

SYKES ENTERPRISES INC

Form 10-Q

November 02, 2010

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

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2010**

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

**Commission File No. 0-28274
Sykes Enterprises, Incorporated
(Exact name of Registrant as specified in its charter)**

Florida
(State or other jurisdiction of incorporation or organization)

56-1383460
(IRS Employer Identification No.)

400 North Ashley Drive, Tampa, FL
(Address of principal executive offices)

33602
(Zip Code)

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 22, 2010, there were 46,850,569 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries
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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

<i>(in thousands, except per share data)</i>	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 202,757	\$ 279,853
Restricted cash	614	80,342
Receivables, net	248,393	167,666
Prepaid expenses	14,412	9,419
Other current assets	16,927	10,574
Total current assets	483,103	547,854
Property and equipment, net	120,416	80,264
Goodwill	114,294	21,209
Intangibles, net	56,336	2,091
Deferred charges and other assets	42,298	21,053
	 \$ 816,447	 \$ 672,471
 Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt	\$	\$ 75,000
Accounts payable	30,320	21,725
Accrued employee compensation and benefits	77,848	51,127
Current deferred income tax liabilities	7,968	6,453
Income taxes payable	3,765	3,341
Deferred revenue	31,237	30,083
Other accrued expenses and current liabilities	22,438	12,689
Total current liabilities	173,576	200,418
Deferred grants	11,073	11,005
Long-term income tax liabilities	7,159	5,376
Other long-term liabilities	31,512	4,998
Total liabilities	223,320	221,797
 Commitments and loss contingency (Note 16)		
 Shareholders equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued and outstanding	 471	 418

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Common stock, \$0.01 par value, 200,000 shares authorized; 47,066 and 41,817 shares issued		
Additional paid-in capital	301,607	166,514
Retained earnings	282,628	280,399
Accumulated other comprehensive income	9,368	7,819
Treasury stock at cost: 81 shares and 329 shares	(947)	(4,476)
Total shareholders' equity	593,127	450,674
	\$ 816,447	\$ 672,471

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2009, Three Months Ended December 31, 2009 and
Nine Months Ended September 30, 2010
(Unaudited)

<i>(In thousands)</i>	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Earnings	Other	Stock	
	Issued		Capital		Comprehensive		
					Income		
					(Loss)		
Balance at January 1, 2009	41,271	\$ 413	\$ 158,216	\$ 237,188	\$ (10,683)	\$ (1,104)	\$ 384,030
Issuance of common stock	112	1	1,599				1,600
Stock-based compensation expense			3,981				3,981
Excess tax benefit from stock-based compensation			247				247
Issuance of common stock and restricted stock under equity award Plans	252	2	(919)			(163)	(1,080)
Repurchase of common stock						(3,193)	(3,193)
Comprehensive income				47,900	18,050		65,950
Balance at September 30, 2009	41,635	416	163,124	285,088	7,367	(4,460)	451,535
Issuance of common stock	179	1	1,567				1,568
Stock-based compensation expense			1,177				1,177
Excess tax benefit from stock-based compensation			631				631
Issuance of common stock and restricted stock under equity award Plans	3	1	15			(16)	
Comprehensive income (loss)				(4,689)	452		(4,237)

Balance at December 31, 2009	41,817	418	166,514	280,399	7,819	(4,476)	450,674
Issuance of common stock	2		34				34
Stock-based compensation expense			3,652				3,652
Excess tax benefit from stock- based compensation			360				360
Issuance of common stock and restricted stock under equity award Plans	204	2	(1,107)			(177)	(1,282)
Repurchase of common stock						(5,212)	(5,212)
Retirement of treasury stock	(558)	(6)	(4,462)	(4,450)		8,918	
Issuance of common stock for business acquisition	5,601	57	136,616				136,673
Comprehensive income				6,679	1,549		8,228
Balance at September 30, 2010	47,066	\$ 471	\$ 301,607	\$ 282,628	\$ 9,368	\$ (947)	\$ 593,127

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2010 and 2009
(Unaudited)

<i>(in thousands)</i>	2010	2009
Cash flows from operating activities:		
Net income	\$ 6,679	\$ 47,900
Depreciation and amortization, net	43,236	20,917
Impairment losses	4,004	3,997
Unrealized foreign currency transaction (losses), net	(2,860)	(2,632)
Stock-based compensation expense	3,652	3,981
Excess tax benefit from stock-based compensation	(360)	(247)
Deferred income tax (benefit)	(8,644)	(2,015)
Net loss on disposal of property and equipment	63	129
Bad debt expense	58	1,147
Write down of value added tax receivables	434	414
Unrealized loss on financial instruments, net	377	973
Amortization of actuarial (gains) on pension	(38)	(46)
Foreign exchange (gain) loss on liquidation of foreign entities	6	(5)
Increase (decrease) in valuation allowance on deferred tax assets	1,588	(2,285)
Amortization of unrealized (gain) on post retirement obligation	(23)	(28)
Amortization of deferred loan fees	2,772	
Changes in assets and liabilities:		
Receivables	3,301	(19,488)
Prepaid expenses	(410)	(2,582)
Other current assets	(5,500)	(1,203)
Deferred charges and other assets	1,123	(809)
Accounts payable	(3,952)	(3,173)
Income taxes receivable / payable	(7,542)	2,993
Accrued employee compensation and benefits	2,019	7,564
Other accrued expenses and current liabilities	(1,247)	1,711
Deferred revenue	593	2,662
Other long-term liabilities	828	(41)
Net cash provided by operating activities	40,157	59,834
Cash flows from investing activities:		
Capital expenditures	(21,501)	(23,207)
Cash paid for business acquisition, net of cash acquired	(77,174)	
Proceeds from sale of property and equipment	23	170
Investment in restricted cash	(260)	
Release of restricted cash	80,000	839
Net cash (used for) investing activities	(18,912)	(22,198)

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2010 and 2009

(Unaudited)

(continued)

<i>(in thousands)</i>	2010	2009
Cash flows from financing activities:		
Payment of long term debt	(75,000)	
Proceeds from issuance of long term debt	75,000	
Proceeds from issuance of stock	34	1,600
Excess tax benefit from stock-based compensation	360	247
Cash paid for repurchase of common stock	(5,212)	(3,193)
Proceeds from grants	148	3,491
Payments on short-term debt	(85,000)	
Shares repurchased for minimum tax withholding on equity awards	(1,282)	(1,080)
Cash paid for loan fees related to debt	(3,035)	
Net cash (used for) provided by financing activities	(93,987)	1,065
Effects of exchange rates on cash	(4,354)	12,887
Net increase (decrease) in cash and cash equivalents	(77,096)	51,588
Cash and cash equivalents beginning	279,853	219,050
Cash and cash equivalents ending	\$ 202,757	\$ 270,638
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$ 2,431	\$ 752
Cash paid during period for income taxes	\$ 16,811	\$ 11,522
Non-cash transactions:		
Property and equipment additions in accounts payable	\$ 1,331	\$ 2,035
Unrealized gain on post retirement obligation in accumulated other comprehensive income (loss)	\$ 202	\$ 342
Issuance of common stock for business acquisition	\$ 136,673	\$

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 1 Significant Accounting Policies

Sykes Enterprises, Incorporated and consolidated subsidiaries (SYKES or the Company) provides outsourced customer contact management solutions and services in the business process outsourcing arena to companies, primarily within the communications, financial services, healthcare, technology/consumer and transportation and leisure 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, Web 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.

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) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2010. 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, 2009, as filed with the Securities and Exchange Commission (SEC). 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 condensed consolidated financial statements.

Recognition of Revenue Revenue is recognized pursuant to Accounting Standards Codification (ASC) 605 *Revenue Recognition*. The Company primarily recognizes its revenue from services as those services are performed, which is based on either a per minute, per hour, per call or per transaction basis, under a fully executed contractual agreement and records reductions to revenue 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 fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

In accordance with ASC 605-25, *Revenue Recognition- Multiple-Element Arrangements*, revenue from contracts with multiple-deliverables is allocated to separate units of accounting based on their relative fair value, if the deliverables in the contract(s) meet the criteria for such treatment. Certain fulfillment services contracts contain multiple-deliverables. Separation criteria includes whether a delivered item has value to the customer on a standalone basis, whether there is objective and reliable evidence of the fair value of the undelivered items and, if the arrangement includes a general right of return related to a delivered item, whether delivery of the undelivered item is considered probable and in the Company's control. Fair value is the price of a deliverable when it is regularly sold on a standalone basis, which generally consists of vendor-specific objective evidence of fair value. If there is no evidence

of the fair value for a delivered product or service, revenue is allocated first to the fair value of the undelivered product or service and then the residual revenue is allocated to the delivered product or service. If there is no evidence of the fair value for an undelivered product or service, the contract(s) is accounted for as a single unit of accounting, resulting in delay of revenue recognition for the delivered

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**Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009**

(Unaudited)

Note 1 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Recognition of Revenue (continued)

product or service until the undelivered product or service portion of the contract is complete. The Company recognizes revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding client acceptance are resolved, and there are no client-negotiated refund or return rights affecting the revenue recognized for delivered elements. Once the Company determines the allocation of revenue between deliverable elements, there are no further changes in the revenue allocation. If the separation criteria are met, revenue from these services is recognized as the services are performed under a fully executed contractual agreement. If the separation criteria are not met because there is insufficient evidence to determine fair valu