

SYKES ENTERPRISES INC

Form 10-Q

November 04, 2014

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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, 2014**

.. **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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of October 29, 2014, there were 43,288,873 outstanding shares of common stock.

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Sykes Enterprises, Incorporated and Subsidiaries

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(Unaudited)

(in thousands, except per share data)	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 209,609	\$ 211,985
Receivables, net	283,032	264,916
Prepaid expenses	17,689	15,710
Other current assets	24,799	20,672
Total current assets	535,129	513,283
Property and equipment, net	112,304	117,549
Goodwill, net	195,734	199,802
Intangibles, net	64,532	76,055
Deferred charges and other assets	30,575	43,572
	\$ 938,274	\$ 950,261
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 24,718	\$ 25,540
Accrued employee compensation and benefits	84,594	81,064
Current deferred income tax liabilities	252	84
Income taxes payable	2,272	1,274
Deferred revenue	36,337	35,025
Other accrued expenses and current liabilities	24,870	30,393
Total current liabilities	173,043	173,380
Deferred grants	5,641	6,637
Long-term debt	79,000	98,000
Long-term income tax liabilities	20,000	24,647
Other long-term liabilities	10,280	11,893
Total liabilities	287,964	314,557
Commitments and loss contingency (Note 13)		

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; 43,789 and 43,997 shares issued, respectively	438	440
Additional paid-in capital	282,429	279,513
Retained earnings	383,312	349,366
Accumulated other comprehensive income (loss)	(11,313)	7,997
Treasury stock at cost: 269 and 122 shares, respectively	(4,556)	(1,612)
Total shareholders' equity	650,310	635,704
	\$ 938,274	\$ 950,261

See accompanying Notes to Condensed Consolidated Financial Statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30,		the Months Ended September 30,	
	2014	2013	2014	2013
Revenues	\$ 332,671	\$ 322,143	\$ 977,598	\$ 928,122
Operating expenses:				
Direct salaries and related costs	221,598	215,001	664,308	628,848
General and administrative	73,868	73,987	221,250	222,967
Depreciation, net	11,516	10,677	34,136	30,863
Amortization of intangibles	3,597	3,699	10,907	11,171
Total operating expenses	310,579	303,364	930,601	893,849
Income from operations	22,092	18,779	46,997	34,273
Other income (expense):				
Interest income	249	216	717	648
Interest (expense)	(464)	(630)	(1,515)	(1,716)
Other income (expense)	(406)	356	(142)	142
Total other income (expense)	(621)	(58)	(940)	(926)
Income before income taxes	21,471	18,721	46,057	33,347
Income taxes	4,833	4,575	10,769	7,087
Net income	\$ 16,638	\$ 14,146	\$ 35,288	\$ 26,260
Net income per common share:				
Basic	\$ 0.39	\$ 0.33	\$ 0.83	\$ 0.61
Diluted	\$ 0.39	\$ 0.33	\$ 0.82	\$ 0.61
Weighted average common shares outstanding:				
Basic	42,704	42,785	42,721	42,918
Diluted	42,837	42,836	42,844	42,948

See accompanying Notes to Condensed Consolidated Financial Statements.

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Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
Net income	\$ 16,638	\$ 14,146	\$ 35,288	\$ 26,260
Other comprehensive income (loss), net of taxes:				
Foreign currency translation gain (loss), net of taxes	(20,744)	7,200	(22,823)	(2,905)
Unrealized gain (loss) on net investment hedge, net of taxes	2,600	(797)	2,705	(774)
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(47)	(27)	(26)	(123)
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(469)	827	818	(1,351)
Unrealized gain (loss) on postretirement obligation, net of taxes	(2)	(95)	16	(184)
Other comprehensive income (loss), net of taxes	(18,662)	7,108	(19,310)	(5,337)
Comprehensive income (loss)	\$ (2,024)	\$ 21,254	\$ 15,978	\$ 20,923

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, 2014

(Unaudited)

(in thousands)	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock	Total
	Shares Issued	Amount	Paid-in Capital		Income	Loss		
Balance at December 31, 2013	43,997	\$ 440	\$ 279,513	\$ 349,366	\$ 7,997	\$ (1,612)	\$ 635,704	
Stock-based compensation expense			4,429				4,429	
Excess tax benefit (deficiency) from stock-based compensation			(30)				(30)	
Net vesting (forfeitures) of common stock and restricted stock under equity award plans	(78)	(1)	(221)			(199)	(421)	
Repurchase of common stock						(5,350)	(5,350)	
Retirement of treasury stock	(130)	(1)	(1,262)	(1,342)		2,605		
Comprehensive income (loss)				35,288	(19,310)		15,978	
Balance at September 30, 2014	43,789	\$ 438	\$ 282,429	\$ 383,312	\$ (11,313)	\$ (4,556)	\$ 650,310	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 35,288	\$ 26,260
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	34,832	31,620
Amortization of intangibles	10,907	11,171
Amortization of deferred grants	(1,082)	(859)
Unrealized foreign currency transaction (gains) losses, net	(1,257)	4,496
Stock-based compensation expense	4,429	3,581
Deferred income tax provision (benefit)	2,224	(801)
Net (gain) loss on disposal of property and equipment	195	60
Bad debt expense (reversals)	(490)	398
Unrealized (gains) losses on financial instruments, net	2,416	201
Amortization of deferred loan fees	194	194
Other	(546)	74
Changes in assets and liabilities:		
Receivables		