

SYKES ENTERPRISES INC  
Form 10-Q  
November 01, 2016  
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, 2016

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** **56-1383460**  
(State or other jurisdiction of incorporation or organization) (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

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 19, 2016, there were 42,894,518 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>	<b>3</b>
<b><u>Item 1. Financial Statements</u></b>	<b>3</b>
<b><u>Condensed Consolidated Balance Sheets – September 30, 2016 and December 31, 2015 (Unaudited)</u></b>	<b>3</b>
<b><u>Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u></b>	<b>4</b>
<b><u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u></b>	<b>5</b>
<b><u>Condensed Consolidated Statements of Changes in Shareholders' Equity – Nine Months Ended September 30, 2016 (Unaudited)</u></b>	<b>6</b>
<b><u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2016 and 2015 (Unaudited)</u></b>	<b>7</b>
<b><u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u></b>	<b>9</b>
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>43</b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>55</b>
<b><u>Item 4. Controls and Procedures</u></b>	<b>57</b>
<b><u>Part II. OTHER INFORMATION</u></b>	<b>57</b>
<b><u>Item 1. Legal Proceedings</u></b>	<b>57</b>
<b><u>Item 1A. Risk Factors</u></b>	<b>57</b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>58</b>
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<b>58</b>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<b>58</b>
<b><u>Item 5. Other Information</u></b>	<b>58</b>
<b><u>Item 6. Exhibits</u></b>	<b>58</b>
<b><u>SIGNATURE</u></b>	<b>59</b>

**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, 2016**   **December 31, 2015**

<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$	<b>283,323</b>	\$ 235,358
Receivables, net		<b>313,680</b>	277,096
Prepaid expenses		<b>19,730</b>	17,321
Other current assets		<b>13,776</b>	33,262
<b>Total current assets</b>		<b>630,509</b>	563,037
Property and equipment, net		<b>148,974</b>	111,962
Goodwill, net		<b>267,224</b>	195,733
Intangibles, net		<b>158,674</b>	50,896
Deferred charges and other assets		<b>43,453</b>	26,144
	\$	<b>1,248,834</b>	\$ 947,772
<b>Liabilities and Shareholders Equity</b>			
Current liabilities:			
Accounts payable	\$	<b>28,704</b>	\$ 23,255
Accrued employee compensation and benefits		<b>96,312</b>	77,246
Current deferred income tax liabilities		<b>-</b>	1,120
Income taxes payable		<b>3,881</b>	1,959
Deferred revenue		<b>38,773</b>	28,119
Other accrued expenses and current liabilities		<b>40,775</b>	21,476
<b>Total current liabilities</b>		<b>208,445</b>	153,175
Deferred grants		<b>3,899</b>	4,810
Long-term debt		<b>272,000</b>	70,000
Long-term income tax liabilities		<b>19,643</b>	18,512
Other long-term liabilities		<b>18,753</b>	22,595
<b>Total liabilities</b>		<b>522,740</b>	269,092
Commitments and loss contingency (Note 15)			

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Shareholders' equity:

Preferred stock, \$0.01 par value per share, 10,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value per share, 200,000 shares authorized; 42,895 and 42,785 shares issued, respectively	<b>429</b>	428
Additional paid-in capital	<b>278,381</b>	275,380
Retained earnings	<b>500,583</b>	458,325
Accumulated other comprehensive income (loss)	<b>(51,478)</b>	(53,662)
Treasury stock at cost: 112 and 113 shares, respectively	<b>(1,821)</b>	(1,791)
<b>Total shareholders' equity</b>	<b>726,094</b>	678,680
	<b>\$ 1,248,834</b>	\$ 947,772

*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)	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues	\$ 385,743	\$ 317,924	\$ 1,070,891	\$ 949,062
Operating expenses:				
Direct salaries and related costs	249,859	206,139	694,856	622,209
General and administrative	87,955	72,702	262,800	218,080
Depreciation, net	13,004	10,938	35,748	33,004
Amortization of intangibles	5,254	3,638	14,144	10,504
Total operating expenses	356,072	293,417	1,007,548	883,797
Income from operations	29,671	24,507	63,343	65,265
Other income (expense):				
Interest income	135	162	429	479
Interest (expense)	(1,578)	(478)	(3,967)	(1,527)
Other income (expense)	981	(871)	2,601	(1,867)
Total other income (expense)	(462)	(1,187)	(937)	(2,915)
Income before income taxes	29,209	23,320	62,406	62,350
Income taxes	7,939	3,310	18,044	13,789
Net income	\$ 21,270	\$ 20,010	\$ 44,362	\$ 48,561
Net income per common share:				
Basic	\$ 0.51	\$ 0.48	\$ 1.06	\$ 1.16
Diluted	\$ 0.50	\$ 0.48	\$ 1.05	\$ 1.15
Weighted average common shares outstanding:				
Basic	41,938	41,783	41,873	41,992
Diluted	42,224	42,084	42,233	42,337

*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)	<b>Three Months Ended September 30,</b>		<b>One Month Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 21,270	\$ 20,010	\$ 44,362	\$ 48,561
Other comprehensive income (loss), net of taxes:				
Foreign currency translation gain (loss), net of taxes	(163)	(8,747)	4,137	(28,813)
Unrealized gain (loss) on net investment hedges, net of taxes	(607)	115	(1,040)	2,883
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(33)	(45)	(59)	(73)
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(1,322)	(1,572)	(888)	(504)
Unrealized gain (loss) on postretirement obligation, net of taxes	61	(16)	34	28
Other comprehensive income (loss), net of taxes	(2,064)	(10,265)	2,184	(26,479)
Comprehensive income (loss)	\$ 19,206	\$ 9,745	\$ 46,546	\$ 22,082

*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, 2016

(Unaudited)

(in thousands)	Common Stock Shares Issued	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
<b>Balance at December 31, 2015</b>	42,785	\$ 428	\$ 275,380	\$ 458,325	\$ (53,662)	\$ (1,791)	\$ 678,680
Stock-based compensation expense	-	-	7,836	-	-	-	7,836
Excess tax benefit (deficiency) from stock-based compensation	-	-	2,065	-	-	-	2,065
Issuance of common stock under equity award plans, net of shares withheld for employee taxes	256	2	(4,724)	-	-	(194)	(4,916)
Repurchase of common stock	-	-	-	-	-	(4,117)	(4,117)
Retirement of treasury stock	(146)	(1)	(2,176)	(2,104)	-	4,281	-
Comprehensive income (loss)	-	-	-	44,362	2,184	-	46,546
<b>Balance at September 30, 2016</b>	<b>42,895</b>	<b>\$ 429</b>	<b>\$ 278,381</b>	<b>\$ 500,583</b>	<b>\$ (51,478)</b>	<b>\$ (1,821)</b>	<b>\$ 726,094</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)	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 44,362	\$ 48,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	36,208	33,593
Amortization of intangibles	14,144	10,504
Amortization of deferred grants	(659)	(700)
Unrealized foreign currency transaction (gains) losses, net	(2,359)	670
Stock-based compensation expense	7,836	5,884
Excess tax (benefit) from stock-based compensation	(2,065)	(209)
Deferred income tax provision (benefit)	(2,697)	292
Unrealized (gains) losses on financial instruments, net	547	(813)
Amortization of deferred loan fees	201	336
Net (gain) on insurance settlement	-	(919)
Proceeds from business interruption insurance settlement	-	156
Imputed interest expense and fair value adjustments to contingent consideration	(2,082)	-
Other	(50)	75
Changes in assets and liabilities, net of acquisition:		
Receivables	(21,717)	766
Prepaid expenses	(1,049)	(907)
Other current assets	(2,562)	(4,972)
Deferred charges and other assets	(919)	1,754
Accounts payable	(391)	(982)
Income taxes receivable / payable	5,356	(1,638)
Accrued employee compensation and benefits	17,538	5,102
Other accrued expenses and current liabilities	7,304	1,342
Deferred revenue	5,231	(670)
Other long-term liabilities	1,127	(2,312)
Net cash provided by operating activities	<b>103,304</b>	<b>94,913</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(59,348)	(36,316)
Cash paid for business acquisition, net of cash acquired	(205,324)	(9,370)
Proceeds from sale of property and equipment	51	117
Investment in restricted cash	(237)	(38)

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Release of restricted cash	<b>143</b>	-
Proceeds from property and equipment insurance settlement	-	1,490
Net investment hedge settlement	<b>10,339</b>	-
Purchase of intangible assets	<b>(10)</b>	-
Net cash (used for) investing activities	<b>(254,386)</b>	(44,117)

**Table of Contents**

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

(Unaudited)

(Continued)

(in thousands)	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(14,000)	(10,000)
Proceeds from issuance of long-term debt	216,000	5,000
Excess tax benefit from stock-based compensation	2,065	209
Cash paid for repurchase of common stock	(4,117)	(20,715)
Proceeds from grants	151	554
Payments of short-term debt	-	(323)
Shares repurchased for minimum tax withholding on equity awards	(4,916)	(2,920)
Cash paid for loan fees related to long-term debt	-	(962)
Net cash provided by (used for) financing activities	<b>195,183</b>	(29,157)
<b>Effects of exchange rates on cash and cash equivalents</b>	<b>3,864</b>	(10,088)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>47,965</b>	11,551
Cash and cash equivalents beginning	<b>235,358</b>	215,137
Cash and cash equivalents ending	<b>\$ 283,323</b>	\$ 226,688
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during period for interest	\$ 2,680	\$ 1,097
Cash paid during period for income taxes	\$ 14,050	\$ 20,760
<b>Non-cash transactions:</b>		
Property and equipment additions in accounts payable	\$ 7,070	\$ 5,140
Unrealized gain (loss) on postretirement obligation in accumulated other comprehensive income (loss)	\$ 34	\$ 28
Shares repurchased for minimum tax withholding on common stock and restricted stock under equity awards included in current liabilities	\$ -	\$ 95

*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, 2016 and 2015**

(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, demand generation and customer service), which includes customer assistance, healthcare and roadside assistance, technical support, and product and service 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, social media, text messaging, chat and digital self-service. 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, which includes order processing, 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, Australia 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.

**Acquisitions**

On April 1, 2016, the Company completed the acquisition of Clear Link Holdings, LLC ( Clearlink ), pursuant to a definitive Agreement and Plan of Merger (the Merger Agreement ), dated March 6, 2016. The Company has reflected the operating results in the Condensed Consolidated Statements of Operations since April 1, 2016. See Note 2, Acquisitions, for additional information on the acquisition.

In July 2015, the Company completed the acquisition of Qelp B.V. and its subsidiary (together, known as Qelp ), pursuant to a definitive Share Sale and Purchase Agreement, dated July 2, 2015. The Company has reflected the operating results in the Condensed Consolidated Statements of Operations since July 2, 2015. See Note 2, Acquisitions, for additional information on the acquisition.

**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, 2016 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2016. 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, 2015, as filed with the Securities and Exchange Commission ( SEC ) on February 29, 2016.

***Principles of Consolidation*** The condensed consolidated financial statements include the accounts of SYKES and its wholly-owned subsidiaries and controlled majority-owned subsidiaries. All 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.

**Customer-Acquisition Advertising Costs** The Company utilizes direct-response advertising the primary purpose of which is to elicit purchases from its clients customers. These costs are capitalized when they are expected to result in probable future benefits and are amortized over the period during which future benefits are expected to be received, which is generally less than one month. All other advertising costs are expensed as incurred. As of September 30, 2016, the Company had less than \$0.1 million of capitalized direct-response advertising costs included in Prepaid expenses in the accompanying Condensed Consolidated Balance Sheet (none in 2015). Total advertising costs included in Direct salaries and related costs in the accompanying Condensed Consolidated Income Statements for the three and nine months ended September 30, 2016 were \$9.8 million and \$17.8 million, respectively (none in 2015).

**Reclassifications** Certain balances in the prior period have been reclassified to conform to current period presentation.

**New Accounting Standards Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers (Topic 606)* ( ASU 2014-09 ). The amendments in ASU 2014-09 outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and indicate that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity should identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date* ( ASU 2015-14 ). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. An entity should apply the amendments using either the full retrospective approach or retrospectively with a cumulative effect of initially applying the amendments recognized at the date of initial application. The Company is currently evaluating the methods of adoption and the impact that the adoption of ASU 2014-09 may have on its financial condition, results of operations and cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* ( ASU 2016-01 ). These amendments modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under Accounting Standards Codification ( ASC ) 820, *Fair Value Measurements* , and as such, these investments may be measured at cost. These amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2016-01 to materially impact its financial condition, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ( ASU 2016-02 ). These amendments require the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840, *Leases* . These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities are required to apply the amendments at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial condition, results of operations and cash flows.

---

**Table of Contents**

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* ( ASU 2016-05 ). These amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. These amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. Entities have the option to apply the amendments on either a prospective basis or a modified retrospective basis. The Company is evaluating the methods of adoption but does not expect the adoption of ASU 2016-05 to materially impact its financial condition, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606) Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ( ASU 2016-08 ). These amendments clarify the implementation guidance on principal versus agent considerations and require entities to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing* ( ASU 2016-10 ). These amendments clarify the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-11, *Revenue Recognition and Derivatives and Hedging: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 Emerging Issues Task Force Meeting ( EITF )* ( ASU 2016-11 ). These rescissions include changes to topics pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients* ( ASU 2016-12 ). These amendments clarify the guidance in certain narrow areas and add several practical expedients. These ASUs affect the guidance in ASU 2014-09, which is not yet effective. The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 are the same as the effective date and transition requirements of ASU 2014-09, as updated by ASU 2015-14. The Company is currently evaluating the impact the guidance will have on its financial condition, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* ( ASU 2016-09 ). These amendments are intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. These amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. Entities have the option to apply the amendments on either a prospective basis or a modified retrospective basis. The Company is currently evaluating the impact the guidance will have on its financial condition, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments* ( ASU 2016-13 ). These amendments require measurement and recognition of expected versus incurred credit losses for financial assets held. These amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the guidance will have on its financial condition, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments* ( ASU 2016-15 ). These amendments clarify the presentation of cash receipts and payments in eight specific situations. These amendments are effective for fiscal years beginning after December 15,

2017, and interim periods within those fiscal years. These amendments will be applied using a retrospective transition method to each period presented. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to materially impact its financial condition, results of operations and cash flows.

---

**Table of Contents*****New Accounting Standards Recently Adopted***

In June 2014, the FASB issued ASU 2014-12, *Compensation – Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* ( ASU 2014-12 ). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, *Compensation – Stock Compensation* ( ASC 718 ), as it relates to awards with performance conditions that affect vesting to account for such awards. These amendments, adopted prospectively, were effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of ASU 2014-12 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-20) Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ( ASU 2015-01 ). The amendments eliminate from U.S. GAAP the concept of extraordinary items as part of the FASB's initiative to reduce complexity in accounting standards. These amendments, adopted prospectively, were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-01 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810) Amendments to the Consolidation Analysis* ( ASU 2015-02 ). The amendments are intended to improve targeted areas of the consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. These amendments affect the consolidation evaluation for reporting organizations. In addition, the amendments simplify and improve current U.S. GAAP by reducing the number of consolidation models. These amendments, adopted retrospectively, were effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ). These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. These amendments were effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of ASU 2015-03 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ( ASU 2015-05 ). These amendments provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer's accounting for service contracts. These amendments, adopted prospectively, were effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2015-05 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments* ( ASU 2015-16 ). These amendments eliminate the requirement for an acquirer to retrospectively adjust provisional amounts recorded in a business combination to reflect new information about the facts and circumstances that existed as of the acquisition date and that, if known, would have affected measurement or recognition of amounts initially recognized. As an alternative, the amendment requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the financial statements of the period in which adjustments to provisional amounts are determined, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. These amendments, adopted prospectively, were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of ASU 2015-16 on January 1, 2016 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

**Table of Contents**

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes* ( ASU 2015-17 ). These amendments require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The existing requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by these amendments. These amendments, adopted prospectively, were effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The adoption of ASU 2015-17 on January 1, 2016 resulted in the reclassification of \$12.0 million of current deferred tax assets included in Other current assets and \$1.1 million of current deferred tax liabilities included in Current deferred income tax liabilities to noncurrent deferred income tax assets and liabilities. All future deferred tax assets and liabilities will be classified as noncurrent. No prior periods were adjusted.

**Note 2. Acquisitions****Clearlink**

On April 1, 2016, the Company acquired 100% of the outstanding membership units of Clearlink through a merger of Clearlink with and into a subsidiary of the Company (the Merger ). Clearlink, with its operations located in the United States, is an inbound demand generation and sales conversion platform serving numerous Fortune 500 business-to-consumer and business-to-business clients across various industries and subsectors, including telecommunications, satellite television, home security and insurance. The results of Clearlink's operations have been included in the Company's consolidated financial statements since April 1, 2016 (the Clearlink acquisition date ). The strategic acquisition of Clearlink expands the Company's suite of service offerings while creating differentiation in the marketplace, broadening its addressable market opportunity and extending executive level reach within the Company's existing clients' organization. This resulted in the Company paying a substantial premium for Clearlink resulting in the recognition of goodwill. Pursuant to Federal income tax laws, intangible assets and goodwill from the Clearlink acquisition are deductible over a 15 year amortization period.

The Clearlink purchase price totaled \$207.9 million, consisting of the following:

	<b>Total</b>
Cash <sup>(1)</sup>	\$ 209,186
Working capital adjustment	(1,278)
	<b>\$ 207,908</b>

<sup>(1)</sup> Funded through borrowings under the Company's credit agreement. See Note 11, Borrowings, for more information.

Approximately \$2.6 million of the purchase price was placed in an escrow account as security for the indemnification obligations of Clearlink's members under the merger agreement.

The Company accounted for the Clearlink acquisition in accordance with ASC 805, *Business Combinations* ( ASC 805 ), whereby the purchase price paid was allocated to the tangible and identifiable intangibles acquired and liabilities assumed from Clearlink based on their estimated fair values as of the closing date. Certain amounts are provisional

and are subject to change, including the tax analysis of the assets acquired and liabilities assumed, intangibles and goodwill. The Company expects to complete its analysis of the purchase price allocation during the fourth quarter of 2016 and the resulting adjustments will be recorded in accordance with ASU 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*.



**Table of Contents**

The following table summarizes the estimated Clearlink acquisition date fair values of the assets acquired and liabilities assumed, all included in the Americas segment (in thousands):

	<b>April 1, 2016</b>
Cash and cash equivalents	\$ 2,584
Receivables <sup>(1)</sup>	16,801
Prepaid expenses	1,553
<b>Total current assets</b>	<b>20,938</b>
Property and equipment	12,869
Goodwill	70,223
Intangibles	121,400
Deferred charges and other assets	229
<b>Accounts payable</b>	<b>(3,564)</b>
Accrued employee compensation and benefits	(1,610)
Deferred revenue	(4,620)
Other accrued expenses and current liabilities	(6,324)
<b>Total current liabilities</b>	<b>(16,118)</b>
Other long-term liabilities	(1,633)
	<b>\$ 207,908</b>

<sup>(1)</sup> The fair value equals the gross contractual value of the receivables.

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 intangibles assets as of April 1, 2016, the Clearlink acquisition date (in thousands):

	<b>Amount Assigned</b>	<b>Weighted Average Amortization Period (years)</b>
Customer relationships	\$ 63,800	13
Trade name	2,400	7
Non-compete agreements	1,800	3
Proprietary software	700	5
Indefinite-lived domain names	52,700	N/A
	<b>\$ 121,400</b>	<b>7</b>

The amount of Clearlink's revenues and net income since the April 1, 2016 acquisition date, included in the Company's Condensed Consolidated Statements of Operations for the periods indicated below, were as follows (in thousands):

	<b>For the Three Months Ended September 30, 2016</b>	<b>From April 1, 2016 Through September 30, 2016</b>
Revenues	\$ 45,494	\$ 81,856
Net income	\$ 3,942	\$ 4,733

**Table of Contents**

The following table presents the unaudited pro forma combined revenues and net earnings as if Clearlink had been included in the consolidated results of the Company for the entire three and nine month periods ended September 30, 2016 and 2015. 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, 2016 and 2015 (in thousands):

**Three Months Ended September 30, Nine Months Ended September 30,**

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues	\$ 385,743	\$ 352,280	\$ 1,104,720	\$ 1,042,353
Net income	\$ 21,277	\$ 21,655	\$ 47,172	\$ 51,105
Net income per common share:				
Basic	\$ 0.51	\$ 0.52	\$ 1.13	\$ 1.22
Diluted	\$ 0.50	\$ 0.51	\$ 1.12	\$ 1.21

These amounts have been calculated to reflect the additional depreciation, amortization, interest expense and rent expense that would have been incurred assuming the fair value adjustments and borrowings occurred on January 1, 2016 and January 1, 2015, 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 advisory and legal costs, net of the tax effects.

Acquisition-related costs associated with Clearlink in the accompanying Condensed Consolidated Statement of Operations were as follows (none in 2015) (in thousands):

	<b>Three Months Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2016</b>
Severance costs: <sup>(1)</sup>		
Americas	\$ 162	\$ 162
Transaction and integration costs: <sup>(1)</sup>		
Americas		29
Other	39	4,415
	39	4,444
Total merger and integration costs	\$ 201	\$ 4,606

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

*Qelp*

On July 2, 2015, the Company's wholly-owned subsidiaries, Sykes Enterprises Incorporated B.V. and Sykes Enterprises Incorporated Holdings B.V., both Netherlands companies, entered into a definitive Share Sale and Purchase Agreement (the "Qelp Purchase Agreement") with MobileTimes B.V., Yarra B.V., From The Mountain Consultancy B.V. and Sticting Administratiekantoor Qelp (the "Sellers"), all of which are Netherlands companies, to acquire all of the outstanding shares of Qelp B.V. and its wholly owned subsidiary (together, known as "Qelp"). The strategic acquisition of Qelp (the "Qelp acquisition") was to further broaden and strengthen the Company's service portfolio around digital self-service customer support and extend its reach into adjacent, but complementary, markets. Pursuant to Federal income tax regulations, no amount of intangibles or goodwill from this acquisition will be deductible for tax purposes. The results of Qelp's operations have been included in the Company's consolidated financial statements since its acquisition on July 2, 2015 (the "Qelp acquisition date").

The consideration consisted of an initial purchase price and a contingent purchase price. The initial purchase price of \$9.8 million, including certain post-closing adjustments relating to Qelp's working capital, was funded through cash on hand upon the closing of the transaction on July 2, 2015. The initial contingent purchase price to be paid over a three year period was based on achieving targets tied to revenues and earnings before interest, income taxes, depreciation and amortization ("EBITDA") for the years ended December 31, 2016, 2017 and 2018, not to exceed EUR 10.0 million.

**Table of Contents**

As of the Qelp acquisition date, the total consideration paid or to be paid by the Company for the Qelp acquisition is summarized below (in thousands):

	<b>Total</b>
Cash	\$ 9,885
Contingent consideration	6,000
Working capital adjustment	(65)
	\$ 15,820

The fair value of the contingent consideration was estimated using the discounted cash flow method, and was included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets (see Note 4, Fair Value, for further information). As part of the discounted cash flow method, the Company calculated an adjusted weighted average cost of capital ( WACC ) specifically attributable to the future payments of the contingent consideration. Based on the forecasted revenue and profitability scenarios and their respective probabilities of occurrence, the Company estimated the present value of the probability-adjusted future payments utilizing an adjusted WACC for the potential future payments. The Company believes that its estimates and assumptions are reasonable, but there is significant judgment involved. Changes in the fair value of the contingent consideration liabilities subsequent to the acquisition will be recorded in the Company's consolidated financial statements.

On September 26, 2016, the Company entered into an addendum to the Qelp Purchase Agreement with the Sellers to settle the outstanding contingent consideration for EUR 4.0 million (\$4.5 million as of September 30, 2016) to be paid on June 30, 2017.

The Company accounted for the Qelp acquisition in accordance with ASC 805, whereby the fair value of the purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed from Qelp based on their estimated fair values as of the closing date. The Company completed its analysis of the purchase price allocation during the fourth quarter of 2015.

The following table summarizes the Qelp acquisition date fair values of the assets acquired and liabilities assumed, all included in the EMEA segment (in thousands):

	<b>July 2, 2015</b>
Cash and cash equivalents	\$ 450
Receivables <sup>(1)</sup>	1,471
Prepaid expenses	24
Total current assets	1,945
Property and equipment	2,168
Goodwill	10,054
Intangibles	6,000
Deferred charges and other assets	55
Short-term debt	(323)

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Accrued employee compensation and benefits	(207)
Income taxes payable	(94)
Deferred revenue	(967)
Other accrued expenses and current liabilities	(1,030)
Total current liabilities	(2,621)
Other long-term liabilities <sup>(2)</sup>	(1,781)
	\$ 15,820

<sup>(1)</sup> The fair value equals the gross contractual value of the receivables.

<sup>(2)</sup> Primarily includes long-term deferred tax liabilities.

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

**Table of Contents**

The following table presents the Company's purchased intangibles assets as of July 2, 2015, the Qelp acquisition date (in thousands):

	Amount Assigned	Weighted Average Amortization Period (years)
Customer relationships	\$ 5,400	7
Trade name and trademarks	100	3
Content library	500	2
	\$ 6,000	7

The amount of Qelp's revenues and net (loss) since the July 2, 2015 acquisition date, included in the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 were as follows (in thousands):

	From July 2, 2015 Through September 30, 2015
Revenues	\$ 1,158
Net (loss)	\$ (362)

Acquisition-related costs associated with Qelp in the accompanying Condensed Consolidated Statement of Operations were as follows (none in 2016) (in thousands):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Transaction and integration costs: <sup>(1)</sup>		
Other	\$ 77	\$ 455

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

**Note 3. Costs Associated with Exit or Disposal Activities**

In connection with the Company's initiatives to streamline excess capacity in The Philippines and various locations in the U.S. (the Exit Plans), the Company has paid \$8.0 million in cash through September 30, 2016.

The cumulative costs expected and incurred as a result of the Exit Plans were as follows as of September 30, 2016 (in thousands):

	<b>Americas Fourth Quarter 2011 Exit Plan</b>	<b>Americas Third Quarter 2010 Exit Plan</b>	<b>Total</b>
Lease obligations and facility exit costs	\$ 1,365	\$ 6,729	\$ 8,094
Non-cash impairment charges	480	3,847	4,327
<b>Total</b>	<b>\$ 1,845</b>	<b>\$ 10,576</b>	<b>\$ 12,421</b>

The following table summarizes the accrued liability associated with the Exit Plans exit or disposal activities and related charges for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Beginning accrual	\$ 319	\$ 1,150	\$ 733	\$ 1,558
Lease obligations and facility exit costs	-	-	-	-
Cash payments <sup>(1)</sup>	(211)	(209)	(625)	(617)
Ending accrual	\$ 108	\$ 941	\$ 108	\$ 941

<sup>(1)</sup> Related to lease obligations and facility exit costs.



**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, 2016 and December 31, 2015 (in thousands):

	<b>Americas Fourth Quarter 2011 Exit Plan</b>	<b>Americas Third Quarter 2010 Exit Plan</b>	<b>Total</b>
<b>September 30, 2016</b>			
Short-term accrued restructuring liability <sup>(1)</sup>	\$ 31	\$ 77	\$ 108
Long-term accrued restructuring liability <sup>(2)</sup>	-	-	-
Ending accrual at September 30, 2016	\$ 31	\$ 77	\$ 108
<b>December 31, 2015</b>			
Short-term accrued restructuring liability <sup>(1)</sup>	\$ 144	\$ 487	\$ 631
Long-term accrued restructuring liability <sup>(2)</sup>	22	80	102
Ending accrual at December 31, 2015	\$ 166	\$ 567	\$ 733

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

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

The remaining restructuring liability relates to future rent obligations to be paid through the remainder of the lease terms, the last of which ends in February 2017.

**Note 4. 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.

Embedded derivatives Embedded derivatives within certain hybrid lease agreements are bifurcated from the host contract and recognized at fair value based on pricing models or formulas using significant unobservable inputs, 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.

Contingent consideration The contingent consideration is recognized at fair value based on the discounted cash flow method.

---

**Table of Contents**

**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, 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.

**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. These items 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.

**Embedded Derivatives** The Company uses significant unobservable inputs to determine the fair value of embedded derivatives, which are classified in Level 3 of the fair value hierarchy. These unobservable inputs include expected cash flows associated with the lease, currency exchange rates on the day of commencement, as well as forward currency exchange rates; results of which are adjusted for credit risk. These items are classified in Level 3 of the fair value hierarchy. See Note 6, Financial Derivatives, for further information.

**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 7, 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.

Contingent Consideration The Company uses significant unobservable inputs to determine the fair value of contingent consideration, which is classified in Level 3 of the fair value hierarchy. The contingent consideration recorded related to the Qelp acquisition and liabilities assumed as part of the Clearlink acquisition was recognized at fair value using a discounted cash flow methodology and a discount rate of approximately 14.0% and 10.0%, respectively, at the acquisition date. The discount rates vary dependent on the specific risks of each acquisition

**Table of Contents**

including the country of operation, the nature of services and complexity of the acquired business, and other similar factors, all of which are significant inputs not observable in the market. Significant increases or decreases in any of the inputs in isolation would result in a significantly higher or lower fair value measurement.

In connection with the addendum to the Qelp Purchase Agreement with the Sellers dated September 26, 2016, the Company agreed to settle the outstanding contingent consideration for EUR 4.0 million (\$4.5 million as of September 30, 2016) to be paid on June 30, 2017.

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, 2016 Using:			
		Balance at September 30, 2016	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>					
Foreign currency forward and option contracts	(1)	\$ 492	\$ -	\$ 492	\$ -
Embedded derivatives	(1)	207	-	-	207
Equity investments held in rabbi trust for the Deferred Compensation Plan	(2)	7,161	7,161	-	-
Debt investments held in rabbi trust for the Deferred Compensation Plan	(2)	1,959	1,959	-	-
Guaranteed investment certificates	(3)	95	-	95	-
		<b>\$ 9,914</b>	<b>\$ 9,120</b>	<b>\$ 587</b>	<b>\$ 207</b>
<b>Liabilities:</b>					
Long-term debt	(4)	\$ 272,000	\$ -	\$ 272,000	\$ -
Foreign currency forward and option contracts	(1)	3,713	-	3,713	-
Embedded derivatives	(1)	31	-	-	31
Contingent consideration included in Other accrued expenses and current liabilities	(5)	6,272	-	-	6,272
Contingent consideration included in Other long-term liabilities	(5)	920	-	-	920
		<b>\$ 282,936</b>	<b>\$ -</b>	<b>\$ 275,713</b>	<b>\$ 7,223</b>

Fair Value Measurements at December 31, 2015 Using:

		Balance at December 31, 2015	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>					
Foreign currency forward and option contracts	(1)	\$ 10,962	\$ -	\$ 10,962	\$ -
Equity investments held in rabbi trust for the Deferred Compensation Plan	(2)	6,229	6,229	-	-
Debt investments held in rabbi trust for the Deferred Compensation Plan	(2)	1,622	1,622	-	-
Guaranteed investment certificates	(3)	86	-	86	-
		\$ 18,899	\$ 7,851	\$ 11,048	\$ -
<b>Liabilities:</b>					
Long-term debt	(4)	\$ 70,000	\$ -	\$ 70,000	\$ -
Foreign currency forward and option contracts	(1)	835	-	835	-
Contingent consideration included in Other long-term liabilities	(5)	6,280	-	-	6,280
		\$ 77,115	\$ -	\$ 70,835	\$ 6,280

(1) See Note 6, Financial Derivatives, for the classification in the accompanying Condensed Consolidated Balance Sheets.

(2) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheets. See Note 7, Investments Held in Rabbi Trust.

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

(4) The carrying value of long-term debt approximates its estimated fair value as it re-prices at varying interest rates. See Note 11, Borrowings.

(5) In the accompanying Condensed Consolidated Balance Sheets.

**Table of Contents*****Reconciliations of Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy*****Embedded Derivatives in Lease Agreements**

A rollforward of the net asset (liability) activity in the Company's fair value of the embedded derivatives is as follows (in thousands) (none in 2015):

	<b>Fair Value</b>
<b>Balance at January 1, 2016</b>	<b>\$ -</b>
Gain (loss) recognized in Other income (expense) (1)	176
Effect of foreign currency	-
<b>Balance at September 30, 2016</b>	<b>\$ 176</b>
Unrealized gain (loss) for the three months ended September 30, 2016	<b>\$ 128</b>
Unrealized gain (loss) for the nine months ended September 30, 2016	<b>\$ 171</b>

(1) Includes realized and unrealized gain (loss).

**Contingent Consideration**

A rollforward of the activity in the Company's fair value of the contingent consideration is as follows (in thousands):

	<b>Fair Value</b>
<b>Balance at January 1, 2015</b>	<b>\$ -</b>
Acquisition (1)	6,000
Payments	-
Imputed interest	408
Fair value adjustments	-
Effect of foreign currency	(128)
<b>Balance at December 31, 2015</b>	<b>6,280</b>
Acquisition (2)	2,779
Payments	-
Imputed interest	716
Fair value adjustments	(2,798)
Effect of foreign currency	215
<b>Balance at September 30, 2016</b>	<b>\$ 7,192</b>

(1) Related to the Qelp acquisition on July 2, 2015. See Note 2, Acquisitions.

(2) Liability acquired as part of the Clearlink acquisition on April 1, 2016. See Note 2, Acquisitions.

The Company recorded a fair value adjustment of \$2.6 million to the Qelp contingent consideration in General and administrative in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 due to the execution of an addendum to the Qelp Purchase Agreement subject to which the Company will pay the Sellers EUR 4.0 million on June 30, 2017 (\$4.5 million as of September 30, 2016). The Company recorded a fair value adjustment of \$0.2 million to the Clearlink contingent consideration in General and administrative in the accompanying Condensed Consolidated Statements of Operations in the three and nine months ended September 30, 2016 due to changes in the probability of achievement of certain revenue targets.

The Company accretes interest expense each period using the effective interest method until the contingent consideration reaches the estimated future value of \$7.3 million. Interest expense related to the contingent consideration is included in Interest (expense) in the accompanying Condensed Consolidated Statements of Operations.



**Table of Contents****Non-Recurring Fair Value**

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 September 30, 2016 and December 31, 2015.

**Note 5. Goodwill and Intangible Assets****Intangible Assets**

The following table presents the Company's purchased intangible assets as of September 30, 2016 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 167,476	\$ (71,272)	\$ 96,204	10
Trade names and trademarks	14,101	(6,661)	7,440	7
Non-compete agreements	2,995	(1,495)	1,500	2
Content library	507	(317)	190	2
Proprietary software	1,550	(920)	630	3
Favorable lease agreement	449	(449)	-	2
Intangible assets not subject to amortization:				
Domain names	52,710	-	52,710	N/A
	\$ 239,788	\$ (81,114)	\$ 158,674	6

The following table presents the Company's purchased intangible assets as of December 31, 2015 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 102,594	\$ (58,294)	\$ 44,300	8
Trade names and trademarks	11,698	(5,470)	6,228	8
Content library	491	(123)	368	2

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Non-compete agreements	1,190	(1,190)	-	2
Proprietary software	850	(850)	-	2
Favorable lease agreement	449	(449)	-	2
	\$ 117,272	\$ (66,376)	\$ 50,896	8

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, 2016, is as follows (in thousands):

<b>Years Ending December 31,</b>	<b>Amount</b>
2016 (remaining three months)	\$ 5,165
2017	20,739
2018	14,496
2019	13,446
2020	10,787
2021	6,407
2022 and thereafter	34,924

**Table of Contents****Goodwill**

Changes in goodwill for the nine months ended September 30, 2016 consist of the following (in thousands):

	<b>January 1, 2016</b>	<b>Acquisition <sup>(1)</sup></b>	<b>Effect of Foreign Currency</b>	<b>September 30, 2016</b>
Americas	\$ 186,049	\$ 70,223	\$ 805	\$ 257,077
EMEA	9,684	-	463	10,147
	\$ 195,733	\$ 70,223	\$ 1,268	\$ 267,224

Changes in goodwill for the year ended December 31, 2015 consist of the following (in thousands):

	<b>January 1, 2015</b>	<b>Acquisition <sup>(1)</sup></b>	<b>Effect of Foreign Currency</b>	<b>December 31, 2015</b>
Americas	\$ 193,831	\$ -	\$ (7,782)	\$ 186,049
EMEA	-	10,054	(370)	9,684
	\$ 193,831	\$ 10,054	\$ (8,152)	\$ 195,733

<sup>(1)</sup> See Note 2, Acquisitions, for further information.

The Company performs its annual goodwill impairment test during the third quarter, or more frequently, if indicators of impairment exist.

For the annual goodwill impairment test, the Company elected to forgo the option to first assess qualitative factors and performed its annual two-step goodwill impairment test as of July 31, 2016. Under ASC 350, the carrying value of assets is calculated at the reporting unit level. The quantitative assessment of goodwill includes comparing a reporting unit's calculated fair value to its carrying value. The calculation of fair value requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth, the useful life over which cash flows will occur and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each 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 process of evaluating the fair value of the reporting units is highly subjective and requires significant judgment and estimates as the reporting units operate in a number of markets and geographical regions. The Company used an average of the income and market approaches to determine its best estimates of fair value which incorporated the following significant assumptions:

Revenue projections, including revenue growth during the forecast periods;

EBITDA margin projections over the forecast periods;

Estimated income tax rates;

Estimated capital expenditures; and

Discount rates based on various inputs, including the risks associated with the specific reporting units as well as their revenue growth and EBITDA margin assumptions.

As of July 31, 2016, the Company concluded that goodwill was not impaired for all six of its reporting units with goodwill, based on fair value estimates developed using generally accepted valuation techniques and the significant assumptions outlined above. While the fair values of four of the six reporting units were substantially in excess of their carrying value, the Qelp reporting unit's fair value exceeded its carrying value (although not substantially) and the newly acquired Clearlink reporting unit's fair value approximated its carrying value due to the proximity to the acquisition date of April 1, 2016. The Clearlink reporting unit's fair value of \$207.9 million includes \$70.2 million of goodwill.

The Qelp and Clearlink reporting units are at risk for future impairment if projected operating results are not met or other inputs into the fair value measurement change. However, as of September 30, 2016, there were no indicators of impairment.

**Table of Contents****Note 6. 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, 2016	December 31, 2015
Deferred gains (losses) in AOCI	\$ (1,461)	\$ (558)
Tax on deferred gains (losses) in AOCI	46	31
Deferred gains (losses) in AOCI, net of taxes	\$ (1,415)	\$ (527)

Deferred gains (losses) expected to be reclassified to

Revenues from AOCI during the next twelve months \$ (1,461)

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** The Company enters into foreign exchange forward contracts to hedge its net investment in certain foreign operations, as defined under ASC 815. 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.

***Non-Designated Hedges***

**Foreign Currency Forward Contracts** 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 relating primarily 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.

**Embedded Derivatives** The Company enters into certain lease agreements which require payments not denominated in the functional currency of any substantial party to the agreements. The foreign currency component of these contracts meets the criteria under ASC 815 as embedded derivatives. The Company has determined that the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contracts (lease agreements), and separate, stand-alone instruments with the same terms as the embedded derivative instruments would otherwise qualify as derivative instruments, thereby requiring separation from the lease agreements and recognition at fair value. Such instruments do not qualify for hedge accounting under ASC 815.



**Table of Contents**

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

<b>Contract Type</b>	<b>As of September 30, 2016</b>		<b>As of December 31, 2015</b>	
	<b>Notional Amount in USD</b>	<b>Settle Through Date</b>	<b>Notional Amount in USD</b>	<b>Settle Through Date</b>
<b>Cash flow hedges:</b>				
Options:				
Philippine Pesos	\$ 67,000	September 2017	\$ 71,750	December 2016
Forwards:				
Costa Rican Colones	34,500	September 2017	34,500	November 2016
Hungarian Forints	674	December 2016	-	-
Romanian Leis	1,689	December 2016	-	-
<b>Net investment hedges:</b>				
Forwards:				
Euros	76,933	September 2017	63,470	March 2016
<b>Non-designated hedges:</b>				
Forwards	58,071	December 2016	50,603	March 2016
Embedded derivatives	12,346	April 2030	-	-

Master netting agreements exist with each respective counterparty to reduce credit risk by permitting net settlement of derivative positions. 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. The maximum amount of loss due to credit risk that, based on gross fair value, the Company would incur if parties to the derivative transactions that make up the concentration failed to perform according to the terms of the contracts was \$0.5 million and \$11.0 million as of September 30, 2016 and December 31, 2015, respectively. After consideration of these netting arrangements and offsetting positions by counterparty, the total net settlement amount as it relates to these positions are asset positions of \$10.2 million as of December 31, 2015 (none at September 30, 2016) and liability positions of \$3.2 million and \$0.1 million as of September 30, 2016 and December 31, 2015, respectively.

Although legally enforceable master netting arrangements exist between the Company and each counterparty, 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):

<b>Derivative Assets</b>				
	<b>September 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>				
Foreign currency forward and option contracts <sup>(1)</sup>	\$	143	\$	544
<b>Derivatives designated as net investment hedging instruments under ASC 815:</b>				
Foreign currency forward contracts <sup>(1)</sup>		278		10,161
		<b>421</b>		<b>10,705</b>
<b>Derivatives not designated as hedging instruments under ASC 815:</b>				
Foreign currency forward contracts <sup>(1)</sup>		71		257
Embedded derivatives <sup>(1)</sup>		27		-
Embedded derivatives <sup>(2)</sup>		180		-
<b>Total derivative assets</b>	<b>\$</b>	<b>699</b>	<b>\$</b>	<b>10,962</b>

<b>Derivative Liabilities</b>				
	<b>September 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>				
Foreign currency forward and option contracts <sup>(3)</sup>	\$	958	\$	396
<b>Derivatives designated as net investment hedging instruments under ASC 815:</b>				
Foreign currency forward contracts <sup>(3)</sup>		2,133		-
		<b>3,091</b>		<b>396</b>
<b>Derivatives not designated as hedging instruments under ASC 815:</b>				



Foreign currency forward contracts <sup>(3)</sup>		<b>622</b>		439
Embedded derivatives <sup>(4)</sup>		<b>31</b>		-
<b>Total derivative liabilities</b>	<b>\$</b>	<b>3,744</b>	<b>\$</b>	<b>835</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, 2016 and 2015 (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 and Amount Excluded from Effectiveness Testing)	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>						
Foreign currency forward and option contracts	\$ (1,274)	\$ (1,090)	\$ 127	\$ 553	\$ -	\$ 11
<b>Derivatives designated as net investment hedging instruments under ASC 815:</b>						
Foreign currency forward contracts	(979)	(25)	-	-	-	-
	\$ (2,253)	\$ (1,115)	\$ 127	\$ 553	\$ -	\$ 11

		Gain (Loss) Recognized on Derivatives	
		2016	2015
<b>Statements of Operations</b>			
<b>Location</b>		<b>September 30,</b>	
		<b>2016</b>	<b>2015</b>
<b>Derivatives not designated as hedging instruments under ASC 815:</b>			
Foreign currency forward contracts	Other income and (expense)	\$ 240	\$ 1,727
Foreign currency forward contracts	Revenues	-	(8)
Embedded derivatives	Other income and (expense)	(130)	-
		<b>\$ 110</b>	<b>\$ 1,719</b>

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, 2016 and 2015 (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 and Amount Excluded from Effectiveness Testing)	
	September 30,		September 30,		September 30,	
	2016	2015	2016	2015	2016	2015
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>						
Foreign currency forward and option contracts	\$ (843)	\$ 1,322	\$ 77	\$ 1,881	\$ -	\$ 13

**Derivatives designated as net investment hedging instruments under ASC 815:**

Foreign currency forward contracts

(1,677) 4,485 - - - -

\$ (2,520) \$ 5,807 \$ 77 \$ 1,881 \$ - \$ 13

**Gain (Loss) Recognized on Derivatives**

**Statements of Operations**

**Location** **September 30, 2016** **2015**

**Derivatives not designated as hedging instruments under ASC 815:**

Foreign currency forward contracts	Other income and (expense)	\$ 1,610	\$ 1,630
Foreign currency forward contracts	Revenues	-	(4)
Embedded derivatives	Other income and (expense)	(176)	-
		<b>\$ 1,434</b>	<b>\$ 1,626</b>

**Table of Contents****Note 7. 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, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 7,047	\$ 9,120	\$ 6,217	\$ 7,851

The mutual funds held in rabbi trust were 79% equity-based and 21% debt-based as of September 30, 2016. 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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross realized gains from sale of trading securities	\$ -	\$ -	\$ -	\$ 20
Gross realized (losses) from sale of trading securities	-	-	-	(1)
Dividend and interest income	7	9	26	27
Net unrealized holding gains (losses)	317	(543)	471	(470)
Net investment income (losses)	\$ 324	\$ (534)	\$ 497	\$ (424)

**Note 8. Property and Equipment**

During the third quarter of 2015, the Company finalized an insurance claim related to winter storm damage to customer contact management centers located in Perry County, Kentucky, Buchanan County, Virginia and Wise, Virginia. This resulted in a \$0.9 million net gain on insurance settlement included in General and administrative in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015.

**Note 9. Deferred Revenue**

Deferred revenue consists of the following (in thousands):

	September 30, 2016	December 31, 2015
Future service	\$ 25,945	\$ 22,112

Estimated potential penalties and holdbacks	<b>7,340</b>	6,007
Estimated chargebacks	<b>5,488</b>	-
	<b>\$ 38,773</b>	\$ 28,119

The Company receives up-front fees in connection with certain contracts. The deferred revenue is earned over the service periods of the respective contracts, which range from 30 days to seven years. Deferred revenue included in current liabilities in the accompanying Condensed Consolidated Balance Sheets includes the up-front fees associated with services to be provided over the ensuing twelve month period and the up-front fees associated with services to be provided over multiple years in connection with contracts that contain cancellation and refund provisions, whereby the manufacturers or customers can terminate the contracts and demand pro-rata refunds of the up-front fees with short notice. Deferred revenue from estimated penalties and holdbacks results from the failure to meet specified minimum service levels in certain contracts and other performance based contingencies. Deferred revenue from estimated chargebacks reflects the right of certain of the Company's clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred.

**Table of Contents****Note 10. Deferred Grants**

Deferred grants, net of accumulated amortization, consist of the following (in thousands):

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Property grants	\$ <b>3,918</b>	\$ 4,377
Lease grants	<b>510</b>	513
Employment grants	<b>96</b>	149
Total deferred grants	<b>4,524</b>	5,039
Less: Property grants - short-term <sup>(1), (2)</sup>	<b>(438)</b>	-
Less: Lease grants - short-term <sup>(1)</sup>	<b>(91)</b>	(80)
Less: Employment grants - short-term <sup>(1)</sup>	<b>(96)</b>	(149)
Total long-term deferred grants	\$ <b>3,899</b>	\$ 4,810

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

(2) Represents deferred grants related to property included in Other current assets that met the held-for-sale criteria as of September 30, 2016.

**Note 11. Borrowings**

On May 12, 2015, the Company entered into a \$440 million revolving credit facility (the 2015 Credit Agreement ) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender ( KeyBank ). The 2015 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants.

The 2015 Credit Agreement includes a \$200 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):

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Revolving credit facility	\$ <b>272,000</b>	\$ 70,000
Less: Current portion	-	-

Total long-term debt	\$	<b>272,000</b>	\$	70,000
----------------------	----	----------------	----	--------

On April 1, 2016, the Company borrowed \$216.0 million under its 2015 Credit Agreement in connection with the acquisition of Clearlink, of which \$4.0 million represented a short-term loan to Clearlink for working capital purposes.

The 2015 Credit Agreement matures on May 12, 2020 and has no varying installments due.

Borrowings under the 2015 Credit Agreement bear interest at the rates set forth in the 2015 Credit Agreement. In addition, the Company is required to pay certain customary fees, including a commitment fee determined quarterly based on the Company's leverage ratio and due quarterly in arrears as calculated on the average unused amount of the 2015 Credit Agreement.

The 2015 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.



**Table of Contents**

In May 2015, the Company paid an underwriting fee of \$0.9 million for the 2015 Credit Agreement, which is deferred and amortized over the term of the loan, along with the deferred loan fees of \$0.4 million related to the previous credit agreement.

The following table presents information related to our credit agreements (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Average daily utilization	\$ 272,000	\$ 65,435	\$ 207,161	\$ 69,952
Interest expense, including commitment fee (1)	\$ 1,171	\$ 327	\$ 2,625	\$ 965
Weighted average interest rate (2)	1.7%	2.0%	1.8%	1.9%

(1) Excludes the amortization of deferred loan fees.

(2) Includes the commitment fee.

**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
Balance at January 1, 2015	\$ (22,076)	\$ 276	\$ 1,008	\$ (111)	\$ 342	\$ (20,561)
Pre-tax amount	(37,178)	6,101	121	1,708	(12)	(29,260)
Tax (provision) benefit	-	(2,207)	(2)	32	-	(2,177)
	647	-	(53)	(2,195)	(63)	(1,664)

Reclassification  
of (gain) loss to  
net income

Foreign currency translation	6	-	(45)	39	-	-
<b>Balance at December 31, 2015</b>	<b>(58,601)</b>	<b>4,170</b>	<b>1,029</b>	<b>(527)</b>	<b>267</b>	<b>(53,662)</b>
Pre-tax amount	<b>4,125</b>	<b>(1,677)</b>	<b>-</b>	<b>(843)</b>	<b>74</b>	<b>1,679</b>
Tax (provision) benefit	<b>-</b>	<b>637</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>659</b>
Reclassification of (gain) loss to net income	<b>-</b>	<b>-</b>	<b>(32)</b>	<b>(82)</b>	<b>(40)</b>	<b>(154)</b>
Foreign currency translation	<b>12</b>	<b>-</b>	<b>(27)</b>	<b>15</b>	<b>-</b>	<b>-</b>
<b>Balance at September 30, 2016</b>	<b>\$ (54,464)</b>	<b>\$ 3,130</b>	<b>\$ 970</b>	<b>\$ (1,415)</b>	<b>\$ 301</b>	<b>\$ (51,478)</b>

**Table of Contents**

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,		Nine Months Ended September 30,		Statements of Operations Location
	2016	2015	2016	2015	
<b>Actuarial Gain (Loss) Related to Pension Liability: <sup>(1)</sup></b>					
Pre-tax amount	\$ 10	\$ 10	\$ 32	\$ 31	Direct salaries and related costs
Tax (provision) benefit	-	-	-	-	Income taxes
Reclassification to net income	10	10	32	31	
<b>Gain (Loss) on Cash Flow Hedging Instruments: <sup>(2)</sup></b>					
Pre-tax amount	127	564	77	1,894	Revenues
Tax (provision) benefit	(17)	16	5	27	Income taxes
Reclassification to net income	110	580	82	1,921	
<b>Gain (Loss) on Post Retirement Obligation: <sup>(1)</sup></b>					
Pre-tax amount	13	18	40	46	General and administrative
Tax (provision) benefit	-	-	-	-	Income taxes
Reclassification to net income	13	18	40	46	
<b>Total reclassification of gain (loss) to net income</b>	<b>\$ 133</b>	<b>\$ 608</b>	<b>\$ 154</b>	<b>\$ 1,998</b>	

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

<sup>(2)</sup> See Note 6, Financial Derivatives, for further information.

Except as discussed in Note 13, Income Taxes, earnings associated with the Company's investments in its foreign subsidiaries are considered to be indefinitely reinvested 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 27.2% and 14.2% for the three months ended September 30, 2016 and 2015, respectively, and 28.9% and 22.1% for the nine months ended September 30, 2016 and 2015, respectively. The increase in the effective tax rates is predominately due to the recognition in the prior period of a \$2.2 million previously unrecognized tax benefit, inclusive of penalties and interest, arising from statute of limitations expirations

and a \$1.3 million reversal of a valuation allowance on deferred tax assets where it is more likely than not the assets will be realized due to the current financial position and results of operations for the current and preceding years. The increase in the effective tax rates was also affected by several additional factors, including shifts in earnings among the various jurisdictions in which the Company operates, none of which are individually material. The difference between the Company's effective tax rates for the three and nine months ended September 30, 2016 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 foreign tax rate differentials, income earned in certain tax holiday jurisdictions, changes in unrecognized tax benefits, adjustments of valuation allowances and tax credits, partially offset by the tax impact of permanent differences and foreign withholding taxes.

Earnings associated with the investments in the Company's foreign subsidiaries are considered to be indefinitely reinvested 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 related to investments in foreign subsidiaries is not practicable due to the inherent complexity of the multi-national tax environment in which the Company operates.

The Company is currently under audit in several tax jurisdictions. The Company received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and the Company paid mandatory security deposits to Canada as part of this process. The total amount of deposits, net of the effects of foreign exchange rate adjustments, are \$14.1 million and \$13.4 million as of September 30, 2016 and December 31, 2015, respectively, and are included in *Deferred charges and other assets* in the accompanying Condensed Consolidated Balance Sheets. Although the outcome of examinations by taxing authorities is always uncertain, the Company believes it is adequately reserved for these audits and resolution is not expected to have a material impact on its financial condition and results of operations.

**Table of Contents**

The significant tax jurisdictions currently under audit are as follows:

<b>Tax Jurisdiction</b>	<b>Tax Years Ended</b>
Canada	2003 to 2009

**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 appreciation rights, restricted stock, restricted stock units and shares held in rabbi trust using the treasury stock method.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Basic:</b>				
Weighted average common shares outstanding	<b>41,938</b>	41,783	<b>41,873</b>	41,992
<b>Diluted:</b>				
Dilutive effect of stock appreciation rights, restricted stock, restricted stock units and shares held in rabbi trust	<b>286</b>	301	<b>360</b>	345
<b>Total weighted average diluted shares outstanding</b>	<b>42,224</b>	42,084	<b>42,233</b>	42,337
 Anti-dilutive shares excluded from the diluted earnings per share calculation	 <b>23</b>	 14	 <b>22</b>	 25

On August 18, 2011, the Company's Board of Directors (the "Board") authorized the Company to purchase up to 5.0 million shares of its outstanding common stock (the "2011 Share Repurchase Program"). On March 16, 2016, the Board authorized an increase of 5.0 million shares to the 2011 Share Repurchase Program for a total of 10.0 million shares. A total of 5.0 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 shares repurchased under the Company's share repurchase programs were as follows (in thousands, except per share amounts):

**Range of Prices Paid Per Share**

	<b>Total Number of Shares Repurchased</b>	<b>Low</b>	<b>High</b>	<b>Total Cost of Shares Repurchased</b>
<b>Three Months Ended:</b>				
September 30, 2016	<b>140</b>	<b>\$ 29.27</b>	<b>\$ 30.00</b>	<b>\$ 4,117</b>
September 30, 2015	354	\$ 24.30	\$ 25.00	\$ 8,746
<b>Nine Months Ended:</b>				
September 30, 2016	<b>140</b>	<b>\$ 29.27</b>	<b>\$ 30.00</b>	<b>\$ 4,117</b>
September 30, 2015	854	\$ 22.81	\$ 25.00	\$ 20,715

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

During the nine months ended September 30, 2016, 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, 2016, including the impact of the leases assumed in connection with the Clearlink acquisition (in thousands):

	<b>Amount</b>
2016 (remaining three months)	\$ 2,380
2017	11,093
2018	11,073
2019	10,878
2020	10,547
2021	8,469
2022 and thereafter	34,413
Total minimum payments required	\$ 88,853

During the nine months ended September 30, 2016, 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 generally are not cancelable, range from one to five year periods and may contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments. The following is a schedule of the future minimum purchases remaining under the agreements as of September 30, 2016, including the impact of the agreements assumed in connection with the Clearlink acquisition (in thousands):

	<b>Amount</b>
2016 (remaining three months)	\$ 5,402
2017	3,461
2018	1,410
2019	506
2020	-
2021	-
2022 and thereafter	-
Total minimum payments required	\$ 10,779

The July 2015 Qelp acquisition included contingent consideration of \$6.0 million, based on achieving targets tied to revenues and EBITDA for the years ended December 31, 2016, 2017 and 2018. On September 26, 2016, the Company entered into an addendum to the Qelp Purchase Agreement with the Sellers to settle the outstanding contingent

consideration for EUR 4.0 million (\$4.5 million as of September 30, 2016) to be paid on June 30, 2017.

As part of the April 2016 Clearlink acquisition, the Company assumed contingent consideration liabilities related to four separate acquisitions made by Clearlink in 2015 and 2016, prior to the Merger. The fair value of the contingent consideration related to these previous acquisitions was \$2.8 million as of April 1, 2016 and was based on achieving targets primarily tied to revenues for varying periods of time during 2016 and 2017. As of September 30, 2016, the fair value of the contingent consideration was \$2.7 million. The estimated future value of the contingent consideration is \$2.8 million and is expected to be paid on varying dates through July 2017.

### **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 when possible and appropriate, provided adequate accruals related to those matters 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,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	\$ 112	\$ 101	\$ 350	\$ 329
Interest cost	42	31	131	102
Recognized actuarial (gains)	(10)	(10)	(32)	(31)
Net periodic benefit cost	\$ 144	\$ 122	\$ 449	\$ 400

**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 Statements of Operations were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
401(k) plan contributions	\$ 260	\$ 181	\$ 879	\$ 652

**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, 2016	December 31, 2015
Postretirement benefit obligation	\$ 20	\$ 37
Unrealized gains (losses) in AOCI <sup>(1)</sup>	\$ 301	\$ 267

- (1) Unrealized gains (losses) are impacted by 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 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,	
	2016	2015	2016	2015
Stock-based compensation (expense) <sup>(1)</sup>	\$ (2,107)	\$ (2,600)	\$ (7,836)	\$ (5,884)
Income tax benefit <sup>(2)</sup>	840	992	3,017	2,207
Excess tax benefit (deficiency) from stock-based compensation <sup>(3)</sup>	5	40	2,065	209

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

(2) Included in Income taxes in the accompanying Condensed Consolidated Statements of Operations.

(3) Included in Additional paid-in capital in the accompanying Condensed Consolidated Statements of Changes in Shareholders' Equity.

There were no capitalized stock-based compensation costs as of September 30, 2016 and December 31, 2015.

**2011 Equity Incentive Plan** The Company's 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, members of the Company's Board of Directors 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** The Board, at the recommendation of the Compensation and Human Resources Development Committee (the "Compensation Committee"), has approved in the past, and may approve in the future, awards of stock-settled stock appreciation rights ("SARs") for eligible participants. SARs represent the right to receive, without payment to the Company, a certain number of shares of common stock, as determined by the Compensation 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:

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
Expected volatility	<b>25.3%</b>	34.1%
Weighted-average volatility	<b>25.3%</b>	34.1%
Expected dividend rate	<b>0.0%</b>	0.0%
Expected term (in years)	<b>5.0</b>	5.0
Risk-free rate	<b>1.5%</b>	1.6%

**Table of Contents**

The following table summarizes SARs activity as of September 30, 2016 and for the nine months then ended:

<b>Stock Appreciation Rights</b>	<b>Shares (000s)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (000s)</b>
Outstanding at January 1, 2016	481	\$ -		
Granted	323	\$ -		
Exercised	(151)	\$ -		
Forfeited or expired	(20)	\$ -		
<b>Outstanding at September 30, 2016</b>	<b>633</b>	<b>\$ -</b>	<b>8.4</b>	<b>\$ 1,700</b>
<b>Vested or expected to vest at September 30, 2016</b>	<b>633</b>	<b>\$ -</b>	<b>8.4</b>	<b>\$ 1,700</b>
<b>Exercisable at September 30, 2016</b>	<b>118</b>	<b>\$ -</b>	<b>6.1</b>	<b>\$ 699</b>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
Number of SARs granted	323	217
Weighted average grant-date fair value per SAR	\$ 7.68	\$ 8.17
Intrinsic value of SARs exercised	\$ 1,691	\$ 4,792
Fair value of SARs vested	\$ 1,520	\$ 1,302

The following table summarizes nonvested SARs activity as of September 30, 2016 and for the nine months then ended:

<b>Nonvested Stock Appreciation Rights</b>	<b>Shares (000s)</b>	<b>Weighted Average Grant- Date Fair Value</b>
Nonvested at January 1, 2016	424	\$ 7.50

Granted	323	\$	7.68
Vested	(213)	\$	7.14
Forfeited or expired	(19)	\$	7.68
<b>Nonvested at September 30, 2016</b>	<b>515</b>	<b>\$</b>	<b>7.76</b>

As of September 30, 2016, there was \$3.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested SARs granted under the 2011 Plan. This cost is expected to be recognized over a weighted average period of 1.4 years.

***Restricted Shares*** The Board, at the recommendation of the Compensation Committee, 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 may 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 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, 2016 and for the nine months then ended:

Nonvested Restricted Shares and RSUs	Shares (000s)	Weighted	
		Average Grant- Date Fair Value	
Nonvested at January 1, 2016	1,246	\$	20.03
Granted	451	\$	30.32
Vested	(421)	\$	16.10
Forfeited or expired	(140)	\$	20.87
<b>Nonvested at September 30, 2016</b>	<b>1,136</b>	<b>\$</b>	<b>25.47</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,	
	2016	2015
Number of restricted shares/RsUs granted	451	441
Weighted average grant-date fair value per restricted share/RsU	\$ 30.32	\$ 25.06
Fair value of restricted shares/RsUs vested	\$ 6,785	\$ 2,019

As of September 30, 2016, 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. This cost is expected to be recognized over a weighted average period of 1.9 years.

**Non-Employee Director Fee Plan** The Company's 2004 Non-Employee Director Fee Plan (the "2004 Fee Plan"), as amended on May 17, 2012, provided that all new non-employee directors joining the Board would 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 vested 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 provided that each non-employee director would 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 vested 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 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 was 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 provided 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. The annual cash awards for the Chairpersons of the Compensation Committee, Finance Committee and Nominating and Corporate Governance Committee are \$15,000, \$12,500 and \$12,500, respectively, and all other members of such committees are entitled to an annual cash award of \$7,500.

The 2004 Fee Plan expired in May 2014, prior to the 2014 Annual Shareholder Meeting. In March 2014, upon the recommendation of the Compensation Committee, the Board determined that, following the expiration of the 2004 Fee Plan, the compensation of non-employee Directors should continue on the same terms as provided in the Fifth Amended and Restated Non-Employee Director Fee Plan, except the amounts of cash and equity grants shall be determined annually by the Board, and that the stock portion of such compensation would be issued under the 2011 Plan.

At the Board's regularly scheduled meeting on December 10, 2014, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash and equity compensation payable to non-employee directors beginning on the date of the 2015 annual shareholder meeting would be increased as follows: cash compensation would be increased by \$5,000 per year to a total of \$55,000 and equity compensation would be increased by \$25,000 per year to a total of \$100,000. No change would be made in the additional amounts payable to the Chairman of the Board or the Chairs or members of the various Board committees for their service on such committees, and no changes would be made in the payment terms described above for such cash and equity compensation.

At the Board's regularly scheduled meeting on December 9, 2015, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash and equity compensation payable to non-employee directors beginning on the date of the 2016 annual shareholders meeting would remain 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, 2016 and for the nine months then ended:

Nonvested Common Stock Share Awards	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2016	11	\$ 23.74
Granted	32	\$ 29.04
Vested	(24)	\$ 27.16
Forfeited or expired	(1)	\$ 24.70
<b>Nonvested at September 30, 2016</b>	<b>18</b>	<b>\$ 28.60</b>

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

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
Number of share awards granted	<b>32</b>	32
Weighted average grant-date fair value per share award	<b>\$ 29.04</b>	\$ 24.70
Fair value of share awards vested	<b>\$ 630</b>	\$ 580

As of September 30, 2016, there was \$0.4 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock share awards granted under the Fee Plan. This cost is expected to be recognized over a weighted average period of 0.5 years.

**Table of Contents**

**Deferred Compensation Plan** The Company's non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan"), which is not shareholder-approved, was adopted by the Board effective December 17, 1998. It was last amended and restated on August 17, 2016, effective as of January 1, 2017. It 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 management participants on a quarterly basis up to a total of \$12,000 per year for the president, chief executive officer and executive vice presidents, \$7,500 per year for senior vice presidents, global vice presidents and vice presidents, and \$5,000 per year for all other participants. 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 7, Investments Held in Rabbi Trust). As of September 30, 2016 and December 31, 2015, liabilities of \$9.1 million and \$7.9 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 \$1.8 million and \$1.6 million at September 30, 2016 and December 31, 2015, respectively, is included in "Treasury stock" in the accompanying Condensed Consolidated Balance Sheets.

The following table summarizes nonvested common stock activity as of September 30, 2016 and for the nine months then ended:

Nonvested Common Stock	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2016	3	\$ 19.53
Granted	8	\$ 29.39
Vested	(9)	\$ 27.85
Forfeited or expired	-	\$ 23.49
<b>Nonvested at September 30, 2016</b>	<b>2</b>	<b>\$ 22.63</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,	
	2016	2015
Number of shares of common stock granted	8	8
Weighted average grant-date fair value per common stock	\$ 29.39	\$ 24.83
Fair value of common stock vested	\$ 241	\$ 235
Cash used to settle the obligation	\$ 359	\$ 65

As of September 30, 2016, there was less than \$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 2.7 years.

**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, Australia 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.

**Table of Contents**

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

	Americas	EMEA	Other <sup>(1)</sup>	Consolidated
<b>Three Months Ended</b>				
<b>September 30, 2016:</b>				
Revenues	\$ 326,013	\$ 59,711	\$ 19	\$ 385,743
Percentage of revenues	84.5%	15.5%	0.0%	100.0%
Depreciation, net	\$ 11,364	\$ 1,124	\$ 516	\$ 13,004
Amortization of intangibles	\$ 4,990	\$ 264	\$ -	\$ 5,254
Income (loss) from operations	\$ 36,946	\$ 7,391	\$ (14,666)	\$ 29,671
Other (expense), net			(462)	(462)
Income taxes			(7,939)	(7,939)
Net income				\$ 21,270

<b>Total assets as of September 30, 2016</b>	\$ 1,786,141	\$ 1,500,945	\$ (2,038,252)	\$ 1,248,834
--	--------------	--------------	----------------	--------------

<b>Three Months Ended</b>				
<b>September 30, 2015:</b>				
Revenues	\$ 257,421	\$ 60,481	\$ 22	\$ 317,924
Percentage of revenues	81.0%	19.0%	0.0%	100.0%
Depreciation, net	\$ 9,474	\$ 1,161	\$ 303	\$ 10,938
Amortization of intangibles	\$ 3,397	\$ 241	\$ -	\$ 3,638
Income (loss) from operations	\$ 33,541	\$ 4,629	\$ (13,663)	\$ 24,507
Other (expense), net			(1,187)	(1,187)
Income taxes			(3,310)	(3,310)
Net income				\$ 20,010

<b>Total assets as of September 30, 2015</b>	\$ 1,062,488	\$ 1,420,022	\$ (1,537,895)	\$ 944,615
--	--------------	--------------	----------------	------------

<b>Nine Months Ended</b>				
<b>September 30, 2016:</b>				
Revenues	\$ 893,300	\$ 177,488	\$ 103	\$ 1,070,891
Percentage of revenues	83.4%	16.6%	0.0%	100.0%

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Depreciation, net	\$	30,856	\$	3,450	\$	1,442	\$	35,748
Amortization of intangibles	\$	13,353	\$	791	\$	-	\$	14,144
Income (loss) from operations	\$	100,658	\$	13,697	\$	(51,012)	\$	63,343
Other (expense), net						(937)		(937)
Income taxes						(18,044)		(18,044)
Net income							\$	44,362

**Nine Months Ended  
September 30, 2015:**

Revenues	\$	771,276	\$	177,728	\$	58	\$	949,062
Percentage of revenues		81.3%		18.7%		0.0%		100.0%
Depreciation, net	\$	28,659	\$	3,388	\$	957	\$	33,004
Amortization of intangibles	\$	10,263	\$	241	\$	-	\$	10,504
Income (loss) from operations	\$	94,751	\$	11,386	\$	(40,872)	\$	65,265
Other (expense), net						(2,915)		(2,915)
Income taxes						(13,789)		(13,789)
Net income							\$	48,561

<sup>(1)</sup>Other items (including corporate and other 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, 2016 and 2015. Inter-segment revenues are not material to the Americas and EMEA segment results. The Company evaluates the performance of its geographic segments based on revenues and income (loss) from operations, and does not include segment assets or other income and expense items for management reporting purposes.

**Table of Contents****Note 19. Other Income (Expense)**

Other income (expense) consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Foreign currency transaction gains (losses)	\$ 778	\$ (1,926)	\$ 3,534	\$ (2,951)
Gains (losses) on foreign currency derivative instruments not designated as hedges	(110)	1,727	(1,434)	1,630
Other miscellaneous income (expense)	313	(672)	501	(546)
	\$ 981	\$ (871)	\$ 2,601	\$ (1,867)

**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 of the Company 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 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, 2016 and 2015 and \$0.3 million during both the nine months ended September 30, 2016 and 2015 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, 2016, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three- and nine-month periods ended September 30, 2016 and 2015, of changes in shareholders' equity for the nine-month period ended September 30, 2016, and of cash flows for the nine-month periods ended September 30, 2016 and 2015. 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, 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 29, 2016, 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, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Tampa, Florida

November 1, 2016



---

**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, 2015, 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 acquisitions not being realized, or not being realized within the anticipated time period, (xxvii) risks related to the integration of the acquisitions and the impairment of any related goodwill, 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 Global 2000 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, demand generation and customer service), which include customer assistance, healthcare and roadside assistance, technical support, and product and service sales to our clients' customers. These services, which represented 99.1% and 97.3% of consolidated revenues during the three months ended September 30, 2016 and 2015, respectively, and 99.1% and 97.9% of consolidated revenues during the nine months ended September 30, 2016 and 2015,

**Table of Contents**

respectively, are delivered through multiple communication channels encompassing phone, e-mail, social media, text messaging, chat and digital self-service. We also provide various enterprise support services 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, which includes order processing, 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, Australia, the Asia Pacific Rim and Africa.

**Acquisition of Clearlink**

In April 2016, we completed the acquisition of Clear Link Holdings, LLC ( Clearlink ), to expand our suite of service offerings while creating differentiation in the marketplace, broadening our addressable market opportunity and extending executive level reach within our existing clients organization. We refer to such acquisition herein as the Clearlink acquisition.

The total purchase price of \$207.9 million was funded by borrowings under our existing credit facility.

The results of operations of Clearlink have been reflected in the accompanying Condensed Consolidated Statements of Operations since April 1, 2016.

**Acquisition of Qelp**

In July 2015, we completed the acquisition of Qelp B.V. and its subsidiary (together, known as Qelp ), to further broaden and strengthen our service portfolio around digital self-service customer support and extend our reach into adjacent, but complementary, markets. We refer to such acquisition herein as the Qelp acquisition.

The total purchase price of \$15.8 million was funded by \$9.8 million in cash on hand and contingent consideration with a fair value of \$6.0 million as of July 2, 2015.

The results of operations of Qelp have been reflected in the accompanying Condensed Consolidated Statements of Operations since July 2, 2015.

**Results of Operations**

The following table sets forth, for the periods indicated, the amounts presented in the accompanying Condensed Consolidated Statements of Operations as well as the change between the respective periods:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	2016 \$ Change	2016	2015	2016 \$ Change
Revenues	\$ 385,743	\$ 317,924	\$ 67,819	\$ 1,070,891	\$ 949,062	\$ 121,829

Operating expenses:

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Direct salaries and related costs	<b>249,859</b>	206,139	43,720	<b>694,856</b>	622,209	72,647
General and administrative	<b>87,955</b>	72,702	15,253	<b>262,800</b>	218,080	44,720
Depreciation, net	<b>13,004</b>	10,938	2,066	<b>35,748</b>	33,004	2,744
Amortization of intangibles	<b>5,254</b>	3,638	1,616	<b>14,144</b>	10,504	3,640
<b>Total operating expenses</b>	<b>356,072</b>	293,417	62,655	<b>1,007,548</b>	883,797	123,751
Income from operations	<b>29,671</b>	24,507	5,164	<b>63,343</b>	65,265	(1,922)
<b>Other income (expense):</b>						
Interest income	<b>135</b>	162	(27)	<b>429</b>	479	(50)
Interest (expense)	<b>(1,578)</b>	(478)	(1,100)	<b>(3,967)</b>	(1,527)	(2,440)
Other income (expense)	<b>981</b>	(871)	1,852	<b>2,601</b>	(1,867)	4,468
<b>Total other income (expense)</b>	<b>(462)</b>	(1,187)	725	<b>(937)</b>	(2,915)	1,978
Income before income taxes	<b>29,209</b>	23,320	5,889	<b>62,406</b>	62,350	56
Income taxes	<b>7,939</b>	3,310	4,629	<b>18,044</b>	13,789	4,255
Net income	<b>\$ 21,270</b>	\$ 20,010	\$ 1,260	<b>\$ 44,362</b>	\$ 48,561	\$ (4,199)

**Table of Contents****Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015****Revenues**

(in thousands)	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		\$ Change
	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$ 326,013	84.5%	\$ 257,421	81.0%	\$ 68,592
EMEA	59,711	15.5%	60,481	19.0%	(770)
Other	19	0.0%	22	0.0%	(3)
Consolidated	\$ 385,743	100.0%	\$ 317,924	100.0%	\$ 67,819

Consolidated revenues increased \$67.8 million, or 21.3%, for the three months ended September 30, 2016 from the comparable period in 2015.

The increase in Americas revenues was due to Clearlink acquisition revenues of \$45.5 million, higher volumes from existing clients of \$16.1 million and new clients of \$15.2 million, partially offset by end-of-life client programs of \$7.3 million and a negative foreign currency impact of \$0.9 million. Revenues from our offshore operations represented 40.0% of Americas revenues, compared to 46.7% for the comparable period in 2015.

The decrease in EMEA's revenues was due to end-of-life client programs of \$1.7 million and a negative foreign currency impact of \$1.9 million, partially offset by new clients of \$2.7 million and higher volumes from existing clients of \$0.1 million.

On a consolidated basis, we had 47,400 brick-and-mortar seats as of September 30, 2016, an increase of 6,300 seats from the comparable period in 2015. Included in this seat count are 1,400 seats associated with Clearlink. This increase in seats, net of Clearlink additions, was primarily due to seat additions to support higher projected demand. The capacity utilization rate on a combined basis was 75% compared to 80% in the comparable period in 2015. This decrease was due to a significant increase in the seat count related to projected client demand.

On a geographic segment basis, 40,900 seats were located in the Americas, an increase of 6,500 seats from the comparable period in 2015, and 6,500 seats were located in EMEA, a decrease of 200 seats from the comparable period in 2015. Capacity utilization rates as of September 30, 2016 were 75% for the Americas and 78% for EMEA, compared to 78% and 85%, respectively, in the comparable period in 2015, with the decrease in utilization in the Americas primarily due to seat additions for higher projected demand and the decrease in utilization in EMEA primarily due to lower demand in certain existing clients, certain end-of-life client programs and the rationalization of seats in a highly utilized center due to a planned program expiration. We strive to attain a capacity utilization rate of 85% at each of our locations.

Excluding Clearlink, we added 1,800 seats on a gross basis in the third quarter of 2016, with the year-to-date additions as of September 30, 2016 totaling 6,300. Total gross seats planned for the full year, excluding Clearlink, are expected to be around 6,900. We plan to add another 600 in gross seats in the fourth quarter of 2016. However, we plan to rationalize 1,800 seats in 2016, 1,400 of which were rationalized as of September 30, 2016. Total seat count on a net basis for the full year is expected to increase 5,100 in 2016 versus 2015, excluding Clearlink.



**Table of Contents****Direct Salaries and Related Costs**

(in thousands)	2016		2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 208,664	64.0%	\$ 164,127	63.8%	\$ 44,537	0.2%
EMEA	41,195	69.0%	42,012	69.5%	(817)	-0.5%
Consolidated	\$ 249,859	64.8%	\$ 206,139	64.8%	\$ 43,720	0.0%

The increase of \$43.7 million in direct salaries and related costs included a positive foreign currency impact of \$1.5 million in the Americas and a positive foreign currency impact of \$1.3 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher customer-acquisition advertising costs of 3.0% in connection with Clearlink's operations and higher recruiting costs of 0.4%, partially offset by lower compensation costs of 2.5% driven by Clearlink's operations which has lower direct labor costs relative to our mix of business in the prior period, lower communication costs of 0.2%, lower auto tow claim costs of 0.2%, lower severance costs of 0.2% and lower other costs of 0.1%.

The decrease in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower fulfillment materials costs of 2.9% driven by lower demand in certain client programs, lower postage costs of 0.4% and lower other costs of 0.7%, partially offset by higher compensation costs of 3.5% driven by a decrease in agent productivity principally within the technology vertical in the current period.

**General and Administrative**

(in thousands)	2016		2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 64,049	19.6%	\$ 46,882	18.2%	\$ 17,167	1.4%
EMEA	9,737	16.3%	12,438	20.6%	(2,701)	-4.3%
Other	14,169	-	13,382	-	787	-
Consolidated	\$ 87,955	22.8%	\$ 72,702	22.9%	\$ 15,253	-0.1%

The increase of \$15.3 million in general and administrative expenses included a positive foreign currency impact of \$0.4 million in the Americas and a positive foreign currency impact of \$0.5 million in EMEA.

The increase in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.7% driven by ramp up in the current period for new and existing client programs principally within the communications vertical, higher equipment maintenance costs of 0.3%, higher legal and professional fees of 0.3%, higher insurance costs of 0.3% due to a net (gain) on insurance settlement in the prior

period, higher software maintenance costs of 0.2% and higher other costs of 0.1%, partially offset by a reduction in technology costs of 0.3% allocated from corporate and lower training costs of 0.2%.

The decrease in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to a gain on settlement of Qelp's contingent consideration of 4.3% and lower facility-related costs of 0.7%, partially offset by higher consulting costs of 0.3%, higher recruiting costs of 0.2% and higher other costs of 0.2%.

The increase of \$0.8 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to a reduction in technology costs of \$0.6 million allocated to the Americas, higher training costs of \$0.3 million, higher software maintenance costs of \$0.2 million and higher other costs of \$0.1 million, partially offset by lower legal and professional fees of \$0.2 million and lower communications costs of \$0.2 million.



**Table of Contents****Depreciation and Amortization**

(in thousands)	Three Months Ended September 30, 2016		2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
<b>Depreciation, net:</b>						
Americas	\$ 11,364	3.5%	\$ 9,474	3.7%	\$ 1,890	-0.2%
EMEA	1,124	1.9%	1,161	1.9%	(37)	0.0%
Other	516	-	303	-	213	-
<b>Consolidated</b>	<b>\$ 13,004</b>	<b>3.4%</b>	<b>\$ 10,938</b>	<b>3.4%</b>	<b>\$ 2,066</b>	<b>0.0%</b>
<b>Amortization of intangibles:</b>						
Americas	\$ 4,990	1.5%	\$ 3,397	1.3%	\$ 1,593	0.2%
EMEA	264	0.4%	241	0.4%	23	0.0%
Other	-	-	-	-	-	-
<b>Consolidated</b>	<b>\$ 5,254</b>	<b>1.4%</b>	<b>\$ 3,638</b>	<b>1.1%</b>	<b>\$ 1,616</b>	<b>0.3%</b>

The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions as well as the addition of depreciable fixed assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully depreciated fixed assets.

The increase in amortization was primarily due to the addition of intangible assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully amortized intangible assets.

**Other Income (Expense)**

(in thousands)	Three Months Ended September 30, 2016		2015		\$ Change
	2016	2015	2015	2014	
Interest income	\$ 135	\$ 162	\$ 162	\$ (27)	
Interest (expense)	\$ (1,578)	\$ (478)	\$ (478)	\$ (1,100)	
<b>Other income (expense):</b>					
Foreign currency transaction gains (losses)	\$ 778	\$ (1,926)	\$ (1,926)	\$ 2,704	
Gains (losses) on foreign currency derivative instruments not designated as hedges	(110)	1,727	1,727	(1,837)	
Other miscellaneous income (expense)	313	(672)	(672)	985	
<b>Total other income (expense)</b>	<b>\$ 981</b>	<b>\$ (871)</b>	<b>\$ (871)</b>	<b>\$ 1,852</b>	

Interest income remained consistent with the comparable period in 2015.

The increase in interest (expense) was primarily due to \$216.0 million in borrowings used to acquire Clearlink in April 2016.

The increase in other miscellaneous income (expense) was primarily due to the net investment income (losses) related to the investments held in rabbi trust. See Note 7, Investments Held in Rabbi Trust, of Notes to Condensed Consolidated Financial Statements for further information.

### *Income Taxes*

(in thousands)	Three Months Ended September 30,			
	2016	2015	\$ Change	
Income before income taxes	\$ 29,209	\$ 23,320	\$ 5,889	
Income taxes	\$ 7,939	\$ 3,310	\$ 4,629	
			% Change	
Effective tax rate	27.2%	14.2%	13.0%	

The increase in the effective tax rate in 2016 compared to 2015 is primarily due to the recognition in the prior period of a \$2.2 million previously unrecognized tax benefit, inclusive of penalties and interest, arising from statute of limitations expirations and a \$1.3 million reversal of a valuation allowance on deferred tax assets where it is more likely than not the assets will be realized due to the current financial position and results of operations for the current and preceding years. The increase in the effective tax rate was also affected by several additional factors, including shifts in earnings among the various jurisdictions in which we operate, none of which are individually material.

**Table of Contents****Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015****Revenues**

(in thousands)	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015		\$ Change
	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$ 893,300	83.4%	\$ 771,276	81.3%	\$ 122,024
EMEA	177,488	16.6%	177,728	18.7%	(240)
Other	103	0.0%	58	0.0%	45
Consolidated	\$ 1,070,891	100.0%	\$ 949,062	100.0%	\$ 121,829

Consolidated revenues increased \$121.8 million, or 12.8%, for the nine months ended September 30, 2016 from the comparable period in 2015.

The increase in Americas revenues was due to Clearlink acquisition revenues of \$81.8 million, new clients of \$39.2 million and higher volumes from existing clients of \$35.8 million, partially offset by end-of-life client programs of \$23.9 million and a negative foreign currency impact of \$10.9 million. Revenues from our offshore operations represented 41.8% of Americas revenues, compared to 45.1% for the comparable period in 2015.

The decrease in EMEA s revenues was due to end-of-life client programs of \$6.9 million and a negative foreign currency impact of \$3.8 million, partially offset by new clients of \$5.6 million and higher volumes from existing clients of \$4.9 million.

**Direct Salaries and Related Costs**

(in thousands)	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 569,388	63.7%	\$ 495,168	64.2%	\$ 74,220	-0.5%
EMEA	125,468	70.7%	127,041	71.5%	(1,573)	-0.8%
Consolidated	\$ 694,856	64.9%	\$ 622,209	65.6%	\$ 72,647	-0.7%

The increase of \$72.6 million in direct salaries and related costs included a positive foreign currency impact of \$10.7 million in the Americas and a positive foreign currency impact of \$2.6 million in EMEA.

The decrease in Americas direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower compensation costs of 1.7% driven by Clearlink s operations which has lower direct labor costs relative to our mix of business in the prior period, lower communication costs of 0.5%, lower auto tow claim costs of 0.4% and lower other costs of 0.2%, partially offset by higher customer-acquisition advertising costs of 2.0% in connection with

Clearlink's operations and higher recruiting costs of 0.3%.

The decrease in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower fulfillment materials costs of 2.0% driven by lower demand in an existing client program, lower postage costs of 0.6% and lower other costs of 0.5%, partially offset by higher compensation costs of 2.3% driven by a decrease in agent productivity principally within the technology vertical in the current period.

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

(in thousands)	2016		2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 179,045	20.0%	\$ 142,435	18.5%	\$ 36,610	1.5%
EMEA	34,082	19.2%	35,672	20.1%	(1,590)	-0.9%
Other	49,673	-	39,973	-	9,700	-
Consolidated	\$ 262,800	24.5%	\$ 218,080	23.0%	\$ 44,720	1.5%

The increase of \$44.7 million in general and administrative expenses included a positive foreign currency impact of \$3.0 million in the Americas and a positive foreign currency impact of \$1.1 million in EMEA.

The increase in Americas general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.9% driven by ramp up in the current period for new and existing client programs principally within the communications and financial services verticals, higher equipment and maintenance costs of 0.2% and higher other costs of 0.6%, partially offset by a reduction in technology costs of 0.2% allocated from corporate.

The decrease in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to a gain on settlement of Qelp's contingent consideration of 1.5% and lower facility-related costs of 0.7%, partially offset by higher compensation costs of 0.6%, higher consulting costs of 0.3%, higher recruiting costs of 0.2% and higher other costs of 0.2%.

The increase of \$9.7 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to higher compensation costs of \$4.1 million, higher merger and integration costs of \$4.0 million, a reduction in technology costs of \$1.1 million allocated to the Americas, higher consulting costs of \$0.5 million and higher software maintenance costs of \$0.4 million, partially offset by lower other costs of \$0.4 million.

**Depreciation and Amortization**

(in thousands)	2016		2015		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Depreciation, net:						
Americas	\$ 30,856	3.5%	\$ 28,659	3.7%	\$ 2,197	-0.2%
EMEA	3,450	1.9%	3,388	1.9%	62	0.0%
Other	1,442	-	957	-	485	-
Consolidated	\$ 35,748	3.3%	\$ 33,004	3.5%	\$ 2,744	-0.2%

## Amortization of intangibles:

Americas	\$ 13,353	1.5%	\$ 10,263	1.3%	\$ 3,090	0.2%
EMEA	791	0.4%	241	0.1%	550	0.3%
Other	-	-	-	-	-	-
Consolidated	\$ 14,144	1.3%	\$ 10,504	1.1%	\$ 3,640	0.2%

The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions as well as the addition of depreciable fixed assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully depreciated fixed assets.

The increase in amortization was primarily due to the addition of intangible assets acquired in conjunction with the April 2016 Clearlink acquisition and the July 2015 Qelp acquisition, partially offset by certain fully amortized intangible assets.

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

(in thousands)	Nine Months Ended September 30,			\$ Change
	2016	2015		
Interest income	\$ 429	\$ 479	\$ (50)	
Interest (expense)	\$ (3,967)	\$ (1,527)	\$ (2,440)	
<b>Other income (expense):</b>				
Foreign currency transaction gains (losses)	\$ 3,534	\$ (2,951)	\$ 6,485	
Gains (losses) on foreign currency derivative instruments not designated as hedges	(1,434)	1,630	(3,064)	
Other miscellaneous income (expense)	501	(546)	1,047	
<b>Total other income (expense)</b>	<b>\$ 2,601</b>	<b>\$ (1,867)</b>	<b>\$ 4,468</b>	

Interest income remained consistent with the comparable period in 2015.

The increase in interest (expense) was primarily due to \$216.0 million in borrowings used to acquire Clearlink in April 2016.

The increase in other miscellaneous income (expense) was primarily due to the net investment income (losses) related to the investments held in rabbi trust. See Note 7, Investments Held in Rabbi Trust, of Notes to Condensed Consolidated Financial Statements for further information.

**Income Taxes**

(in thousands)	Nine Months Ended September 30,			\$ Change
	2016	2015		
Income before income taxes	\$ 62,406	\$ 62,350	\$ 56	
Income taxes	\$ 18,044	\$ 13,789	\$ 4,255	
			<b>% Change</b>	
Effective tax rate	28.9%	22.1%	6.8%	

The increase in the effective tax rate in 2016 compared to 2015 is primarily due to the recognition in the prior period of a \$2.2 million previously unrecognized tax benefit, inclusive of penalties and interest, arising from statute of limitations expirations and a \$1.3 million reversal of a valuation allowance on deferred tax assets where it is more likely than not the assets will be realized due to the current financial position and results of operations for the current and preceding years. The increase in the effective tax rate was also affected by several additional factors, including shifts in earnings among the various jurisdictions in which we operate, none of which are individually material.

**Client Concentration**

Our top ten clients accounted for approximately 50.1% and 48.6% of our consolidated revenues in the three months ended September 30, 2016 and 2015, respectively, and approximately 49.1% and 48.8% of our consolidated revenues in the nine months ended September 30, 2016 and 2015, respectively.

Total revenues by segment from AT&T Corporation ( AT&T ), 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,			
	2016		2015		2016		2015	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ 65,847	20.2%	\$ 50,235	19.5%	\$ 176,701	19.8%	\$ 163,680	21.2%
EMEA	-	0.0%	724	1.2%	-	0.0%	2,287	1.3%
	<b>\$ 65,847</b>	<b>17.1%</b>	<b>\$ 50,959</b>	<b>16.0%</b>	<b>\$ 176,701</b>	<b>16.5%</b>	<b>\$ 165,967</b>	<b>17.5%</b>

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire at varying dates between 2016 and 2018. 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



**Table of Contents**

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.

Total revenues by segment from our next largest client, which was in the financial services vertical in each of the periods, were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ 22,930	7.0%	\$ 16,391	6.4%	\$ 67,479	7.6%	\$ 45,609	5.9%
EMEA	-	0.0%	-	0.0%	-	0.0%	-	0.0%
	<b>\$ 22,930</b>	<b>5.9%</b>	<b>\$ 16,391</b>	<b>5.2%</b>	<b>\$ 67,479</b>	<b>6.3%</b>	<b>\$ 45,609</b>	<b>4.8%</b>

Other than AT&T, total revenues by segment of our clients that each individually represents 10% or greater of that segment's revenues in each of the periods were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
EMEA	24,112	40.4%	17,000	28.1%	70,298	39.6%	51,005	28.7%
	<b>\$ 24,112</b>	<b>6.3%</b>	<b>\$ 17,000</b>	<b>5.3%</b>	<b>\$ 70,298</b>	<b>6.6%</b>	<b>\$ 51,005</b>	<b>5.4%</b>

**Business Outlook**

For the twelve months ended December 31, 2016, we anticipate the following financial results:

Revenues in the range of \$1,460.0 million to \$1,465.0 million;

Effective tax rate of approximately 28.0%;

Fully diluted share count of approximately 42.3 million;

Diluted earnings per share in the range of \$1.45 to \$1.48; and

Capital expenditures in the range of \$75.0 million to \$80.0 million

Our full-year 2016 business outlook, as outlined above, reflects the revenue and earnings contributions associated with the Clearlink acquisition, which closed April 1, 2016.

We are adjusting our revenue and diluted earnings per share outlook to reflect the on-going impact of operational factors. These factors are attributable to a handful of clients and stem from the speedy pace of sizeable ramps, the over-delivery of volumes amid those ramps and client-driven program changes, all of which are leading to workforce challenges, including staffing inefficiencies. We have put into effect various action plans and expect to have these client programs operating at more normalized levels by the second half of 2017. The impact to full-year revenues relative to our July 2016 outlook is expected to be approximately \$11.0 million, resulting in a slight reduction in diluted earnings per share.

Our revenues and earnings per share assumptions for the full-year 2016 are based on foreign exchange rates as of October 2016. Therefore, the continued volatility in foreign exchange rates between the U.S. Dollar and the functional currencies of the markets we serve could have a further impact, positive or negative, on revenues and earnings per share relative to the business outlook for the full-year, as discussed above.

We anticipate total other interest income (expense), net of approximately \$(2.4) million for the full year 2016. These amounts include the accretion on the Qelp and Clearlink contingent consideration, which is expected to be a total of approximately \$(0.8) million for the year. The amounts, however, exclude the potential impact of any future foreign exchange gains or losses in other income (expense).

---

**Table of Contents**

Not included in this guidance is the impact of any future acquisitions, share repurchase activities or a potential sale of previously exited customer contact management centers.

**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, the Board authorized us to purchase up to 5.0 million shares of our outstanding common stock (the 2011 Share Repurchase Program ). On March 16, 2016, the Board authorized an increase of 5.0 million shares to the 2011 Share Repurchase Program, for a total of 10.0 million. A total of 5.0 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.

During the nine months ended September 30, 2016, cash increased \$103.3 million from operating activities, \$216.0 million from proceeds from the issuance of long-term debt, \$10.3 million from the settlement of the net investment hedge, \$2.1 million from excess tax benefits from stock-based compensation and \$0.2 million from proceeds from grants. The increase in cash was offset by \$205.3 million paid for the Clearlink acquisition (net of cash acquired), \$59.3 million used for capital expenditures, \$14.0 million to repay long-term debt, \$4.9 million to repurchase common stock for minimum tax withholding on equity awards, \$4.1 million to repurchase common stock and a \$0.2 million investment in restricted cash, resulting in a \$48.0 million increase in available cash (including the favorable effects of foreign currency exchange rates on cash and cash equivalents of \$3.9 million).

Net cash flows provided by operating activities for the nine months ended September 30, 2016 were \$103.3 million, compared to \$94.9 million for the comparable period in 2015. The \$8.4 million increase in net cash flows from operating activities was due to a net increase of \$12.4 million in cash flows from assets and liabilities and a \$0.2 million increase in non-cash reconciling items such as depreciation, amortization, unrealized foreign currency transaction (gains) losses and deferred income taxes, partially offset by a \$4.2 million decrease in net income. The \$12.4 million increase in 2016 from 2015 in cash flows from assets and liabilities was principally a result of a \$22.4 million increase in other liabilities, a \$7.0 million increase in taxes payable and a \$5.9 million increase in deferred revenue, partially offset by a \$22.5 million increase in accounts receivable and a \$0.4 million increase in other assets. The \$22.4 million increase in the change in other liabilities was primarily due to \$12.4 million related to the timing of accrued employee compensation and benefits and \$6.0 million related to other accrued expenses and current liabilities principally due to a \$3.3 million change in fair value of derivatives and a \$1.9 million change in legal reserves in the nine months ended September 30, 2016 over the comparable period in 2015. The \$22.5 million increase in the change in accounts receivable was primarily due to the timing of billings and collections in the nine months ended September 30, 2016 over the comparable period in 2015.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were \$59.3 million for the nine months ended September 30, 2016, compared to \$36.3 million for the comparable period in 2015, an increase of \$23.0 million. In 2016, we anticipate capital expenditures in the range of \$75.0 million to \$80.0 million, primarily for new seat additions,

Enterprise Resource Planning upgrades, facility upgrades, maintenance and systems infrastructure.

On May 12, 2015, we entered into a \$440 million revolving credit facility (the 2015 Credit Agreement ) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent, Swing Line Lender and Issuing Lender ( KeyBank ). The 2015 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At September 30, 2016, we were in compliance with all loan requirements of the 2015 Credit Agreement and had \$272.0 million of outstanding borrowings under this facility. On April 1, 2016, we borrowed \$216.0 million under our 2015 Credit Agreement in connection with the acquisition of Clearlink. See Note 2, Acquisitions, of Notes to Condensed Consolidated Financial Statements for further information.

---

**Table of Contents**

Our credit agreements had an average daily utilization of \$272.0 million and \$65.4 million during the three months ended September 30, 2016 and 2015, respectively, and \$207.2 million and \$70.0 million during the nine months ended September 30, 2016 and 2015, respectively. During the three months ended September 30, 2016 and 2015, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$1.2 million and \$0.3 million, respectively, which represented weighted average interest rates of 1.7% and 2.0%, respectively. During the nine months ended September 30, 2016 and 2015, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$2.6 million and \$1.0 million, respectively, which represented weighted average interest rates of 1.8% and 1.9%, respectively.

The 2015 Credit Agreement includes a \$200 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 2015 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 2015 Credit Agreement will mature on May 12, 2020.

Borrowings under the 2015 Credit Agreement bear interest at the rates set forth in the 2015 Credit Agreement. In addition, we are required to pay certain customary fees, including a commitment fee determined quarterly based on our leverage ratio and due quarterly in arrears as calculated on the average unused amount of the 2015 Credit Agreement.

The 2015 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.

We are currently under audit in several tax jurisdictions. We received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and we paid mandatory security deposits to Canada as part of this process. The total amount of deposits, net of the effects of foreign exchange rate adjustments, are \$14.1 million and \$13.4 million as of September 30, 2016 and December 31, 2015, respectively, and are included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets. Although the outcome of examinations by taxing authorities is always uncertain, we believe we are adequately reserved for these audits and resolution is not expected to have a material impact on our financial condition and results of operations.

As part of the April 2016 Clearlink acquisition, we assumed contingent consideration liabilities related to four separate acquisitions made by Clearlink in 2015 and 2016, prior to the Merger. The fair value of the contingent consideration related to these previous acquisitions was \$2.8 million as of April 1, 2016 and was based on achieving targets primarily tied to revenues for varying periods of time during 2016 and 2017. As of September 30, 2016, the fair value of the contingent consideration was \$2.7 million. The estimated future value of the contingent consideration is \$2.8 million and is expected to be paid on varying dates through July 2017.

In July 2015, we completed the acquisition of Qelp B.V. and its subsidiary (together, known as Qelp) pursuant to the definitive Share Sale and Purchase Agreement, dated July 2, 2015. The purchase price of \$15.8 million was funded through cash on hand of \$9.8 million and contingent consideration of \$6.0 million. On September 26, 2016, we entered into an addendum to the Qelp Purchase Agreement with the Sellers to settle the outstanding contingent consideration for EUR 4.0 million (\$4.5 million as of September 30, 2016) to be paid on June 30, 2017.

As of September 30, 2016, we had \$283.3 million in cash and cash equivalents, of which approximately 89.6%, or \$254.0 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

## **Table of Contents**

twelve months and the foreseeable future. However, from time to time, we may borrow funds under our 2015 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.

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, 2015.

### ***Off-Balance Sheet Arrangements and Other***

As of September 30, 2016, 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.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include, but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct and (ii) indemnities involving breach of contract, the accuracy of representations and warranties, or other liabilities assumed by us in certain contracts. In addition, we have agreements whereby we will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Condensed Consolidated Balance Sheets. In addition, we have some client contracts that do not contain contractual provisions for the limitation of liability, and other client contracts that contain agreed upon exceptions to limitation of liability. We have not recorded any liability in the accompanying Condensed Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

**Table of Contents****Contractual Obligations**

The following table summarizes the material changes to our contractual obligations as of September 30, 2016, including the amounts that were assumed upon the acquisition of Clearlink in April 2016 and the related debt incurred in connection with the acquisition, and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

	Total	Payments Due By Period				Other
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	
Operating leases <sup>(1)</sup>	\$ 88,853	\$ 2,380	\$ 22,166	\$ 21,425	\$ 42,882	\$ -
Purchase obligations <sup>(2)</sup>	10,779	5,402	4,871	506	-	-
Accounts payable <sup>(3)</sup>	3,351	3,351	-	-	-	-
Accrued employee compensation and benefits <sup>(3)</sup>	3,176	3,176	-	-	-	-
Other accrued expenses and current liabilities <sup>(4)</sup>	6,311	6,311	-	-	-	-
Long-term debt <sup>(5)</sup>	202,000	-	-	202,000	-	-
Other long-term liabilities <sup>(4)</sup>	920	-	920	-	-	-
	<b>\$ 315,390</b>	<b>\$ 20,620</b>	<b>\$ 27,957</b>	<b>\$ 223,931</b>	<b>\$ 42,882</b>	<b>\$ -</b>

- (1) Amounts represent the change in expected cash payments under our operating leases. See Note 15, Commitments and Loss Contingency, to the accompanying Condensed Consolidated Financial Statements.
- (2) Amounts represent the change in 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. See Note 15, Commitments and Loss Contingency, to the accompanying Condensed Consolidated Financial Statements.
- (3) Amounts represent Clearlink's accounts payable and accrued employee compensation and benefits for amounts due vendors and employees payable within one year. See Note 2, Acquisitions, to the accompanying Condensed Consolidated Financial Statements.
- (4) Amounts represent Clearlink's other accrued expenses and current liabilities, and other long-term liabilities for contingent consideration, customer deposits and other liabilities, and excluding non-cash liabilities. See Note 2, Acquisitions, to the accompanying Condensed Consolidated Financial Statements.
- (5) Amounts represent the change in outstanding borrowings. See Note 2, Acquisitions, and Note 11, Borrowings, 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, 2015 filed on February 29, 2016.



### **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, 2015 filed on February 29, 2016 for a discussion of our critical accounting estimates.

There have been no material changes to our critical accounting estimates in 2016.

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

See Note 1, Overview and Basis of Presentation, of the accompanying Notes to Condensed Consolidated Financial Statements for information related to recent accounting pronouncements.

## **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 USD are included in Accumulated other comprehensive income (loss) in shareholders' equity. Movements in non-USD 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.

---

**Table of Contents**

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in certain earnings and cash flows caused by volatility in foreign currency exchange ( FX ) rates. We also utilize derivative contracts to hedge intercompany receivables and payables that are denominated in a foreign currency and to hedge net investments in foreign operations.

We serve a number of U.S.-based clients using customer contact management center capacity in The Philippines 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 ) 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, 2016 with counterparties through September 2017 with notional amounts totaling \$103.9 million. As of September 30, 2016, we had net total derivative liabilities associated with these contracts with a fair value of \$0.8 million, which will settle within the next 12 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 \$8.4 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had forward exchange contracts with notional amounts totaling \$76.9 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, 2016, the fair value of these derivatives was a net liability of \$1.9 million. The potential loss in fair value at September 30, 2016, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$7.8 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had forward exchange contracts with notional amounts totaling \$58.1 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, 2016, the fair value of these derivatives was a net liability of \$0.6 million. The potential loss in fair value at September 30, 2016, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$2.0 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had embedded derivative contracts with notional amounts totaling \$12.3 million that are not designated as hedges. As of September 30, 2016, the fair value of these derivatives was a net asset of \$0.2 million. The potential loss in fair value at September 30, 2016, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$2.0 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.

## **Table of Contents**

### **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, 2016, we had \$272.0 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, 2016, a 1.0% increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had an impact of \$0.7 million and \$1.6 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, 2015, quarterly revenues as a percentage of total consolidated annual revenues were approximately 25%, 24%, 25% and 26%, 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.

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

As of September 30, 2016, 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, 2016, 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, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except for the change discussed under "Changes in Internal Control over Financial Reporting" below.

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

On April 1, 2016, we acquired Clearlink. We are currently integrating policies, processes, people, technology and operations for the combined companies. Management will continue to evaluate our internal control over financial reporting as we execute our integration activities.

## **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, 2015 filed on February 29, 2016.

**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, 2016 (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 <sup>(1)</sup></b>
July 1, 2016 - July 31, 2016	-	\$ -	-	5,138
August 1, 2016 - August 31, 2016	-	\$ -	-	5,138
September 1, 2016 - September 30, 2016	140	\$ 29.46	140	4,998
<b>Total</b>	<b>140</b>		<b>140</b>	<b>4,998</b>

<sup>(1)</sup> The total number of shares approved for repurchase under the 2011 Share Repurchase Plan dated August 18, 2011, as amended on March 16, 2016, is 10.0 million. The 2011 Share Repurchase Plan has no expiration date.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**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.

SYKES ENTERPRISES, INCORPORATED  
(Registrant)

Date: November 1, 2016

By: /s/ John Chapman  
John Chapman  
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