codification ( ASC ) or 2) subject to an enforceable master netting arrangement or similar agreement. The amendments in ASU 2011-11 are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those years. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU 2011-11 as of January 1, 2013 did not have a material impact on the financial condition, results of operations and cash flows of the Company. See Note 7, Financial Derivatives, for further information.

In July 2012, the FASB issued ASU 2012-02 *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment* ( ASU 2012-02 ). The amendments in ASU 2012-02 provide entities with the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. Under the amendments in ASU 2012-02, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in ASU 2012-02 are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 on January 1, 2013 did not have a material impact on the financial condition, results of operations and cash flows of the Company. See Goodwill in this Note 1 for further information.

In January 2013, the FASB issued ASU 2013-01 *Balance Sheet (Topic 210) Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* ( ASU 2013-01 ). The amendments in ASU 2013-01 clarify which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. ASU 2013-01 addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11 was overly broad and imposed unintended costs that were not commensurate with estimated benefits to the financial statement users. In choosing to narrow the scope of the offsetting disclosures, the FASB determined that it could make them more operable and cost effective for preparers while still giving financial statement users sufficient information to analyze the most significant presentation differences between financial statements prepared in accordance with U.S. GAAP and those prepared under International Financial Reporting Standards ( IFRS ). The amendments in ASU 2013-01 are effective for fiscal years beginning on or after January 1, 2013. Retrospective application is required for any period presented that begins before the entity's initial application of the new requirements. The adoption of ASU 2013-01 as of January 1, 2013 did not have a material impact on the financial condition, results of operations and cash flows of the Company. See Note 7, Financial Derivatives, for further information.

In February 2013, the FASB issued ASU 2013-02 *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ( ASU 2013-02 ). The amendments in ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the

**Table of Contents**

face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments in ASU 2013-02 are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 as of January 1, 2013 did not have a material impact on the financial condition, results of operations and cash flows of the Company. See Note 12, Accumulated Other Comprehensive Income (Loss), for further information.

**Note 2. Acquisition of Alpine Access, Inc.**

On August 20, 2012, the Company acquired 100% of the outstanding common shares and voting interest of Alpine, pursuant to the terms of the merger agreement. Alpine, an industry leader in the at-home agent space, provides award-winning customer contact management services through a secured and proprietary virtual call center environment with its operations located in the United States ( U.S. ) and Canada. The results of Alpine s operations have been included in the Company s consolidated financial statements since its acquisition on August 20, 2012. The Company acquired Alpine to: create significant competitive differentiation for quality, speed to market, scalability and flexibility driven by proprietary, internally-developed software, systems, processes and other intellectual property, which uniquely overcome the challenges of the at-home delivery model; strengthen the Company s current service portfolio and go-to-market offering while expanding the breadth of clients with minimal client overlap; broaden the addressable market opportunity within existing and new verticals as well as clients; expand the addressable pool of skilled labor; leverage operational best practices across the Company s global platform, with the potential to convert more of its fixed cost to variable cost; and further enhance the growth and margin profile of the Company to drive shareholder value. This resulted in the Company paying a substantial premium for Alpine resulting in the recognition of goodwill.

The acquisition date fair value of the consideration transferred totaled \$149.0 million, which was funded through cash on hand of \$41.0 million and borrowings of \$108.0 million under the Company s credit agreement, dated May 3, 2012. See Note 11, Borrowings, for further information.

The Company accounted for the acquisition in accordance with ASC 805 *Business Combinations* , whereby the purchase price paid was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed from Alpine based on their estimated fair values as of the closing date. During the three months ended December 31, 2012, the final working capital adjustment was approved by the authorized representative of Alpine s shareholders. The Company finalized its purchase price allocation during the three months ended December 31, 2012, resulting in no changes from the estimated acquisition date fair values previously reported.



**Table of Contents**

The following table summarizes the final purchase price allocation of the fair values of the assets acquired and liabilities assumed, all included in the Americas segment (in thousands):

	<b>Amount</b>
Cash and cash equivalents	\$ 1,859
Receivables	11,831
Prepaid expenses	617
<b>Total current assets</b>	<b>14,307</b>
Property and equipment	11,326
Goodwill	80,766
Intangibles	57,720
Deferred charges and other assets	916
Accounts payable	(880)
Accrued employee compensation and benefits	(3,774)
Income taxes payable	(141)
Deferred revenue	(94)
Other accrued expenses and current liabilities	(601)
<b>Total current liabilities</b>	<b>(5,490)</b>
Other long-term liabilities <sup>(1)</sup>	(10,592)
	<b>\$ 148,953</b>

<sup>(1)</sup> Primarily includes long-term deferred tax liabilities.

Fair values are based on management's estimates and assumptions including variations of the income approach, the cost approach and the market approach.

The following table presents the Company's purchased intangible assets as of August 20, 2012, the acquisition date (in thousands):

	<b>Amount Assigned</b>	<b>Weighted Average Amortization Period (years)</b>
Customer relationships	\$ 46,000	8
Trade names	10,600	8
Non-compete agreements	670	2
Favorable lease agreement	450	2
	<b>\$ 57,720</b>	<b>8</b>

The \$80.8 million of goodwill was assigned to the Company's Americas operating segment. Pursuant to Federal income tax regulations, no amount of intangibles or goodwill from this acquisition will be deductible for tax purposes.

The fair value of receivables purchased was \$11.8 million, with a gross contractual amount of \$11.8 million.

The amount of Alpine's revenues and net loss since the August 20, 2012 acquisition date, included in the Company's accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 were as follows (in thousands):

	<b>From August 20, 2012 Through September 30, 2012</b>
Revenues	\$ 10,095
(Loss) from continuing operations before income taxes	\$ (1,935)
(Loss) from continuing operations, net of taxes	\$ (1,907)

**Table of Contents**

The loss from continuing operations before income taxes of \$1.9 million includes \$1.3 million in severance costs, depreciation resulting from the adjustment to fair value of the acquired property and equipment, and amortization of the fair values of the acquired intangibles.

The following table presents the unaudited pro forma combined revenues and net earnings as if Alpine had been included in the consolidated results of the Company for the entire three and nine month periods ended September 30, 2012. The pro forma financial information is not indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place on January 1, 2012 (in thousands):

	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2012</b>
Revenues	\$ 292,580	\$ 885,878
Income from continuing operations, net of taxes	\$ 9,622	\$ 24,296
<b>Income from continuing operations per common share:</b>		
Basic	\$ 0.22	\$ 0.57
Diluted	\$ 0.22	\$ 0.57

These amounts have been calculated to reflect the additional depreciation, amortization and interest expense that would have been incurred assuming the fair value adjustments and borrowings occurred on January 1, 2012, together with the consequential tax effects. In addition, these amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies' operating results. Included in these costs are severance, advisory and legal costs, net of the tax effects.

Merger and integration costs associated with Alpine were as follows (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Severance costs: <sup>(1)</sup></b>				
Americas	\$ (7)	\$ -	\$ 526	\$ -
	<b>(7)</b>	<b>-</b>	<b>526</b>	<b>-</b>
<b>Severance costs: <sup>(2)</sup></b>				
Americas	4	320	985	320
Corporate	-	377	159	377
	<b>4</b>	<b>697</b>	<b>1,144</b>	<b>697</b>
<b>Transaction and integration costs: <sup>(2)</sup></b>				
Corporate	73	3,045	444	3,095
	<b>73</b>	<b>3,045</b>	<b>444</b>	<b>3,095</b>
<b>Total merger and integration costs</b>	<b>\$ 70</b>	<b>\$ 3,742</b>	<b>\$ 2,114</b>	<b>\$ 3,792</b>

<sup>(1)</sup> Included in Direct salaries and related costs in the accompanying Condensed Consolidated Statements of Operations.

<sup>(2)</sup> Included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations.

**Note 3. Discontinued Operations**

In November 2011, the Finance Committee of the Board of Directors of the Company approved a plan to sell its Spanish operations, which were operated through its Spanish subsidiary, Sykes Enterprises, Incorporated S.L. ( Sykes Spain ). Sykes Spain operated customer contact management centers, with annual revenues of approximately \$39.3 million in 2011, providing contact center services through a total of three customer contact management centers in Spain to clients in Spain. The decision to sell the Spanish operations was made in 2011 after management completed a strategic review of the Spanish market and determined the operations were no longer consistent with the Company's strategic direction.

On March 29, 2012, Sykes Spain entered into the asset purchase agreement, by and between Sykes Spain and Iberphone, S.A.U., and pursuant thereto, on March 29, 2012, Sykes Spain sold the fixed assets located in Ponferrada, Spain, which were previously written down to zero, cash of \$4.1 million, and certain contracts and licenses relating to the business of Sykes Spain, to Iberphone, S.A.U. Under the asset purchase agreement, Ponferrada, Spain employees were transferred to Iberphone S.A.U. which assumed certain payroll liabilities in the approximate amount of \$1.7 million, and paid a nominal purchase price for the assets.

**Table of Contents**

On March 30, 2012, the Company entered into a stock purchase agreement with a former member of Sykes Spain's management, and pursuant thereto, on March 30, 2012, the Company sold all of the shares of capital stock of Sykes Spain to the purchaser for a nominal price. Pursuant to the stock purchase agreement, immediately prior to closing, the Company made a cash capital contribution of \$8.6 million to Sykes Spain to cover a portion of Sykes Spain's liabilities and to fund the \$4.1 million of cash transferred and sold pursuant to the asset purchase agreement with Iberphone, S.A.U. discussed above. As this was a stock transaction, the Company anticipates no future obligation with regard to Sykes Spain and there are no material post-closing obligations.

The Company reflected the operating results related to the Spanish operations as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2012. Cash flows from discontinued operations are included in the accompanying Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012. This business was historically reported by the Company as part of the EMEA segment.

The results of the Spanish operations included in discontinued operations were as follows (none in the comparable periods in 2013) (in thousands):

	<b>Three Months Ended September 30, 2012</b>	<b>Nine Months Ended September 30, 2012</b>
Revenues	\$ -	\$ 10,102
(Loss) from discontinued operations before income taxes	\$ -	\$ (820)
Income taxes <sup>(1)</sup>	-	-
(Loss) from discontinued operations, net of taxes	\$ -	\$ (820)
(Loss) on sale of discontinued operations before income taxes	\$ -	\$ (10,707)
Income taxes <sup>(1)</sup>	-	-
(Loss) on sale of discontinued operations, net of taxes	\$ -	\$ (10,707)

<sup>(1)</sup> There were no income taxes as any tax benefit from the losses would be offset by a valuation allowance.

**Note 4. Costs Associated with Exit or Disposal Activities*****Fourth Quarter 2011 Exit Plan***

During 2011, the Company announced a plan to rationalize seats in certain U.S. sites and close certain locations in EMEA (the Fourth Quarter 2011 Exit Plan). The details are described below, by segment.

**Americas**

During 2011, as part of an on-going effort to streamline excess capacity related to the integration of the ICT Group, Inc. ( ICT ) acquisition and align it with the needs of the market, the Company announced a plan to rationalize approximately 900 seats in the U.S., some of which were revenue generating, with plans to migrate the associated revenues to other locations within the U.S. Approximately 300 employees were affected and the Company has completed the actions associated with the Americas plan.

The major costs estimated to be incurred as a result of these actions are program transfer costs, facility-related costs (primarily consisting of those costs associated with the real estate leases), and impairments of long-lived assets (primarily leasehold improvements and equipment) estimated at \$1.9 million as of September 30, 2013 (\$1.9 million at December 31, 2012). The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$1.4 million represents cash expenditures for program transfer and facility-related costs, including obligations under the leases, the last of which ends in February 2017. The Company has paid \$0.8

million in cash through September 30, 2013 under the Fourth Quarter 2011 Exit Plan in the Americas.

**Table of Contents**

The following tables summarize the accrued liability associated with the Americas Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Three Months Ended September				
	Beginning Accrual at July 1, 2013	30, 2013 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 606	\$ -	\$ (53)	\$ -	\$ 553

	Charges (Reversals) for the Three Months Ended September				
	Beginning Accrual at July 1, 2012	30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ 598	\$ 418	\$ (281)	\$ -	\$ 735

<sup>(1)</sup> During 2012, the Company recorded additional charges due to a change in estimate in lease obligations and facility exit costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

The following tables summarize the accrued liability associated with the Americas Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Nine Months Ended				
	Beginning Accrual at January 1, 2013	September 30, 2013 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 682	\$ -	\$ (129)	\$ -	\$ 553

	Charges (Reversals) for the Nine Months Ended				
	Beginning Accrual at January 1, 2012	September 30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ -	\$ 1,074	\$ (339)	\$ -	\$ 735

<sup>(1)</sup> During 2012, the Company recorded additional lease obligations and facility exit costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

**EMEA**

During 2011, to improve the Company's overall profitability in the EMEA region, the Company committed to close a customer contact management center in South Africa and a customer contact management center in Ireland, as well as some capacity rationalization in the Netherlands, all components of the EMEA segment. Through these actions, the Company expects to improve its cost structure in the EMEA region by optimizing its capacity utilization. While the Company migrated approximately \$3.2 million of annualized call volumes of the Ireland

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

facility to other facilities within EMEA, the Company did not migrate the remaining call volume in Ireland or any of the annualized revenue from the Netherlands or South Africa facilities, which was \$18.8 million for 2011, to other facilities within the region. The number of seats rationalized across the EMEA region approximated 900 with approximately 500 employees affected by the actions. The Company closed these facilities and substantially completed the actions associated with the EMEA plan on September 30, 2012.

The major costs estimated to be incurred as a result of these actions are facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and anticipated severance-related costs estimated at \$6.7 million as of September 30, 2013 (\$6.7 million as of December 31, 2012). The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$6.2 million represents cash expenditures for severance and related costs and facility-related costs, primarily rent obligations to be paid through the remainder of the noncancelable term of the leases, the last of which ended in March 2013. The Company has paid \$5.9 million in cash through September 30, 2013 under the Fourth Quarter 2011 Exit Plan in EMEA.



**Table of Contents**

The following tables summarize the accrued liability associated with EMEA's Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Three Months Ended September 30,					Ending Accrual at
	Beginning Accrual at July 1, 2013	2013 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	September 30, 2013	
Lease obligations and facility exit costs	\$ -	\$ -	\$ -	\$ -	\$ -	
Severance and related costs	184	(62)	-	7	129	
Legal-related costs	5	(5)	-	-	-	
	\$ 189	\$ (67)	\$ -	\$ 7	\$ 129	

	Charges (Reversals) for the Three Months Ended September 30,					Ending Accrual at
	Beginning Accrual at July 1, 2012	2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	September 30, 2012	
Lease obligations and facility exit costs	\$ 565	\$ -	\$ (5)	\$ 8	\$ 568	
Severance and related costs	3,320	151	(2,886)	(17)	568	
Legal-related costs	5	12	(16)	(1)	-	
	\$ 3,890	\$ 163	\$ (2,907)	\$ (10)	\$ 1,136	

- (1) During 2013, the Company reversed accruals related to the final settlement of severance and related costs and legal-related costs for the Amsterdam site, which reduced General and administrative costs in the accompanying Condensed Consolidated Statement of Operations. During 2012, the Company recorded additional severance and related costs and legal-related costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

- (2) Effect of foreign currency translation.

The following tables summarize the accrued liability associated with EMEA's Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Nine Months Ended					Ending Accrual at
	Beginning Accrual at January 1, 2013	September 30, 2013 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	September 30, 2013	
Lease obligations and facility exit costs	\$ -	\$ -	\$ -	\$ -	\$ -	
Severance and related costs	187	(56)	(8)	6	129	
Legal-related costs	10	(1)	(10)	1	-	
	\$ 197	\$ (57)	\$ (18)	\$ 7	\$ 129	

Beginning Accrual at January 1, 2012	Charges (Reversals) for the Nine Months Ended September	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012
--	--	---------------	--	---

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

	30, 2012 <sup>(1)</sup>									
Lease obligations and facility exit costs	\$	577	\$	-	\$	(5)	\$	(4)	\$	568
Severance and related costs		4,470		1,093		(4,898)		(97)		568
Legal related costs		13		83		(95)		(1)		-
	\$	5,060	\$	1,176	\$	(4,998)	\$	(102)	\$	1,136

<sup>(1)</sup> During 2013, the Company reversed accruals related to the final settlement of severance and related costs and legal-related costs for the Amsterdam site, which reduced General and administrative costs in the accompanying Condensed Consolidated Statement of Operations. Additionally, during 2013 and 2012, the Company recorded additional severance and related costs and legal-related costs.

<sup>(2)</sup> Effect of foreign currency translation.

The Company charged \$0.7 million to Direct salaries and related costs for severance and related costs and \$0.5 million to General and administrative costs for lease obligations and facility exit costs, severance and related costs and legal-related costs in the accompanying Consolidated Statement of Operations for the nine months ended September 30, 2012.

**Table of Contents****Fourth Quarter 2010 Exit Plan**

During 2010, in furtherance of the Company's long-term goals to manage and optimize capacity utilization, the Company committed to and closed a customer contact management center in the United Kingdom and a customer contact management center in Ireland, both components of the EMEA segment (the Fourth Quarter 2010 Exit Plan). These actions were substantially completed by January 31, 2011.

The major costs incurred as a result of these actions were facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and severance-related costs totaling \$2.2 million as of September 30, 2013 (\$2.2 million as of December 31, 2012). The Company recorded \$0.2 million of the costs associated with the Fourth Quarter 2010 Exit Plan as non-cash impairment charges. Approximately \$1.8 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in March 2014, and \$0.2 million represents cash expenditures for severance-related costs. The Company has paid \$1.7 million in cash through September 30, 2013 under the Fourth Quarter 2010 Exit Plan.

The following tables summarize the accrued liability associated with the Fourth Quarter 2010 Exit Plan's exit or disposal activities and related charges during the three months ended September 30, 2013 and 2012 (in thousands):

	Beginning Accrual at July 1, 2013	Charges (Reversals) for the Three Months Ended September 30, 2013	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 356	\$ -	\$ (145)	\$ 9	\$ 220

	Beginning Accrual at July 1, 2012	Charges (Reversals) for the Three Months Ended September 30, 2012	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ 656	\$ -	\$ (66)	\$ 5	\$ 595

<sup>(1)</sup> Effect of foreign currency translation.

The following tables summarize the accrued liability associated with the Fourth Quarter 2010 Exit Plan's exit or disposal activities and related charges during the nine months ended September 30, 2013 and 2012 (in thousands):

	Beginning Accrual at January 1, 2013	Charges (Reversals) for the Nine Months Ended September 30, 2013	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 539	\$ -	\$ (325)	\$ 6	\$ 220

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Nine Months Ended September	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2012
--	--	--	------------------	--	--

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

	30, 2012									
Lease obligations and facility exit costs	\$	835	\$	-	\$	(229)	\$	(11)	\$	595

<sup>(1)</sup> Effect of foreign currency translation.

**Table of Contents****Third Quarter 2010 Exit Plan**

During 2010, consistent with the Company's long-term goals to manage and optimize capacity utilization, the Company closed or committed to close four customer contact management centers in The Philippines and consolidated or committed to consolidate leased space in our Wilmington, Delaware and Newtown, Pennsylvania locations (the Third Quarter 2010 Exit Plan). These actions were substantially completed by January 31, 2011.

The major costs incurred as a result of these actions were impairments of long-lived assets (primarily leasehold improvements) and facility-related costs (primarily consisting of those costs associated with the real estate leases) estimated at \$10.5 million as of September 30, 2013 (\$10.5 million as of December 31, 2012), all of which are in the Americas segment. The Company recorded \$3.8 million of the costs associated with the Third Quarter 2010 Exit Plan as non-cash impairment charges. The remaining \$6.7 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in February 2017. The Company has paid \$4.7 million in cash through September 30, 2013 under the Third Quarter 2010 Exit Plan.

The following tables summarize the accrued liability associated with the Third Quarter 2010 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Three Months				
	Beginning Accrual at July 1, 2013	Ending September 30, 2013	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 2,165	\$ -	\$ (166)	\$ -	\$ 1,999

	Charges (Reversals) for the Three Months				
	Beginning Accrual at July 1, 2012	Ending September 30, 2012	Cash Payments	Other Non-Cash Changes	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ 2,755	\$ -	\$ (146)	\$ -	\$ 2,609

The following tables summarize the accrued liability associated with the Third Quarter 2010 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2013 and 2012 (in thousands):

	Charges (Reversals) for the Nine Months Ended				
	Beginning Accrual at January 1, 2013	September 30, 2013	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2013
Lease obligations and facility exit costs	\$ 2,551	\$ -	\$ (550)	\$ (2)	\$ 1,999

	Charges (Reversals) for the Nine Months Ended				
	Beginning Accrual at January 1, 2012	September 30, 2012	Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ 3,427	\$ -	\$ (818)	\$ -	\$ 2,609

<sup>(1)</sup> Effect of foreign currency translation.

**Table of Contents****Restructuring Liability Classification**

The following table summarizes the Company's short-term and long-term accrued liabilities associated with its exit and disposal activities, by plan, as of September 30, 2013 and December 31, 2012 (in thousands):

	Americas Fourth Quarter 2011 Exit Plan	EMEA Fourth Quarter 2011 Exit Plan	Fourth Quarter 2010 Exit Plan	Third Quarter 2010 Exit Plan	Total
<b>September 30, 2013</b>					
Short-term accrued restructuring liability <sup>(1)</sup>	\$ 135	\$ 129	\$ 220	\$ 497	\$ 981
Long-term accrued restructuring liability <sup>(2)</sup>	418	-	-	1,502	1,920
Ending accrual at September 30, 2013	\$ 553	\$ 129	\$ 220	\$ 1,999	\$ 2,901
<b>December 31, 2012</b>					
Short-term accrued restructuring liability <sup>(1)</sup>	\$ 138	\$ 197	\$ 448	\$ 618	\$ 1,401
Long-term accrued restructuring liability <sup>(2)</sup>	544	-	91	1,933	2,568
Ending accrual at December 31, 2012	\$ 682	\$ 197	\$ 539	\$ 2,551	\$ 3,969

<sup>(1)</sup> Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheets.

<sup>(2)</sup> Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.

**Note 5. Fair Value**

ASC 820 *Fair Value Measurements and Disclosures* (ASC 820) requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These two types of inputs have created the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

**Fair Value of Financial Instruments** The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Short-Term and Other Investments, Investments Held in Rabbi Trust and Accounts Payable The carrying values for cash, short-term and other investments, investments held in rabbi trust and accounts payable approximate their fair values.

Foreign Currency Forward Contracts and Options Foreign currency forward contracts and options, including premiums paid on options, are recognized at fair value based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk.

Long-Term Debt The carrying value of long-term debt approximates its estimated fair value as it re-prices at varying interest rates.

**Fair Value Measurements** ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10-20 clarifies that fair value is an exit price,

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 825 *Financial Instruments* ( ASC 825 ) permits an entity to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company has not elected to use the fair value option permitted under ASC 825 for any of its financial assets and financial liabilities that are not already recorded at fair value.



## **Table of Contents**

**Determination of Fair Value** The Company generally uses quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access to determine fair value, and classifies such items in Level 1. Fair values determined by Level 2 inputs utilize inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted market prices in active markets for similar assets or liabilities, and inputs other than quoted market prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, currency rates, etc. Assets or liabilities valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

The following section describes the valuation methodologies used by the Company to measure assets and liabilities at fair value on a recurring basis, including an indication of the level in the fair value hierarchy in which each asset or liability is generally classified.

**Money Market and Open-End Mutual Funds** The Company uses quoted market prices in active markets to determine the fair value of money market and open-end mutual funds, which are classified in Level 1 of the fair value hierarchy.

**Foreign Currency Forward Contracts and Options** The Company enters into foreign currency forward contracts and options over the counter and values such contracts using quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk. The key inputs include forward or option foreign currency exchange rates and interest rates. These items are classified in Level 2 of the fair value hierarchy.

**Investments Held in Rabbi Trust** The investment assets of the rabbi trust are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 8, Investments Held in Rabbi Trust, and Note 17, Stock-Based Compensation.

**Guaranteed Investment Certificates** Guaranteed investment certificates, with variable interest rates linked to the prime rate, approximate fair value due to the automatic ability to re-price with changes in the market; such items are classified in Level 2 of the fair value hierarchy.

**Table of Contents**

The Company's assets and liabilities measured at fair value on a recurring basis subject to the requirements of ASC 820 consist of the following (in thousands):

		Fair Value Measurements at September 30, 2013 Using:			
		Balance at September 30, 2013	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>					
Money market funds and open-end mutual funds included in Cash and cash equivalents	(1)	\$ 7,763	\$ 7,763	\$ -	\$ -
Money market funds and open-end mutual funds in Deferred charges and other assets	(1)	11	11	-	-
Foreign currency forward and option contracts	(2)	2,299	-	2,299	-
Foreign currency forward contracts	(3)	500	-	500	-
Equity investments held in a rabbi trust for the Deferred Compensation Plan	(4)	4,628	4,628	-	-
Debt investments held in a rabbi trust for the Deferred Compensation Plan	(4)	1,166	1,166	-	-
Guaranteed investment certificates	(5)	80	-	80	-
		<b>\$ 16,447</b>	<b>\$ 13,568</b>	<b>\$ 2,879</b>	<b>\$ -</b>
<b>Liabilities:</b>					
Long-term debt	(6)	\$ 105,000	\$ -	\$ 105,000	\$ -
Foreign currency forward and option contracts	(7)	4,478	-	4,478	-
		<b>\$ 109,478</b>	<b>\$ -</b>	<b>\$ 109,478</b>	<b>\$ -</b>

(1) In the accompanying Condensed Consolidated Balance Sheet.

(2) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

(3) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

(4) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 8.

(5) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

(6) The carrying value of long-term debt, including the current portion thereof, approximates its estimated fair value as it re-prices at varying interest rates. See Note 11.

(7) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

The Company's assets and liabilities measured at fair value on a recurring basis subject to the requirements of ASC 820 consist of the following (in thousands):

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

	Fair Value Measurements at December 31, 2012 Using:			
	Balance at December 31, 2012	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>				
Money market funds and open-end mutual funds included in Cash and cash equivalents	(1) \$ 7,598	\$ 7,598	\$ -	\$ -
Money market funds and open-end mutual funds in Deferred charges and other assets	(1) 11	11	-	-
Foreign currency forward and option contracts	(2) 2,008	-	2,008	-
Equity investments held in a rabbi trust for the Deferred Compensation Plan	(3) 3,212	3,212	-	-
Debt investments held in a rabbi trust for the Deferred Compensation Plan	(3) 2,049	2,049	-	-
Guaranteed investment certificates	(4) 80	-	80	-
	\$ 14,958	\$ 12,870	\$ 2,088	\$ -
<b>Liabilities:</b>				
Long-term debt	(5) \$ 91,000	\$ -	\$ 91,000	\$ -
Foreign currency forward and option contracts	(6) 974	-	974	-
	\$ 91,974	\$ -	\$ 91,974	\$ -

(1) In the accompanying Condensed Consolidated Balance Sheet.

(2) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

(3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 8.

(4) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

(5) The carrying value of long-term debt, including the current portion thereof, approximates its estimated fair value as it re-prices at varying interest rates. See Note 11.

(6) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

**Table of Contents**

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs, like those associated with acquired businesses, including goodwill, other intangible assets and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if these assets were determined to be impaired. The adjusted carrying values for assets measured at fair value on a nonrecurring basis (no liabilities) subject to the requirements of ASC 820 were not material at December 31, 2012 (none at September 30, 2013).

The following table summarizes the total impairment losses related to nonrecurring fair value measurements of certain assets (no liabilities) subject to the requirements of ASC 820 (in thousands):

	Total Impairment (Loss)			
	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Americas:				
Property and equipment, net	\$ -	\$ (122)	\$ -	\$ (271)

During the three and nine months ended September 30, 2012, the Company determined that the carrying value of certain long-lived assets, primarily software licenses, in one of its customer contact management centers in Canada (a component of the Americas segment), were no longer being used and were disposed of. As a result, the Company recorded an impairment loss of \$0.1 million.

During the nine months ended September 30, 2012, as part of an on-going effort to streamline excess capacity related to the integration of the ICT acquisition and align it with the needs of the market, the Company closed one of its customer contact management centers in Costa Rica (a component of the Americas segment), and recorded an impairment charge of \$0.1 million for the carrying value of the long-lived assets that could not be redeployed to other locations.

**Note 6. Intangible Assets**

The following table presents the Company's purchased intangible assets as of September 30, 2013 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period
				(years)
Customer relationships	\$ 103,498	\$ (32,943)	\$ 70,555	8
Trade name	11,600	(2,472)	9,128	8
Non-compete agreements	1,224	(929)	295	2
Proprietary software	850	(839)	11	2
Favorable lease agreement	450	(250)	200	2
	\$ 117,622	\$ (37,433)	\$ 80,189	8

The following table presents the Company's purchased intangible assets as of December 31, 2012 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period
				(years)
Customer relationships	\$ 104,483	\$ (23,552)	\$ 80,931	8
Trade name	11,600	(1,451)	10,149	8
Non-compete agreements	1,229	(681)	548	2
Proprietary software	850	(810)	40	2

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Favorable lease agreement	450	(81)	369	2
	\$ 118,612	\$ (26,575)	\$ 92,037	8

**Table of Contents**

The Company's estimated future amortization expense for the succeeding years relating to the purchased intangible assets resulting from acquisitions completed prior to September 30, 2013, is as follows (in thousands):

Years Ending December 31,	Amount
2013 (remaining three months)	\$ 3,680
2014	14,587
2015	14,229
2016	14,229
2017	14,229
2018	7,668
2019 and thereafter	11,567

**Note 7. Financial Derivatives**

**Cash Flow Hedges** The Company has derivative assets and liabilities relating to outstanding forward contracts and options, designated as cash flow hedges, as defined under ASC 815 *Derivatives and Hedging* (ASC 815), consisting of Philippine Peso, Costa Rican Colon, Hungarian Forint and Romanian Leu contracts. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates.

The deferred gains (losses) and related taxes on the Company's cash flow hedges recorded in Accumulated other comprehensive income (loss) (AOCI) in the accompanying Condensed Consolidated Balance Sheets are as follows (in thousands):

	September 30, 2013	December 31, 2012
Deferred gains (losses) in AOCI	\$ (2,136)	\$ (512)
Tax on deferred gains (losses) in AOCI	215	(58)
Deferred gains (losses) in AOCI, net of taxes	\$ (1,921)	\$ (570)
Deferred gains (losses) expected to be reclassified to Revenues from AOCI during the next twelve months	\$ (2,450)	

Deferred gains (losses) and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts and options.

**Net Investment Hedge** During 2013, the Company entered into foreign exchange forward contracts to hedge its net investment in a foreign operation, as defined under ASC 815. The Company did not hedge net investments in foreign operations during 2012. The purpose of these derivative instruments is to protect the Company's interests against the risk that the net assets of certain foreign subsidiaries will be adversely affected by changes in exchange rates and economic exposures related to the Company's foreign currency-based investments in these subsidiaries.

**Other Hedges** The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect the Company's interests against adverse foreign currency moves pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than the Company's subsidiaries functional currencies. These contracts generally do not exceed 180 days in duration.

**Table of Contents**

The Company had the following outstanding foreign currency forward contracts and options (in thousands):

Contract Type	As of September 30, 2013		As of December 31, 2012	
	Notional Amount in USD	Settle Through Date	Notional Amount in USD	Settle Through Date
<b>Cash flow hedges: <sup>(1)</sup></b>				
Options:				
Philippine Pesos	\$ 77,000	December 2014	\$ 71,000	September 2013
Forwards:				
Philippine Pesos	62,850	July 2014	5,000	August 2013
Costa Rican Colones	44,250	August 2014	60,750	December 2013
Hungarian Forints	2,164	January 2014	4,744	January 2014
Romanian Leis	2,435	January 2014	6,895	January 2014
<b>Net investment hedges: <sup>(2)</sup></b>				
Forwards:				
Euros	32,657	September 2014	-	-
<b>Non-designated hedges: <sup>(3)</sup></b>				
Forwards	70,176	March 2014	41,799	June 2013

<sup>(1)</sup> Cash flow hedge as defined under ASC 815. Purpose is to protect against the risk that eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates.

<sup>(2)</sup> Net investment hedge as defined under ASC 815. Purpose is to protect against the risk that the net assets of certain of our international subsidiaries will be adversely affected by changes in exchange rates and economic exposures related to our foreign currency-based investments in these subsidiaries.

<sup>(3)</sup> Foreign currency hedge contract not designated as a hedge as defined under ASC 815. Purpose is to reduce the effects on the Company's operating results and cash flows from fluctuations caused by volatility in currency exchange rates, primarily related to intercompany loan payments and cash held in non-functional currencies.

As of September 30, 2013, the maximum amount of loss due to credit risk that the Company would incur if parties to the financial instruments that make up the concentration failed to perform according to the terms of the contracts was \$2.8 million, based on the gross fair value of the financial instruments.

Master netting agreements exist with each respective counterparty used to transact foreign exchange derivatives. These agreements allow the Company to net settle transactions of the same currency in a single transaction. In the event of default by the Company or one of its counterparties, these agreements include a set-off clause that provides the non-defaulting party the right to net settle all derivative transactions, regardless of the currency and settlement date. However, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in the accompanying Condensed Consolidated Balance Sheets. Additionally, the Company is not required to pledge nor is it entitled to receive cash collateral related to these derivative transactions.

**Table of Contents**

The following tables present the fair value of the Company's derivative instruments included in the accompanying Condensed Consolidated Balance Sheets (in thousands):

	Derivative Assets	
	September 30, 2013 Fair Value	December 31, 2012 Fair Value
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>		
Foreign currency forward and option contracts <sup>(1)</sup>	\$ 1,364	\$ 1,080
Foreign currency forward and option contracts <sup>(2)</sup>	500	14
	1,864	1,094
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts <sup>(1)</sup>	935	914
<b>Total derivative assets</b>	<b>\$ 2,799</b>	<b>\$ 2,008</b>

	Derivative Liabilities	
	September 30, 2013 Fair Value	December 31, 2012 Fair Value
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>		
Foreign currency forward and option contracts <sup>(3)</sup>	\$ 3,184	\$ 904
Foreign currency forward and option contracts <sup>(4)</sup>	-	8
	3,184	912
<b>Derivatives designated as a net investment hedge under ASC 815:</b>		
Foreign currency forward contracts <sup>(3)</sup>	\$ 1,191	\$ -
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts <sup>(3)</sup>	103	62
<b>Total derivative liabilities</b>	<b>\$ 4,478</b>	<b>\$ 974</b>

(1) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheets.

(2) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets.

(3) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheets.

(4) Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.



**Table of Contents**

The following tables present the effect of the Company's derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the three months ended September 30, 2013 and 2012 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Gain (Loss) Reclassified From Accumulated AOCI Into Revenues (Effective Portion)		Gain (Loss) Recognized in Revenues on Derivatives (Ineffective Portion)	
	September 30,		September 30,		September 30,	
	2013	2012	2013	2012	2013	2012
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>						
Foreign currency forward and option contracts	\$ 145	\$ 127	\$ (795)	\$ 1,631	\$ 125	\$ -
<b>Derivatives designated as net investment hedging instruments under ASC 815:</b>						
Foreign currency forward contracts	(1,227)	-	-	-	-	-
Foreign currency forward and option contracts	\$ (1,082)	\$ 127	\$ (795)	\$ 1,631	\$ 125	\$ -

	Gain (Loss) Recognized in Other income and (expense) on Derivatives	
	September 30, 2013	September 30, 2012
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts	\$ 546	\$ (849)

The following tables present the effect of the Company's derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the nine months ended September 30, 2013 and 2012 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Gain (Loss) Reclassified From Accumulated AOCI Into Revenues (Effective Portion)		Gain (Loss) Recognized in Revenues on Derivatives (Ineffective Portion)	
	September 30,		September 30,		September 30,	
	2013	2012	2013	2012	2013	2012
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>						
Foreign currency forward and option contracts	\$ (1,599)	\$ 4,090	\$ 4	\$ 2,290	\$ 100	\$ 17
<b>Derivatives designated as net investment hedging instruments under ASC 815:</b>						
Foreign currency forward contracts	(1,191)	-	-	-	-	-
Foreign currency forward and option contracts	\$ (2,790)	\$ 4,090	\$ 4	\$ 2,290	\$ 100	\$ 17

	Gain (Loss) Recognized in Other income and (expense) on

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

	Derivatives September 30,	
	2013	2012
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts	\$ 2,776	\$ (1,046)

**Table of Contents****Note 8. Investments Held in Rabbi Trust**

The Company's investments held in rabbi trust, classified as trading securities and included in Other current assets in the accompanying Condensed Consolidated Balance Sheets, at fair value, consist of the following (in thousands):

	September 30, 2013		December 31, 2012	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 4,493	\$ 5,794	\$ 4,812	\$ 5,261

The mutual funds held in the rabbi trusts were 80% equity-based and 20% debt-based as of September 30, 2013. Net investment income (losses), included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations consists of the following (in thousands):

	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
	2013	2012	2013	2012
Gross realized gains from sale of trading securities	\$ 27	\$ 58	\$ 139	\$ 139
Gross realized (losses) from sale of trading securities	-	-	(8)	(1)
Dividend and interest income	(12)	11	6	31
Net unrealized holding gains (losses)	293	189	489	353
Net investment income (losses)	\$ 308	\$ 258	\$ 626	\$ 522

**Note 9. Deferred Revenue**

The components of deferred revenue consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Future service	\$ 26,821	\$ 25,074
Estimated potential penalties and holdbacks	10,366	9,209
	\$ 37,187	\$ 34,283

**Note 10. Deferred Grants**

The components of deferred grants consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Property grants	\$ 6,565	\$ 7,270
Employment grants	475	337
Total long-term deferred grants <sup>(1)</sup>	\$ 7,040	\$ 7,607

<sup>(1)</sup> Included in Deferred grants in the accompanying Condensed Consolidated Balance Sheets.

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Amortization of the Company's property grants included as a reduction to Depreciation, net and amortization of the Company's employment grants are primarily included as a reduction to Direct salaries and related costs in the accompanying Condensed Consolidated Statements of Operations consist of the following (in thousands):

	<b>Three Months Ended September 30,</b>		<b>One Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Amortization of property grants	\$ 253	\$ 235	\$ 758	\$ 705
Amortization of employment grants	33	17	101	89
	<b>\$ 286</b>	<b>\$ 252</b>	<b>\$ 859</b>	<b>\$ 794</b>

**Table of Contents****Note 11. Borrowings**

On May 3, 2012, the Company entered into a \$245 million revolving credit facility (the 2012 Credit Agreement ) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent ( KeyBank ). The 2012 Credit Agreement replaced the Company's previous \$75 million revolving credit facility (the 2010 Credit Agreement ) dated February 2, 2010, as amended, which agreement was terminated simultaneous with entering into the 2012 Credit Agreement. The 2012 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. The Company borrowed \$108.0 million under the 2012 Credit Agreement's revolving credit facility on August 20, 2012 in connection with the acquisition of Alpine on such date. See Note 2, Acquisition of Alpine Access, Inc., for further information.

The 2012 Credit Agreement includes a \$184 million alternate-currency sub-facility, a \$10 million swingline sub-facility and a \$35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. The Company is not currently aware of any inability of its lenders to provide access to the full commitment of funds that exist under the revolving credit facility, if necessary. However, there can be no assurance that such facility will be available to the Company, even though it is a binding commitment of the financial institutions.

Borrowings consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Revolving credit facility	\$ 105,000	\$ 91,000
Less: Current portion	-	-
<b>Total long-term debt</b>	<b>\$ 105,000</b>	<b>\$ 91,000</b>

The 2012 Credit Agreement matures on May 2, 2017 and has no varying installments due.

Borrowings under the 2012 Credit Agreement will bear interest at the rates set forth in the Credit Agreement. In addition, the Company is required to pay certain customary fees, including a commitment fee of 0.175%, which is due quarterly in arrears and calculated on the average unused amount of the 2012 Credit Agreement.

The 2012 Credit Agreement is guaranteed by all of the Company's existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all the direct foreign subsidiaries of the Company and those of the guarantors.

In May 2012, the Company paid an underwriting fee of \$0.9 million for the 2012 Credit Agreement, which is deferred and amortized over the term of the loan. In addition, the Company pays a quarterly commitment fee on the 2012 Credit Agreement.

The 2012 Credit Agreement had \$105.0 million of outstanding borrowings as of September 30, 2013, with an average daily utilization of \$110.4 million and \$102.5 million for the three and nine months ended September 30, 2013, respectively, and \$106.1 million for the period outstanding during both the three and nine months ended September 30, 2012. During the three and nine months ended September 30, 2013, the related interest expense, excluding amortization of deferred loan fees, under our credit agreements was \$0.4 million and \$1.1 million, respectively, which represented a weighted average interest rate of 1.5% and 1.5%, respectively. During the three and nine months ended September 30, 2012, the related interest expense, excluding amortization of deferred loan fees, under our credit agreements was \$0.2 million and \$0.2 million, respectively, which represented a weighted average interest rate of 1.6% and 1.6%, respectively.

**Table of Contents**
**Note 12. Accumulated Other Comprehensive Income (Loss)**

The Company presents data in the Condensed Consolidated Statements of Changes in Shareholders' Equity in accordance with ASC 220 *Comprehensive Income* (ASC 220). ASC 220 establishes rules for the reporting of comprehensive income (loss) and its components. The components of accumulated other comprehensive income (loss) consist of the following (in thousands):

	Foreign Currency Translation Gain (Loss)	Unrealized Gain (Loss) on Net Investment Hedge	Unrealized Actuarial Gain (Loss) Related to Pension Liability	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Unrealized Gain (Loss) on Post Retirement Obligation	Total
<b>Balance at January 1, 2012</b>	\$ 5,995	\$ (2,565)	\$ 985	\$ (438)	\$ 459	\$ 4,436
Pre-tax amount	9,516	-	499	4,417	92	14,524
Tax (provision) benefit	-	-	(90)	(306)	-	(396)
Reclassification of (gain) loss to net income	570	-	(48)	(4,174)	(56)	(3,708)
Foreign currency translation	2	-	67	(69)	-	-
<b>Balance at December 31, 2012</b>	16,083	(2,565)	1,413	(570)	495	14,856
Pre-tax amount	(3,002)	(1,191)	-	(1,499)	(140)	(5,832)
Tax (provision) benefit	-	417	-	384	-	801
Reclassification of (gain) loss to net income	-	-	(45)	(217)	(44)	(306)
Foreign currency translation	97	-	(78)	(19)	-	-
<b>Balance at September 30, 2013</b>	\$ 13,178	\$ (3,339)	\$ 1,290	\$ (1,921)	\$ 311	\$ 9,519

The following table summarizes the amounts reclassified to net income from accumulated other comprehensive income (loss) and the associated line item in the accompanying Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Statements of Operations Location
<b>Unrealized Actuarial Gain (Loss) Related to Pension Liability: <sup>(1)</sup></b>			
Pre-tax amount	\$ 16	\$ 45	Direct salaries and related costs
Tax (provision) benefit	-	-	Income taxes
Reclassification to net income	16	45	
<b>Unrealized Gain (Loss) on Cash Flow Hedging Instruments: <sup>(2)</sup></b>			
Pre-tax amount	(670)	104	Revenues
Tax (provision) benefit	125	113	Income taxes
Reclassification to net income	(545)	217	
<b>Unrealized Gain (Loss) on Post Retirement Obligation: <sup>(1)</sup></b>			
Pre-tax amount	14	44	General and administrative
Tax (provision) benefit	-	-	Income taxes
Reclassification to net income	14	44	
<b>Total reclassification to net income</b>	\$ (515)	\$ 306	

<sup>(1)</sup> See Note 16, Defined Benefit Pension Plan and Postretirement Benefits, for further information.

(2) See Note 7, Financial Derivatives, for further information.

Except as discussed in Note 13, Income Taxes, earnings associated with the Company's investments in its subsidiaries are considered to be indefinitely invested and no provision for income taxes on those earnings or translation adjustments have been provided.

**Note 13. Income Taxes**

The Company's effective tax rate was 24.4% and (3.9)% for the three months ended September 30, 2013 and 2012, respectively. The increase in the effective tax rate is primarily due to the fluctuations in earnings among the various tax jurisdictions in which the Company operates, coupled with tax benefits recognized in 2012 as a result of the Alpine acquisition. The difference between the Company's effective tax rate of 24.4% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions, foreign tax rate differentials, adjustments of valuation allowances, changes in unrecognized tax positions and tax credits, offset by the tax impact of permanent differences and foreign withholding taxes.

**Table of Contents**

The Company's effective tax rate was 21.3% and 11.8% for the nine months ended September 30, 2013 and 2012, respectively. The increase in the effective tax rate is primarily due to withholding taxes, the fluctuations in earnings among the various tax jurisdictions in which the Company operates and tax benefits recognized in 2012 as a result of the Alpine acquisition. The difference between the Company's effective tax rate of 21.3% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions, foreign tax rate differentials, adjustments of valuation allowances, changes in unrecognized tax positions and tax credits, offset by the tax impact of permanent differences and foreign withholding taxes.

The liability for unrecognized tax benefits is recorded as Long-term income tax liabilities in the accompanying Condensed Consolidated Balance Sheets. The Company has accrued \$15.6 million at September 30, 2013 and \$16.9 million at December 31, 2012, excluding penalties and interest. The \$1.3 million decrease results primarily from fluctuations in foreign exchange rates.

Generally, earnings associated with the investments in the Company's foreign subsidiaries are considered to be indefinitely invested outside of the U.S. Therefore, a U.S. provision for income taxes on those earnings or translation adjustments has not been recorded, as permitted by criterion outlined in ASC 740 *Income Taxes*. Determination of any unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in nature is not practicable.

In 2013, the Company executed offshore cash movements to take advantage of The American Taxpayer Relief Act of 2012 (the Act) passed on January 2, 2013, with retroactive application to January 1, 2012. This Act, which extended the tax provisions of the Internal Revenue Code Section 954(c)(6) through the end of 2013, permits continued tax deferral on such movements that would otherwise be taxable immediately in the U.S. While these cash movements are not taxable in the U.S., related foreign withholding taxes of \$2.6 million were included in the provision for income taxes in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2013.

In addition, the U.S. Department of the Treasury released the General Explanations of the Administration's Fiscal Year 2014 Revenue Proposals in April 2013. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings. The Company continues to monitor these proposals and is currently evaluating the potential impact on its financial condition, results of operations and cash flows.

The Company is currently under audit in several tax jurisdictions. In April 2012, the Company received an assessment for the Canadian 2003-2006 audit for which the Company filed a Notice of Objection in July 2012 and paid a mandatory security deposit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service for this audit cycle. The Company is still awaiting the final reassessment for the 2007-2009 audit which will be appropriately challenged when received. In July 2013, the Company received another partial assessment for the 2007-2009 audit cycle resulting in the Company's payment of an additional security deposit of \$0.4 million. This payment increased the total amount of deposits for both audit cycles to \$15.1 million. These deposits are included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012. Although the outcome of examinations by taxing authorities is always uncertain, the Company believes it is adequately reserved for these audits and that resolution is not expected to have a material impact on its financial condition and results of operations.

The significant tax jurisdictions currently under audit are as follows:

<b>Tax Jurisdiction</b>	<b>Tax Year Ended</b>
Canada	2003 to 2009
Philippines	2007 and 2009
United States	2010 to 2012



**Table of Contents****Note 14. Earnings Per Share**

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock options, stock appreciation rights, restricted stock, restricted stock units and shares held in a rabbi trust using the treasury stock method.

The numbers of shares used in the earnings per share computation are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Basic:</b>				
Weighted average common shares outstanding	42,785	43,014	42,918	43,130
<b>Diluted:</b>				
Dilutive effect of stock options, stock appreciation rights, restricted stock, restricted stock units and shares held in a rabbi trust	51	17	30	49
<b>Total weighted average diluted shares outstanding</b>	<b>42,836</b>	<b>43,031</b>	<b>42,948</b>	<b>43,179</b>
Anti-dilutive shares excluded from the diluted earnings per share calculation	56	-	18	-

On August 18, 2011, the Company's Board authorized the Company to purchase up to 5.0 million shares of its outstanding common stock (the 2011 Share Repurchase Program). A total of 3.4 million shares have been repurchased under the 2011 Share Repurchase Program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date. The Company's Board previously authorized the Company on August 5, 2002 to purchase up to 3.0 million shares of its outstanding common stock, the last of which were repurchased during 2011.

The shares repurchased under the Company's share repurchase programs were as follows (in thousands, except per share amounts):

	Total Number			Total Cost of Shares Repurchased
	of Shares Repurchased	Range of Prices Paid Per Share		
		Low	High	
<b>Three Months Ended:</b>				
September 30, 2013	69	\$ 16.91	\$ 16.99	\$ 1,185
September 30, 2012	29	\$ 14.98	\$ 14.98	\$ 447
<b>Nine Months Ended:</b>				
September 30, 2013	341	\$ 15.61	\$ 16.99	\$ 5,479
September 30, 2012	537	\$ 13.85	\$ 15.00	\$ 7,908

**Table of Contents****Note 15. Commitments and Loss Contingency****Commitments**

During the nine months ended September 30, 2013, the Company entered into several leases in the ordinary course of business. The following is a schedule of future minimum rental payments required under operating leases that have noncancelable lease terms as of September 30, 2013 (in thousands):

	<b>Amount</b>
2013 (remaining three months)	\$ 1,232
2014	5,456
2015	4,899
2016	2,971
2017	2,706
2018	2,339
2019 and thereafter	1,717
Total minimum payments required	\$ 21,320

During the nine months ended September 30, 2013, the Company entered into agreements with third-party vendors in the ordinary course of business whereby the Company committed to purchase goods and services used in its normal operations. These agreements, which are not cancelable, generally range from one to five year periods and contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments based on certain conditions. The following is a schedule of the future minimum purchases remaining under the agreements as of September 30, 2013 (in thousands):

	<b>Amount</b>
2013 (remaining three months)	\$ 101
2014	2,347
2015	1,839
2016	544
2017	-
2018	-
2019 and thereafter	-
Total minimum payments required	\$ 4,831

Except as outlined above, there have not been any material changes to the outstanding contractual obligations from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Loss Contingency**

The Company from time to time is involved in legal actions arising in the ordinary course of business. With respect to these matters, management believes that the Company has adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on the Company's financial position or results of operations.

**Table of Contents****Note 16. Defined Benefit Pension Plan and Postretirement Benefits****Defined Benefit Pension Plans**

The following table provides information about the net periodic benefit cost for the Company's pension plans (in thousands):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
Service cost	\$ 85	\$ 94	\$ 252	\$ 280
Interest cost	28	30	84	90
Recognized actuarial (gains)	(15)	(11)	(45)	(35)
Net periodic benefit cost	\$ 98	\$ 113	\$ 291	\$ 335

**Employee Retirement Savings Plans**

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the plan provisions, the Company matches 50% of participant contributions to a maximum matching amount of 2% of participant compensation. The Company's contributions included in the accompanying Condensed Consolidated Statement of Operations were as follows (in thousands):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
401(k) plan contributions	\$ 201	\$ 245	\$ 679	\$ 977

In connection with the acquisition of Alpine in August 2012, the Company assumed Alpine's employee benefit plan (Section 401(k)). Under this employee benefit plan, the Company makes a matching contribution on an annual basis in the amount of 100% of the employee contribution for the first 3% of included compensation plus 50% of the employee contribution for the next 2% of included compensation. Employees are 100% vested in contributions, earnings and matching funds at all times.

**Split-Dollar Life Insurance Arrangement**

In 1996, the Company entered into a split-dollar life insurance arrangement to benefit the former Chairman and Chief Executive Officer of the Company. Under the terms of the arrangement, the Company retained a collateral interest in the policy to the extent of the premiums paid by the Company. The postretirement benefit obligation included in Other long-term liabilities and the unrealized gains (losses) included in Accumulated other comprehensive income in the accompanying Condensed Consolidated Balance Sheets were as follows (in thousands):

	September 30, 2013	December 31, 2012
Postretirement benefit obligation	\$ 89	\$ 72
Unrealized gains (losses) in AOCI <sup>(1)</sup>	\$ 311	\$ 495

<sup>(1)</sup> Unrealized gains (losses) are due to changes in discount rates related to the postretirement obligation.

**Table of Contents****Note 17. Stock-Based Compensation**

The Company's stock-based compensation plans include the 2011 Equity Incentive Plan, the 2004 Non-Employee Director Fee Plan and the Deferred Compensation Plan. The following table summarizes the stock-based compensation expense (primarily in the Americas), income tax benefits related to the stock-based compensation and excess tax benefits (deficiencies) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock-based compensation (expense) <sup>(1)</sup>	\$ (1,391)	\$ (1,250)	\$ (3,581)	\$ (3,111)
Income tax benefit <sup>(2)</sup>	486	438	1,253	1,089
Excess tax benefit (deficiency) from stock-based compensation <sup>(3)</sup>	-	-	(34)	(278)

<sup>(1)</sup> Included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations.

<sup>(2)</sup> Included in Income taxes in the accompanying Condensed Consolidated Statements of Operations.

<sup>(3)</sup> Included in Additional paid-in capital in the accompanying Condensed Consolidated Statements of Changes in Shareholder's Equity.

There were no capitalized stock-based compensation costs as of September 30, 2013 and December 31, 2012.

**2011 Equity Incentive Plan** The Company's Board of Directors (the Board) adopted the Sykes Enterprises, Incorporated 2011 Equity Incentive Plan (the 2011 Plan) on March 23, 2011, as amended on May 11, 2011 to reduce the number of shares of common stock available to 4.0 million shares. The 2011 Plan was approved by the shareholders at the May 2011 annual shareholders meeting. The 2011 Plan replaced and superseded the Company's 2001 Equity Incentive Plan (the 2001 Plan), which expired on March 14, 2011. The outstanding awards granted under the 2001 Plan will remain in effect until their exercise, expiration or termination. The 2011 Plan permits the grant of restricted stock, stock appreciation rights, stock options and other stock-based awards to certain employees of the Company, and certain non-employees who provide services to the Company, in order to encourage them to remain in the employment of or to faithfully provide services to the Company and to increase their interest in the Company's success.

**Stock Appreciation Rights** Stock appreciation rights (SARs) represent the right to receive, without payment to the Company, a certain number of shares of common stock, as determined by the Compensation and Human Resource Development Committee, equal to the amount by which the fair market value of a share of common stock at the time of exercise exceeds the grant price. The SARs are granted at the fair market value of the Company's common stock on the date of the grant and vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date. The SARs have a term of 10 years from the date of grant. The fair value of each SAR is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions.

The following table summarizes the assumptions used to estimate the fair value of SARs granted:

	Nine Months Ended September 30,	
	2013	2012
Expected volatility	45.2%	47.1%
Weighted-average volatility	45.2%	47.1%
Expected dividend rate	0.0%	0.0%
Expected term (in years)	5.0	4.7
Risk-free rate	0.8%	0.8%

**Table of Contents**

The following table summarizes SARs activity as of September 30, 2013 and for the nine months then ended:

Stock Appreciation Rights	Shares (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at January 1, 2013	865	\$ -		
Granted	318	\$ -		
Exercised	-	\$ -		
Forfeited or expired	-	\$ -		
<b>Outstanding at September 30, 2013</b>	<b>1,183</b>	<b>\$ -</b>	<b>7.3</b>	<b>\$ 1,558</b>
<b>Vested or expected to vest at September 30, 2013</b>	<b>1,183</b>	<b>\$ -</b>	<b>7.3</b>	<b>\$ 1,558</b>
<b>Exercisable at September 30, 2013</b>	<b>648</b>	<b>\$ -</b>	<b>5.9</b>	<b>\$ 307</b>

The following table summarizes information regarding SARs granted and exercised (in thousands, except per SAR amounts):

	Nine Months Ended September 30,	
	2013	2012
Number of SARs granted	318	259
Weighted average grant-date fair value per SAR	\$ 6.08	\$ 5.97
Intrinsic value of SARs exercised	\$ -	\$ -
Fair value of SARs vested	\$ 1,298	\$ 1,388

The following table summarizes nonvested SARs activity as of September 30, 2013 and for the nine months then ended:

Nonvested Stock Appreciation Rights	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2013	395	\$ 6.74
Granted	318	\$ 6.08
Vested	(178)	\$ 7.28
Forfeited or expired	-	\$ -
<b>Nonvested at September 30, 2013</b>	<b>535</b>	<b>\$ 6.17</b>

As of September 30, 2013, there was \$2.5 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested SARs granted under the 2011 Plan and 2001 Plan. This cost is expected to be recognized over a weighted average period of 1.4 years.

**Restricted Shares** The Company's Board has approved in the past, and may approve in the future, awards of performance and employment-based restricted shares (restricted shares) for eligible participants. In some instances, where the issuance of restricted shares has adverse tax consequences to the recipient, the Board will instead issue restricted stock units (RSUs). The restricted shares are shares of the Company's common stock (or in the case of RSUs, represent an equivalent number of shares of the Company's common stock) which are issued to the participant subject to (a) restrictions on transfer for a period of time and (b) forfeiture under certain conditions. The performance goals, including revenue growth and income from operations targets, provide a range of vesting possibilities from 0% to 100% and will be measured at the end of the performance period. If the performance conditions are met for the performance period, the shares will vest and all restrictions on the transfer

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

of the restricted shares will lapse (or in the case of RSUs, an equivalent number of shares of the Company's common stock will be issued to the recipient). The Company recognizes compensation cost, net of estimated forfeitures, based on the fair value (which approximates the current market price) of the restricted shares (and RSUs) on the date of grant ratably over the requisite service period based on the probability of achieving the performance goals.

Changes in the probability of achieving the performance goals from period to period will result in corresponding changes in compensation expense. The employment-based restricted shares currently outstanding vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date.

**Table of Contents**

The following table summarizes nonvested restricted shares/RSUs activity as of September 30, 2013 and for the nine months then ended:

Nonvested Restricted Shares and RSUs	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2013	872	\$ 18.25
Granted	706	\$ 15.25
Vested	(20)	\$ 18.11
Forfeited or expired	(191)	\$ 23.55
<b>Nonvested at September 30, 2013</b>	<b>1,367</b>	<b>\$ 15.96</b>

The following table summarizes information regarding restricted shares/RSUs granted and vested (in thousands, except per restricted share/RSU amounts):

	Nine Months Ended September 30,	
	2013	2012
Number of restricted shares/RSUs granted	706	420
Weighted average grant-date fair value per restricted share/RSU	\$ 15.25	\$ 15.21
Fair value of restricted shares/RSUs vested	\$ 366	\$ 3,845

As of September 30, 2013, based on the probability of achieving the performance goals, there was \$19.7 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted shares/RSUs granted under the 2011 Plan and 2001 Plan. This cost is expected to be recognized over a weighted average period of 1.6 years.

**2004 Non-Employee Director Fee Plan** The Company's 2004 Non-Employee Director Fee Plan (the "2004 Fee Plan"), as amended on May 17, 2012, provides that all new non-employee directors joining the Board will receive an initial grant of shares of common stock on the date the new director is elected or appointed, the number of which will be determined by dividing \$60,000 by the closing price of the Company's common stock on the trading day immediately preceding the date a new director is elected or appointed, rounded to the nearest whole number of shares. The initial grant of shares vests in twelve equal quarterly installments, one-twelfth on the date of grant and an additional one-twelfth on each successive third monthly anniversary of the date of grant. The award lapses with respect to all unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares are forfeited.

The 2004 Fee Plan also provides that each non-employee director will receive, on the day after the annual shareholders meeting, an annual retainer for service as a non-employee director (the "Annual Retainer"). Prior to May 17, 2012, the Annual Retainer was \$95,000, of which \$50,000 was payable in cash, and the remainder was paid in stock. The annual grant of cash vests in four equal quarterly installments, one-fourth on the day following the annual meeting of shareholders, and an additional one-fourth on each successive third monthly anniversary of the date of grant. The annual grant of shares paid to non-employee directors prior to May 17, 2012 vests in eight equal quarterly installments, one-eighth on the day following the annual meeting of shareholders, and an additional one-eighth on each successive third monthly anniversary of the date of grant. On May 17, 2012, upon the recommendation of the Compensation and Human Resource Development Committee, the Board adopted the Fifth Amended and Restated Non-Employee Director Fee Plan (the "Amendment"), which increased the common stock component of the Annual Retainer by \$30,000, resulting in a total Annual Retainer of \$125,000, of which \$50,000 is payable in cash and the remainder paid in stock. In addition, the Amendment also changed the vesting period for the annual equity award, from a two-year vesting period, to a one-year vesting period (consisting of four equal quarterly installments, one-fourth on the date of grant and an additional one-fourth on each successive third monthly anniversary of the date of grant). The award lapses with respect to all unpaid cash and unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares and unpaid cash are forfeited.

In addition to the Annual Retainer award, the 2004 Fee Plan also provides for any non-employee Chairman of the Board to receive an additional annual cash award of \$100,000, and each non-employee director serving on a committee of the Board to receive an additional annual cash award. The additional annual cash award for the





**Table of Contents**

Chairperson of the Audit Committee is \$20,000 and Audit Committee members are entitled to an annual cash award of \$10,000. Prior to May 20, 2011, the annual cash awards for the Chairpersons of the Compensation and Human Resource Development Committee, Finance Committee and Nominating and Corporate Governance Committee were \$12,500 and the members of such committees were entitled to an annual cash award of \$7,500. On May 20, 2011, the Board increased the additional annual cash award to the Chairperson of the Compensation and Human Resource Development Committee to \$15,000. All other additional cash awards remained unchanged.

The Board may pay additional cash compensation to any non-employee director for services on behalf of the Board over and above those typically expected of directors, including but not limited to service on a special committee of the Board.

The following table summarizes nonvested common stock share award activity as of September 30, 2013 and for the nine months then ended:

Nonvested Common Stock Share Awards	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2013	13	\$ 17.18
Granted	37	\$ 16.01
Vested	(31)	\$ 16.48
Forfeited or expired	-	\$ -
<b>Nonvested at September 30, 2013</b>	<b>19</b>	<b>\$ 16.01</b>

The following table summarizes information regarding common stock share awards granted and vested (in thousands, except per share award amounts):

	Nine Months Ended September 30,	
	2013	2012
Number of share awards granted	37	42
Weighted average grant-date fair value per share award	\$ 16.01	\$ 16.15
Fair value of share awards vested	\$ 519	\$ 551

As of September 30, 2013, there was \$0.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock share awards granted under the 2004 Fee Plan. This cost is expected to be recognized over a weighted average period of 0.3 years.

**Deferred Compensation Plan** The Board adopted the Sykes Enterprises, Incorporated non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan") on December 17, 1998 and amended on March 29, 2006 and May 23, 2006. The Deferred Compensation Plan, which was not shareholder-approved, provides certain eligible employees the ability to defer any portion of their compensation until the participant's retirement, termination, disability or death, or a change in control of the Company. Using the Company's common stock, the Company matches 50% of the amounts deferred by certain senior management participants on a quarterly basis up to a total of \$12,000 per year for the president, executive vice presidents and senior vice presidents and \$7,500 per year for vice presidents (participants below the level of vice president are not eligible to receive matching contributions from the Company). Matching contributions and the associated earnings vest over a seven year service period. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include investments in various mutual funds and shares of the Company's common stock (see Note 8, Investments Held in Rabbi Trust). As of September 30, 2013 and December 31, 2012, liabilities of \$5.8 million and \$5.3 million, respectively, of the Deferred Compensation Plan were recorded in "Accrued employee compensation and benefits" in the accompanying Condensed Consolidated Balance Sheets.

Additionally, the Company's common stock match associated with the Deferred Compensation Plan, with a carrying value of approximately \$1.6 million and \$1.4 million at September 30, 2013 and December 31, 2012, respectively, is included in "Treasury stock" in the accompanying Condensed Consolidated Balance Sheets.



**Table of Contents**

The following table summarizes nonvested common stock activity as of September 30, 2013 and for the nine months then ended:

Nonvested Common Stock	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2013	8	\$ 16.98
Granted	12	\$ 16.30
Vested	(14)	\$ 16.56
Forfeited or expired	-	\$ -
<b>Nonvested at September 30, 2013</b>	<b>6</b>	<b>\$ 16.56</b>

The following table summarizes information regarding shares of common stock granted and vested (in thousands, except per common stock amounts):

	Nine Months Ended September 30,	
	2013	2012
Number of shares of common stock granted	12	13
Weighted average grant-date fair value per common stock	\$ 16.30	\$ 15.28
Fair value of common stock vested	\$ 241	\$ 178
Cash used to settle the obligation	\$ 1,014	\$ 263

As of September 30, 2013, there was \$0.1 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted average period of 2.8 years.

**Table of Contents****Note 18. Segments and Geographic Information**

The Company operates within two regions, the Americas and EMEA. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The Company aligns its business into two segments to effectively manage the business and support the customer care needs of every client and to respond to the demands of the Company's global customers.

The reportable segments consist of (1) the Americas, which includes the United States, Canada, Latin America, Australia and the Asia Pacific Rim, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and technical staffing and (2) EMEA, which includes Europe, the Middle East and Africa, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and fulfillment services. The sites within Latin America, India and the Asia Pacific Rim are included in the Americas segment given the nature of the business and client profile, which is primarily made up of U.S.-based companies that are using the Company's services in these locations to support their customer contact management needs.

Information about the Company's reportable segments is as follows (in thousands):

	Americas	EMEA	Other <sup>(1)</sup>	Consolidated
<b>Three Months Ended September 30, 2013:</b>				
Revenues <sup>(2)</sup>	\$ 265,878	\$ 56,265		\$ 322,143
Percentage of revenues	82.5%	17.5%		100.0%
Depreciation, net <sup>(2)</sup>	\$ 9,532	\$ 1,145		\$ 10,677
Amortization of intangibles <sup>(2)</sup>	\$ 3,699	\$ -		\$ 3,699
Income (loss) from continuing operations	\$ 26,987	\$ 3,423	\$ (11,631)	\$ 18,779
Other (expense), net			(58)	(58)
Income taxes			(4,575)	(4,575)
Income from continuing operations, net of taxes				14,146
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$ -	\$ -		-
Net income				\$ 14,146
<b>Total assets as of September 30, 2013</b>	<b>\$ 1,119,017</b>	<b>\$ 1,377,992</b>	<b>\$ (1,547,118)</b>	<b>\$ 949,891</b>
<b>Three Months Ended September 30, 2012:</b>				
Revenues <sup>(2)</sup>	\$ 237,541	\$ 42,985		\$ 280,526
Percentage of revenues	84.7%	15.3%		100.0%
Depreciation, net <sup>(2)</sup>	\$ 8,579	\$ 1,004		\$ 9,583
Amortization of intangibles <sup>(2)</sup>	\$ 2,774	\$ -		\$ 2,774
Income (loss) from continuing operations	\$ 21,654	\$ 2,359	\$ (15,341)	\$ 8,672
Other (expense), net			(839)	(839)
Income taxes			309	309
Income from continuing operations, net of taxes				8,142
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$ -	\$ -		-
Net income				\$ 8,142
<b>Total assets as of September 30, 2012</b>	<b>\$ 1,265,146</b>	<b>\$ 1,073,201</b>	<b>\$ (1,433,732)</b>	<b>\$ 904,615</b>



**Table of Contents**

	Americas	EMEA	Other <sup>(1)</sup>	Consolidated
<b>Nine Months Ended September 30, 2013:</b>				
Revenues <sup>(2)</sup>	\$ 776,255	\$ 151,867		\$ 928,122
Percentage of revenues	83.6%	16.4%		100.0%
Depreciation, net <sup>(2)</sup>	\$ 27,789	\$ 3,074		\$ 30,863
Amortization of intangibles <sup>(2)</sup>	\$ 11,171	\$ -		\$ 11,171
Income (loss) from continuing operations	\$ 65,730	\$ 3,354	\$ (34,811)	\$ 34,273
Other (expense), net			(926)	(926)
Income taxes			(7,087)	(7,087)
Income from continuing operations, net of taxes				26,260
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$ -	\$ -		-
Net income				\$ 26,260
<b>Nine Months Ended September 30, 2012:</b>				
Revenues <sup>(2)</sup>	\$ 688,841	\$ 134,585		\$ 823,426
Percentage of revenues	83.7%	16.3%		100.0%
Depreciation, net <sup>(2)</sup>	\$ 27,043	\$ 2,990		\$ 30,033
Amortization of intangibles <sup>(2)</sup>	\$ 6,644	\$ -		\$ 6,644
Income (loss) from continuing operations	\$ 69,388	\$ 1,861	\$ (39,182)	\$ 32,067
Other (expense), net			(1,838)	(1,838)
Income taxes			(3,569)	(3,569)
Income from continuing operations, net of taxes				26,660
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$ (6,302)	\$ (5,225)		(11,527)
Net income				\$ 15,133

(1) Other items (including corporate costs, impairment costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company's consolidated totals as shown in the tables above for the three and nine months ended September 30, 2013 and 2012. Inter-segment revenues are not material to the Americas and EMEA segment results. The Company evaluates the performance of its geographic segments based on revenue and income (loss) from operations, and does not include segment assets or other income and expense items for management reporting purposes.

(2) Revenues and depreciation and amortization include results from continuing operations only.

(3) Includes the (loss) from discontinued operations, net of taxes, as well as the (loss) on sale of discontinued operations, net of taxes, if any.

**Note 19. Other Income (Expense)**

Gains and losses resulting from foreign currency transactions are recorded in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations during the period in which they occur. Other income (expense) consists of the following (in thousands):

	Three Months Ended September		Nine Months Ended September 30,	
	2013	2012	2013	2012
Foreign currency transaction gains (losses)	\$ (470)	\$ (193)	\$ (3,204)	\$ (1,771)
Gains (losses) on foreign currency derivative instruments not designated as hedges	546	(849)	2,776	(1,046)
Other miscellaneous income (expense)	280	327	570	1,013
	\$ 356	\$ (715)	\$ 142	\$ (1,804)

**Note 20. Related Party Transactions**

In January 2008, the Company entered into a lease for a customer contact management center located in Kingstree, South Carolina. The landlord, Kingstree Office One, LLC, is an entity controlled by John H. Sykes, the founder, former Chairman and Chief Executive Officer and the father of Charles Sykes, President and Chief Executive Officer of the Company. The lease payments on the 20 year lease were negotiated at or below market rates, and the lease is cancellable at the option of the Company. There are significant penalties for early cancellation which decrease over time. The Company paid \$0.1 million to the landlord during both the three months ended September 30, 2013 and 2012 and \$0.3 million to the landlord during both the nine months ended September 30, 2013 and 2012 under the terms of the lease.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

Sykes Enterprises, Incorporated

400 North Ashley Drive

Tampa, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the Company) as of September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2013 and 2012, of changes in shareholders' equity for the nine-month period ended September 30, 2013, and of cash flows for the nine-month periods ended September 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries as of December 31, 2012, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP  
Certified Public Accountants  
Tampa, Florida

November 5, 2013



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated ( SYKES, our, we or us ) Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission ( SEC ).*

*Our discussion and analysis may contain forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about SYKES, our beliefs, and assumptions made by us. In addition, we may make other written or oral statements, which constitute forward-looking statements, from time to time. Words such as believe, estimate, project, expect, intend, may, anticipate, plan, seek, variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives, or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including those discussed below and elsewhere in this report. Our actual results may differ materially from what is expressed or forecasted in such forward-looking statements, and undue reliance should not be placed on such statements. All forward-looking statements are made as of the date hereof, and we undertake no obligation to update any such forward-looking statements, whether as a result of new information, future events or otherwise.*

*Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) the impact of economic recessions in the U.S. and other parts of the world, (ii) fluctuations in global business conditions and the global economy, (iii) currency fluctuations, (iv) the timing of significant orders for our products and services, (v) variations in the terms and the elements of services offered under our standardized contract including those for future bundled service offerings, (vi) changes in applicable accounting principles or interpretations of such principles, (vii) difficulties or delays in implementing our bundled service offerings, (viii) failure to achieve sales, marketing and other objectives, (ix) construction delays of new or expansion of existing customer contact management centers, (x) delays in our ability to develop new products and services and market acceptance of new products and services, (xi) rapid technological change, (xii) loss or addition of significant clients, (xiii) political and country-specific risks inherent in conducting business abroad, (xiv) our ability to attract and retain key management personnel, (xv) our ability to continue the growth of our support service revenues through additional technical and customer contact management centers, (xvi) our ability to further penetrate into vertically integrated markets, (xvii) our ability to expand our global presence through strategic alliances and selective acquisitions, (xviii) our ability to continue to establish a competitive advantage through sophisticated technological capabilities, (xix) the ultimate outcome of any lawsuits, (xx) our ability to recognize deferred revenue through delivery of products or satisfactory performance of services, (xxi) our dependence on trend toward outsourcing, (xxii) risk of interruption of technical and customer contact management center operations due to such factors as fire, earthquakes, inclement weather and other disasters, power failures, telecommunication failures, unauthorized intrusions, computer viruses and other emergencies, (xxiii) the existence of substantial competition, (xxiv) the early termination of contracts by clients, (xxv) the ability to obtain and maintain grants and other incentives (tax or otherwise), (xxvi) the potential of cost savings/synergies associated with the ICT and Alpine acquisitions not being realized, or not being realized within the anticipated time period, (xxvii) risks related to the integration of the businesses of SYKES, ICT and Alpine and (xxviii) other risk factors which are identified in our most recent Annual Report on Form 10-K, including factors identified under the headings Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.*

**Executive Summary**

We provide comprehensive customer contact management solutions and services to a wide range of clients including Fortune 1000 companies, medium-sized businesses, and public institutions around the world, primarily in the communications, financial services, technology/consumer, transportation and leisure and healthcare industries. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, Australia and the Asia Pacific Rim) and EMEA (Europe, the Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact management services (with an emphasis on inbound technical support and customer service), which include customer assistance, healthcare and roadside assistance, technical support and product sales to our clients' customers. These services, which represented 98% of consolidated revenues during the three and nine months ended September 30, 2013, are delivered through multiple communication channels encompassing phone, e-mail, Internet, text messaging and chat. We also provide various enterprise support services

## **Table of Contents**

in the United States ( U.S. ) that include services for our client s internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, we also provide fulfillment services including multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery, and product returns handling. Our complete service offering helps our clients acquire, retain and increase the lifetime value of their customer relationships. We have developed an extensive global reach with customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia, India and Africa.

### **Acquisition of Alpine Access, Inc.**

On August 20, 2012, we completed the acquisition of Alpine Access, Inc. ( Alpine ), a Delaware corporation and an industry leader in the at-home agent space recruiting, training, managing and delivering award-winning customer contact management services through a secured and proprietary virtual call center environment with its operations located in the United States and Canada. We refer to such acquisition herein as the Alpine acquisition.

The Company acquired Alpine to: create significant competitive differentiation for quality, speed to market, scalability and flexibility driven by proprietary, internally-developed software, systems, processes and other intellectual property which uniquely overcome the challenges of the at-home delivery model; strengthen the Company s current service portfolio and go-to-market offering while expanding the breadth of clients with minimal client overlap; broaden the addressable market opportunity within existing and new verticals as well as clients; expand the addressable pool of skilled labor; leverage operational best practices across the Company s global platform, with the potential to convert more of its fixed cost to variable cost; and to further enhance the growth and margin profile of the Company to drive shareholder value. This resulted in the Company paying a substantial premium for Alpine resulting in the recognition of goodwill.

The total purchase price of \$149.0 million was funded by \$41.0 million in cash on hand and borrowings of \$108.0 million under our credit agreement with KeyBank National Association, dated May 3, 2012. See Liquidity & Capital Resources later in this Item 2 and Note 11, Borrowings, of Notes to Condensed Consolidated Financial Statements for further information.

The results of operations of Alpine have been reflected in the accompanying Condensed Consolidated Statements of Operations since August 20, 2012.

### **Discontinued Operations**

In March 2012, we sold our operations in Spain (the Spanish operations ) pursuant to an asset purchase agreement dated March 29, 2012 and a stock purchase agreement dated March 30, 2012. We have reflected the operating results related to the operations in Spain as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2012. This business was historically reported as part of the EMEA segment.

See Results of Operations Discontinued Operations later in this Item 2 for more information. Unless otherwise noted, discussions below pertain only to our continuing operations.

**Table of Contents****Results of Operations**

The following table sets forth, for the periods indicated, certain data derived from our Condensed Consolidated Statements of Operations and certain of such data expressed as a percentage of revenues (in thousands, except percentage amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	\$ 322,143	\$ 280,526	\$ 928,122	\$ 823,426
% of revenues	100.0%	100.0%	100.0%	100.0%
Direct salaries and related costs	\$ 215,001	\$ 183,628	\$ 628,848	\$ 536,758
% of revenues	66.7%	65.5%	67.8%	65.2%
General and administrative	\$ 73,987	\$ 75,747	\$ 222,967	\$ 217,653
% of revenues	23.0%	27.0%	24.0%	26.4%
Depreciation, net	\$ 10,677	\$ 9,583	\$ 30,863	\$ 30,033
% of revenues	3.3%	3.4%	3.3%	3.6%
Amortization of intangibles	\$ 3,699	\$ 2,774	\$ 11,171	\$ 6,644
% of revenues	1.1%	1.0%	1.2%	0.8%
Impairment of long-lived assets	\$ -	\$ 122	\$ -	\$ 271
% of revenues	0.0%	0.0%	0.0%	0.0%
Income from continuing operations	\$ 18,779	\$ 8,672	\$ 34,273	\$ 32,067
% of revenues	5.8%	3.1%	3.7%	3.9%

**Table of Contents****Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012****Revenues**

(in thousands)	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012		\$ Change
	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$ 265,878	82.5%	\$ 237,541	84.7%	\$ 28,337
EMEA	56,265	17.5%	42,985	15.3%	13,280
Consolidated	\$ 322,143	100.0%	\$ 280,526	100.0%	\$ 41,617

The increase in Americas revenues was primarily due to Alpine acquisition revenues of \$14.4 million (excluding the migration of Sykes legacy revenue to Alpine of \$5.8 million), new contract sales of \$26.2 million, partially offset by end-of-life client programs of \$5.6 million, lower volumes from existing contracts of \$0.6 million and a negative foreign currency impact of \$6.1 million. Revenues from our offshore operations represented 44.4% of Americas revenues, compared to 47.2% for the comparable period in 2012. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce, the trend of higher occupancy costs and costs of functional currency fluctuations in offshore markets. We weight these factors in our continual focus to re-price or replace certain sub-profitable target client programs.

The increase in EMEA revenues was primarily due to new contract sales of \$10.2 million, higher volumes from existing contracts of \$2.1 million and a positive foreign currency impact of \$1.7 million, partially offset by end-of-life client programs of \$0.7 million.

On a consolidated basis, we had 41,100 brick-and-mortar seats as of September 30, 2013, an increase of 900 seats from the comparable period in 2012. This increase in seats was due to the addition of new facilities and expansion of existing ones driven by program growth and our facilities transfer efforts. The capacity utilization rate on a combined basis was 75% compared to 73% in the comparable period in 2012. This increase was primarily due to program growth coupled with a reduction in overall capacity.

On a geographic segment basis, 35,200 seats were located in the Americas, an increase of 300 seats from the comparable period in 2012, and 5,900 seats were located in EMEA, an increase of 600 seats from the comparable period in 2012. The consolidated offshore seat count as of September 30, 2013 was 23,200, or 56%, of our total seats, an increase of 800 seats, or 4%, from the comparable period in 2012. Capacity utilization rates as of September 30, 2013 were 73% for the Americas and 85% for EMEA, compared to 72% and 78%, respectively, in the comparable period in 2012, primarily due to program growth and seat rationalizations associated with the strategic actions in connection with the Fourth Quarter 2011 Exit Plan. We strive to attain an 85% capacity utilization metric at each of our locations.

The Company plans to add approximately 7,000 seats on a gross basis in 2013. Approximately 1,700 seats are expected to be added in the fourth quarter of 2013 due to anticipated seat additions related to facility transfers and expansions. Total seat count on a net basis for the full year, however, is expected to increase by approximately 2,000 seats as approximately 5,000 seats will be eliminated through capacity optimization programs.

**Direct Salaries and Related Costs**

(in thousands)	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 174,795	65.7%	\$ 154,292	65.0%	\$ 20,503	0.7%
EMEA	40,206	71.5%	29,336	68.2%	10,870	3.3%
Consolidated	\$ 215,001	66.7%	\$ 183,628	65.5%	\$ 31,373	1.2%

The increase in direct salaries and related costs in the Americas and EMEA included a positive foreign currency impact of \$3.7 million and negative foreign currency impact of \$1.2 million, respectively, for the three months ended September 30, 2013 from the comparable period in 2012.

**Table of Contents**

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.7% driven by the ramp up for new and existing client programs principally in the communications vertical and lower demand within the healthcare vertical without a commensurate reduction in labor costs.

The increase in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 5.4% driven by the ramp up for new and existing client programs principally in the communications vertical, partially offset by lower fulfillment materials costs of 1.2%, lower billable supply costs of 0.5%, lower recruiting costs of 0.2% and lower communication costs of 0.2%.

**General and Administrative**

(in thousands)	Three Months Ended September 30, 2013		2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 50,865	19.1%	\$ 50,120	21.1%	\$ 745	-2.0%
EMEA	11,491	20.4%	10,286	23.9%	1,205	-3.5%
Corporate	11,631	-	15,341	-	(3,710)	-
Consolidated	\$ 73,987	23.0%	\$ 75,747	27.0%	\$ (1,760)	-4.0%

The increase in general and administrative expenses in the Americas and EMEA included a positive foreign currency impact of \$1.0 million and negative foreign currency impact of \$0.3 million, respectively, for the three months ended September 30, 2013 from the comparable period in 2012.

The decrease in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to lower compensation costs of 0.6%, lower facility-related costs of 0.5%, lower legal and professional costs of 0.3%, lower communication costs of 0.2% and lower other costs of 0.4%.

The decrease in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to lower compensation costs of 1.2%, lower facility-related costs of 1.1%, lower severance-related costs of 0.4%, lower communication costs of 0.3%, all primarily due to the closure of certain sites in connection with the Fourth Quarter 2011 Exit Plan, lower legal and professional fees of 0.3% and lower other costs of 0.2%.

The decrease in Corporate's general and administrative expenses was primarily attributable to lower merger and integration costs of \$3.4 million, lower consulting costs of \$0.5 million, lower insurance costs of \$0.3 million, partially offset by higher compensation costs of \$0.4 million and higher other costs of \$0.1 million.

**Depreciation, Amortization and Impairment of Long-Lived Assets**

(in thousands)	Three Months Ended September 30, 2013		2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
<b>Depreciation, net:</b>						
Americas	\$ 9,532	3.6%	\$ 8,579	3.6%	\$ 953	0.0%
EMEA	1,145	2.0%	1,004	2.3%	141	-0.3%
Consolidated	\$ 10,677	3.3%	\$ 9,583	3.4%	\$ 1,094	-0.1%
<b>Amortization of intangibles:</b>						
Americas	\$ 3,699	1.4%	\$ 2,774	1.2%	\$ 925	0.2%
EMEA	-	0.0%	-	0.0%	-	0.0%

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Consolidated	\$	<b>3,699</b>	<b>1.1%</b>	\$	2,774	1.0%	\$	925	0.1%
<b>Impairment of long-lived assets:</b>									
Americas	\$	-	<b>0.0%</b>	\$	122	0.1%	\$	(122)	-0.1%
EMEA		-	<b>0.0%</b>		-	0.0%		-	<b>0.0%</b>
Consolidated	\$	-	<b>0.0%</b>	\$	122	0.0%	\$	(122)	0.0%

The increase in depreciation and amortization was primarily due to the August 2012 acquisition of Alpine.

**Table of Contents**

See Note 5, Fair Value, of the Notes to Condensed Consolidated Financial Statements for further information regarding the impairment of long-lived assets.

**Other Income (Expense)**

(in thousands)	Three Months Ended September 30,		
	2013	2012	\$ Change
Interest income	\$ 216	\$ 297	\$ (81)
Interest (expense)	\$ (630)	\$ (421)	\$ (209)
Other income (expense):			
Foreign currency transaction gains (losses)	\$ (470)	\$ (193)	\$ (277)
Gains (losses) on foreign currency derivative instruments not designated as hedges	546	(849)	1,395
Other miscellaneous income (expense)	280	327	(47)
Total other income (expense)	\$ 356	\$ (715)	\$ 1,071

The decrease in interest income reflects lower average comparable period invested balances of interest bearing investments in cash and cash equivalents.

The increase in interest (expense) reflects higher average outstanding borrowings primarily related to the August 2012 Alpine acquisition.

Other income (expense) excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated other comprehensive income (loss) in shareholders equity in the accompanying Condensed Consolidated Balance Sheets.

**Income Taxes**

(in thousands)	Three Months Ended September 30,		
	2013	2012	\$ Change
Income from continuing operations before income taxes	\$ 18,721	\$ 7,833	\$ 10,888
Income taxes	\$ 4,575	\$ (309)	\$ 4,884
			% Change
Effective tax rate	24.4%	-3.9%	28.3%

The increase in the effective tax rate in 2013 compared to 2012 is primarily due to tax benefits recognized in 2012 as a result of the Alpine acquisition, coupled with the fluctuations in earnings among the various jurisdictions in which we operate.

**Net Income**

As a result of the foregoing, we reported income from continuing operations for the three months ended September 30, 2013 of \$18.8 million, an increase of \$10.1 million from the comparable period in 2012. This increase was principally attributable to a \$41.6 million increase in revenues, a \$1.8 million decrease in general and administrative expenses and \$0.1 million decrease in impairment of long-lived assets, partially offset by a \$31.4 million increase in direct salaries and related costs, a \$1.1 million increase in depreciation, net and a \$0.9 million increase in amortization of intangibles. In addition to the \$10.1 million increase in income from continuing operations, we experienced a \$1.1 million increase in other income (expense), partially offset by an increase in interest (expense) of \$0.2 million, a decrease in interest income of \$0.1 million and a \$4.9 million increase in income taxes, resulting in net income of \$14.1 million for the three months ended September 30, 2013, an increase of \$6.0 million compared to the comparable period in 2012.



**Table of Contents****Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012****Revenues**

(in thousands)	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012		\$ Change
	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$ 776,255	83.6%	\$ 688,841	83.7%	\$ 87,414
EMEA	151,867	16.4%	134,585	16.3%	17,282
Consolidated	\$ 928,122	100.0%	\$ 823,426	100.0%	\$ 104,696

The increase in Americas revenues was primarily due to Alpine acquisition revenues of \$60.7 million (excluding the migration of Sykes legacy revenue to Alpine of \$13.8 million), new contract sales of \$48.4 million and higher volumes from existing contracts of \$1.5 million, partially offset by end-of-life client programs of \$16.7 million and a negative foreign currency impact of \$6.5 million. Revenues from our offshore operations represented 43.8% of Americas revenues, compared to 48.7% for the comparable period in 2012.

The increase in EMEA's revenues was primarily due to new contract sales of \$15.5 million, higher volumes from existing contracts of \$5.0 million and a positive foreign currency impact of \$2.7 million, partially offset by end-of-life client programs of \$5.9 million.

**Direct Salaries and Related Costs**

(in thousands)	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 517,407	66.7%	\$ 440,336	63.9%	\$ 77,071	2.8%
EMEA	111,441	73.4%	96,422	71.6%	15,019	1.8%
Consolidated	\$ 628,848	67.8%	\$ 536,758	65.2%	\$ 92,090	2.6%

The increase in direct salaries and related costs in the Americas and EMEA included the positive foreign currency impact of \$1.5 million and negative foreign currency impact of \$2.1 million, respectively, for the nine months ended September 30, 2013 from the comparable period in 2012.

The increase in Americas direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 2.1% driven by the ramp up for new and existing client programs principally in the communications vertical and lower demand within the healthcare vertical without a commensurate reduction in labor costs, higher auto tow claim costs of 0.2% due to an increase in the average length of the tows without a commensurate increase in fees at our Canadian roadside assistance operations, higher communication costs of 0.1% and higher other costs of 0.4%.

The increase in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 4.2% driven by the ramp up for new and existing client programs principally in the communications vertical, partially offset by lower billable supply costs of 1.0%, lower severance costs of 0.5% due to the closure of certain sites in connection with the Fourth Quarter 2011 Exit Plan, lower fulfillment costs of 0.5%, lower communication costs of 0.3% and lower other costs of 0.1%.

**Table of Contents****General and Administrative**

(in thousands)	Nine Months Ended September 30, 2013		2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 154,158	19.9%	\$ 145,159	21.1%	\$ 8,999	-1.2%
EMEA	33,998	22.4%	33,312	24.8%	686	-2.4%
Corporate	34,811	-	39,182	-	(4,371)	-
Consolidated	\$ 222,967	24.0%	\$ 217,653	26.4%	\$ 5,314	-2.4%

The increase in general and administrative expenses in the Americas and EMEA included a positive foreign currency impact of \$0.2 million and a negative foreign currency impact of \$0.5 million, respectively, for the nine months ended September 30, 2013 from the comparable period in 2012.

The decrease in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to lower compensation costs of 0.5%, lower facility-related costs of 0.5%, lower equipment and maintenance costs of 0.3% and lower communication costs of 0.2%, partially offset by higher software maintenance costs of 0.3%.

The decrease in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to lower compensation costs of 0.7%, lower facility-related costs of 0.7%, lower severance-related costs of 0.5%, lower communication costs of 0.3%, all primarily due to the closure of certain sites in connection with the Fourth Quarter 2011 Exit Plan, and lower other costs of 0.2%.

The decrease in Corporate's general and administrative expenses was primarily attributable to lower merger and acquisition costs of \$2.9 million, lower consulting costs of \$1.0 million, lower legal and professional fees of \$0.8 million, lower travel costs of \$0.2 million, lower equipment and maintenance costs of \$0.2 million, lower facility-related costs of \$0.1 million and lower other costs of \$0.5 million, partially offset by higher compensation costs of \$1.3 million.

**Depreciation, Amortization and Impairment of Long-Lived Assets**

(in thousands)	Nine Months Ended September 30, 2013		2012		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
<b>Depreciation, net:</b>						
Americas	\$ 27,789	3.6%	\$ 27,043	3.9%	\$ 746	-0.3%
EMEA	3,074	2.0%	2,990	2.2%	84	-0.2%
Consolidated	\$ 30,863	3.3%	\$ 30,033	3.6%	\$ 830	-0.3%
<b>Amortization of intangibles:</b>						
Americas	\$ 11,171	1.4%	\$ 6,644	1.0%	\$ 4,527	0.4%
EMEA	-	0.0%	-	0.0%	-	0.0%
Consolidated	\$ 11,171	1.2%	\$ 6,644	0.8%	\$ 4,527	0.4%
<b>Impairment of long-lived assets:</b>						
Americas	\$ -	0.0%	\$ 271	0.0%	\$ (271)	0.0%
EMEA	-	0.0%	-	0.0%	-	0.0%
Consolidated	\$ -	0.0%	\$ 271	0.0%	\$ (271)	0.0%

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

The increase in depreciation and amortization was primarily due to the August 2012 acquisition of Alpine.

See Note 5, Fair Value, of the Notes to Condensed Consolidated Financial Statements for further information regarding the impairment of long-lived assets.

**Table of Contents****Other Income (Expense)**

(in thousands)	Nine Months Ended September 30,		\$ Change
	2013	2012	
Interest income	\$ 648	\$ 1,015	\$ (367)
Interest (expense)	\$ (1,716)	\$ (1,049)	\$ (667)
<b>Other income (expense):</b>			
Foreign currency transaction gains (losses)	\$ (3,204)	\$ (1,771)	\$ (1,433)
Gains (losses) on foreign currency derivative instruments not designated as hedges	2,776	(1,046)	3,822
Other miscellaneous income (expense)	570	1,013	(443)
<b>Total other income (expense)</b>	<b>\$ 142</b>	<b>\$ (1,804)</b>	<b>\$ 1,946</b>

The decrease in interest income reflects lower average comparable period invested balances of interest bearing investments in cash and cash equivalents.

The increase in interest (expense) reflects higher average outstanding borrowings primarily related to the August 2012 Alpine acquisition.

Other income (expense) excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated other comprehensive income (loss) in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

**Income Taxes**

(in thousands)	Nine Months Ended September 30,		\$ Change
	2013	2012	
Income from continuing operations before income taxes	\$ 33,347	\$ 30,229	\$ 3,118
Income taxes	\$ 7,087	\$ 3,569	\$ 3,518
			<b>% Change</b>
Effective tax rate	21.3%	11.8%	9.5%

The increase in the effective tax rate in 2013 compared to 2012 is primarily due to withholding taxes in response to the American Taxpayer Relief Act of 2012, tax benefits recognized in 2012 as a result of the Alpine acquisition and the fluctuations in earnings among the various jurisdictions in which we operate.

In response to the American Taxpayer Relief Act of 2012 signed into law on January 2, 2013, with retroactive application to January 1, 2012, we executed offshore cash movements resulting in a \$2.6 million foreign withholding tax. This withholding tax was included in income tax expense for the nine months ended September 30, 2013.

**(Loss) from Discontinued Operations**

We sold our Spanish operations in March 2012 and accounted for this transaction in accordance with Accounting Standards Codification 205-20 *Discontinued Operations*. Accordingly, we reclassified the results of operations for the nine months ended September 30, 2012 to discontinued operations. The loss from discontinued operations totaled \$0.8 million for the nine months ended September 30, 2012. The loss on sale of discontinued operations totaled \$10.7 million for the nine months ended September 30, 2012. There was no tax impact on the loss from discontinued operations or loss on sale of discontinued operations.

**Net Income**

As a result of the foregoing, we reported income from continuing operations for the nine months ended September 30, 2013 of \$34.3 million, an increase of \$2.2 million from the comparable period in 2012. This increase was principally attributable to a \$104.7 million increase in revenues

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

and a \$0.2 million decrease in impairment of long-lived assets, partially offset by a \$92.1 million increase in direct salaries and related costs, a \$5.3 million increase in general and administrative expenses, a \$4.5 million increase in amortization of intangibles and a \$0.8 million increase in depreciation, net. In addition to the \$2.2 million increase in income from continuing operations, we experienced a \$2.0 million increase in other income (expense), a \$10.7 million decrease in loss on sale of discontinued operations and a \$0.8 million decrease in loss from discontinued operations, partially offset by an

**Table of Contents**

increase in interest (expense) of \$0.7 million, a decrease in interest income of \$0.4 million and a \$3.5 million increase in income taxes, resulting in net income of \$26.3 million for the nine months ended September 30, 2013, an increase of \$11.1 million compared to the comparable period in 2012.

**Client Concentration**

Our top ten clients accounted for approximately 47.2% and 46.3% of our consolidated revenues in the three and nine months ended September 30, 2013, respectively, down from approximately 48.5% and 48.7% of our consolidated revenues in the three and nine months ended September 30, 2012, respectively.

Total revenues from AT&T Corporation, a major provider of communication services for which we provide various customer support services over several distinct lines of AT&T businesses, were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ 45,111	14.0%	\$ 36,024	12.8%	\$ 117,353	12.6%	\$ 95,664	11.6%
EMEA	881	0.3%	771	0.3%	2,624	0.3%	2,265	0.3%
	\$ 45,992	14.3%	\$ 36,795	13.1%	\$ 119,977	12.9%	\$ 97,929	11.9%

Total revenues from our next largest client, which was in the financial services vertical market, were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Next largest client	\$ 17,733	5.5%	\$ 18,716	6.7%	\$ 53,734	5.8%	\$ 51,917	6.3%

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire between 2013 and 2015. We have historically renewed most of these contracts. However, there is no assurance that these contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts. Each line of business is governed by separate business terms, conditions and metrics. Each line of business also has a separate decision maker such that a loss of one line of business would not necessarily impact our relationship with the client and decision makers on other lines of business. The loss of (or the failure to retain a significant amount of business with) any of our key clients, including AT&T, could have a material adverse effect on our performance. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short notice. Also, clients may unilaterally reduce their use of our services under our contracts without penalty.

**Business Outlook**

For the twelve months ended December 31, 2013, we anticipate the following financial results:

- Revenues in the range of \$1,258.0 million to \$1,263.0 million;
- Effective tax rate of approximately 22%;
- Fully diluted share count of approximately 42.9 million;
- Diluted earnings per share of approximately \$0.93 to \$0.97; and
- Capital expenditures in the range of \$64.0 million to \$66.0 million

Not included in this guidance is the impact of any future acquisitions or share repurchase activities.



**Table of Contents****Liquidity and Capital Resources**

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facility. We utilize these capital resources to make capital expenditures associated primarily with our customer contact management services, invest in technology applications and tools to further develop our service offerings and for working capital and other general corporate purposes, including repurchase of our common stock in the open market and to fund acquisitions. In future periods, we intend similar uses of these funds.

On August 18, 2011, our Board authorized us to purchase up to 5.0 million shares of our outstanding common stock (the 2011 Share Repurchase Program). During the nine months ended September 30, 2013, we repurchased 0.3 million common shares under the 2011 Share Repurchase Program at prices ranging from \$15.61 to \$16.99 per share for a total cost of \$5.5 million. During the nine months ended September 30, 2012, we repurchased 0.5 million common shares under the 2011 Share Repurchase Program at prices ranging from \$13.85 to \$15.00 per share for a total cost of \$7.9 million. As of September 30, 2013, a total of 3.4 million shares have been repurchased under the 2011 Share Repurchase Program. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date. We may make additional discretionary stock repurchases under this program in 2013.

During the nine months ended September 30, 2013, cash increased \$50.5 million from operating activities as well as \$32.0 million in proceeds from the issuance of long-term debt, \$0.1 million from proceeds from grants, \$0.1 million from proceeds from sale of property and equipment and \$0.1 million from proceeds from issuance of stock. The increase in cash was partially offset by \$45.6 million used for capital expenditures, \$18.0 million to repay long-term debt, \$5.5 million to repurchase common stock, a \$0.3 million investment in restricted cash (principally lease security deposits) and \$0.1 million to repurchase common stock for minimum tax withholding on equity awards, resulting in a \$9.4 million increase in available cash (including the unfavorable effects of foreign currency exchange rates on cash of \$3.9 million).

Net cash flows provided by operating activities for the nine months ended September 30, 2013 were \$50.5 million, compared to \$55.3 million for the comparable 2012 period. The \$4.8 million decrease in net cash flows from operating activities was due to a net decrease of \$19.1 million in cash flows from assets and liabilities, partially offset by an \$11.1 million increase in net income and a \$3.2 million increase in non-cash reconciling items such as depreciation, amortization, unrealized foreign currency transaction (gains) losses and deferred income taxes. The \$19.1 million decrease in cash flows from assets and liabilities was principally a result of a \$16.0 million increase in accounts receivable, a \$4.0 million decrease in taxes payable and a \$1.4 million increase in other assets, partially offset by a \$1.5 million increase in deferred revenue and a \$0.8 million increase in other liabilities. The increase in accounts receivable is primarily due to additional billings related to higher volumes within certain clients in the nine months ended September 30, 2013 over the comparable period in 2012.

We sold our operations in Spain (the Spanish operations) in March 2012. Cash flows from discontinued operations were as follows (in thousands):

	<b>Nine Months Ended September 30, 2012</b>	
Cash (used for) provided by operating activities of discontinued operations	\$	(4,530)
Cash (used for) investing activities of discontinued operations		(8,887)

Cash (used for) operating activities of discontinued operations primarily represents the cash used by the Spanish operations during the nine months ended September 30, 2012. Cash (used for) investing activities of discontinued operations during the nine months ended September 30, 2012 primarily represents the cash divested upon the sale of the Spanish operations. The sale of the Spanish operations resulted in a loss of \$10.7 million. We do not expect the absence of the cash flows from our discontinued operations in Spain to materially affect our future liquidity and capital resources.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were \$45.6 million for the nine months ended September 30, 2013, compared to \$26.4 million for the comparable period in 2012, an increase of \$19.2 million. In 2013, we anticipate capital expenditures in the range of \$64.0 million to \$66.0 million, primarily for new seat additions principally in the Americas, maintenance and systems infrastructure.



---

**Table of Contents**

On May 3, 2012, we entered into a \$245 million revolving credit facility (the 2012 Credit Agreement ). The 2012 Credit Agreement replaced our previous \$75 million revolving credit facility dated February 2, 2010, as amended, which agreement was terminated simultaneous with entering into the 2012 Credit Agreement. The 2012 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At September 30, 2013, we were in compliance with all loan requirements of the 2012 Credit Agreement and had \$105.0 million of outstanding borrowings under this facility, with an average daily utilization of \$110.4 million and \$102.5 million for the three and nine months ended September 30, 2013, respectively, and \$106.1 million for the period outstanding during both the three and nine months ended September 30, 2012. During the three and nine months ended September 30, 2013, the related interest expense, excluding amortization of deferred loan fees, under our credit agreements was \$0.4 million and \$1.1 million, respectively, which represented a weighted average interest rate of 1.5% and 1.5%, respectively. During the three and nine months ended September 30, 2012, the related interest expense, excluding amortization of deferred loan fees, under our credit agreements was \$0.2 million and \$0.2 million, respectively, which represented a weighted average interest rate of 1.6% and 1.6%, respectively.

The 2012 Credit Agreement includes a \$184 million alternate-currency sub-facility, a \$10 million swingline sub-facility and a \$35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. We are not currently aware of any inability of our lenders to provide access to the full commitment of funds that exist under the 2012 Credit Agreement, if necessary. However, there can be no assurance that such facility will be available to us, even though it is a binding commitment of the financial institutions. The 2012 Credit Agreement will mature on May 2, 2017.

Borrowings under the 2012 Credit Agreement will bear interest at the rates set forth in the Credit Agreement. In addition, we are required to pay certain customary fees, including a commitment fee of 0.175%, which is due quarterly in arrears and calculated on the average unused amount of the 2012 Credit Agreement.

The 2012 Credit Agreement is guaranteed by all of our existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all of our direct foreign subsidiaries and those of the guarantors.

In April 2012, we received an assessment for the Canadian 2003-2006 audit for which we filed a Notice of Objection in July 2012 and paid a mandatory security deposit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service for this audit cycle. We are still awaiting the final reassessment for the 2007-2009 audit, which will be appropriately challenged when received. In July 2013, we received another partial assessment for the Canadian 2007-2009 audit, resulting in our payment of an additional security deposit of \$0.4 million. This payment increased the total amount on deposits for both audit periods to \$15.1 million. These deposits are included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012. Although the outcome of examinations by taxing authorities is always uncertain, we believe we are adequately reserved for these audits and that resolution is not expected to have a material impact on our financial condition and results of operations.

As of September 30, 2013, we had \$196.7 million in cash and cash equivalents, of which approximately 95.2%, or \$187.3 million, was held in international operations and is deemed to be indefinitely reinvested offshore. These funds may be subject to additional taxes if repatriated to the United States, including withholding tax applied by the country of origin and an incremental U.S. income tax, net of allowable foreign tax credits. There are circumstances where we may be unable to repatriate some of the cash and cash equivalents held by our international operations due to country restrictions. We do not intend nor currently foresee a need to repatriate these funds. We expect our current domestic cash levels and cash flows from operations to be adequate to meet our domestic anticipated working capital needs, including investment activities such as capital expenditures and debt repayment for the next twelve months and the foreseeable future. However, from time to time, we may borrow funds under our 2012 Credit Agreement as a result of the timing of our working capital needs, including capital expenditures. Additionally, we expect our current foreign cash levels and cash flows from foreign operations to be adequate to meet our foreign anticipated working capital needs, including investment activities such as capital expenditures for the next twelve months and the foreseeable future.

**Table of Contents**

If we should require more cash in the U.S. than is provided by our domestic operations for significant discretionary unforeseen activities such as acquisitions of businesses and share repurchases, we could elect to repatriate future foreign earnings and/or raise capital in the U.S through additional borrowings or debt/equity issuances. These alternatives could result in higher effective tax rates, interest expense and/or dilution of earnings. We have borrowed funds domestically and continue to have the ability to borrow additional funds domestically at reasonable interest rates.

Our cash resources could also be affected by various risks and uncertainties, including, but not limited to the risks described in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Off-Balance Sheet Arrangements and Other**

At September 30, 2013, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Contractual Obligations**

The following table summarizes the material changes to our contractual cash obligations as of September 30, 2013, and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

	Total	Payments Due By Period				After 5 Years	Other
		Less Than 1 Year	1 - 3 Years	3 - 5 Years			
Operating leases <sup>(1)</sup>	\$ 21,320	\$ 1,232	\$ 10,355	\$ 5,677	\$ 4,056	\$ -	
Purchase obligations <sup>(2)</sup>	4,831	101	4,186	544	-	-	
Long-term debt <sup>(3)</sup>	14,000	-	-	14,000	-	-	
	<b>\$ 40,151</b>	<b>\$ 1,333</b>	<b>\$ 14,541</b>	<b>\$ 20,221</b>	<b>\$ 4,056</b>	<b>\$ -</b>	

<sup>(1)</sup> Amounts represent the expected cash payments under our operating leases.

<sup>(2)</sup> Amounts represent the expected cash payments under our purchase obligations, which include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

<sup>(3)</sup> Amount represents additional borrowings under our revolving credit facility since December 31, 2012. (See Note 11 to the accompanying Condensed Consolidated Financial Statements.)

Except for the contractual obligations mentioned above, there have not been any material changes to the outstanding contractual obligations from the disclosure in our Annual Report on Form 10-K as of and for the year ended December 31, 2012 filed on March 1, 2013.

**Critical Accounting Estimates**

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report and Form 10-K for the year ended December 31, 2012 filed on March 1, 2013 for a discussion of our critical accounting estimates.

There have been no material changes to our critical accounting estimates in 2013.

**New Accounting Standards Not Yet Adopted**

In March 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2013-05 *Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ( ASU 2013-05 ). The amendments in ASU 2013-05 indicates that a cumulative translation adjustment ( CTA ) is attached to the parent's investment in a foreign entity and should be released in a manner consistent

## Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

with the derecognition guidance on investments in entities. Thus, the entire amount of the CTA associated with the foreign entity would be released when there has been a sale of a subsidiary or group of net assets within a

**Table of Contents**

foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, a loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated), or a step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. The amendments in ASU 2013-05 are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. We do not expect the adoption of ASU 2013-05 to materially impact our financial condition, results of operations and cash flows.

In July 2013, the FASB issued ASU 2013-11 *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ( ASU 2013-11 ). The amendments in ASU 2013-11 indicate that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in ASU 2013-11 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. We do not expect the adoption of ASU 2013-11 to materially impact our financial condition, results of operations and cash flows.

Unless we need to clarify a point to readers, we will refrain from citing specific section references when discussing the application of accounting principles or addressing new or pending accounting rule changes.

**U.S. Healthcare Reform Acts**

In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the Acts ). The Acts contain provisions that could materially impact our healthcare costs in the future, thus adversely affecting our profitability. The Internal Revenue Service recently announced that the employer mandate provisions of the Acts will be delayed until 2015 and the promised additional guidance has yet to be issued. As a result of the delay, the Company's cost to provide benefits to employees in 2014 will be comparable to our costs in 2013. Once the guidance is finalized, we will evaluate the potential impact of the Acts on our financial condition, results of operations and cash flows for 2015.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk****Foreign Currency Risk**

Our earnings and cash flows are subject to fluctuations due to changes in currency exchange rates. We are exposed to foreign currency exchange rate fluctuations when subsidiaries with functional currencies other than the U.S. Dollar ( USD ) are translated into our USD consolidated financial statements. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. Dollar are included in Accumulated other comprehensive income (loss) in shareholders' equity. Movements in non-U.S. Dollar currency exchange rates may negatively or positively affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors.

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in earnings and cash flows caused by volatility in foreign currency exchange ( FX ) rates. Option and forward derivative contracts are used to hedge intercompany receivables and payables, and other transactions initiated in the United States, that are denominated in a foreign currency. Additionally, we employ FX contracts to hedge net investments in foreign operations.

## **Table of Contents**

We serve a number of U.S.-based clients using customer contact management center capacity in The Philippines, Canada and Costa Rica, which are within our Americas segment. Although the contracts with these clients are priced in USDs, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine Pesos ( PHP ), Canadian Dollars, and Costa Rican Colones ( CRC ), which represent FX exposures. Additionally, our EMEA segment services clients in Hungary and Romania where the contracts are priced in Euros ( EUR ), with a substantial portion of the costs incurred to render services under these contracts denominated in Hungarian Forints ( HUF ) and Romanian Leis ( RON ).

In order to hedge a portion of our anticipated cash flow requirements denominated in PHP, CRC, HUF and RON we had outstanding forward contracts and options as of September 30, 2013 with counterparties through December 2014 with notional amounts totaling \$188.7 million. As of September 30, 2013, we had net total derivative liabilities associated with these contracts with a fair value of \$1.3 million, which will settle within the next 15 months. If the USD was to weaken against the PHP and CRC and the EUR was to weaken against the HUF and RON by 10% from current period-end levels, we would incur a loss of approximately \$16.4 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We entered into forward exchange contracts with notional amounts totaling \$32.7 million to hedge net investments in our foreign operations. The purpose of these derivative instruments is to protect against the risk that the net assets of certain foreign subsidiaries will be adversely affected by changes in exchange rates and economic exposures related to our foreign currency-based investments in these subsidiaries. As of September 30, 2013, the fair value of these derivatives was a net liability of \$1.2 million. The potential loss in fair value at September 30, 2013, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$3.4 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We also entered into forward exchange contracts with notional amounts totaling \$70.2 million that are not designated as hedges. The purpose of these derivative instruments is to protect against FX volatility pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than our subsidiaries' functional currencies. As of September 30, 2013, the fair value of these derivatives was a net asset of \$0.8 million. The potential loss in fair value at September 30, 2013, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$5.0 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into contracts with those considered to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties.

We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates.

As a general rule, we do not use financial instruments to hedge local currency denominated operating expenses in countries where a natural hedge exists. For example, in many countries, revenue from the local currency services substantially offsets the local currency denominated operating expenses.

### **Interest Rate Risk**

Our exposure to interest rate risk results from variable debt outstanding under our revolving credit facility. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. As of September 30, 2013, we had \$105.0 million in borrowings outstanding under the revolving credit facility. Based on our level of variable rate debt outstanding during the three and nine months ended September 30, 2013, a one-point increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had an impact of \$0.3 million and \$0.8 million, respectively, on our results of operations.

We have not historically used derivative instruments to manage exposure to changes in interest rates.

### **Fluctuations in Quarterly Results**

For the year ended December 31, 2012, quarterly revenues as a percentage of total consolidated annual revenues were approximately 25%, 23%, 25% and 27%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing and frequency of client spending for customer contact management services, non-U.S. currency fluctuations, and the seasonal pattern of customer contact management support and fulfillment services.



## **Table of Contents**

### **Item 4. Controls and Procedures**

As of September 30, 2013, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We concluded that, as of September 30, 2013, our disclosure controls and procedures were effective at the reasonable assurance level.

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except for the change discussed under Change in Internal Control over Financial Reporting below.

### **Change in Internal Control over Financial Reporting**

We acquired Alpine on August 20, 2012. As of September 30, 2013, Alpine was fully integrated into our internal control over financial reporting structure.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we are involved in legal actions arising in the ordinary course of business. With respect to these matters, we believe that we have adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

### **Item 1A. Risk Factors**

For risk factors, see Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 1, 2013.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Below is a summary of stock repurchases for the three months ended September 30, 2013 (in thousands, except average price per share). See Note 14, Earnings Per Share, of Notes to Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

<b>Period</b>	<b>Total Number of Shares Purchased <sup>(1)</sup></b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs</b>
July 1, 2013 - July 31, 2013	-	\$ -	-	1,697
August 1, 2013 - August 31, 2013	26	\$ 16.97	26	1,672
September 1, 2013 - September 30, 2013	43	\$ 16.96	43	1,629
<b>Total</b>	<b>69</b>		<b>69</b>	<b>1,629</b>

<sup>(1)</sup> All shares purchased as part of the repurchase plan publicly announced on August 18, 2011. Total number of shares approved for repurchase under the 2011 Repurchase Plan was 5.0 million with no expiration date. All of the shares available under the repurchase plan publicly announced on August 5, 2002 have been repurchased.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.



**Table of Contents**

**Item 6. Exhibits**

The following documents are filed as an exhibit to this Report:

15	Awareness letter.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

**Table of Contents**

**SIGNATURE**

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

Date: November 5, 2013

SYKES ENTERPRISES, INCORPORATED  
(Registrant)

By: /s/ W. Michael Kipphut  
W. Michael Kipphut

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

**Table of Contents**

**EXHIBIT INDEX**

Exhibit Number	
15	Awareness letter.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document