

SYKES ENTERPRISES INC  
Form 10-Q  
November 09, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2012**

.. **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 **(IRS Employer**  
**incorporation or organization)** **Identification No.)**  
**400 North Ashley Drive, Suite 2800, Tampa, FL 33602**

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 1, 2012, there were 43,788,118 outstanding shares of common stock.

**Table of Contents**

**Sykes Enterprises, Incorporated and Subsidiaries**

**Form 10-Q**

**INDEX**

	<b>Page No.</b>
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets September 30, 2012 and December 31, 2011 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity Nine Months Ended September 30, 2011, Three Months Ended December 31, 2011 and Nine Months Ended September 30, 2012 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
<u>Report of Independent Registered Public Accounting Firm</u>	46
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	62
Item 4. <u>Controls and Procedures</u>	63
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	64
Item 1A. <u>Risk Factors</u>	64
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	65
Item 3. <u>Defaults Upon Senior Securities</u>	65
Item 4. <u>Mine Safety Disclosures</u>	65
Item 5. <u>Other Information</u>	65
Item 6. <u>Exhibits</u>	66
<u>Signature</u>	67

**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, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 176,568	\$ 211,122
Receivables, net	251,113	229,702
Prepaid expenses	12,842	11,540
Other current assets	20,068	20,120
Assets held for sale, discontinued operations		9,590
<b>Total current assets</b>	<b>460,591</b>	<b>482,074</b>
Property and equipment, net	99,411	91,080
Goodwill	204,971	121,342
Intangibles, net	96,047	44,472
Deferred charges and other assets	43,595	30,162
	<b>\$ 904,615</b>	<b>\$ 769,130</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 23,982	\$ 23,109
Accrued employee compensation and benefits	76,910	62,452
Current deferred income tax liabilities	256	663
Income taxes payable	1,581	423
Deferred revenue	37,213	34,319
Other accrued expenses and current liabilities	26,484	21,191
Liabilities held for sale, discontinued operations		7,128
<b>Total current liabilities</b>	<b>166,426</b>	<b>149,285</b>
Deferred grants	7,859	8,563
Long-term debt	98,000	
Long-term income tax liabilities	26,374	26,475
Other long-term liabilities	14,368	11,241
<b>Total liabilities</b>	<b>313,027</b>	<b>195,564</b>
Commitments and loss contingency (Note 16)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 200,000 shares authorized; 43,788 and 44,306 shares issued, respectively	438	443
Additional paid-in capital	276,821	281,157
Retained earnings	301,897	291,803

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Accumulated other comprehensive income	<b>13,812</b>	4,436
Treasury stock at cost: 106 shares and 299 shares, respectively	<b>(1,380)</b>	(4,273)
<b>Total shareholders' equity</b>	<b>591,588</b>	573,566
	<b>\$ 904,615</b>	\$ 769,130

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	2012	2011	2012	2011
Revenues	\$ 280,526	\$ 293,310	\$ 823,426	\$ 893,033
Operating expenses:				
Direct salaries and related costs	183,628	189,082	536,758	581,952
General and administrative	87,905	82,116	254,247	259,019
Net (gain) loss on disposal of property and equipment	199	(8)	83	(3,432)
Impairment of long-lived assets	122	38	271	764
Total operating expenses	271,854	271,228	791,359	838,303
Income from continuing operations	8,672	22,082	32,067	54,730
Other income (expense):				
Interest income	297	357	1,015	947
Interest (expense)	(421)	(272)	(1,049)	(827)
Other (expense)	(715)	(329)	(1,804)	(2,272)
Total other income (expense)	(839)	(244)	(1,838)	(2,152)
Income from continuing operations before income taxes	7,833	21,838	30,229	52,578
Income taxes	(309)	2,969	3,569	6,224
Income from continuing operations, net of taxes	8,142	18,869	26,660	46,354
(Loss) from discontinued operations, net of taxes		(755)	(820)	(3,091)
(Loss) on sale of discontinued operations, net of taxes			(10,707)	
Net income	\$ 8,142	\$ 18,114	\$ 15,133	\$ 43,263
Net income (loss) per common share:				
Basic:				
Continuing operations	\$ 0.19	\$ 0.42	\$ 0.62	\$ 1.01
Discontinued operations		(0.02)	(0.27)	(0.07)
Net income (loss) per common share	\$ 0.19	\$ 0.40	\$ 0.35	\$ 0.94
Diluted:				
Continuing operations	\$ 0.19	\$ 0.42	\$ 0.62	\$ 1.00
Discontinued operations		(0.02)	(0.27)	(0.06)
Net income (loss) per common share	\$ 0.19	\$ 0.40	\$ 0.35	\$ 0.94
Weighted average common shares:				
Basic	43,014	45,557	43,130	46,106
Diluted	43,031	45,653	43,179	46,202

*See accompanying Notes to Condensed Consolidated Financial Statements.*



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

(Unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 8,142	\$ 18,114	\$ 15,133	\$ 43,263
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustment, net of taxes	5,802	(14,572)	7,977	(6,311)
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(5)	(24)	16	48
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(1,369)	(2,838)	1,339	(4,418)
Unrealized gain (loss) on postretirement obligation, net of taxes	(5)	98	44	122
Other comprehensive income (loss), net of taxes	4,423	(17,336)	9,376	(10,559)
Comprehensive income	\$ 12,565	\$ 778	\$ 24,509	\$ 32,704

*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, 2011,

Three Months Ended December 31, 2011 and

Nine Months Ended September 30, 2012

(Unaudited)

(in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Issued	Amount					
<b>Balance at January 1, 2011</b>	47,066	\$ 471	\$ 302,911	\$ 265,676	\$ 15,108	\$ (971)	\$ 583,195
Issuance of common stock			191				191
Stock-based compensation expense			3,411				3,411
Excess tax benefit (deficiency) from stock-based compensation			(52)				(52)
Vesting of common stock and restricted stock under equity award plans, net of forfeitures	312	3	(992)			(201)	(1,190)
Repurchase of common stock						(42,677)	(42,677)
Retirement of treasury stock	(2,798)	(28)	(22,359)	(20,290)		42,677	
Comprehensive income (loss)				43,263	(10,559)		32,704
<b>Balance at September 30, 2011</b>	44,580	446	283,110	288,649	4,549	(1,172)	575,582
Issuance of common stock	33		120				120
Stock-based compensation expense			171				171
Excess tax benefit (deficiency) from stock-based compensation			44				44
Vesting of common stock and restricted stock under equity award plans, net of forfeitures	(19)		13			(13)	
Repurchase of common stock						(7,316)	(7,316)
Retirement of treasury stock	(288)	(3)	(2,301)	(1,924)		4,228	
Comprehensive income (loss)				5,078	(113)		4,965
<b>Balance at December 31, 2011</b>	44,306	443	281,157	291,803	4,436	(4,273)	573,566
Stock-based compensation expense			3,111				3,111
Excess tax benefit (deficiency) from stock-based compensation			(278)				(278)
Vesting of common stock and restricted stock under equity award plans, net of forfeitures	227	3	(1,224)			(191)	(1,412)
Repurchase of common stock						(7,908)	(7,908)
Retirement of treasury stock	(745)	(8)	(5,945)	(5,039)		10,992	
Comprehensive income (loss)				15,133	9,376		24,509
<b>Balance at September 30, 2012</b>	43,788	\$ 438	\$ 276,821	\$ 301,897	\$ 13,812	\$ (1,380)	\$ 591,588

*See accompanying Notes to Condensed Consolidated Financial Statements.*



**Table of Contents**

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

(in thousands)	Nine Months Ended September 30,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 15,133	\$ 43,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	36,677	41,630
Impairment losses	271	764
Unrealized foreign currency transaction (gains) losses, net	(646)	1,743
Stock-based compensation expense	3,111	3,411
Deferred income tax provision (benefit)	(3,981)	(3,830)
Net (gain) loss on disposal of property and equipment	83	(3,450)
Bad debt expense	806	322
Unrealized (gains) losses on financial instruments, net	(584)	273
Increase (decrease) in valuation allowance on deferred tax assets		(1,394)
Amortization of deferred loan fees	303	439
Loss on sale of discontinued operations	10,707	
Other	219	331
Changes in assets and liabilities, net of acquisition:		
Receivables	(9,955)	6,362
Prepaid expenses	98	(4,272)
Other current assets	5,198	(5,475)
Deferred charges and other assets	(11,568)	2,072
Accounts payable	(2,206)	(4,159)
Income taxes receivable / payable	1,950	(3,244)
Accrued employee compensation and benefits	8,842	11,615
Other accrued expenses and current liabilities	7,193	(5,211)
Deferred revenue	2,486	2,025
Other long-term liabilities	(8,803)	(3,316)
<b>Net cash provided by operating activities</b>	<b>55,334</b>	<b>79,899</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(26,355)	(21,788)
Cash paid for business acquisition, net of cash acquired	(147,094)	
Proceeds from sale of property and equipment	422	3,949
Investment in restricted cash	(63)	(520)
Release of restricted cash	356	
Cash divested on sale of discontinued operations	(9,100)	
Other	228	1,654
<b>Net cash (used for) investing activities</b>	<b>(181,606)</b>	<b>(16,705)</b>

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

(Unaudited)

(Continued)

(in thousands)	Nine Months Ended September 30,	
	2012	2011
<b>Cash flows from financing activities:</b>		
Payment of long-term debt	(10,000)	
Proceeds from issuance of long-term debt	108,000	
Proceeds from issuance of stock		191
Cash paid for repurchase of common stock	(7,908)	(42,677)
Proceeds from grants	88	81
Shares repurchased for minimum tax withholding on equity awards	(1,412)	(1,190)
Cash paid for loan fees related to debt	(857)	
Other		(52)
Net cash provided by (used for) financing activities	87,911	(43,647)
<b>Effects of exchange rates on cash</b>	<b>3,807</b>	<b>(4,586)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(34,554)</b>	<b>14,961</b>
Cash and cash equivalents beginning	211,122	189,829
Cash and cash equivalents ending	\$ 176,568	\$ 204,790
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during period for interest	\$ 1,726	\$ 787
Cash paid during period for income taxes	\$ 25,673	\$ 18,233
<b>Non-cash transactions:</b>		
Property and equipment additions in accounts payable	\$ 3,427	\$ 1,503
Unrealized gain on postretirement obligation in accumulated other comprehensive income (loss)	\$ 44	\$ 122

*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, 2012 and 2011**

(Unaudited)

**Note 1. Overview and Summary of Significant Accounting Policies**

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

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

**Discontinued Operations** In November 2011, the Company, authorized by the Finance Committee of the Company's Board of Directors, decided to pursue a buyer for its operations located in Spain (the Spanish operations ) as these operations were no longer consistent with the Company's strategic direction. The Company sold its Spanish operations, pursuant to an asset purchase agreement dated March 29, 2012 and a stock purchase agreement dated March 30, 2012. See Note 3, Discontinued Operations, for additional information on the sale of the Spanish operations.

**Basis of Presentation** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( generally accepted accounting principles or 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 nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2012. 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, 2011, as filed with the Securities and Exchange Commission ( SEC ).

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

**Use of Estimates** The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Table of Contents**

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

**Recognition of Revenue** The Company recognizes revenue in accordance with Accounting Standards Codification ( ASC ) 605 *Revenue Recognition* ( ASC 605 ). The Company primarily recognizes revenues from services as the services are performed, which is based on either a per minute, per call or per transaction basis, under a fully executed contractual agreement and record reductions to revenues for contractual penalties and holdbacks for failure to meet specified minimum service levels and other performance based contingencies. Revenue recognition is limited to the amount that is not contingent upon delivery of any future product or service or meeting other specified performance conditions. Product sales, accounted for within our fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

Revenues from fulfillment services account for 1.4% and 1.5% of total consolidated revenues for the nine months ended September 30, 2012 and 2011, respectively, some of which contain multiple-deliverables. The service offerings for these fulfillment service contracts typically include pick-pack-and-ship, warehousing, process management, finished goods assembly and pass-through costs. In accordance with ASC 605-25 *Revenue Recognition - Multiple-Element Arrangements* ( ASC 605-25 ) [as amended by Accounting Standards Update ( ASU ) 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force* ( ASU 2009-13 )], the Company determines if the services provided under these contracts with multiple-deliverables represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and where return rights exist, delivery or performance of the undelivered items is considered probable and substantially within our control. If those deliverables are determined to be separate units of accounting, revenues from these services are recognized as the services are performed under a fully executed contractual agreement. If those deliverables are not determined to be separate units of accounting, revenue for the delivered services are bundled into a single unit of accounting and recognized on the proportional performance method using the straight-line basis over the contract period, or the actual number of operational seats used to serve the client, as appropriate.

As a result of the adoption of ASU 2009-13, the Company allocates revenue to each of the deliverables based on a selling price hierarchy of vendor specific objective evidence ( VSOE ), third-party evidence, and then estimated selling price. VSOE is based on the price charged when the deliverable is sold separately. Third-party evidence is based on largely interchangeable competitor services in standalone sales to similarly situated customers. Estimated selling price is based on the Company's best estimate of what the selling prices of deliverables would be if they were sold regularly on a standalone basis. Estimated selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies, service offerings, and customer classifications. Once the Company allocates revenue to each deliverable, the Company recognizes revenue when all revenue recognition criteria are met. As of September 30, 2012, the Company's fulfillment contracts with multiple-deliverables met the separation criteria as outlined in ASC 605-25 and the revenue was accounted for accordingly. The Company had no other contracts that contain multiple-deliverables as of September 30, 2012.

**Assets and Liabilities Held for Sale** The Company classifies its assets and related liabilities as held for sale when management commits to a plan to sell the assets, the assets are ready for immediate sale in their present condition, an active program to locate buyers and other actions required to complete the plan to sell the assets has been initiated, the sale of the assets is probable and expected to be completed within one year, the assets are marketed at reasonable prices in relation to their fair value and it is unlikely that significant changes will be made to the plan to sell the assets. The Company measures the value of assets held for sale at the lower of the carrying amount or fair value, less costs to sell.

**Property and Equipment** Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Improvements to leased premises are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Cost and related accumulated depreciation on assets retired or disposed of are removed from the accounts and any resulting gains or losses are credited or charged to income. The Company capitalizes certain costs incurred, if any, to internally develop software upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred.

---

**Table of Contents**

The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360 *Property, Plant and Equipment*. For purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable cash flows (the reporting unit). An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals, sales prices of comparable assets or independent third party offers. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets. Except as discussed in Note 5, Fair Value, the Company determined that its property and equipment were not impaired as of September 30, 2012.

**Goodwill** The Company accounts for goodwill and other intangible assets under ASC 350 *Intangibles Goodwill and Other* (ASC 350). The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. For goodwill and other intangible assets with indefinite lives not subject to amortization, the Company reviews goodwill and intangible assets at least annually in the third quarter, and more frequently in the presence of certain circumstances, for impairment by applying a fair value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values, as appropriate, and an analysis of our market capitalization. Under ASC 350, the carrying value of assets is calculated at the reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

The Company completed its annual goodwill impairment test during the three months ended September 30, 2012, which included the consideration of certain economic factors, and determined that the carrying amount of goodwill was not impaired.

**Intangible Assets** Intangible assets, primarily customer relationships, trade names, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives which approximate the pattern in which the economic benefits of the assets are consumed. The Company periodically evaluates the recoverability of intangible assets and takes into account events or changes in circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. Fair value for intangible assets is based on discounted cash flows, market multiples and/or appraised values as appropriate.

**Income Taxes** The Company accounts for income taxes under ASC 740 *Income Taxes* (ASC 740) which requires recognition of deferred tax assets and liabilities to reflect tax consequences of differences between the tax bases of assets and liabilities and their reported amounts in the accompanying condensed consolidated financial statements. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that the deferred tax assets will not be realized in accordance with the criteria of ASC 740. Valuation allowances are established against deferred tax assets due to an uncertainty of realization. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence, in accordance with criteria of ASC 740, to support a change in judgment about the ability to realize the related deferred tax assets. Uncertainties regarding expected future income in certain jurisdictions could affect the realization of deferred tax assets in those jurisdictions.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions in accordance with ASC 740. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying condensed consolidated financial statements.

**Table of Contents**

***Stock-Based Compensation*** The Company has three stock-based compensation plans: the 2011 Equity Incentive Plan (for employees and certain non-employees), the 2004 Non-Employee Director Fee Plan (for non-employee directors), both approved by the shareholders, and the Deferred Compensation Plan (for certain eligible employees). All of these plans are discussed more fully in Note 18, Stock-Based Compensation. Stock-based awards under these plans may consist of common stock, common stock units, stock options, cash-settled or stock-settled stock appreciation rights, restricted stock and other stock-based awards. The Company issues common stock and uses treasury stock to satisfy stock option exercises or vesting of stock awards.

In accordance with ASC 718 *Compensation - Stock Compensation* ( ASC 718 ), the Company recognizes in its accompanying Condensed Consolidated Statements of Operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Compensation expense for equity-based awards is recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) is re-measured to fair value at each balance sheet date until the awards are settled.

***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 Trusts and Accounts Payable The carrying values for cash, short-term and other investments, investments held in rabbi trusts 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.

***Fair Value Measurements*** ASC 820 *Fair Value Measurements and Disclosures* ( 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.

A description of the Company's policies regarding fair value measurement is summarized below.

***Fair Value Hierarchy*** ASC 820-10-35 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.





---

**Table of Contents**

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

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

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

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

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

**Investments Held in Rabbi Trusts** The investment assets of the rabbi trusts are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 8, Investments Held in Rabbi Trusts, and Note 18, 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.

**Foreign Currency Translation** The assets and liabilities of the Company's foreign subsidiaries, whose functional currency is other than the U.S. Dollar, are translated at the exchange rates in effect on the reporting date, and income and expenses are translated at the weighted average exchange rate during the period. The net effect of translation gains and losses is not included in determining net income, but is included in Accumulated other comprehensive income (loss) (AOCI), which is reflected as a separate component of shareholders' equity until the sale or until the complete or substantially complete liquidation of the net investment in the foreign subsidiary. Foreign currency transactional gains and losses are included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations.

**Foreign Currency and Derivative Instruments** The Company accounts for financial derivative instruments under ASC 815 *Derivatives and Hedging* (ASC 815). The Company generally utilizes non-deliverable forward contracts and options expiring within one to 24 months to reduce its foreign currency exposure due to exchange rate fluctuations on forecasted cash flows denominated in non-functional foreign currencies and net investments in foreign operations. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

The Company designates derivatives as either (1) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (2) a hedge of a net investment in a foreign operation; or (3) a derivative that does not qualify for hedge accounting. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge.

---

**Table of Contents**

Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in AOCI, until the forecasted underlying transactions occur. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenues. Changes in the fair value of derivatives that are highly effective and designated as a net investment hedge are recorded in cumulative translation adjustment in AOCI, offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company's net investment in the foreign operation. Any realized gains and losses from settlements of the net investment hedge remain in AOCI until partial or complete liquidation of the net investment. Ineffectiveness is measured based on the change in fair value of the forward contracts and options and the fair value of the hypothetical derivatives with terms that match the critical terms of the risk being hedged. Hedge ineffectiveness is recognized within Revenues for cash flow hedges and within Other income (expense) for net investment hedges. Cash flows from the derivative contracts are classified within the operating section in the accompanying Condensed Consolidated Statements of Cash Flows.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective on a prospective and retrospective basis. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge or if a forecasted hedge is no longer probable of occurring or if the Company de-designates a derivative as a hedge, the Company discontinues hedge accounting prospectively. At September 30, 2012 and December 31, 2011, all hedges were determined to be highly effective.

The Company also periodically enters into forward contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to reduce the effects from fluctuations caused by volatility in currency exchange rates on the Company's operating results and cash flows. All changes in the fair value of the derivative instruments are included in Other income (expense). See Note 7, Financial Derivatives, for further information on financial derivative instruments.

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

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

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

---

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

In May 2011, the Financial Accounting Standards Board (the FASB) issued ASU 2011-04 *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in ASU 2011-04 are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 as of January 1, 2012 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In June 2011, the FASB issued ASU 2011-05 *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05). The amendments in ASU 2011-05 require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 are to be applied retrospectively and are effective during interim and annual periods beginning after December 15, 2011. As this standard impacts presentation only, the adoption of ASU 2011-05 as of January 1, 2012 did not impact the financial condition, results of operations and cash flows of the Company.

In September 2011, the FASB issued ASU 2011-08 *Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08). The amendments in ASU 2011-08 provide entities with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 as of January 1, 2012 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In December 2011, the FASB issued ASU 2011-12 *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). The amendments in ASU 2011-12 defer the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The amendments in ASU 2011-12 are effective at the same time as ASU 2011-05 so that entities will not be required to comply with the presentation requirements in ASU 2011-05 that ASU 2011-05 is deferring. The amendments in ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU 2011-12 impacts presentation only, the adoption of ASU 2011-12 as of January 1, 2012 did not impact the financial condition, results of operations and cash flows of the Company.

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

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

The acquisition date fair value of the consideration transferred totaled \$149.0 million, which was funded through cash on hand of \$41.0 million and borrowings of \$108.0 million under the Company's credit agreement, dated May 3, 2012. See Note 12, Borrowings, for further information.

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

the approval of the final working capital adjustment by the authorized representative of Alpine's shareholders, and

the amount of goodwill.

The Company expects to complete its analysis of the purchase price allocation during the fourth quarter of 2012.

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

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

(1) Primarily includes long-term deferred tax liabilities.

**Table of Contents**

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 August 20, 2012, the acquisition date (in thousands):

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

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

The fair value of receivables acquired is \$11.8 million, with the gross contractual amount of \$11.8 million.

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

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

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

The following table presents the unaudited pro forma combined revenues and net earnings as if Alpine had been included in the consolidated results of the Company for the entire three and nine month periods ended September 30, 2012 and 2011. The pro forma financial information is not indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place on January 1, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 292,580	\$ 318,932	\$ 885,878	\$ 966,926
Income from continuing operations, net of taxes	\$ 9,622	\$ 16,380	\$ 24,296	\$ 41,164
Income from continuing operations per common share:				
Basic	\$ 0.22	\$ 0.36	\$ 0.57	\$ 0.89
Diluted	\$ 0.22	\$ 0.36	\$ 0.57	\$ 0.89

These amounts have been calculated to reflect the additional depreciation, amortization and interest expense that would have been incurred assuming the fair value adjustments and borrowings occurred on January 1, 2012 and January 1, 2011, together with the consequential tax

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

effects. In addition, these amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies' operating results. Included in these costs are severance, advisory and legal costs, net of the tax effects.



**Table of Contents**

Acquisition-related costs associated with Alpine, comprised of severance costs and transaction and integration costs, and included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2012 were as follows (none in the comparable periods in 2011) (in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Severance costs:		
Americas	\$ 320	\$ 320
Corporate	377	377
	<b>697</b>	<b>697</b>
Transaction and integration costs:		
Corporate	3,045	3,095
	<b>3,045</b>	<b>3,095</b>
Total acquisition-related costs	\$ 3,742	\$ 3,792

**Note 3. Discontinued Operations**

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

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

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

The Spanish operations met the held for sale criteria as of December 31, 2011; therefore, the Company reflected the assets and related liabilities of the Spanish operations as Assets held for sale, discontinued operations and Liabilities held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011. The Company reflected the operating results related to the Spanish operations as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for all periods presented. Cash flows from discontinued operations are included in the accompanying Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011. This business was historically reported by the Company as part of the EMEA segment.

**Table of Contents**

The results of the Spanish operations included in discontinued operations were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$	\$ 9,235	\$ 10,102	\$ 29,582
(Loss) from discontinued operations before income taxes	\$	\$ (755)	\$ (820)	\$ (3,091)
Income taxes <sup>(1)</sup>				
(Loss) from discontinued operations, net of taxes	\$	\$ (755)	\$ (820)	\$ (3,091)
(Loss) on sale of discontinued operations before income taxes	\$	\$	\$ (10,707)	\$
Income taxes <sup>(1)</sup>				
(Loss) on sale of discontinued operations, net of taxes	\$	\$	\$ (10,707)	\$

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

The assets and liabilities of the Spanish operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011 were as follows (in thousands):

<b>Assets</b>	
Current assets:	
Receivables, net	\$ 8,970
Prepaid expenses	23
Total current assets	8,993
Deferred charges and other assets	597
Total assets <sup>(1)</sup>	9,590
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	1,191
Accrued employee compensation and benefits	4,592
Deferred revenue	335
Other accrued expenses and current liabilities	1,010
Total current liabilities <sup>(2)</sup>	7,128
Total net assets	\$ 2,462

<sup>(1)</sup> Classified as current and included in Assets held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011.

<sup>(2)</sup> Classified as current and included in Liabilities held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011.

**Note 4. Costs Associated with Exit or Disposal Activities**

***Fourth Quarter 2011 Exit Plan***

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

**Americas**

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

**Table of Contents**

The major costs estimated to be incurred as a result of these actions are program transfer costs, facility-related costs (primarily consisting of those costs associated with the real estate leases), and impairments of long-lived assets (primarily leasehold improvements and equipment) estimated at \$1.9 million (\$1.0 million at December 31, 2011). This increase of \$0.4 million and \$0.9 million included in General and administrative costs included in the accompanying Condensed Consolidated Statement of Operations during the three and nine months ended September 30, 2012, respectively, is primarily due to a change in estimate in lease obligations and additional lease obligation costs. The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$1.4 million represents cash expenditures for program transfer and facility-related costs, including obligations under the leases, the last of which ends in January 2013. The Company has paid \$0.3 million in cash through September 30, 2012 under the Fourth Quarter 2011 Exit Plan in the Americas.

The following table summarizes the accrued liability associated with the Americas Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2012 (none in the comparable period in 2011) (in thousands):

	Beginning Accrual at July 1, 2012	Charges (Reversals) for the Three Months Ended September 30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012	Short-term <sup>(3)</sup>	Long-term <sup>(4)</sup>
Lease obligations and facility exit costs	\$ 598	\$ 418	\$ (281)	\$	\$ 735	\$ 148	\$ 587

<sup>(1)</sup> During the three months ended September 30, 2012, the Company recorded additional charges due to a change in estimate in lease obligations and facility exit costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

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

<sup>(3)</sup> Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

<sup>(4)</sup> Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

The following table summarizes the accrued liability associated with the Americas Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2012 (none in the comparable period in 2011) (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Nine Months Ended September 30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$	\$ 1,074	\$ (339)	\$	\$ 735

<sup>(1)</sup> During the nine months ended September 30, 2012, the Company recorded additional lease obligations and facility exit costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

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

EMEA

During 2011, to improve the Company's overall profitability in the EMEA region, the Company committed to close a customer contact management center in South Africa and a customer contact management center in Ireland, as well as some capacity rationalization in the Netherlands, all components of the EMEA segment. Through these actions, the Company expects to improve its cost structure in the EMEA region by optimizing its capacity utilization. While the Company migrated approximately \$3.2 million of annualized call volumes of the Ireland facility to other facilities within EMEA, the Company did not migrate the remaining call volume in Ireland or any of the annualized revenue from the Netherlands or South Africa facilities, which was \$18.8 million for 2011, to other facilities within the region. The number of seats rationalized across the EMEA region approximated 900 with approximately 500 employees affected by the actions. The Company closed these facilities and substantially completed the actions associated with the EMEA plan on September 30, 2012.

**Table of Contents**

The major costs estimated to be incurred as a result of these actions are facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and anticipated severance-related costs estimated at \$7.6 million as of September 30, 2012 (\$7.6 million as of December 31, 2011). The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$7.1 million will be cash expenditures for severance-related costs and facility-related costs, primarily rent obligations to be paid through the remainder of the noncancelable term of the leases, the last of which ends in March 2013. The Company has paid \$5.7 million in cash through September 30, 2012 under the Fourth Quarter 2011 Exit Plan in EMEA.

The following table summarizes the accrued liability associated with EMEA's Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2012 (none in the comparable period in 2011) (in thousands):

	Beginning Accrual at July 1, 2012	Charges (Reversals) for the Three Months Ended September 30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012	Short-term <sup>(3)</sup>	Long-term <sup>(4)</sup>
Lease obligations and facility exit costs	\$ 565	\$	\$ (5)	\$ 8	\$ 568	\$ 568	\$
Severance and related costs	3,320	151	(2,886)	(17)	568	568	
Legal-related costs	5	12	(16)	(1)			
	\$ 3,890	\$ 163	\$ (2,907)	\$ (10)	\$ 1,136	\$ 1,136	\$

<sup>(1)</sup> During the three months ended September 30, 2012, the Company recorded additional severance and related costs and legal-related costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

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

<sup>(3)</sup> Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

<sup>(4)</sup> Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

The Company charged \$0.7 million to Direct salaries and related costs for severance and related costs and \$0.5 million to General and administrative costs for severance and related costs and legal-related costs in the accompanying Consolidated Statement of Operations for the nine months ended September 30, 2012. The following table summarizes the accrued liability associated with EMEA's Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2012 (none in the comparable period in 2011) (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Nine Months Ended September 30, 2012 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012
Lease obligations and facility exit costs	\$ 577	\$	\$ (5)	\$ (4)	\$ 568
Severance and related costs	4,470	1,093	(4,898)	(97)	568
Legal-related costs	13	83	(95)	(1)	

\$ 5,060      \$ 1,176      \$ (4,998)      \$ (102)      \$ 1,136

(1) During the nine months ended September 30, 2012, the Company recorded additional severance and related costs and legal-related costs.

(2) Effect of foreign currency translation.

***Fourth Quarter 2010 Exit Plan***

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

The major costs incurred as a result of these actions were facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and severance-related costs totaling \$2.2 million as of September 30, 2012 (\$2.2 million as of December 31, 2011). The Company recorded \$0.2 million of the costs associated with the Fourth Quarter 2010 Exit Plan as non-cash impairment charges. Approximately \$1.8 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in March 2014, and \$0.2 million represents cash expenditures for severance-related costs. The Company has paid \$1.3 million in cash through September 30, 2012 under the Fourth Quarter 2010 Exit Plan.

**Table of Contents**

The following tables summarize the accrued liability associated with the Fourth Quarter 2010 Exit Plan's exit or disposal activities and related charges during the three months ended September 30, 2012 and 2011 (in thousands):

	Beginning Accrual at July 1, 2012	Charges (Reversals) for the Three Months Ended		Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2012	Short-term <sup>(2)</sup>	Long-term <sup>(3)</sup>
		September 30, 2012	September 30, 2012					
Lease obligations and facility exit costs	\$ 656	\$	\$	\$ (66)	\$ 5	\$ 595	\$ 419	\$ 176

	Beginning Accrual at July 1, 2011	Charges (Reversals) for the Three Months Ended		Cash Payments	Other Non-Cash Changes <sup>(1)</sup>	Ending Accrual at September 30, 2011	Short-term	Long-term
		September 30, 2011	September 30, 2011					
Lease obligations and facility exit costs	\$ 1,652	\$	\$	\$ (8)	\$ (93)	\$ 1,551	\$ 1,010	\$ 541

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

<sup>(2)</sup> Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

<sup>(3)</sup> Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

The following tables summarize the accrued liability associated with the Fourth Quarter 2010 Exit Plan's exit or disposal activities and related charges during the nine months ended September 30, 2012 and 2011 (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Nine Months Ended		Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2012
		September 30, 2012	September 30, 2012			
Lease obligations and facility exit costs	\$ 835	\$	\$	\$ (229)	\$ (11)	\$ 595

	Beginning Accrual at January 1, 2011	Charges (Reversals) for the Nine Months Ended		Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2011
		September 30, 2011 <sup>(1)</sup>	September 30, 2011			
Lease obligations and facility exit costs	\$ 1,711	\$	\$ 523	\$ (671)	\$ (12)	\$ 1,551



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

(1) During the nine months ended September 30, 2011, the Company recorded additional lease termination costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

(2) Effect of foreign currency translation.

### ***Third Quarter 2010 Exit Plan***

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

The major costs incurred as a result of these actions were impairments of long-lived assets (primarily leasehold improvements) and facility-related costs (primarily consisting of those costs associated with the real estate leases) estimated at \$10.5 million as of September 30, 2012 (\$10.5 million as of December 31, 2011), all of which are in the Americas segment. The Company recorded \$3.8 million of the costs associated with the Third Quarter 2010 Exit Plan as non-cash impairment charges, of which \$0.7 million is included in Impairment of long-lived assets in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2011 (see Note 5, Fair Value, for further information). The remaining \$6.7 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in February 2017. The Company has paid \$4.1 million in cash through September 30, 2012 under the Third Quarter 2010 Exit Plan.

**Table of Contents**

The following tables summarize the accrued liability associated with the Third Quarter 2010 Exit Plan's exit or disposal activities and related charges for the three months ended September 30, 2012 and 2011 (in thousands):

	Charges (Reversals) for the Three Months		Cash Payments	Other Non-Cash Changes (1)	Ending Accrual at September 30, 2012	Short-term (2)	Long-term (3)
	Beginning Accrual at July 1, 2012	Ended September 30, 2012					
Lease obligations and facility exit costs	\$ 2,755	\$	\$ (146)	\$	\$ 2,609	\$ 510	\$ 2,099

	Charges (Reversals) for the Three Months		Cash Payments	Other Non-Cash Changes (1)	Ending Accrual at September 30, 2011	Short-term	Long-term
	Beginning Accrual at July 1, 2011	Ended September 30, 2011					
Lease obligations and facility exit costs	\$ 5,049	\$	\$ (627)	\$	\$ 4,422	\$ 1,589	\$ 2,833

(1) Effect of foreign currency translation.

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

(3) Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

The following tables summarize the accrued liability associated with the Third Quarter 2010 Exit Plan's exit or disposal activities and related charges for the nine months ended September 30, 2012 and 2011 (in thousands):

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

	Charges (Reversals) for the Nine Months		Cash Payments	Other Non-Cash Changes (2)	Ending Accrual at September 30, 2011
	Beginning Accrual at January 1, 2011	Ended September 30, 2011 (1)			
Lease obligations and facility exit costs	\$ 6,141	\$ 249	\$ (1,973)	\$ 5	\$ 4,422

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

(1) During the nine months ended September 30, 2011, the Company recorded additional lease termination costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

(2) Effect of foreign currency translation.

### **ICT Restructuring Plan**

As of February 2, 2010, the Company assumed the liabilities of ICT, including restructuring accruals in connection with ICT's plans to reduce its overall cost structure and adapt to changing economic conditions by closing various customer contact management centers in Europe and Canada prior to the end of their existing lease terms (the ICT Restructuring Plan). These remaining restructuring accruals, which related to ongoing lease and other contractual obligations, were paid in December 2011. Since acquiring ICT in February 2010, the Company paid \$1.9 million in cash related to the ICT Restructuring Plan through December 31, 2011, the date at which the ICT Restructuring Plan concluded.

The following table summarizes the accrued liability associated with the ICT Restructuring Plan's exit or disposal activities for the three months ended September 30, 2011 (none in the comparable period in 2012) (in thousands):

	<b>Charges (Reversals)</b>		<b>Cash</b>	<b>Other Non-Cash</b>	<b>Ending</b>	<b>Short-term</b>	<b>Long-term</b>
	<b>Beginning</b>	<b>for the</b>					
	<b>Accrual</b>	<b>Three</b>	<b>Payments</b>	<b>Changes <sup>(1)</sup></b>	<b>Accrual at</b>		
	<b>at</b>	<b>Months</b>			<b>September 30, 2011</b>		
	<b>July 1, 2011</b>	<b>Ended</b>					
	<b>September 30, 2011</b>	<b>September 30, 2011</b>					
Lease obligations and facility exit costs	\$ 507	\$	\$ (28)	\$ (13)	\$ 466	\$ 466	\$

(1) Effect of foreign currency translation.

**Table of Contents**

The following table summarizes the accrued liability associated with the ICT Restructuring Plan's exit or disposal activities for the nine months ended September 30, 2011 (none in the comparable period in 2012) (in thousands):

	Beginning Accrual at January 1, 2011	Charges (Reversals) for the Nine Months Ended September 30, 2011 <sup>(1)</sup>	Cash Payments	Other Non-Cash Changes <sup>(2)</sup>	Ending Accrual at September 30, 2011
Lease obligations and facility exit costs	\$ 1,462	\$ (262)	\$ (721)	\$ (13)	\$ 466

<sup>(1)</sup> During the nine months ended September 30, 2011, the Company reversed accruals related to the final settlement of termination costs, which reduced General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

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

**Note 5. Fair Value**

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, 2012 Using:			
	Balance at September 30, 2012	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>				
Money market funds and open-end mutual funds included in Cash and cash equivalents <sup>(1)</sup>	\$ 3,428	\$ 3,428	\$	\$
Money market funds and open-end mutual funds in Deferred charges and other assets <sup>(1)</sup>	11	11		
Foreign currency forward and option contracts <sup>(2)</sup>	2,165		2,165	
Equity investments held in a rabbi trust for the Deferred Compensation Plan <sup>(3)</sup>	3,146	3,146		
Debt investments held in a rabbi trust for the Deferred Compensation Plan <sup>(3)</sup>	1,994	1,994		
Guaranteed investment certificates <sup>(4)</sup>	80		80	
	<b>\$ 10,824</b>	<b>\$ 8,579</b>	<b>\$ 2,245</b>	<b>\$</b>
<b>Liabilities:</b>				
Foreign currency forward and option contracts <sup>(5)</sup>	\$ 729	\$	\$ 729	\$
	<b>\$ 729</b>	<b>\$</b>	<b>\$ 729</b>	<b>\$</b>

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

- (1) In the accompanying Condensed Consolidated Balance Sheet.
- (2) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 7.
- (3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 8.
- (4) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.
- (5) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

**Table of Contents**

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

	Fair Value Measurements at December 31, 2011 Using:			
	Balance at December 31, 2011	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
<b>Assets:</b>				
Money market funds and open-end mutual funds included in Cash and cash equivalents <sup>(1)</sup>	\$ 68,651	\$ 68,651	\$	\$
Money market funds and open-end mutual funds in Deferred charges and other assets <sup>(1)</sup>	12	12		
Foreign currency forward and option contracts <sup>(2)</sup>	710		710	
Equity investments held in a rabbi trust for the Deferred Compensation Plan <sup>(3)</sup>	2,817	2,817		
Debt investments held in a rabbi trust for the Deferred Compensation Plan <sup>(3)</sup>	1,365	1,365		
Guaranteed investment certificates <sup>(4)</sup>	65		65	
	<b>\$ 73,620</b>	<b>\$ 72,845</b>	<b>\$ 775</b>	<b>\$</b>
<b>Liabilities:</b>				
Foreign currency forward and option contracts <sup>(5)</sup>	\$ 752	\$	\$ 752	\$
	<b>\$ 752</b>	<b>\$</b>	<b>\$ 752</b>	<b>\$</b>

(1) In the accompanying Condensed Consolidated Balance Sheet.

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

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

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

(5) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 7. Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs as described in Note 1, Overview and Summary of Significant Accounting Policies, 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, 2012 and December 31, 2011.

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

	Total Impairment (Loss)			
	Three Months Ended September 30, 2012	2011	2012	2011
Americas:				
Property and equipment, net <sup>(1)</sup>	\$ (122)	\$ (38)	\$ (271)	\$ (764)

<sup>(1)</sup> See Note 1 for additional information regarding the fair value measurement.

**Table of Contents****Impairment of Long-Lived Assets**

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

During the nine months ended September 30, 2012, as part of an on-going effort to streamline excess capacity related to the integration of the ICT acquisition and align it with the needs of the market, the Company closed one of the customer contact management centers in Costa Rica and recorded an impairment charge of \$0.1 million within the Americas segment as these assets were unable to be redeployed. The amount of the impairment charge was measured as the amount by which the carrying value of the assets exceeded the estimated fair value, which was based on an independent third party offer less estimated selling costs.

During the three and nine months ended September 30, 2011, in connection with its periodic review for impairment, the Company determined that the carrying value of certain long-lived assets, primarily leasehold improvements, in one of its underutilized customer contact management centers in the U.S. (a component of the Americas segment), were no longer recoverable and recorded an impairment charge of less than \$0.1 million. The impairment charge represented the amount by which the carrying value exceeded the fair value of these assets which cannot be redeployed to other locations.

During the nine months ended September 30, 2011, in connection with the Third Quarter 2010 Exit Plan within the Americas segment, as discussed more fully in Note 4, Costs Associated with Exit or Disposal Activities, the Company recorded an impairment charge of \$0.7 million, resulting from a change in assumptions related to the redeployment of property and equipment. The amount of the impairment charge was measured as the amount by which the carrying value of the assets exceeded the estimated fair value, which was based on an independent third party offer less estimated selling costs.

**Note 6. Goodwill and Intangible Assets**

The following table presents the Company's purchased intangible assets as of September 30, 2012 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	\$ 104,722	\$ (20,359)	\$ 84,363	8
Trade name	11,600	(1,036)	10,564	8
Non-compete agreements	1,230	(597)	633	2
Proprietary software	850	(788)	62	2
Favorable lease agreement	450	(25)	425	2
	\$ 118,852	\$ (22,805)	\$ 96,047	8

The following table presents the Company's purchased intangible assets as of December 31, 2011 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	\$ 58,027	\$ (14,056)	\$ 43,971	8
Trade name	1,000	(639)	361	3
Non-compete agreements	560	(560)		1
Proprietary software	850	(710)	140	2
	\$ 60,437	\$ (15,965)	\$ 44,472	8





**Table of Contents**

The following table presents amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization expense	\$ 2,774	\$ 1,978	\$ 6,644	\$ 6,010

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, 2012, is as follows (in thousands):

Years Ending December 31,	Amount
2012 (remaining three months)	\$ 3,882
2013	15,007
2014	14,742
2015	14,382
2016	14,382
2017	14,382
2018 and thereafter	19,270

Changes in goodwill consist of the following (in thousands):

	Gross Amount	Accumulated Impairment Losses	Net Amount
<b>Americas:</b>			
Balance at January 1, 2012	\$ 121,971	\$ (629)	\$ 121,342
Acquisition of Alpine <sup>(1)</sup>	80,766		80,766
Foreign currency translation	2,863		2,863
<b>Balance at September 30, 2012</b>	<b>205,600</b>	<b>(629)</b>	<b>204,971</b>
<b>EMEA:</b>			
Balance at January 1, 2012	84	(84)	
Foreign currency translation			
<b>Balance at September 30, 2012</b>	<b>84</b>	<b>(84)</b>	
	<b>\$ 205,684</b>	<b>\$ (713)</b>	<b>\$ 204,971</b>

<sup>(1)</sup> See Note 2, Acquisition of Alpine Access, Inc., for further information.

**Table of Contents****Note 7. Financial Derivatives**

**Cash Flow Hedges** The Company had derivative assets and liabilities relating to outstanding forward contracts and options, designated as cash flow hedges, as defined under ASC 815, consisting of Philippine Peso and Costa Rican Colones 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 derivative instruments recorded in Accumulated other comprehensive income (loss) in the accompanying Condensed Consolidated Balance Sheets are as follows (in thousands):

	September 30, 2012	December 31, 2011
Deferred gains (losses) in AOCI	\$ 1,076	\$ (670)
Tax on deferred gains (losses) in AOCI	(175)	232
Deferred gains (losses) in AOCI, net of taxes	\$ 901	\$ (438)
Deferred gains (losses) expected to be reclassified to Revenues from AOCI during the next twelve months	\$ 1,076	

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

**Other Hedges** The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect our interests against adverse foreign currency moves pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than the Company's subsidiaries functional currencies. These contracts generally do not exceed 90 days in duration.

**Table of Contents**

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

Contract Type	As of September 30, 2012		As of December 31, 2011	
	Notional Amount in USD	Settle Through Date	Notional Amount in USD	Settle Through Date
<b>Cash flow hedges:</b> <sup>(1)</sup>				
Options:				
Philippine Pesos	\$ 57,000	May 2013	\$ 85,500	September 2012
Forwards:				
Philippine Pesos	\$ 3,000	October 2012	\$ 12,000	March 2012
Costa Rican Colones	\$ 53,000	September 2013	\$ 30,000	September 2012
<b>Non-designated hedges:</b> <sup>(2)</sup>				
Forwards	\$ 42,992	January 2013	\$ 27,192	March 2012

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

<sup>(2)</sup> Foreign currency hedge contract not designated as a hedge as defined under ASC 815. Purpose is to reduce the effects on the Company's operating results and cash flows from fluctuations caused by volatility in currency exchange rates, primarily related to intercompany loan payments and cash held in non-functional currencies.

See Note 1, Overview and Summary of Significant Accounting Policies, for additional information on the Company's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

As of September 30, 2012, the maximum amount of loss due to credit risk that, based on the gross fair value of the financial instruments, the Company would incur if parties to the financial instruments that make up the concentration failed to perform according to the terms of the contracts is \$2.2 million.

**Table of Contents**

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

	Derivative Assets	
	September 30, 2012 Fair Value	December 31, 2011 Fair Value
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>		
Foreign currency forward and option contracts <sup>(1)</sup>	\$ 2,125	\$ 704
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts <sup>(1)</sup>	40	6
<b>Total derivative assets</b>	<b>\$ 2,165</b>	<b>\$ 710</b>

	September 30, 2012 Fair Value	December 31, 2011 Fair Value
	<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>	
Foreign currency forward and option contracts <sup>(2)</sup>	\$ 704	\$ 485
<b>Derivatives not designated as hedging instruments under ASC 815:</b>		
Foreign currency forward contracts <sup>(2)</sup>	25	267
<b>Total derivative liabilities</b>	<b>\$ 729</b>	<b>\$ 752</b>

<sup>(1)</sup> Included in Other current assets in the accompanying Condensed Consolidated Balance Sheets.

<sup>(2)</sup> Included in Other accrued expenses and current 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, 2012 and 2011 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) September 30, 2012		Gain (Loss) Reclassified From Accumulated AOCI Into Revenues (Effective Portion) September 30, 2011		Gain (Loss) Recognized in Revenues on Derivatives (Ineffective Portion) September 30, 2012		Gain (Loss) Recognized in Other income and (expense) on Derivatives September 30, 2011	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>								
Foreign currency forward and option contracts	\$ 127	\$ (1,993)	\$ 1,631	\$ 1,378	\$	\$		
<b>Derivatives not designated as hedging instruments under ASC 815:</b>								
Foreign currency forward contracts					\$ (849)	\$ 3,835		

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, 2012 and 2011 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) September 30, 2012		Gain (Loss) Reclassified From Accumulated AOCI Into Revenues (Effective Portion) September 30, 2011		Gain (Loss) Recognized in Revenues on Derivatives (Ineffective Portion) September 30, 2012		Gain (Loss) Recognized in Other income and (expense) on Derivatives September 30, 2011	
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Derivatives designated as cash flow hedging instruments under ASC 815:</b>								
Foreign currency forward and option contracts	\$ 4,090	\$ (2,933)	\$ 2,290	\$ 2,430	\$ 17	\$		
<b>Derivatives not designated as hedging instruments under ASC 815:</b>								
Foreign currency forward contracts					\$ (1,046)	\$ 103		

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

The Company's investments held in rabbi trusts, 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, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 4,632	\$ 5,140	\$ 3,938	\$ 4,182

The mutual funds held in the rabbi trusts were 61% equity-based and 39% debt-based as of September 30, 2012. 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,	
	2012	2011	2012	2011
Gross realized gains from sale of trading securities	\$ 58	\$ 1	\$ 139	\$ 9
Gross realized (losses) from sale of trading securities		(20)	(1)	(20)
Dividend and interest income	11	9	31	27
Net unrealized holding gains (losses)	189	(568)	353	(418)
Net investment income (losses)	\$ 258	\$ (578)	\$ 522	\$ (402)

**Note 9. Property and Equipment*****Tornado Damage to the Ponca City, Oklahoma Customer Contact Management Center***

In April 2011, the customer contact management center (the facility) located in Ponca City, Oklahoma experienced significant damage to its building and contents as a result of a tornado. The Company filed an insurance claim with its property insurance company to recover losses of \$1.4 million. During 2011, the insurance company paid \$1.2 million to the Company for costs to clean up and repair the facility of \$0.9 million and for reimbursement of a portion of the Company's out-of-pocket costs of \$0.3 million. The Company completed the repairs to the facility during 2011 and collected the remaining \$0.2 million in February 2012. No additional funds are expected.

***Sale of Land and Building Located in Minot, North Dakota***

In June 2011, the Company sold the land and building located in Minot, North Dakota, which were held for sale, for cash of \$3.9 million (net of selling costs of \$0.2 million) resulting in a net gain on sale of \$3.7 million. The carrying value of these assets of \$0.8 million was offset by the related deferred grants of \$0.6 million. The net gain on the sale of \$3.7 million is included in Net gain on disposal of property and equipment in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2011.

***Typhoon Damage to the Marikina City, the Philippines Customer Contact Management Center***

In September 2009, the building and contents of one of the Company's customer contact management centers located in Marikina City, the Philippines (acquired as part of the ICT acquisition) was severely damaged by flooding from Typhoon Ondoy. Upon settlement with the insurer in November 2010, the Company recognized a net gain of \$2.0 million. The damaged property and equipment had been written down by ICT prior to the ICT acquisition in February 2010. In August 2011, the Company received an additional \$0.4 million from the insurer for rent payment made during the claim period. This net gain on insurance settlement is included in General and administrative expenses in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011.

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

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

	September 30, 2012	December 31, 2011
Future service	\$ 27,324	\$ 25,809
Estimated potential penalties and holdbacks	9,889	8,510
	<b>\$ 37,213</b>	<b>\$ 34,319</b>

**Note 11. Deferred Grants**

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

	September 30, 2012	December 31, 2011
Property grants	\$ 7,505	\$ 8,210
Employment grants	1,119	1,123
Total deferred grants	<b>8,624</b>	<b>9,333</b>
Less: Property grants short-term <sup>(1)</sup>		
Less: Employment grants short-term <sup>(1)</sup>	<b>(765)</b>	<b>(770)</b>
Total long-term deferred grants <sup>(2)</sup>	<b>\$ 7,859</b>	<b>\$ 8,563</b>

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

<sup>(2)</sup> Included in Deferred grants in the accompanying Condensed Consolidated Balance Sheets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization of property grants	\$ 235	\$ 235	\$ 705	\$ 723
Amortization of employment grants	17	18	89	53
	<b>\$ 252</b>	<b>\$ 253</b>	<b>\$ 794</b>	<b>\$ 776</b>

**Note 12. Borrowings**

On May 3, 2012, the Company entered into a \$245 million revolving credit facility (the New Credit Agreement) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent (KeyBank). The New Credit Agreement replaces the Company's previous \$75 million revolving credit facility dated February 2, 2010, as amended, which agreement was terminated simultaneous with entering into the New Credit Agreement. The New Credit Agreement is subject to certain borrowing limitations and includes



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

certain customary financial and restrictive covenants. The Company borrowed \$108.0 million under the New Credit Agreement's revolving credit facility on August 20, 2012 in connection with the acquisition of Alpine on such date. See Note 2, Acquisition of Alpine Access, Inc., for further information.

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

**Table of Contents**

Borrowings consist of the following (in thousands):

	September 30, 2012	December 31, 2011
Revolving credit facility	\$ 98,000	\$
Less: Current portion		
<b>Total long-term debt</b>	<b>\$ 98,000</b>	<b>\$</b>

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

Borrowings under the New Credit Agreement will bear interest at either LIBOR or the base rate plus, in each case, an applicable margin based on the Company's leverage ratio. The applicable interest rate will be determined quarterly based on the Company's leverage ratio at such time. The base rate is a rate per annum equal to the greatest of (i) the rate of interest established by KeyBank, from time to time, as its prime rate; (ii) the Federal Funds effective rate in effect from time to time, plus 1/2 of 1% per annum; and (iii) the then-applicable LIBOR rate for one month interest periods, plus 1.00%. Swingline loans will bear interest only at the base rate plus the base rate margin. In addition, the Company is required to pay certain customary fees, including a commitment fee of 0.175%, which is due quarterly in arrears and calculated on the average unused amount of the New Credit Agreement.

In May 2012, the Company paid an underwriting fee of \$0.9 million for the New Credit Agreement, which is deferred and amortized over the term of the loan. In addition, the Company pays a quarterly commitment fee on the New Credit Agreement. The related interest expense and amortization of deferred loan fees on the Company's credit agreements of \$0.3 million and \$0.8 million are included in Interest expense in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012, respectively. During the comparable 2011 periods, the related interest expense and amortization of deferred loan fees on the Company's previous \$75 million revolving credit facility were \$0.3 million and \$0.9 million, respectively. The New Credit Agreement had a weighted average interest rate of 1.6% for both the three and nine months ended September 30, 2012, respectively (none in the three and nine months ended September 30, 2011).

The New 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****Note 13. 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 Adjustment	Unrealized (Loss) on Net Investment Hedge	Unrealized Actuarial Gain (Loss) Related to Pension Liability	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Unrealized Gain (Loss) on Post Retirement Obligation	Total
<b>Balance at January 1, 2011</b>	\$ 13,992	\$ (2,565)	\$ 1,189	\$ 2,146	\$ 346	\$ 15,108
Pre-tax amount	(7,613)		(184)	(1,482)	153	(9,126)
Tax benefit			34	759		793
Reclassification to net loss	(389)		(55)	(1,855)	(40)	(2,339)
Foreign currency translation	5		1	(6)		
<b>Balance at December 31, 2011</b>	5,995	(2,565)	985	(438)	459	4,436
Pre-tax amount	<b>8,003</b>			<b>4,107</b>	<b>85</b>	<b>12,195</b>
Tax benefit				<b>(419)</b>		<b>(419)</b>
Reclassification to net income	<b>(17)</b>		<b>(35)</b>	<b>(2,307)</b>	<b>(41)</b>	<b>(2,400)</b>
Foreign currency translation	<b>(9)</b>		<b>51</b>	<b>(42)</b>		
<b>Balance at September 30, 2012</b>	<b>\$ 13,972</b>	<b>\$ (2,565)</b>	<b>\$ 1,001</b>	<b>\$ 901</b>	<b>\$ 503</b>	<b>\$ 13,812</b>

Except as discussed in Note 14, Income Taxes, earnings associated with the Company's investments in its subsidiaries are considered to be indefinitely invested and no provision for income taxes on those earnings or translation adjustments have been provided.

**Note 14. Income Taxes**

The Company's effective tax rate was (3.9)% and 13.6% for the three months ended September 30, 2012 and 2011, respectively. The decrease in the effective tax rate is primarily due to the recognition of tax benefits for acquisition and integration costs related to Alpine for the three months ended September 30, 2012 from the comparable period in 2011. The difference between the Company's effective tax rate of (3.9)% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the aforementioned acquisition costs, the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions, foreign tax rate differentials, changes in unrecognized tax positions and tax credits, offset by the tax impact of permanent differences, adjustments of valuation allowances and foreign withholding taxes.

The Company's effective tax rate was 11.8% for both the nine months ended September 30, 2012 and 2011. The difference between the Company's effective tax rate of 11.8% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions, foreign tax rate differentials, changes in unrecognized tax positions and tax credits, offset by the tax impact of permanent differences, adjustments of valuation allowances and foreign withholding taxes.

The liability for unrecognized tax benefits is recorded as Long-term income tax liabilities in the accompanying Condensed Consolidated Balance Sheets. The Company has accrued \$17.3 million at September 30, 2012, and \$17.1 million at December 31, 2011, excluding penalties and interest. The \$0.2 million increase results primarily from the expiration of the statutes of limitations for a foreign subsidiary, partially offset by fluctuations in foreign exchange rates.

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



**Table of Contents**

In addition, the U.S. Department of the Treasury released the General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals in February 2012. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings. The Company continues to monitor these proposals and is currently evaluating the potential impact on its financial condition, results of operations, and cash flows.

The Company is currently under audit in several tax jurisdictions. In April 2012, the Company received an assessment for the Canadian 2003-2006 audit for which the Company filed a Notice of Objection in July 2012. As required by the Notice of Objection process, the Company paid a mandatory security deposit in the amount of \$14.2 million to the Canadian Revenue Agency and an additional deposit to the Province of Ontario in the amount of \$0.4 million, which are included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2012 and Cash paid during period for income taxes in the accompanying Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2012. This process will allow the Company to submit the case to the U.S. and Canada Competent Authority for ultimate resolution. Although the outcome of examinations by taxing authorities is always uncertain, the Company believes it is adequately reserved for these audits and that resolutions of them are not expected to have a material impact on its financial condition and results of operations. The significant tax jurisdictions currently under audit are as follows:

Tax Jurisdiction	Tax Year Ended
Canada	2003 to 2009
Philippines	2007 to 2010
United States	2010

**Note 15. Earnings Per Share**

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

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

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Basic:				
Weighted average common shares outstanding	43,014	45,557	43,130	46,106
Diluted:				
Dilutive effect of stock options, stock appreciation rights, restricted stock, restricted stock units and shares held in a rabbi trust	17	96	49	96
Total weighted average diluted shares outstanding	43,031	45,653	43,179	46,202
Anti-dilutive shares excluded from the diluted earnings per share calculation		3		2

On August 18, 2011, the Company's Board authorized the Company to purchase up to 5.0 million shares of its outstanding common stock (the 2011 Share Repurchase Program). A total of 3.0 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 Company's Board previously authorized the Company on August 5, 2002 to purchase up to 3.0 million shares of its outstanding common stock, the last of which were repurchased during 2011.

**Table of Contents**

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

	Total Number of Shares Repurchased	Range of Prices Paid Per Share		Total Cost of Shares Repurchased
		Low	High	
<b>Three Months Ended:</b>				
September 30, 2012	29	\$ 14.98	\$ 14.98	\$ 447
September 30, 2011	2,498	\$ 12.46	\$ 16.10	\$ 37,165
<b>Nine Months Ended:</b>				
September 30, 2012	537	\$ 13.85	\$ 15.00	\$ 7,908
September 30, 2011	2,798	\$ 12.46	\$ 18.53	\$ 42,677

**Note 16. Commitments and Loss Contingency****Commitments**

During the nine months ended September 30, 2012, 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, 2012, including the impact of the leases assumed in connection with the Alpine acquisition (in thousands):

	Amount
2012 (remaining three months)	\$ 1,458
2013	6,187
2014	4,529
2015	2,112
2016	920
2017	900
2018 and thereafter	4,214
Total minimum payments required	\$ 20,320

During the nine months ended September 30, 2012, the Company entered into agreements with third-party vendors in the ordinary course of business whereby the Company committed to purchase goods and services used in its normal operations. These agreements, which are not cancelable, generally range from one to five year periods and contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments based on certain conditions. The following is a schedule of the future minimum purchases remaining under the agreements as of September 30, 2012, including the impact of the agreements assumed in connection with the Alpine acquisition (in thousands):

	Amount
2012 (remaining three months)	\$ 1,703
2013	2,789
2014	1,754
2015	118
2016	118
2017	49
2018 and thereafter	
Total minimum payments required	\$ 6,531

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

Except as outlined above, there have not been any material changes to the outstanding contractual obligations from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Table of Contents****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 it 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.

**Note 17. Defined Benefit Pension Plan and Postretirement Benefits****Defined Benefit Pension Plans**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 94	\$ 65	\$ 280	\$ 148
Interest cost	30	26	90	76
Recognized actuarial (gains)	(11)	(14)	(35)	(42)
Net periodic benefit cost	\$ 113	\$ 77	\$ 335	\$ 182

**Employee Retirement Savings Plans**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
401(k) plan contributions	\$ 245	\$ 208	\$ 977	\$ 770

In connection with the acquisition of Alpine in August 2012, the Company assumed Alpine's employee benefit plan (Section 401(k)). Under this employee benefit plan, the Company makes a matching contribution on an annual basis in the amount of 100% of the employee contribution for the first 3% of included compensation plus 50% of the employee contribution for the next 2% of included compensation. Employees are 100% vested in contributions, earnings and matching funds at all times. No contributions were made during the three and nine months ended September 30, 2012.

**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, 2012	December 31, 2011
Postretirement benefit obligation	\$ 77	\$ 114
Unrealized gains (losses) in AOCI <sup>(1)</sup>	\$ 503	\$ 459



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

**Table of Contents****Note 18. Stock-Based Compensation**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock-based compensation (expense) <sup>(1)</sup>	\$ (1,250)	\$ (798)	\$ (3,111)	\$ (3,411)
Income tax benefit <sup>(2)</sup>	438	311	1,089	1,330
Excess tax benefit (deficiency) from stock-based compensation <sup>(3)</sup>		(87)	(278)	(52)

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

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

<sup>(3)</sup> Included in Additional paid-in capital in the accompanying Condensed Consolidated Statements of Changes in Shareholder's Equity. There were no capitalized stock-based compensation costs as of September 30, 2012 and December 31, 2011.

**2011 Equity Incentive Plan** The Board adopted the Sykes Enterprises, Incorporated 2011 Equity Incentive Plan (the 2011 Plan) on March 23, 2011, as amended on May 11, 2011 to reduce the number of shares of common stock available to 4.0 million shares. The 2011 Plan was approved by the shareholders at the May 2011 Annual 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 stock options, stock appreciation rights and other stock-based awards to certain employees of the Company, and certain non-employees who provide services to the Company in order to encourage them to remain in the employment of or to faithfully provide services to the Company and to increase their interest in the Company's success.

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

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

	Nine Months Ended September 30,	
	2012	2011
Expected volatility	47.1%	44.3%
Weighted-average volatility	47.1%	44.3%
Expected dividend rate	0.0%	0.0%
Expected term (in years)	4.7	4.6
Risk-free rate	0.8%	2.0%

**Table of Contents**

The following table summarizes SARs activity as of September 30, 2012 and for the nine months then ended:

Stock Appreciation Rights	Shares (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at January 1, 2012	657	\$		
Granted	259	\$		
Exercised		\$		
Forfeited or expired	(51)	\$		
<b>Outstanding at September 30, 2012</b>	<b>865</b>	<b>\$</b>	<b>7.5</b>	<b>\$</b>
<b>Vested or expected to vest at September 30, 2012</b>	<b>865</b>	<b>\$</b>	<b>7.5</b>	<b>\$</b>
<b>Exercisable at September 30, 2012</b>	<b>470</b>	<b>\$</b>	<b>6.3</b>	<b>\$</b>

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

	Nine Months Ended September 30,	
	2012	2011
Number of SARs granted	259	215
Weighted average grant-date fair value per SAR	\$ 5.97	\$ 7.10
Intrinsic value of SARs exercised	\$	\$
Fair value of SARs vested	\$ 1,388	\$ 1,198

The following table summarizes nonvested SARs activity as of September 30, 2012 and for the nine months then ended:

Nonvested Stock Appreciation Rights	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2012	362	\$ 7.90
Granted	259	\$ 5.97
Vested	(175)	\$ 7.98
Forfeited or expired	(51)	\$ 6.76
<b>Nonvested at September 30, 2012</b>	<b>395</b>	<b>\$ 6.74</b>

As of September 30, 2012, there was \$1.9 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested SARs granted under the 2011 Plan and 2001 Plan. This cost is expected to be recognized over a weighted average period of 1.4 years.

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

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

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 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/RSTUs activity as of September 30, 2012 and for the nine months then ended:

Nonvested Restricted Shares and RSUs	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2012	793	\$ 20.39
Granted	420	\$ 15.21
Vested	(195)	\$ 19.74
Forfeited or expired	(146)	\$ 19.03
<b>Nonvested at September 30, 2012</b>	<b>872</b>	<b>\$ 18.25</b>

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

	Nine Months Ended September 30,	
	2012	2011
Number of restricted shares/RSTUs granted	420	339
Weighted average grant-date fair value per restricted share/RSTU	\$ 15.21	\$ 18.67
Fair value of restricted shares/RSTUs vested	\$ 3,845	\$ 4,392

As of September 30, 2012, based on the probability of achieving the performance goals, there was \$15.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted shares/RSTUs granted under the 2011 Plan and 2001 Plan. This cost is expected to be recognized over a weighted average period of 1.5 years.

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

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

Prior to 2008, the grants were comprised of CSUs rather than shares of common stock. A CSU is a bookkeeping entry on the Company's books that records the equivalent of one share of common stock.

**Table of Contents**

The following table summarizes nonvested CSUs and share awards activity as of September 30, 2012 and for the nine months then ended:

Nonvested Common Stock Units and Share Awards	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2012	16	\$ 21.08
Granted	42	\$ 16.15
Vested	(31)	\$ 17.75
Forfeited or expired	(1)	\$ 21.83
<b>Nonvested at September 30, 2012</b>	<b>26</b>	<b>\$ 17.18</b>

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

	Nine Months Ended September 30,	
	2012	2011
Number of CSUs/share awards granted	42	21
Weighted average grant-date fair value per CSU/share award	\$ 16.15	\$ 21.83
Fair value of CSUs/share awards vested	\$ 551	\$ 320

As of September 30, 2012, there was \$0.3 million of total unrecognized compensation costs, net of estimated forfeitures, related to nonvested CSUs granted since March 2008 under the Plan. This cost is expected to be recognized over a weighted average period of 0.3 years.

**Deferred Compensation Plan** The Board adopted the Sykes Enterprises, Incorporated non-qualified Deferred Compensation Plan (the Deferred Compensation Plan) on December 17, 1998, which was amended on May 23, 2006. The Deferred Compensation Plan, which was not shareholder-approved, provides certain eligible employees the ability to defer any portion of their compensation until the participant's retirement, termination, disability or death, or a change in control of the Company. Using the Company's common stock, the Company matches 50% of the amounts deferred by certain senior management participants on a quarterly basis up to a total of \$12,000 per year for the president and senior vice presidents and \$7,500 per year for vice presidents (participants below the level of vice president are not eligible to receive matching contributions from the Company). Matching contributions and the associated earnings vest over a seven year service period. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include investments in various mutual funds and shares of the Company's common stock (See Note 8, Investments Held in Rabbi Trusts.) As of September 30, 2012 and December 31, 2011, liabilities of \$5.1 million and \$4.2 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 \$1.4 million and \$1.2 million at September 30, 2012 and December 31, 2011, 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, 2012 and for the nine months then ended:

Nonvested Common Stock	Shares (000s)	Weighted Average Grant- Date Fair Value
Nonvested at January 1, 2012	8	\$ 18.30
Granted	13	\$ 15.28
Vested	(13)	\$ 15.63
Forfeited or expired	(1)	\$ 18.22
<b>Nonvested at September 30, 2012</b>	<b>7</b>	<b>\$ 17.17</b>



**Table of Contents**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Number of shares of common stock granted	<b>13</b>	10
Weighted average grant-date fair value per common stock	<b>\$ 15.28</b>	\$ 19.19
Fair value of common stock vested	<b>\$ 178</b>	\$ 141
Cash used to settle the obligation	<b>\$ 263</b>	\$

As of September 30, 2012, there was \$0.1 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted average period of 3.0 years.



**Table of Contents****Note 19. Segments and Geographic Information**

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

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

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

	Americas	EMEA	Other <sup>(1)</sup>	Consolidated
<b>Three Months Ended September 30, 2012:</b>				
Revenues <sup>(2)</sup>	\$ 237,541	\$ 42,985		\$ 280,526
Percentage of revenues	84.7%	15.3%		100.0%
Depreciation and amortization <sup>(2)</sup>	\$ 11,353	\$ 1,004		\$ 12,357
Income (loss) from continuing operations	\$ 21,654	\$ 2,359	\$ (15,341)	\$ 8,672
Other (expense), net			(839)	(839)
Income taxes			309	309
Income from continuing operations, net of taxes				8,142
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$	\$		
Net income				\$ 8,142
<b>Total assets as of September 30, 2012</b>	<b>\$ 1,265,146</b>	<b>\$ 1,073,201</b>	<b>\$ (1,433,732)</b>	<b>\$ 904,615</b>
<b>Three Months Ended September 30, 2011:</b>				
Revenues <sup>(2)</sup>	\$ 241,481	\$ 51,829		\$ 293,310
Percentage of revenues	82.3%	17.7%		100.0%
Depreciation and amortization <sup>(2)</sup>	\$ 11,954	\$ 1,066		\$ 13,020
Income (loss) from continuing operations	\$ 30,950	\$ 1,893	\$ (10,761)	\$ 22,082
Other (expense), net			(244)	(244)
Income taxes			(2,969)	(2,969)
Income from continuing operations, net of taxes				18,869
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$	\$ (755)		(755)
Net income				\$ 18,114
Total assets as of September 30, 2011	\$ 1,150,752	\$ 1,174,224	\$ (1,544,084)	\$ 780,892

**Table of Contents**

	Americas	EMEA	Other <sup>(1)</sup>	Consolidated
<b>Nine Months Ended September 30, 2012:</b>				
Revenues <sup>(2)</sup>	\$ 688,841	\$ 134,585		\$ 823,426
Percentage of revenues	83.7%	16.3%		100.0%
Depreciation and amortization <sup>(2)</sup>	\$ 33,687	\$ 2,990		\$ 36,677
Income (loss) from continuing operations	\$ 69,388	\$ 1,861	\$ (39,182)	\$ 32,067
Other (expense), net			(1,838)	(1,838)
Income taxes			(3,569)	(3,569)
Income from continuing operations, net of taxes				26,660
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$ (6,302)	\$ (5,225)		(11,527)
Net income				\$ 15,133
<b>Nine Months Ended September 30, 2011:</b>				
Revenues <sup>(2)</sup>	\$ 735,559	\$ 157,474		\$ 893,033
Percentage of revenues	82.4%	17.6%		100.0%
Depreciation and amortization <sup>(2)</sup>	\$ 37,317	\$ 3,294		\$ 40,611
Income (loss) from continuing operations	\$ 89,353	\$ 1,171	\$ (35,794)	\$ 54,730
Other (expense), net			(2,152)	(2,152)
Income taxes			(6,224)	(6,224)
Income from continuing operations, net of taxes				46,354
(Loss) from discontinued operations, net of taxes <sup>(3)</sup>	\$	\$ (3,091)		(3,091)
Net income				\$ 43,263

<sup>(1)</sup> Other items (including corporate costs, impairment costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company's consolidated totals as shown in the tables above for the three and nine months ended September 30, 2012 and 2011. The accounting policies of the reportable segments are the same as those described in Note 1 to the accompanying Condensed Consolidated Financial Statements. Inter-segment revenues are not material to the Americas and EMEA segment results. The Company evaluates the performance of its geographic segments based on revenue and income (loss) from operations, and does not include segment assets or other income and expense items for management reporting purposes.

<sup>(2)</sup> Revenues and depreciation and amortization include results from continuing operations only.

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

**Note 20. Other (Expense)**

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

	Three Months Ended September 2012	2011	Nine Months Ended September 30, 2012	2011
Foreign currency transaction gains (losses)	\$ (193)	\$ (3,589)	\$ (1,771)	\$ (2,135)

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

Gains (losses) on foreign currency derivative instruments not designated as hedges	(849)	3,835	(1,046)	104
Other miscellaneous income (expense)	327	(575)	1,013	(241)
	\$ (715)	\$ (329)	\$ (1,804)	\$ (2,272)

### Note 21. 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 father of Charles E. Sykes, President and Chief Executive Officer of the Company. The lease payments on the 20 year lease were negotiated at or below market rates, and the lease is cancellable at the option of the Company. There are significant penalties for early cancellation which decrease over time. The Company paid \$0.1 million and \$0.3 million to the landlord during the three and nine months ended September 30, 2012, respectively, and the same amounts during the three and nine months ended September 30, 2011, respectively, 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, 2012, and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, of changes in shareholders' equity for the nine-month periods ended September 30, 2012 and 2011 and three-month period ended December 31, 2011, and of cash flows for the nine-month periods ended September 30, 2012 and 2011. 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 the Company as of December 31, 2011, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 29, 2012, 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, 2011 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Certified Public Accountants

Tampa, Florida

November 9, 2012

**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, 2011, as filed with the Securities and Exchange Commission ( SEC ).*

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

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

**Overview**

We provide comprehensive customer contact management solutions and services to a wide range of clients including Fortune 1000 companies, medium-sized businesses, and public institutions around the world, primarily in the communications, financial services, technology/consumer, transportation and leisure, healthcare and other industries. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, Australia and the Asia Pacific Rim) and EMEA (Europe, the Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact management services (with an emphasis on inbound technical support and customer service), which include customer assistance, healthcare and roadside assistance, technical support and product sales to our clients' customers. These services, which represented 98% of consolidated revenues during both the three and nine months ended September 30, 2012, are delivered through multiple communication channels encompassing phone, e-mail, Internet, text messaging and chat. We also provide various

## **Table of Contents**

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 including multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery, and product returns handling. Our complete service offering helps our clients acquire, retain and increase the lifetime value of their customer relationships. We have developed an extensive global reach with customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia, India and Africa.

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

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

The total purchase price of \$149.0 million was funded by \$41.0 million in cash on hand and borrowings of \$108.0 million under our credit agreement with KeyBank National Association, dated May 3, 2012. We repaid \$10.0 million and now have \$147.0 million available for future borrowings under our New Credit Agreement. See Liquidity & Capital Resources later in this Item 2 and Note 12, Borrowings, of Notes to Condensed Consolidated Financial Statements for further information.

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

### **Discontinued Operations**

In November 2011, as authorized by the Finance Committee of our Board of Directors, we decided to pursue a buyer for our operations located in Spain (the Spanish operations ) as these operations were no longer consistent with the our strategic direction. We sold our Spanish operations, pursuant to an asset purchase agreement dated March 29, 2012 and a stock purchase agreement dated March 30, 2012. We have reflected the operating results related to the operations in Spain as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented. The assets and related liabilities of Spain are presented as held for sale in the accompanying Consolidated Balance Sheet as of December 31, 2011. This business was historically reported as part of the EMEA segment.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 280,526	\$ 293,310	\$ 823,426	\$ 893,033
Percentage of revenues	100.0%	100.0%	100.0%	100.0%
Direct salaries and related costs	\$ 183,628	\$ 189,082	\$ 536,758	\$ 581,952
Percentage of revenues	65.5%	64.5%	65.2%	65.2%
General and administrative	\$ 87,905	\$ 82,116	\$ 254,247	\$ 259,019
Percentage of revenues	31.3%	28.0%	30.9%	29.0%
Net (gain) loss on disposal of property and equipment	\$ 199	\$ (8)	\$ 83	\$ (3,432)
Percentage of revenues	0.1%	(0.0)%	0.0%	(0.4)%
Impairment of long-lived assets	\$ 122	\$ 38	\$ 271	\$ 764
Percentage of revenues	0.0%	0.0%	0.0%	0.1%
Income from continuing operations	\$ 8,672	\$ 22,082	\$ 32,067	\$ 54,730
Percentage of revenues	3.1%	7.5%	3.9%	6.1%

The following table summarizes our revenues for the periods indicated, by reporting segment (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Americas	\$ 237,541	84.7%	\$ 241,481	82.3%	\$ 688,841	83.7%	\$ 735,559	82.4%
EMEA	42,985	15.3%	51,829	17.7%	134,585	16.3%	157,474	17.6%
Consolidated	\$ 280,526	100.0%	\$ 293,310	100.0%	\$ 823,426	100.0%	\$ 893,033	100.0%

**Table of Contents**

The following table summarizes certain amounts and percentages of revenues for the periods indicated, by reporting segment (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012	2011	2012	2011	2012	2011	2012	2011
<b>Direct salaries and related costs:</b>								
Americas	\$ 154,292	65.0%	\$ 152,827	63.3%	\$ 440,335	63.9%	\$ 468,330	63.7%
EMEA	29,336	68.2%	36,255	70.0%	96,423	71.6%	113,622	72.2%
Consolidated	\$ 183,628	65.5%	\$ 189,082	64.5%	\$ 536,758	65.2%	\$ 581,952	65.2%
<b>General and administrative:</b>								
Americas	\$ 61,261	25.8%	\$ 57,674	23.9%	\$ 178,739	25.9%	\$ 180,549	24.5%
EMEA	11,303	26.3%	13,681	26.4%	36,326	27.0%	42,676	27.1%
Corporate	15,341		10,761		39,182		35,794	
Consolidated	\$ 87,905	31.3%	\$ 82,116	28.0%	\$ 254,247	30.9%	\$ 259,019	29.0%
<b>Net (gain) loss on disposal of property and equipment:</b>								
Americas	\$ 212	0.1%	\$ (8)	(0.0)%	\$ 108	0.0%	\$ (3,439)	(0.5)%
EMEA	(13)	(0.0)%		0.0%	(25)	(0.0)%	7	0.0%
Consolidated	\$ 199	0.1%	\$ (8)	(0.0)%	\$ 83	0.0%	\$ (3,432)	(0.4)%
<b>Impairment of long-lived assets:</b>								
Americas	\$ 122	0.1%	\$ 38	0.0%	\$ 271	0.0%	\$ 764	0.1%
EMEA		0.0%		0.0%		0.0%		0.0%
Consolidated	\$ 122	0.0%	\$ 38	0.0%	\$ 271	0.0%	\$ 764	0.1%

**Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011****Revenues**

For the three months ended September 30, 2012, we recognized consolidated revenues of \$280.5 million, a decrease of \$12.8 million or 4.4%, from \$293.3 million of consolidated revenues for the comparable period in 2011.

On a geographic segment basis, revenues from the Americas region, including the United States, Canada, Latin America, Australia and the Asia Pacific Rim, represented 84.7%, or \$237.5 million, for the three months ended September 30, 2012 compared to 82.3%, or \$241.5 million, for the comparable period in 2011. Revenues from the EMEA region, including Europe, the Middle East and Africa represented 15.3%, or \$43.0 million, for the three months ended September 30, 2012 compared to 17.7%, or \$51.8 million, for the comparable period in 2011.

Americas revenues decreased \$4.0 million, including the negative foreign currency impact of \$0.7 million, for the three months ended September 30, 2012 from the comparable period in 2011. The remaining decrease of \$3.3 million was primarily due to end-of-life client programs of \$19.5 million and lower volumes from existing contracts of \$14.0 million, partially offset by new contract sales of \$20.1 million and Alpine acquisition revenues of \$10.1 million. Revenues from our offshore operations represented 47.2% of Americas revenues, compared to 48.9% for the comparable period in 2011. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce, the trend of higher occupancy costs and costs of functional currency fluctuations in offshore markets. We weight these factors in our continual focus to re-price or replace certain sub-profitable target client programs.



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

EMEA's revenues decreased \$8.8 million, including the negative foreign currency impact of \$4.1 million, for the three months ended September 30, 2012 from the comparable period in 2011. The remaining decrease of \$4.7 million was primarily due to end-of-life client programs of \$7.5 million (including programs exited relating to the closure of certain sites in connection with the Fourth Quarter 2011 Exit Plan) and lower volumes from existing contracts of \$2.9 million, partially offset by new contract sales of \$5.7 million.

On a consolidated basis, we had 40,200 brick-and-mortar seats as of September 30, 2012, a decrease of 1,600 seats from the comparable period in 2011. The capacity utilization rate on a combined basis was 73% compared to 72% from the comparable period in 2011. This increase was primarily due to a combination of seat rationalizations associated with the strategic actions in connection with the Fourth Quarter 2011 Exit Plan (see Note 4, Costs Associated with Exit or Disposal Activities, of Notes to Condensed Consolidated Financial Statements ).

**Table of Contents**

On a geographic segment basis, 34,900 seats were located in the Americas, a decrease of 1,000 seats from the comparable period in 2011, and 5,300 seats were located in EMEA, a decrease of 600 seats from the comparable period in 2011. The consolidated offshore seat count as of September 30, 2012 was 22,400, or 56%, of our total seats, a decrease of 200 seats, or 1%, from the comparable period in 2011. Capacity utilization rates as of September 30, 2012 were 72% for the Americas and 78% for EMEA, compared to 73% and 70%, respectively, as of September 30, 2011, primarily due to seat rationalizations associated with the strategic actions in connection with the Fourth Quarter 2011 Exit Plan.

We achieved our 2012 gross seat addition target of approximately 3,700 seats at the end of the third quarter of 2012. For the year ended December 31, 2012, the total seat count on a net basis is expected to decline by approximately 2,000 seats from 2011, primarily due to the strategic actions outlined in the Fourth Quarter 2011 Exit Plan.

***Direct Salaries and Related Costs***

Direct salaries and related costs decreased \$5.5 million, or 2.9%, to \$183.6 million for the three months ended September 30, 2012 from \$189.1 million in the comparable period in 2011.

On a reporting segment basis, direct salaries and related costs from the Americas segment increased \$1.5 million, including the positive foreign currency impact of \$0.1 million, for the three months ended September 30, 2012 from the comparable period in 2011. Direct salaries and related costs from the EMEA segment decreased \$7.0 million, including the positive foreign currency impact of \$2.7 million, for the three months ended September 30, 2012 from the comparable period in 2011.

In the Americas segment, as a percentage of revenues, direct salaries and related costs increased to 65.0% for the three months ended September 30, 2012 from 63.3% in the comparable period in 2011. This increase of 1.7%, as a percentage of revenues, was primarily attributable to higher compensation costs of 1.8% principally driven by lower demand without a commensurate reduction in labor costs and higher other costs of 0.2%, partially offset by lower communication costs of 0.3%.

In the EMEA segment, as a percentage of revenues, direct salaries and related costs decreased to 68.2% for the three months ended September 30, 2012 from 70.0% in the comparable period of 2011. This decrease of 1.8%, as a percentage of revenues, was primarily attributable to lower billable supply costs of 1.2%, lower compensation costs of 0.7% due to a workforce reduction in connection with the Fourth Quarter 2011 Exit Plan, lower communication costs of 0.2% and lower other costs of 0.3%, partially offset by higher fulfillment materials costs of 0.4% and higher travel costs of 0.2%.

***General and Administrative***

General and administrative expenses increased \$5.8 million, or 7.1%, to \$87.9 million for the three months ended September 30, 2012 from \$82.1 million in the comparable period in 2011.

On a reporting segment basis, general and administrative expenses from the Americas segment increased \$3.6 million, including the positive foreign currency impact of \$0.1 million, for the three months ended September 30, 2012 from the comparable period in 2011. General and administrative expenses from the EMEA segment decreased \$2.4 million, including the positive foreign currency impact of \$1.0 million, for the three months ended September 30, 2012 from the comparable period in 2011. Corporate general and administrative expenses increased \$4.6 million for the three months ended September 30, 2012 from the comparable period in 2011. This increase of \$4.6 million was primarily attributable to higher merger and acquisition costs of \$3.4 million related to the Alpine acquisition, higher compensation costs of \$1.4 million and higher consulting costs of \$0.3 million, partially offset by lower facility-related charges of \$0.4 million and lower other costs of \$0.1 million.

In the Americas segment, as a percentage of revenues, general and administrative expenses increased to 25.8% for the three months ended September 30, 2012 from 23.9% in the comparable period in 2011. This increase of 1.9%, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.7% primarily related to lower demand without a commensurate reduction in labor costs, higher software maintenance costs of 0.3%, higher legal and professional fees of 0.3%, higher facility-related costs of 0.2%, higher insurance costs of 0.2%, higher taxes of 0.1%, higher communications costs of 0.1% and higher other costs of 0.4%, partially offset by lower equipment and maintenance costs of 0.4%.

**Table of Contents**

In the EMEA segment, as a percentage of revenues, general and administrative expenses decreased to 26.3% for the three months ended September 30, 2012 from 26.4% in the comparable period in 2011. This decrease of 0.1%, as a percentage of revenues, was primarily attributable to lower legal and professional fees of 0.2% and lower severance-related costs of 0.2%, partially offset by higher compensation costs of 0.2% and higher other costs of 0.1%.

***Net (Gain) Loss on Disposal of Property and Equipment***

Net (gain) loss on disposal of property and equipment was \$0.2 million for the three months ended September 30, 2012, compared to less than \$(0.1) million for the comparable 2011 period.

***Impairment of Long-Lived Assets***

Impairment of long-lived assets was \$0.1 million and less than \$0.1 million for the three months ended September 30, 2012 and 2011, respectively, in the Americas segment. The impairment losses represented the amount by which the carrying value of the assets exceeded the estimated fair value of those assets which cannot be redeployed to other locations. See Note 5, Fair Value, of the Notes to Condensed Consolidated Financial Statements for further information.

***Interest Income***

Interest income was \$0.3 million for the three months ended September 30, 2012, compared to \$0.4 million in the same period in 2011, reflecting lower average invested balances of interest bearing investments in cash and cash equivalents.

***Interest (Expense)***

Interest (expense) was \$(0.4) million for the three months ended September 30, 2012, compared to \$(0.3) million in the same period in 2011. The increase of \$0.1 million primarily reflects interest and fees on borrowings related to the late August acquisition of Alpine in the 2012 period.

***Other (Expense)***

Other (expense), net, was \$(0.7) million for the three months ended September 30, 2012, compared to \$(0.3) million in the same period in 2011. The net increase in other (expense), net, of \$(0.4) million was primarily attributable to an increase of \$4.7 million in foreign currency forward contract losses (which were not designated as hedging instruments), partially offset by a decrease of \$3.4 million in realized and unrealized foreign currency transaction losses, net of gains and an increase of \$0.9 million in other miscellaneous income, net. Other (expense), net, excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated other comprehensive income in shareholders equity in the accompanying Condensed Consolidated Balance Sheets.

***Income Taxes***

Income tax (benefit) of \$(0.3) million for the three months ended September 30, 2012, was based upon pre-tax book income of \$7.8 million. Income tax expense of \$3.0 million for the three months ended September 30, 2011, was based upon pre-tax book income of \$21.8 million. The effective tax rate for the three months ended September 30, 2012 was (3.9)% compared to an effective tax rate of 13.6% for the same period in 2011. The decrease in the effective tax rate is primarily due to the recognition of tax benefits for acquisition and integration costs incurred for Alpine.

***(Loss) from Discontinued Operations***

We sold our Spanish operations in March 2012 and accounted for this transaction in accordance with Accounting Standards Codification (ASC) 205-20 *Discontinued Operation*. Accordingly, we reclassified the results of operations for the three months ended September 30, 2011 to discontinued operations. The loss from discontinued operations, net of taxes, totaled \$0.8 million for the three months ended September 30, 2011. There was no tax impact on the loss from discontinued operations.

**Table of Contents*****Net Income***

As a result of the foregoing, we reported income from continuing operations for the three months ended September 30, 2012 of \$8.7 million, a decrease of \$13.4 million from the comparable period in 2011. This decrease was principally attributable to a \$12.8 million decrease in revenues and a \$5.8 million increase in general and administrative expenses and a \$0.3 million increase in net loss on disposal of property and equipment, partially offset by a \$5.5 million decrease in direct salaries and related costs. In addition to the \$13.4 million decrease in income from continuing operations, we experienced a \$0.4 million increase in other (expense), net, a decrease in interest income of \$0.1 million and increase in interest (expense) of \$0.1 million, partially offset by a \$3.3 million decrease in income taxes and a decrease of \$0.8 million in loss from discontinued operations, resulting in net income of \$8.1 million for the three months ended September 30, 2012, a decrease of \$9.9 million compared to the same period in 2011.

**Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011*****Revenues***

For the nine months ended September 30, 2012, we recognized consolidated revenues of \$823.4 million, a decrease of \$69.6 million, or 7.8%, from \$893.0 million of consolidated revenues for the comparable period in 2011.

On a geographic segment basis, revenues from the Americas region, including the United States, Canada, Latin America, Australia and the Asia Pacific Rim, represented 83.7%, or \$688.8 million, for the nine months ended September 30, 2012 compared to 82.4%, or \$735.5 million, for the comparable period in 2011. Revenues from the EMEA region, including Europe, the Middle East and Africa represented 16.3%, or \$134.6 million, for the nine months ended September 30, 2012 compared to 17.6%, or \$157.5 million, for the comparable period in 2011.

Americas revenues decreased \$46.7 million, including the negative foreign currency impact of \$4.3 million, for the nine months ended September 30, 2012 from the comparable period in 2011. The remaining decrease of \$42.4 million was primarily due to end-of-life client programs of \$71.3 million and lower volumes from existing contracts of \$21.4 million, partially offset by new contract sales of \$40.2 million and Alpine acquisition revenues of \$10.1 million. Revenues from our offshore operations represented 48.7% of Americas revenues, compared to 47.4% for the comparable period in 2011. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce, the trend of higher occupancy costs and costs of functional currency fluctuations in offshore markets. We weight these factors in our continual focus to re-price or replace certain sub-profitable target client programs.

EMEA's revenues decreased \$22.9 million, including the negative foreign currency impact of \$10.9 million, for the nine months ended September 30, 2012 from the comparable period in 2011. The remaining decrease of \$12.0 million was primarily due to end-of-life client programs of \$28.0 million, partially offset by new contract sales of \$12.4 million and higher volumes from existing contracts of \$3.6 million.

***Direct Salaries and Related Costs***

Direct salaries and related costs decreased \$45.2 million, or 7.8%, to \$536.8 million for the nine months ended September 30, 2012 from \$582.0 million in the comparable period in 2011.

On a reporting segment basis, direct salaries and related costs from the Americas segment decreased \$28.0 million, including the positive foreign currency impact of \$2.2 million, for the nine months ended September 30, 2012 from the comparable period in 2011. Direct salaries and related costs from the EMEA segment decreased \$17.2 million, including the positive foreign currency impact of \$7.6 million, for the nine months ended September 30, 2012 from the comparable period in 2011.

In the Americas segment, as a percentage of revenues, direct salaries and related costs increased to 63.9% for the nine months ended September 30, 2012 from 63.7% in the comparable period in 2011. This increase of 0.2%, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.2%, higher travel costs of 0.1% and higher other costs of 0.2%, partially offset by lower communication costs of 0.3%.

**Table of Contents**

In the EMEA segment, as a percentage of revenues, direct salaries and related costs remained decreased to 71.6% for the nine months ended September 30, 2012 from 72.2% in the comparable period in 2011. This decrease of 0.6%, as a percentage of revenues, was primarily attributable to lower compensation costs of 0.5%, lower billable supply costs of 0.3% and lower other costs of 0.4%, partially offset by higher fulfillment materials costs of 0.3% and higher severance costs of 0.3%.

**General and Administrative**

General and administrative expenses decreased \$4.8 million, or 1.9%, to \$254.2 million for the nine months ended September 30, 2012 from \$259.0 million in the comparable period in 2011.

On a reporting segment basis, general and administrative expenses from the Americas segment decreased \$1.8 million, including the positive foreign currency impact of \$0.7 million, for the nine months ended September 30, 2012 from the comparable period in 2011. General and administrative expenses from the EMEA segment decreased \$6.4 million, including the positive foreign currency impact of \$2.8 million, for the nine months ended September 30, 2012 from the comparable period in 2011. Corporate general and administrative expenses increased \$3.4 million for the nine months ended September 30, 2012 from the comparable period in 2011. This increase of \$3.4 million was primarily attributable to higher merger and acquisition costs of \$2.5 million, higher compensation costs of \$1.1 million, higher legal and professional fees of \$0.9 million, higher consulting costs of \$0.3 million and higher other costs of \$0.1 million, partially offset by lower charitable contributions of \$1.2 million and lower facility-related costs of \$0.3 million.

In the Americas segment, as a percentage of revenues, general and administrative expenses increased to 25.9% for the nine months ended September 30, 2012 from 24.5% in the comparable period in 2011. This increase of 1.4%, as a percentage of revenues, was primarily attributable to higher facility-related costs of 0.5% due to the closure of certain sites in connection with the Fourth Quarter 2011 Exit Plan, higher compensation costs of 0.5% primarily related to lower demand without a commensurate reduction in labor costs, higher taxes of 0.2%, higher depreciation and amortization of 0.2%, higher communication costs of 0.1% and higher other costs of 0.1%, partially offset by lower equipment and maintenance costs of 0.2%.

In the EMEA segment, as a percentage of revenues, general and administrative expenses decreased to 27.0% for the nine months ended September 30, 2012 from 27.1% in the comparable period in 2011. This decrease of 0.1%, as a percentage of revenues, was primarily attributable to lower merger and acquisition costs of 0.3%, lower equipment and maintenance costs of 0.2% and lower depreciation and amortization of 0.2%, partially offset by higher facility-related costs of 0.4% due primarily to lower demand without a commensurate reduction in these costs and higher severance-related costs of 0.2%.

**Net (Gain) Loss on Disposal of Property and Equipment**

Net (gain) loss on disposal of property and equipment was \$0.1 million for the nine months ended September 30, 2012, compared to \$(3.4) million for the comparable 2011 period. The gain in the 2011 period primarily related to the sale of land and a building located in Minot, North Dakota in 2011.

**Impairment of Long-Lived Assets**

Impairment of long-lived assets was \$0.3 million and \$0.8 million for the nine months ended September 30, 2012 and 2011, respectively, in the Americas segment. The impairment losses represented the amount by which the carrying value of the assets exceeded the estimated fair value of those assets which cannot be redeployed to other locations. See Note 5, Fair Value, of the Notes to Condensed Consolidated Financial Statements for further information.

**Interest Income**

Interest income remained unchanged at \$1.0 million for the nine months ended September 30, 2012 and 2011.

**Table of Contents*****Interest (Expense)***

Interest (expense) was \$(1.0) million for the nine months ended September 30, 2012, compared to \$(0.8) million in the same period in 2011. The increase of \$0.2 million reflects interest and fees on borrowings related to the late August acquisition of Alpine in the 2012 period.

***Other (Expense)***

Other (expense), net, was \$(1.8) million for the nine months ended September 30, 2012, compared to \$(2.3) million in the same period in 2011. The net decrease in other (expense), net, of \$(0.5) million was primarily attributable to a decrease of \$0.4 million in realized and unrealized foreign currency transaction losses, net of gains and an increase of \$1.3 million in other miscellaneous income, net, partially offset by an increase of \$1.2 million in foreign currency forward contract losses (which were not designated as hedging instruments). Other (expense), net, excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated other comprehensive income in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

***Income Taxes***

Income tax expense of \$3.6 million for the nine months ended September 30, 2012, reflects the recognition of tax benefits for acquisition and integration costs incurred for Alpine, and was based upon pre-tax book income of \$30.2 million. Income tax expense of \$6.2 million for the nine months ended September 30, 2011 reflects the recognition of a net \$3.2 million tax benefit primarily related to a favorable resolution of a tax audit, and was based upon pre-tax book income of \$52.6 million. The effective tax rate remained unchanged at 11.8% for the nine months ended September 30, 2012 and 2011.

***(Loss) from Discontinued Operations***

We sold our Spanish operations in March 2012 and, accordingly, we reclassified the results of operations for the nine months ended September 30, 2011 to discontinued operations. The loss from discontinued operations, net of taxes, totaled \$0.8 million and \$3.1 million for the nine months ended September 30, 2012 and 2011, respectively. The loss on sale of discontinued operations, net of taxes, totaled \$10.7 million for the nine months ended September 30, 2012. There was no tax impact on either the loss from discontinued operations or the loss on sale of discontinued operations.

***Net Income***

As a result of the foregoing, we reported income from continuing operations for the nine months ended September 30, 2012 of \$32.1 million, a decrease of \$22.6 million from the comparable period in 2011. This decrease was principally attributable to a \$69.6 million decrease in revenues and a \$3.5 million decrease in net gain on disposal of property and equipment, partially offset by a \$45.2 million decrease in direct salaries and related costs, a \$4.8 million decrease in general and administrative expenses and a \$0.5 million decrease in the impairment of long-lived assets. In addition to the \$22.6 million decrease in income from continuing operations, we experienced a \$10.7 million loss on the sale of discontinued operations and a \$0.2 million increase in interest (expense), partially offset by a \$2.6 million decrease in income taxes, a \$2.3 million decrease in loss from discontinued operations and a \$0.5 million decrease in other (expense), net, resulting in net income of \$15.1 million for the nine months ended September 30, 2012, a decrease of \$28.1 million compared to the same period in 2011.

***Client Concentration***

Our top ten clients accounted for approximately 48.5% and 48.7% of our consolidated revenues in the three and nine months ended September 30, 2012, respectively, up from approximately 45.3% and 44.3% of our consolidated revenues in the three and nine months ended September 30, 2011.

Total consolidated revenues included \$36.8 million, or 13.1%, and \$97.9 million, or 11.9%, of consolidated revenues, for the three and nine months ended September 30, 2012, respectively, from AT&T Corporation, a major provider of communication services for which we provide various customer support services over several distinct lines of AT&T business. This included \$36.0 million and \$95.7 million in revenue from the Americas for the three and nine months ended September 30, 2012, respectively, and \$0.8 million and \$2.2 million in revenue from EMEA

---

## **Table of Contents**

for the three and nine months ended September 30, 2012, respectively. Our next largest client, which is in the financial services vertical market, accounted for \$18.7 million, or 6.7%, and \$51.9 million, or 6.3%, of consolidated revenues, for the three and nine months ended September 30, 2012, respectively.

The total consolidated revenues for the comparable periods as it relates to our largest client were \$33.6 million, or 11.5%, and \$100.7 million, or 11.3%, of consolidated revenues, for the three and nine months ended September 30, 2011, respectively. This included \$32.8 million and \$98.2 million in revenue from the Americas for the three and nine months ended September 30, 2011, respectively, and \$0.8 million and \$2.5 million in revenue from EMEA for the three and nine months ended September 30, 2011, respectively. Our next largest client, which is in the financial services vertical market, accounted for \$14.8 million, or 5.1%, and \$38.0 million, or 4.3%, of consolidated revenues, for the three and nine months ended September 30, 2011, respectively.

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire between 2012 and 2015. We have historically renewed most of these contracts. However, there is no assurance that these contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts. Each line of business is governed by separate business terms, conditions and metrics. Each line of business also has a separate decision maker such that a loss of one line of business would not necessarily impact our relationship with the client and decision makers on other lines of business. The loss of (or the failure to retain a significant amount of business with) any of our key clients, including AT&T, could have a material adverse effect on our performance. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short notice. Also, clients may unilaterally reduce their use of our services under our contracts without penalty.

## **Business Outlook**

For the twelve months ended December 31, 2012, we anticipate the following financial results:

Revenues in the range of \$1,123.0 million to \$1,128.0 million;

Effective tax rate of approximately 14%;

Fully diluted share count of approximately 43.1 million;

Diluted earnings per share of approximately \$0.80 to \$0.85; and

Capital expenditures in the range of \$40.0 million to \$44.0 million

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

## **Liquidity and Capital Resources**

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

On August 18, 2011, our Board authorized us to purchase up to 5.0 million shares of our outstanding common stock (the 2011 Share Repurchase Program). During the nine months ended September 30, 2012, we repurchased 0.5 million common shares under the 2011 Share Repurchase Program at prices ranging from \$13.85 to \$15.00 per share for a total cost of \$7.9 million. As of September 30, 2012, a total of 3.0 million shares have been repurchased under the 2011 Share Repurchase Program. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion

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

and general market conditions. The 2011 Share Repurchase Program has no expiration date. From time to time, we will make additional discretionary stock repurchases under this program in 2012.

During the nine months ended September 30, 2012, cash increased \$55.3 million from operating activities, \$108.0 million due to proceeds from the issuance of long-term debt, \$0.4 million from the proceeds from sale of property and equipment, \$0.4 million due to a release of restricted cash and \$0.3 million of other. Further, we paid \$147.1 million for the Alpine acquisition, used \$26.4 million for capital expenditures, used \$10.0 million to repay long-term debt, divested cash of \$9.1 million in conjunction with the sale of discontinued operations in Spain, used



**Table of Contents**

\$7.9 million to repurchase our stock, used \$1.4 million to repurchase stock for minimum tax withholding on equity awards and paid \$0.9 million for loan fees, resulting in a \$34.6 million decrease in available cash (including the favorable effects of foreign currency exchange rates on cash of \$3.8 million).

Net cash flows provided by operating activities for the nine months ended September 30, 2012 were \$55.3 million, compared to \$79.9 million for the comparable 2011 period. The \$24.6 million decrease in net cash flows from operating activities was due to an \$28.1 million decrease in net income and a net decrease of \$3.2 million in cash flows from assets and liabilities, partially offset by a \$6.7 million increase in non-cash reconciling items such as depreciation and amortization, loss on the sale of discontinued operations, net (gain) loss on disposal of property and equipment and unrealized foreign currency transaction (gains) losses, net. The \$3.2 million decrease in cash flows from assets and liabilities was principally a result of a \$16.3 million increase in accounts receivable, partially offset by a \$6.1 million increase in other liabilities, a \$5.2 million increase in taxes payable, a \$1.4 million decrease in other assets and a \$0.4 million increase in deferred revenue. The decrease in cash flows from assets and liabilities primarily relates to the timing of receivables billings and subsequent payments of those billings, partially offset by a reduction in revenues in the nine months ended September 30, 2012 over the comparable period in 2011.

During March 2012, we committed to a plan and sold our operations in Spain (the Spanish operations). Cash flows from discontinued operations were as follows (in millions):

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Cash (used for) provided by operating activities of discontinued operations	\$ (4,530)	\$ 2,538
Cash (used for) investing activities of discontinued operations	(8,887)	(692)
Cash provided by financing activities of discontinued operations	<b>12,568</b>	<b>0</b>

Cash (used for) operating activities of discontinued operations primarily represents cash used by the Spanish operations during the nine months ended September 30, 2012. Cash (used for) investing activities of discontinued operations for the nine months ended September 30, 2012 primarily represents the cash divested upon the sale of the Spanish operations. Cash provided by financing activities of discontinued operations for the nine months ended September 30, 2012 primarily represents our cash capital contributions made prior to the sale of the Spanish operations. We do not expect the sale of our Spanish operations to negatively affect our future liquidity and capital resources.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were \$26.4 million for the nine months ended September 30, 2012, compared to \$21.8 million for the comparable period in 2011, an increase of \$4.6 million. In 2012, we anticipate capital expenditures in the range of \$40.0 million to \$44.0 million, primarily for maintenance and systems infrastructure.

On May 3, 2012, we entered into a \$245 million revolving credit facility (the New Credit Agreement) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent (KeyBank). The New Credit Agreement replaces our previous \$75 million revolving credit facility dated February 2, 2010, as amended, which agreement was terminated simultaneous with entering into the New Credit Agreement. The New Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At September 30, 2012, we were in compliance with all loan requirements of the New Credit Agreement and had \$98.0 million of outstanding borrowings under this facility.

The New Credit Agreement includes a \$184 million alternate-currency sub-facility, a \$10 million swingline sub-facility and a \$35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. We are not currently aware of any inability of our lenders to provide access to the full commitment of funds that exist under the New 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 New Credit Agreement will mature on May 2, 2017.

Borrowings under the New Credit Agreement will bear interest at either LIBOR or the base rate plus, in each case, an applicable margin based on our leverage ratio. The applicable interest rate will be determined quarterly based on our leverage ratio at such time. The base rate is a rate per annum equal to the greatest of (i) the rate of interest established by KeyBank, from time to time, as its prime rate; (ii) the Federal Funds effective rate in effect from

## **Table of Contents**

time to time, plus 1/2 of 1% per annum; and (iii) the then-applicable LIBOR rate for one month interest periods, plus 1.00%. Swingline loans will bear interest only at the base rate plus the base rate margin. In addition, we are required to pay certain customary fees, including a commitment fee of 0.175%, which is due quarterly in arrears and calculated on the average unused amount of the New Credit Agreement.

The New 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.

As of September 30, 2012, we had \$176.6 million in cash and cash equivalents, of which approximately 96.0% or \$169.5 million, was held in international operations and 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.

In April 2012, we received an assessment for the Canadian 2003-2006 audit for which we filed a Notice of Objection in July 2012. As required by the Notice of Objection process, we paid mandatory security deposits in the amount of \$14.2 million to the Canadian Revenue Agency and \$0.4 million to the Province of Ontario. This process will allow us to submit the case to the U.S. and Canada Competent Authority for ultimate resolution. Although the outcome of examinations by taxing authorities is always uncertain, we believe we are adequately reserved for this audit and that resolution is not expected to have a material impact on our financial condition and results of operations.

On August 20, 2012, we completed the acquisition of Alpine Access, Inc. (Alpine), a Delaware corporation, pursuant to the Agreement and Plan of Merger, dated July 27, 2012. The purchase price of \$149.0 million was funded through cash on hand of \$41.0 million and borrowings of \$108.0 million under the Company's credit agreement, dated May 3, 2012. The purchase price is subject to increase based on the amount of Alpine's cash and cash equivalents at the closing of the merger, subject to decrease based on the amount of certain indebtedness at the closing of the merger, and subject to certain post-closing adjustments relating to Alpine's working capital at the closing of the merger. Twelve million dollars of the purchase price was placed in an escrow account as security for the indemnification obligations of Alpine's stockholders under the merger agreement.

We believe that our current cash levels, accessible funds under our credit facilities and cash flows generated from future operations will be adequate to meet anticipated working capital needs, any future debt repayment requirements, continued expansion objectives, funding of potential acquisitions, anticipated levels of capital expenditures and contractual obligations for the next twelve months and any stock repurchases. 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, 2011.

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

At September 30, 2012, 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.

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

The following table summarizes the material changes to our contractual cash obligations as of September 30, 2012 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>	\$ 20,320	\$ 1,458	\$ 10,716	\$ 3,032	\$ 5,114	\$
Purchase obligations <sup>(2)</sup>	6,531	1,703	4,543	236	49	
Long-term tax liabilities <sup>(3)</sup>	11,752					11,752
	<b>\$ 38,603</b>	<b>\$ 3,161</b>	<b>\$ 15,259</b>	<b>\$ 3,268</b>	<b>\$ 5,163</b>	<b>\$ 11,752</b>

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

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

<sup>(3)</sup> Long-term tax liabilities include uncertain tax positions and related penalties and interest as discussed in Note 14 to the accompanying Condensed Consolidated Financial Statements. The amount in the table has been reduced by a \$14.2 million mandatory security deposit paid to the Canadian Revenue Agency and the \$0.4 million deposit paid to the Province of Ontario during the nine months ended September 30, 2012, which are included in *Deferred charges and other assets* in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2012. We cannot make reasonably reliable estimates of the cash settlement of \$11.8 million of the long-term liabilities with the taxing authority; therefore, amounts have been excluded from payments due by period.

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 for the year ended December 31, 2011.

**Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires estimations and assumptions that affect the reported amounts of assets and liabilities and the 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. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of our financial condition and operating results:

**Recognition of Revenue** We recognize revenue in accordance with ASC 605 *Revenue Recognition*. We primarily recognize revenues from services as the services are performed, which is based on either a per minute, per call or per transaction basis, under a fully executed contractual agreement and record reductions to revenues for contractual penalties and holdbacks for failure to meet specified minimum service levels and other performance based contingencies. Revenue recognition is limited to the amount that is not contingent upon delivery of any future product or service or meeting other specified performance conditions. Product sales, accounted for within our fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

Revenues from fulfillment services account for 1.4% and 1.5% of total consolidated revenues for the nine months ended September 30, 2012 and 2011, respectively, some of which contain multiple-deliverables. The service offerings for these fulfillment service contracts typically include

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

pick-pack-and-ship, warehousing, process management, finished goods assembly and pass-through costs. In accordance with ASC 605-25 *Revenue Recognition - Multiple-Element Arrangements* (ASC 605-25) (as amended by Accounting Standards Update (ASU) 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force*) (ASU 2009-13), we determine if the services provided under these contracts with multiple-deliverables represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and where return rights exist, delivery or performance of the undelivered items is considered probable and substantially within our control. If those deliverables are determined to be separate units of accounting, revenues from these services are recognized as the services are performed under a fully executed contractual agreement. If those deliverables are not determined to be separate units of accounting,

**Table of Contents**

revenue for the delivered services are bundled into a single unit of accounting and recognized on the proportional performance method using the straight-line basis over the contract period, or the actual number of operational seats used to serve the client, as appropriate.

As a result of the adoption of ASU 2009-13, the Company allocates revenue to each of the deliverables based on a selling price hierarchy of vendor specific objective evidence ( VSOE ), third-party evidence, and then estimated selling price. VSOE is based on the price charged when the deliverable is sold separately. Third-party evidence is based on largely interchangeable competitor services in standalone sales to similarly situated customers. Estimated selling price is based on our best estimate of what the selling prices of deliverables would be if they were sold regularly on a standalone basis. Estimated selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies, service offerings, and customer classifications. Once we allocate revenue to each deliverable, we recognize revenue when all revenue recognition criteria are met. As of September 30, 2012, our fulfillment contracts with multiple-deliverables met the separation criteria as outlined in ASC 605-25 and the revenue was accounted for accordingly. We have no other contracts that contain multiple-deliverables as of September 30, 2012.

***Allowance for Doubtful Accounts***

We maintain allowances for doubtful accounts, \$4.9 million as of September 30, 2012 or 2.0% of trade account receivables, for estimated losses arising from the inability of our customers to make required payments. Our estimate is based on qualitative and quantitative analyses, including credit risk measurement tools and methodologies using the publicly available credit and capital market information, a review of the current status of our trade accounts receivable and historical collection experience of our clients. It is reasonably possible that our estimate of the allowance for doubtful accounts will change if the financial condition of our customers were to deteriorate, resulting in a reduced ability to make payments.

***Income Taxes***

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. The valuation allowance for a particular tax jurisdiction is allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies. Establishment or reversal of certain valuation allowances may have a significant impact on both current and future results.

As of December 31, 2011, we determined that a total valuation allowance of \$38.5 million was necessary to reduce U.S. deferred tax assets by \$4.7 million and foreign deferred tax assets by \$33.8 million, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. The recoverability of the remaining net deferred tax asset of \$22.8 million as of December 31, 2011 is dependent upon future profitability within each tax jurisdiction. As of September 30, 2012, based on our estimates of future taxable income and any applicable tax-planning strategies within various tax jurisdictions, we believe that it is more likely than not that the remaining net deferred tax assets will be realized.

In April 2012, we received an assessment for the Canadian 2003-2006 audit for which we filed a Notice of Objection in July 2012. As required by the Notice of Objection process, we paid mandatory security deposits in the amount of \$14.2 million to the Canadian Revenue Agency and \$0.4 million to the Province of Ontario, which are included in *Deferred charges and other assets* in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2012 and *Cash paid during period for income taxes* in the accompanying Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012. This process will allow us to submit the case to the U.S. and Canada Competent Authority for ultimate resolution. Although the outcome of examinations by taxing authorities is always uncertain, we believe we are adequately reserved for this audit and that resolution is not expected to have a material impact on our financial condition and results of operations.

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

**Table of Contents**

The U.S. Department of the Treasury released the General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals in February 2012. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings. We continue to monitor these proposals and are currently evaluating their potential impact on our financial condition, results of operations, and cash flows.

We evaluate tax positions that have been taken or are expected to be taken in our tax returns, and record a liability for uncertain tax positions in accordance with ASC 740. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision. We had \$17.3 million and \$17.1 million of unrecognized tax benefits as of September 30, 2012 and December 31, 2011, respectively.

Our provision for income taxes is subject to volatility and is impacted by the distribution of earnings in the various domestic and international jurisdictions in which we operate. Our effective tax rate could be impacted by earnings being either proportionally lower or higher in foreign countries where we have tax rates lower than the U.S. tax rates. In addition, we have been granted tax holidays in several foreign tax jurisdictions, which have various expiration dates ranging from 2012 through 2023. If we are unable to renew a tax holiday in any of these jurisdictions, our effective tax rate could be adversely impacted. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will permit a renewal. Our effective tax rate could also be affected by several additional factors, including, but not limited to, changes in the valuation of our deferred tax assets or liabilities, changing legislation, regulations, and court interpretations that impact tax law in multiple tax jurisdictions in which we operate, as well as new requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations.

***Impairment of Goodwill, Intangibles and Other Long-Lived Assets***

We review long-lived assets, which had a carrying value of \$400.4 million as of September 30, 2012, including goodwill, intangibles and property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and at least annually for impairment testing of goodwill. An asset is considered to be impaired when the carrying amount exceeds the fair value. Upon determination that the carrying value of the asset is impaired, we would record an impairment charge, or loss, to reduce the asset to its fair value. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future.

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

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

In July 2012, the FASB issued ASU 2012-02 *Intangibles - Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). The amendments in ASU 2012-02 provide entities with the option to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of

---

**Table of Contents**

events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. Under the amendments in ASU 2012-02, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in ASU 2012-02 are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We do not expect the adoption of ASU 2012-02 to materially impact our financial condition, results of operations and cash flows.

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

**U.S. Healthcare Reform Acts**

In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the "Acts"). The Acts contain provisions that could materially impact the Company's healthcare costs in the future, thus adversely affecting the Company's profitability. We are currently evaluating the potential impact of the Acts, if any, on our financial condition, results of operations and cash flows. Preliminary analyses indicate that the increased cost of providing healthcare benefits in the future may not materially affect the Company's profitability; however there are many provisions of the legislation that have yet to be defined and which may be affected by the 2012 national elections. The effect on the Company's healthcare costs in the future may not be known for some time.

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

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

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in earnings and cash flows caused by volatility in foreign currency exchange ( "FX" ) rates. Option and forward derivative contracts are used to hedge intercompany receivables and payables, and other transactions initiated in the United States, that are denominated in a foreign currency. Additionally, we may employ FX contracts 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, Canada and Costa Rica, which are within our Americas segment. Although the contracts with these clients are priced in USDs, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine Pesos ( "PHP" ), Canadian Dollars and Costa Rican Colones ( "CRC" ), which represent FX exposures.

In order to hedge a portion of our anticipated cash flow requirements denominated in PHP and CRC, we had outstanding forward contracts and options as of September 30, 2012 with counterparties through December 2012 with notional amounts totaling \$113.0 million. As of September 30, 2012, we had net total derivative assets associated with these contracts with a fair value of \$1.4 million, which will settle within the next 12 months. If the USD was to weaken against the PHP and CRC by 10% from current period-end levels, we would incur a loss of approximately \$7.8 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We also entered into forward contracts 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, 2012,





## **Table of Contents**

the fair value of these derivatives was a net payable of less than \$0.1 million. The potential loss in fair value at September 30, 2012, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$5.2 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

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

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

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

### **Interest Rate Risk**

Our exposure to interest rate risk results from variable debt outstanding under our revolving credit facility. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. As of September 30, 2012, we had \$98.0 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, 2012, a one-point increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had a \$0.1 million impact 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, 2011, quarterly revenues as a percentage of total consolidated annual revenues were approximately 26%, 26%, 25% and 23%, 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, 2012, 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, 2012, 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, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **Table of Contents**

### **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, 2011 filed on February 29, 2012. Our risk factors have not changed materially since December 31, 2011 other than the addition of the risks related to the acquisition of Alpine Access, Inc. below:

##### **Risks Related to Our Growth Strategy**

*We may not succeed in our continued efforts to fully integrate the operations of Alpine into our own, which may adversely affect our business and the value of our common stock.*

It is possible that the integration of the operations of Alpine into our own could result in the disruption of ongoing businesses or identify inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, distributors, creditors and lessors, or to achieve the full level of anticipated benefits of the acquisition.

Specifically, issues addressed in completing the integration of the operations of Alpine into our own operations in order to realize the anticipated benefits of the acquisition include, among other things:

integrating our information technology systems with those of Alpine;

conforming standards, controls, procedures and policies, business cultures and compensation structures between the companies;

consolidating corporate and administrative infrastructures;

retaining existing customers and attracting new customers;

identifying and eliminating redundant and underperforming operations and assets;

coordinating geographically dispersed organizations;

managing tax costs or inefficiencies associated with integrating the operations of the combined company; and

making any necessary modifications to operating control standards to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

Integration efforts between the two companies at times may divert management attention and resources. An inability to realize the full extent of, or any of, the anticipated benefits of the acquisition, as well as any delays encountered in the integration process, could have an adverse effect on

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

our business and results of operations, which may affect the value of the shares of our common stock.

In addition, the actual integration may result in additional and unforeseen expenses, and the full amount of anticipated benefits of the integration plan may not be realized. If we are not able to adequately address these challenges, we may be unable to fully integrate Alpine's operations into our own, or to realize the full amount of anticipated benefits of the integration of the two companies.

**Table of Contents**

*We have substantial goodwill and if it becomes impaired, then our profits would be significantly reduced or eliminated and shareholders equity would be reduced.*

We recorded goodwill as a result of the Alpine acquisition. On at least an annual basis, we assess whether there has been an impairment in the value of goodwill. If the carrying value of goodwill exceeds its estimated fair value, impairment is deemed to have occurred and the carrying value of goodwill is written down to fair value. This would result in a charge to our operating earnings.

**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, 2012 (in thousands, except average price per share). See Note 15, Earnings Per Share, of Notes to Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs
July 1, 2012 - July 31, 2012	29	\$ 14.98	29	1,969
August 1, 2012 - August 31, 2012		\$		1,969
September 1, 2012 - September 30, 2012		\$		1,969
Total	29		29	1,969

<sup>(1)</sup> All shares purchased as part of the repurchase plan publicly announced on August 8, 2011. Total number of shares approved for repurchase under the 2011 Repurchase Plan was 5.0 million with no expiration date. All of the available shares available under the repurchase plan publicly announced on August 5, 2002 have been repurchased.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

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

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

**Table of Contents**

**SIGNATURE**

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

SYKES ENTERPRISES, INCORPORATED

(Registrant)

Date: November 9, 2012

By: /s/ W. Michael Kipphut  
W. Michael Kipphut  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Table of Contents**

**EXHIBIT INDEX**

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

**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