

SYKES ENTERPRISES INC

Form 10-K

March 14, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For the fiscal year ended December 31, 2005**
Or

**Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For The Transition Period From _____ To _____
Commission File Number 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 N. Ashley Drive, Tampa, Florida
(Address of principal executive offices)

33602
(Zip Code)

(813) 274-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

Voting Common Stock \$.01 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated
filer

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

Yes No

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant computed by reference to the closing sales price of such shares on the NASDAQ National Market on June 30, 2005, the last

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business day of the Registrant's most recently completed second fiscal quarter, was \$372,470,379.

As of February 24, 2006, there were 39,389,513 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

| | |
|--|----------------------|
| Documents | Form 10-K Reference |
| Portions of the Proxy Statement for the year 2006 Annual Meeting of Shareholders | Part III Items 10-14 |

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PART I

Item 1. Business

General

Sykes Enterprises, Incorporated and consolidated subsidiaries (SYKES, our, us or we) is a global leader in providing outsourced customer contact management solutions and services in the business process outsourcing (BPO) arena. We provide an array of sophisticated customer contact management solutions to a wide range of clients including Fortune 1000 companies, medium sized businesses, and public institutions around the world, primarily in the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, India and the Asia Pacific Rim) and EMEA (Europe, Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact outsourcing 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 our client s customers. These services are delivered through multiple communications channels including phone, e-mail, Web and chat. We also provide various enterprise support services in the United States 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, inventory control, product delivery and product returns handling. Our complete service offering helps our clients acquire, retain and increase the value of their customer relationships. We have developed an extensive global reach with state-of-the-art customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia and Africa. SYKES delivers cost-effective solutions that enhance the customer service experience, promote stronger brand loyalty, and bring about high levels of performance and profitability.

SYKES was founded in 1977 in North Carolina and we moved our headquarters to Florida in 1993. In March 1996, we changed our state of incorporation from North Carolina to Florida. Our headquarters are located at 400 North Ashley Drive, 28th Floor, Tampa, Florida 33602, and our telephone number is (813) 274-1000.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as our proxy statements and other materials which are filed with or furnished to the Securities and Exchange Commission (SEC) are made available, free of charge, on or through our Internet website at www.sykes.com/investors.asp under the heading Financial Reports SEC Filings, as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

Industry Overview

According to industry analysts at Datamonitor, the outsourced customer contact management solutions market was estimated for the U.S., Western Europe and the rest of the world to be approximately \$15 billion, \$6 billion and \$3 billion in 2005, respectively. Also, the five primary verticals in which we participate communications, technology/consumer, financial services, healthcare and transportation and leisure constitute approximately 80% of the total worldwide market. We believe that growth for outsourced customer contact management solutions and services will be fueled by the trend of global Fortune 1000 companies and medium sized businesses turning to outsourcers to provide high quality, cost-effective, value added customer contact management solutions. Increasingly they are moving toward integrated solutions that consist of a combination of support from core markets in the United States, Canada and Europe and offshore markets in the Asia Pacific Rim and Latin America.

In today s ever-changing marketplace, companies require innovative customer contact management solutions that allow them to enhance the end user s experience with their products and services, strengthen and enhance their company brands, maximize the lifetime value of their customers, turn cost centers into profit centers, efficiently and effectively deliver human interaction when customers value it most, and deploy best in-class customer management strategies, processes and technologies.

Global competition, pricing pressures, softness in the global economy and rapid changes in technology are making it increasingly difficult for companies to cost effectively maintain the in-house personnel necessary to handle all their customer contact management needs. As a result, companies are increasingly turning to outsourcers to perform specialized functions and services in the customer contact management arena. By working in a

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partnership with outsourcers, companies can ensure that the crucial task of retaining and growing their customer base is addressed.

Companies outsource customer contact management solutions for various reasons, including the need to focus on core competencies, to drive service excellence and execution, to achieve cost savings, to scale and grow geographies and niche markets and to efficiently allocate capital within their organizations.

To address these needs, SYKES offers full, global customer contact management solutions that focus on proactively identifying and solving our clients' business challenges. We provide consistent high-value support for our clients' customers across the globe in a multitude of languages, leveraging our dynamic, secure communications infrastructure and our global footprint that reaches across 17 countries. This global footprint includes established operations in both onshore and offshore geographic markets where companies have access to high quality customer contact management solutions at lower costs compared to other markets.

Business Strategy

Our goal is to provide enhanced customer contact management solutions and services in a proactive and responsive manner, acting as a partner in our clients' business. We anticipate trends and deliver new ways of growing clients' customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions.

Our business strategy encompasses building long-term client relationships, capitalizing on our expert worldwide response team, leveraging our depth of relevant experience and expanding both organically and through acquisitions. The principles of this strategy include the following:

Build Long-term Client Relationships Through Service Excellence. We believe that providing high-value, high-quality service is critical in our clients' decisions to outsource and in building long-term relationships with our clients. To ensure service excellence and consistency across each of our centers globally, we implemented an internally developed quality program titled SYKES Standard of Excellence (SSE). This quality certification standard is a compilation of more than 25 years of experience and best practices from industry standards such as the Malcolm Baldrige National Quality Award and COPC (Customer Operations Performance Center Inc.) along with our standard operating procedures. Every customer contact management center strives to meet or exceed the criteria set forth by SSE, which address leadership, hiring and training, performance management down to the agent level, forecasting and scheduling, and the client relationship including continuous improvement, disaster recovery plans and feedback.

Capitalize on an Expert Worldwide Response Team. Companies are demanding a customer contact management solution that is global in nature—one of our key strengths. In addition to our network of customer contact management centers throughout North America and Europe, we continue to develop our global delivery model with operations in the Philippines, The Peoples Republic of China, Costa Rica and El Salvador, offering our clients a secure, high quality solution tailored to the needs of their diverse and global markets. We continued to expand our global footprint, adding centers in El Salvador in 2004 and Slovakia in 2005.

Maintain a Competitive Advantage Through Our Depth of Relevant Experience in Technology Solutions. For more than 25 years, SYKES has been an innovative pioneer in delivering customer contact management solutions. We seek to maintain a competitive advantage and differentiation by utilizing technology in new and creative ways to consistently deliver innovative service solutions, ultimately enhancing the client's relationship with its customers and generating revenue growth. This includes knowledge solutions for agents and end customers, automatic call distributors, intelligent call routing and workforce management capabilities based on agent skill and availability, call tracking software, quality management systems and computer-telephony integration (CTI). CTI enables our customer contact management centers to serve as transparent extensions for our clients, receive telephone calls and data directly from our clients' systems, and report detailed information concerning the status and results of our services on a daily basis.

Through strategic technology relationships, we are able to provide fully integrated communication services encompassing e-mail, chat and Web self-service platforms. In addition, the European deployment of Global Direct, our customer relationship management (CRM)/e-commerce application utilized within the fulfillment operations, establishes a platform whereby our clients can manage all customer profile and contact information from every communication channel, making it a viable customer-facing infrastructure solution to support their CRM initiatives.

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We are also continuing to capitalize on sophisticated and specialized technological capabilities, including our current private ATM network that provides us the ability to manage call volumes more efficiently by load balancing calls and data between customer contact management centers over the same network. Our converged voice and data ATM communications network provides a high-quality, fault tolerant global network for the transport of Voice Over Internet Protocol communications and fully integrates with emergent Internet Protocol telephony systems as well as traditional Time Domain Multiplexing telephony systems. Our flexible, secure and scalable network infrastructure allows us to rapidly respond to changes in client voice and data traffic and quickly establish support operations for new and existing clients.

Continue to Grow Our Business Organically and through Acquisitions. We have grown our customer contact management outsourcing operations utilizing a strategy of both internal organic growth and external acquisitions. This strategy has resulted in an increase from three U.S. customer contact management centers in 1994 to 37 customer contact management centers worldwide as of the end of 2005. Given the fragmented nature of the customer contact management industry, there may be other companies that could bring us certain complementary competencies. Acquisition candidates that can, among other competencies, expand our service offerings, broaden our geographic footprint, allow us access to new technology and are synergistic in nature, will be given consideration. We have and will continue to explore these options upon identification of strategic opportunities.

Growth Strategy

Applying the key principles of our business strategy, we execute our growth strategy by focusing on increasing our share of seats within existing clients, targeting new clients and establishing a foothold in emerging markets.

Increasing Share of Seats within Existing Clients. We provide customer contact management support to over 100 multinational companies. With this client list, we have the opportunity to grow our share of SYKES' client base. We strive to achieve this by winning a greater share of our clients' in-house seats as well as gain share from our competitors through continued solid quality performance and service enhancements such as data mining and analytics and process improvements—all of which are built around and complement our core service offering.

Targeting New Clients. We leverage our operational success by expanding into complementary business lines of new clients within our targeted verticals: communications, financial services and healthcare. For instance, we have successfully leveraged our Digital Subscriber Line (DSL) expertise within the communications vertical to penetrate the cable broadband space. Building on that success, we anticipate growing revenue further using similar strategies to penetrate other subsets of these targeted verticals, like communications, financial services and healthcare.

Establishing a Foothold in Emerging Markets. As part of our growth strategy, we use SYKES' delivery model to service core markets in the United States, Canada and Europe. The U.S., for instance, is a core market which is partly served by offshore customer contact management centers across the Asia Pacific Rim and Latin America regions. As countries in these regions experience rising living standards due to globalization, we are poised to leverage our centers to serve the emerging markets in these regions.

Services

We specialize in providing inbound outsourced customer contact management solutions in the BPO arena on a global basis. Our customer contact management services are provided through two operating segments—the Americas and EMEA. The Americas region, representing 64.3% of consolidated revenues in 2005, includes the United States, Canada, Latin America and the Asia Pacific Rim. The sites within Latin America and the Asia Pacific Rim are included in the Americas region as they provide a significant service delivery vehicle for U.S. based companies that are utilizing our customer contact management solutions in these locations to support their customer care needs. The EMEA region, representing 35.7% of consolidated revenues in 2005, includes Europe, the Middle East and Africa. For further information about segments, see Note 20, Segments and Geographic Information, to the Consolidated Financial Statements. The following is a description of our customer contact management solutions:

Outsourced Customer Contact Management Services. Our outsourced customer contact management services represented approximately 94.6% of total 2005 consolidated revenues. Every year, we handle over 100 million customer contacts including phone, e-mail, Web and chat throughout the Americas and EMEA regions. We provide these services utilizing our advanced technology infrastructure, human resource management skills and industry experience. These services include:

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§ Customer care Customer care contacts primarily include product information requests, describing product features, activating customer accounts, resolving complaints, handling billing inquiries, changing addresses, claims handling, ordering/reservations, prequalification and warranty management, providing health information and roadside assistance;

§ Technical support Technical support contacts primarily include handling inquiries regarding hardware, software, communications services, communications equipment, Internet access technology and Internet portal usage; and

§ Acquisition Our acquisition services are primarily focused on inbound up-selling/cross-selling of our client's products and services.

We provide these services, primarily inbound customer calls, through our extensive global network of customer contact management centers, where our customer contact agents provide support in a multitude of languages. Our technology infrastructure and managed service solutions allow for effective distribution of calls to one or more centers. These technology offerings provide our clients and us with the leading edge tools needed to maximize quality and customer satisfaction while controlling and minimizing costs.

Fulfillment Services. In Europe, we offer fulfillment services that are fully integrated with our customer care and technical support services. Our fulfillment solutions include multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery and product returns handling.

Enterprise Support Services. In the United States, we provide a range of enterprise support services including technical staffing services and outsourced corporate help desk solutions.

Operations

Customer Contact Management Centers. We operate eighteen stand-alone customer contact management centers in Europe and South Africa, eight centers in the United States, two centers in Canada and nine centers offshore, including The Peoples Republic of China, the Philippines, Costa Rica and El Salvador.

In an effort to stay ahead of industry off-shoring trends, we opened our first customer contact management centers in the Philippines and Costa Rica over eight years ago. By 2005, we expanded to five centers in the Philippines, two in Costa Rica, one in The People's Republic of China, and one in El Salvador.

Due to shifts in business demand for offshore customer contact management centers, we closed several under-utilized customer contact management centers in the United States in 2004 and 2003. In addition, related to our efforts to reduce costs, we closed two centers in Europe and one center in the Middle East in 2004 and closed the center in India in 2005.

We utilize a sophisticated workforce management system to provide efficient scheduling of personnel. Our internally developed digital private communications network complements our workforce by allowing for effective call volume management and disaster recovery backup. Through this network and our dynamic intelligent call routing capabilities, we can rapidly respond to changes in client call volumes and move call volume traffic based on agent availability and skill throughout our network of centers, improving the responsiveness and productivity of our agents. We also can offer cost competitive solutions for taking calls to our offshore locations.

Our sophisticated data warehouse captures and downloads customer contact information for reporting on a daily, real time and historical basis. This data provides our clients with direct visibility into the services that we are providing for them. The data warehouse supplies information for our performance management systems such as our agent scorecarding application, which provides management with the information required for effective management of our operations.

Our customer contact management centers are protected by a fire extinguishing system, backup generators with significant capacity and 24 hour refueling contracts and short-term battery backups in the event of a power outage, reduced voltage or a power surge. Rerouting of call volumes to other customer contact management centers is also available in the event of a telecommunications failure, natural disaster or other emergency. Security measures are imposed to prevent unauthorized physical access. Software and related data files are backed up daily and stored off site at multiple locations. We carry business interruption insurance covering interruptions that might occur as a result of damage to our business.

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Fulfillment Centers. We currently have three fulfillment centers located in Europe. We provide our fulfillment services primarily to certain clients operating in Europe who desire this complementary service in connection with outsourced customer contact management services.

Enterprise Support Services Offices. Our two enterprise support services offices are located in metropolitan areas in the United States to provide a recruiting platform for high-end knowledge workers and to establish a local presence to service major accounts.

Quality Assurance

We believe that providing consistent high quality service is critical in our clients' decisions to outsource and in building long-term relationships with our clients. It is also our belief and commitment that quality is the responsibility of each individual at every level of the organization. To ensure service excellence and continuity across our organization, we have developed an integrated Quality Assurance program consisting of three major components:

- § The certification of client accounts and customer contact management centers to the SSE program;
- § The application of continuous improvement through application of our Data Analytics and Six Sigma techniques; and
- § The application of process audits to all work procedures.

The SSE program is a quality certification standard that was developed based on our more than 25 years of experience, and best practices from industry standards such as the COPC and Support Center Practices. It specifies the requirements that must be met in each of our customer contact management centers including measured performance against our standard operating procedures. It has a well-defined auditing process that ensures compliance with the SSE standards. Our focus is on quality, predictability and consistency over time, not just point in time certification.

The application of continuous improvement is established by SSE and is based upon the five-step Six Sigma cycle, which we have tuned to apply specifically to our service industry. All managers are responsible for continuous improvement in their operations.

Process audits are used to verify that processes and procedures are consistently executed as required by established documentation. Process audits are applicable to services being provided for the client and internal procedures.

Sales and Marketing

Our sales and marketing objective is to leverage our expertise and global presence to develop long-term relationships with existing and future clients. Our customer contact management solutions have been developed to help our clients acquire, retain, and increase the value of their customer relationships. Our plans for increasing our visibility include market focused advertising consultative personal visits with existing and potential clients, participation in market specific trade shows and seminars, speaking engagements, articles and white papers, and our website.

Our sales force is composed of business development managers who pursue new business opportunities and strategic account managers that manage and grow relationships with existing accounts. We emphasize account development to strengthen relationships with existing clients. Business development and strategic account managers are assigned to markets in their area of expertise in order to develop a complete understanding of each client's particular needs, to form strong client relationships and encourage cross-selling of our other service offerings. We have inside customer sales representatives who receive customer inquiries and provide outbound lead generation for the business development managers. We also have relationships with channel partners including systems integrators, software and hardware vendors and value-added resellers, where we pair our solutions and services with their product offering or focus. We plan to maintain and expand these relationships as part of our sales and marketing strategy.

As part of our marketing efforts, we invite existing and potential clients to visit our customer contact management centers, where we can demonstrate the expertise of our skilled staff in partnering to deliver new ways of growing clients' customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions. During

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these visits, we demonstrate our ability to quickly and effectively support a new client or scale business from an existing client by emphasizing our systematic approach to implementing customer contact solutions throughout the world.

Clients

In 2005, we provided service to hundreds of clients from our locations in the United States, Canada, Latin America, Europe, the Philippines, The Peoples Republic of China, India and South Africa. These clients are Fortune 1000 corporations, medium sized businesses and public institutions, which span the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. Revenue by vertical market for 2005, as a percentage of our consolidated revenues, was 34% for technology/consumer, 34% for communications, 8% for financial services, 8% for healthcare, 6% for transportation and leisure, and 10% for all other vertical markets, including government-related and utilities. We believe our globally recognized client base presents opportunities for further cross marketing of our services.

For the years ended December 31, 2005, 2004 and 2003 total revenues included \$31.4 million, or 6.4% of consolidated revenues, \$36.6 million, or 7.8% of consolidated revenues, and \$81.2 million, or 16.9% of consolidated revenues, respectively, from Accenture, a leading systems integrator that represents a major provider of communication services to whom we provide various outsourced customer contact management services. Effective May 1, 2003, we entered into a subcontractor services agreement (the Agreement) with Accenture following the execution of a primary services agreement between the major provider of communication services and Accenture. Under the terms of this three-year Agreement, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, we provide the products and services necessary to support and assist Accenture in the management and performance of its primary services agreement. We expect to renew this Agreement before it expires on April 30, 2006.

In addition, for the years ended December 31, 2005, 2004 and 2003, total revenues included \$27.3 million, or 5.5% of consolidated revenues, \$33.8 million, or 7.3% of consolidated revenues, and \$58.5 million, or 12.2% of consolidated revenues, respectively, from Microsoft Corporation, a major provider of software and related services.

Although no client represented 10% or more of 2005 consolidated revenues, our top ten clients accounted for approximately 44% of our consolidated revenues in 2005. The loss of (or the failure to retain a significant amount of business with) Accenture, Microsoft or any of our other key clients 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.

Competition

The industry in which we operate is global, therefore highly fragmented and extremely competitive. While many companies provide customer contact management solutions and services, we believe no one company is dominant in the industry.

In most cases, our principal competition stems from our existing and potential clients' in-house customer contact management operations. When it is not the in-house operations of a client, our public and private direct competition includes TeleTech, Sitel, APAC Customer Services, ICT Group, Client Logic, Convergys, West Corporation, Stream, PeopleSupport, EDS, IBM and NCO Group as well as the customer care arm of such companies as Accenture, WIPRO, 24/7, Infosys and SR Teleperformance. There are other numerous and varied providers of such services, including firms specializing in various CRM consulting, other customer management solutions providers' niche or large market companies, as well as product distribution companies that provide fulfillment services. Some of these companies possess substantially greater resources, greater name recognition and a more established customer base than we.

We believe that the most significant competitive factors in the sale of outsourced customer contact management services include service quality, tailored value added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security and price. As a result of intense competition, outsourced customer contact management solutions and services frequently are subject to pricing pressure. Clients also require outsourcers to be able to provide services in multiple locations. Competition for contracts for many of our services

takes the form of competitive bidding in response to requests for proposals.

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We rely upon a combination of contract provisions and trade secret laws to protect the proprietary technology we use at our customer contact management centers and facilities. We also rely on a combination of copyright, trademark and trade secret laws to protect our proprietary software. We attempt to further protect our trade secrets and other proprietary information through agreements with employees and consultants. We do not hold any patents and do not have any patent applications pending. There can be no assurance that the steps we have taken to protect our proprietary technology will be adequate to deter misappropriation of our proprietary rights or third-party development of similar proprietary software. Sykes[®], REAL PEOPLE. REAL SOLUTIONS.[®] and Sykes AnswerTeam[®] are our registered service marks. We hold a number of registered trademarks, including ETSC[®], FS PRO[®] and FS PRO MARKETPLACE[®].

Employees

At January 31, 2006, we had approximately 18,900 employees worldwide, consisting of 17,140 customer contact agents handling technical and customer support inquiries at our centers, 1,540 in management, administration, finance and sales and marketing, 100 in enterprise support services, and 120 in fulfillment services. Our employees, with the exception of approximately 550 employees in Europe, are not represented by a labor union and we have never suffered an interruption of business as a result of a labor dispute. We consider our relations with our employees to be good.

We employ personnel through a continually updated recruiting network. This network includes a seasoned team of recruiters, a company-wide candidate database, Internet/newspaper advertising, candidate referral programs and job fairs. However, demand for qualified professionals with the required language and technical skills may exceed supply, as new skills are needed to keep pace with the requirements of customer engagements. Competition for such personnel is intense and employee turnover in this industry is high.

Executive Officers

The following table provides the names and ages of our executive officers, and the positions and offices currently held by each of them:

| Name | Age | Principal Position |
|---------------------|------------|---|
| Charles E. Sykes | 42 | President and Chief Executive Officer |
| W. Michael Kipphut | 52 | Senior Vice President and Chief Financial Officer |
| James C. Hobby | 55 | Senior Vice President, Global Operations |
| Jenna R. Nelson | 42 | Senior Vice President, Human Resources |
| Daniel L. Hernandez | 39 | Senior Vice President, Global Strategy |
| David L. Pearson | 47 | Senior Vice President and Chief Information Officer |
| Lawrence R. Zingale | 50 | Senior Vice President, Global Sales and Client Management |
| William N. Rocktoff | 43 | Vice President and Corporate Controller |
| James T. Holder | 47 | Vice President, General Counsel and Corporate Secretary |

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Charles E. Sykes joined SYKES in 1986 and was named President and Chief Executive Officer in August 2004. From July 2003 to August 2004, Mr. Sykes was the Chief Operating Officer. From March 2000 to June 2001, Mr. Sykes was Senior Vice President, Marketing and in June 2001 he was appointed to the position of General Manager, Senior Vice President the Americas. From December 1996 to March 2000, he served as Vice President, Sales and held the position of Regional Manager of the Midwest Region for Professional Services from 1992 until 1996. Mr. Charles E. Sykes is the son of Mr. John H. Sykes.

W. Michael Kipphut, C.P.A., joined SYKES in March 2000 as Vice President and Chief Financial Officer and was named Senior Vice President and Chief Financial officer in June 2001. From September 1998 to February 2000, Mr. Kipphut held the position of Vice President and Chief Financial Officer for USA Floral Products, Inc., a publicly held worldwide perishable products distributor. From September 1994 until September 1998, Mr. Kipphut held the position of Vice President and Treasurer for Spalding & Evenflo Companies, Inc., a global manufacturer of consumer products. Previously, Mr. Kipphut held various financial positions including Vice President and Treasurer in his 17 years at Tyler Corporation, a publicly held diversified holding company.

James C. Hobby joined SYKES in August 2003 as Senior Vice President, the Americas, overseeing the daily operations, administration and development of SYKES customer care and enterprise support operations throughout North America, Latin America, the Asia Pacific Rim and India and was named Senior Vice President, Global Operations in January 2005. Prior to joining SYKES, Mr. Hobby held several positions at Gateway, Inc., most recently serving as President of Consumer Customer Care since August 1999. From January 1999 to August 1999, Mr. Hobby served as Vice President of European Customer Care for Gateway, Inc. From January 1996 to January 1999, Mr. Hobby served as the Vice President of European Customer Service Centers at American Express. Prior to January 1996, Mr. Hobby held various senior management positions in customer care at FedEx Corporation since 1983, mostly recently serving as Managing Director, European Customer Service Operations.

Jenna R. Nelson joined SYKES in August 1993 and was named Senior Vice President, Human Resources in July 2001. From January 2001 until July 2001, Ms. Nelson held the position of Vice President, Human Resources. In August 1998, Ms. Nelson was appointed Vice President, Human Resources and held the position of Director, Human Resources and Administration from August 1996 to July 1998. From August 1993 until July 1996, Ms. Nelson served in various management positions within SYKES, including Director of Administration.

Daniel L. Hernandez joined SYKES in October 2003 as Senior Vice President, Global Strategy overseeing marketing, public relations, operational strategy and corporate development efforts worldwide. Prior to joining SYKES, Mr. Hernandez served as President and CEO of SBC Internet Services, a division of SBC Communications Inc., since March 2000. From February 1998 to March 2000, Mr. Hernandez held the position of Vice President/General Manager, Internet and System Operations at Ameritech Interactive Media Services. Prior to February 1998, Mr. Hernandez held various management positions at U S West Communications since joining the telecommunications provider in 1990.

David L. Pearson joined SYKES in February 1997 as Vice President, Engineering and was named Vice President, Technology Systems Management in 2000 and Senior Vice President and Chief Information Officer in August 2004. Prior to SYKES, Mr. Pearson held various engineering and technical management roles over a fifteen year period, including eight years at Compaq Computer Corporation and five years at Texas Instruments.

Lawrence R. Zingale joined SYKES in January 2006 as Senior Vice President, Global Sales and Client Management. Prior to joining SYKES, Mr. Zingale served as Executive Vice President and Chief Operating Officer of Startek, Inc. since 2002. From December 1999 until November 2001, Mr. Zingale served as President of the Americas at Stonehenge Telecom, Inc. From May 1997 until November 1999, Mr. Zingale served as President and COO of International Community Marketing. From February 1980 until May 1997, Mr. Zingale held various senior level positions at AT&T.

William N. Rocktoff, C.P.A., joined SYKES in August 1997 as Corporate Controller and was named Treasurer and Corporate Controller in December 1999 and Vice President and Corporate Controller in March 2002. From November 1989 to August 1997, Mr. Rocktoff held various financial positions, including Corporate Controller at Kimmins Corporation, a publicly held contracting company.

James T. Holder, J.D., C.P.A. joined SYKES in December 2000 as General Counsel and was named Corporate Secretary in January 2001 and Vice President in January 2004. From November 1999 until November 2000, Mr. Holder served in a consulting capacity as Special Counsel to Checkers Drive-In Restaurants, Inc., a publicly held

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restaurant operator and franchisor. From November 1993 until November 1999, Mr. Holder served in various capacities at Checkers including Corporate Secretary, Chief Financial Officer and Senior Vice President and General Counsel.

Item 1A. Risk Factors**Factors Influencing Future Results and Accuracy of Forward Looking Statements**

This report contains 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 us, 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 may, expects, projects, anticipates, intends, plans, believes, estimates, 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 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: the marketplace's continued receptivity to our terms and elements of services offered under our standardized contract for future bundled service offerings; our ability to continue the growth of our service revenues through additional customer contact management centers; our ability to further penetrate into vertically integrated markets; our ability to expand revenues within the global markets; our ability to continue to establish a competitive advantage through sophisticated technological capabilities, and the following risk factors:

Dependence on Key Clients

We derive a substantial portion of our revenues from a few key clients. For the years ended December 31, 2005, 2004 and 2003, total revenues included \$31.4 million, or 6.4% of consolidated revenues, \$36.6 million, or 7.8% of consolidated revenues, and \$81.2 million, or 16.9% of consolidated revenues, respectively, from Accenture, a leading systems integrator that represents a major provider of communication services to whom we provide various outsourced customer contact management services. Effective May 1, 2003, we entered into a subcontractor services agreement (the Agreement) with Accenture following the execution of a primary services agreement between the major provider of communication services and Accenture. Under the terms of this three-year Agreement, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, we will continue to provide the products and services necessary to support and assist Accenture in the management and performance of its primary services agreement. We expect to renew this agreement before it expires on April 30, 2006.

In addition, total revenue for the years ended December 31, 2005, 2004 and 2003, includes \$27.3 million, or 5.5% of consolidated revenues, \$33.8 million, or 7.3% of consolidated revenues, and \$58.5 million, or 12.2% of consolidated revenues, respectively, from Microsoft Corporation, a major provider of software and related services. Our top ten clients accounted for approximately 44%, 45% and 59%, of consolidated revenue for the years ended December 31, 2005, 2004, and 2003, respectively.

Our loss of, or the failure to retain a significant amount of business with Accenture, Microsoft or any of our other key clients could have a material adverse effect on our business, financial condition and results of operations. 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-term notice. Also, clients may unilaterally reduce their use of our services under these contracts without penalty. Thus, our contracts with our clients do not ensure that we will generate a minimum level of revenues.

Table of Contents***Risks Associated With International Operations and Expansion***

We intend to continue to pursue growth opportunities in markets outside the United States. At December 31, 2005, our international operations in EMEA and the Asia Pacific Rim were conducted from 24 customer contact management centers located in Sweden, the Netherlands, Finland, Germany, South Africa, Scotland, Ireland, Italy, Hungary, Slovakia, Spain, The Peoples Republic of China and the Philippines. Revenues from these operations for the years ended December 31, 2005, 2004, and 2003, were 57%, 59%, and 44% of consolidated revenues, respectively. We also conduct business from five customer contact management centers located in Canada, Costa Rica and El Salvador. International operations are subject to certain risks common to international activities, such as changes in foreign governmental regulations, tariffs and taxes, import/export license requirements, the imposition of trade barriers, difficulties in staffing and managing international operations, political uncertainties, longer payment cycles, foreign exchange restrictions that could limit the repatriation of earnings, possible greater difficulties in accounts receivable collection, and economic instability. Additionally, we have been granted tax holidays in the Philippines, El Salvador, India and Costa Rica, which expire at varying dates from 2006 through 2013. 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 renew them. This could potentially result in adverse tax consequences. Any one or more of these factors could have an adverse effect on our international operations and, consequently, on our business, financial condition and results of operations.

As of December 31, 2005, we had cash balances of approximately \$86.3 million held in international operations, which may be subject to additional taxes if repatriated to the United States.

We conduct business in various foreign currencies and are therefore exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact our results of operations and financial condition. We are also subject to certain exposures arising from the translation and consolidation of the financial results of our foreign subsidiaries. We have, from time to time, taken limited actions, such as using foreign currency forward contracts, to attempt to mitigate our currency exchange exposure. However, there can be no assurance that we will take any actions to mitigate such exposure in the future, and if taken, that such actions will be successful or that future changes in currency exchange rates will not have a material impact on our future operating results. A significant change in the value of the dollar against the currency of one or more countries where we operate may have a material adverse effect on our results.

Fundamental Shift Toward Global Service Delivery Markets

Clients are increasingly requiring blended delivery models using a combination of onshore and offshore support. Our offshore delivery locations include The Peoples Republic of China, the Philippines, Costa Rica and El Salvador, and while we have operated in global delivery markets since 1996, there can be no assurance that we will be able to successfully conduct and expand such operations, and a failure to do so could have a material adverse effect on our business, financial condition, and results of operations. The success of our offshore operations will be subject to numerous contingencies, some of which are beyond our control, including general and regional economic conditions, prices for our services, competition, changes in regulation and other risks. In addition, as with all of our operations outside of the United States, we are subject to various additional political, economic, and market uncertainties (See *Risks Associated with International Operations and Expansion.*). Additionally, a change in the political environment in the United States or the adoption and enforcement of legislation and regulations curbing the use of offshore customer contact management solutions and services could effectively have a material adverse effect on our business, financial condition and results of operations.

Existence of Substantial Competition

The markets for our services on a commoditized basis are highly competitive and subject to rapid change. While many companies provide outsourced customer contact management services, we believe no one company is dominant in the industry. There are numerous and varied providers of our services, including firms specializing in call center operations, temporary staffing and personnel placement, consulting and integration firms, and niche providers of outsourced customer contact management services, many of whom compete in only certain markets. Our competitors include both companies who possess greater resources and name recognition than we do, as well as small niche providers that have few assets and regionalized (local) name recognition instead of global name recognition. In

addition to our competitors, many companies who might utilize our services or the services of one of our competitors may utilize in-house personnel to perform such services. Increased competition, our failure to compete successfully, pricing pressures, loss of market share and loss of clients could have a material adverse effect

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on our business, financial condition and results of operations.

Many of our large clients purchase outsourced customer contact management services from multiple preferred vendors. We have experienced and continue to anticipate significant pricing pressure from these clients in order to remain a preferred vendor. These companies also require vendors to be able to provide services in multiple locations. Although we believe we can effectively meet our clients' demands, there can be no assurance that we will be able to compete effectively with other outsourced customer contact management services companies on price. We believe that the most significant competitive factors in the sale of our core services include the standard requirements of service quality, tailored value added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security and price.

Inability to Attract and Retain Experienced Personnel May Adversely Impact Our Business

Our business is labor intensive and places significant importance on our ability to recruit, train, and retain qualified technical and consultative professional personnel. We generally experience high turnover of our personnel and are continuously required to recruit and train replacement personnel as a result of a changing and expanding work force. Additionally, demand for qualified technical professionals conversant with the English language and/or certain technologies may exceed supply, as new and additional skills are required to keep pace with evolving computer technology. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain qualified personnel or an increase in wages or other costs of attracting, training, or retaining qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Senior Management

Our success is largely dependent upon the efforts, direction and guidance of our senior management. Our growth and success also depend in part on our ability to attract and retain skilled employees and managers and on the ability of our executive officers and key employees to manage our operations successfully. We have entered into employment and non-competition agreements with our executive officers. The loss of any of our senior management or key personnel, or the inability to attract, retain or replace key management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Trend Toward Outsourcing

Our business and growth depend in large part on the industry trend toward outsourced customer contact management services. Outsourcing means that an entity contracts with a third party, such as us, to provide customer contact services rather than perform such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services themselves. A significant change in this trend could have a material adverse effect on our business, financial condition and results of operations. Additionally, there can be no assurance that our cross-selling efforts will cause clients to purchase additional services from us or adopt a single-source outsourcing approach.

Our Strategy of Growing Through Selective Acquisitions and Mergers Involves Potential Risks

We evaluate opportunities to expand the scope of our services through acquisitions and mergers. We may be unable to identify companies that complement our strategies, and even if we identify a company that complements our strategies, we may be unable to acquire or merge with the company. In addition, a decrease in the price of our common stock could hinder our growth strategy by limiting growth through acquisitions funded with SYKES' stock.

Our acquisition strategy involves other potential risks. These risks include:

- § The inability to obtain the capital required to finance potential acquisitions on satisfactory terms;
- § The diversion of our attention to the integration of the businesses to be acquired;
- § The risk that the acquired businesses will fail to maintain the quality of services that we have historically provided;
- § The need to implement financial and other systems and add management resources;
- § The risk that key employees of the acquired business will leave after the acquisition;

§ Potential liabilities of the acquired business;

§ Unforeseen difficulties in the acquired operations;

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- § Adverse short-term effects on our operating results;
- § Lack of success in assimilating or integrating the operations of acquired businesses within our business;
- § The dilutive effect of the issuance of additional equity securities;
- § The impairment of goodwill and other intangible assets involved in any acquisitions;
- § The businesses we acquire not proving profitable; and
- § Potentially incurring additional indebtedness.

Uncertainties Relating to Future Litigation

We cannot predict whether any material suits, claims, or investigations may arise in the future. Regardless of the outcome of any future actions, claims, or investigations, we may incur substantial defense costs and such actions may cause a diversion of management time and attention. Also, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition and results of operations.

Rapid Technological Change

Rapid technological advances, frequent new product introductions and enhancements, and changes in client requirements characterize the market for outsourced customer contact management services. Our future success will depend in large part on our ability to service new products, platforms and rapidly changing technology. These factors will require us to provide adequately trained personnel to address the increasingly sophisticated, complex and evolving needs of our clients. In addition, our ability to capitalize on our acquisitions will depend on our ability to continually enhance software and services and adapt such software to new hardware and operating system requirements. Any failure by us to anticipate or respond rapidly to technological advances, new products and enhancements, or changes in client requirements could have a material adverse effect on our business, financial condition and results of operations.

Reliance on Technology and Computer Systems

We have invested significantly in sophisticated and specialized communications and computer technology and have focused on the application of this technology to meet our clients' needs. We anticipate that it will be necessary to continue to invest in and develop new and enhanced technology on a timely basis to maintain our competitiveness. Significant capital expenditures may be required to keep our technology up-to-date. There can be no assurance that any of our information systems will be adequate to meet our future needs or that we will be able to incorporate new technology to enhance and develop our existing services. Moreover, investments in technology, including future investments in upgrades and enhancements to software, may not necessarily maintain our competitiveness. Our future success will also depend in part on our ability to anticipate and develop information technology solutions that keep pace with evolving industry standards and changing client demands.

Risk of Emergency Interruption of Customer Contact Management Center Operations

Our operations are dependent upon our ability to protect our customer contact management centers and our information databases against damage that may be caused by fire and other disasters, power failure, telecommunications failures, unauthorized intrusion, computer viruses and other emergencies. The temporary or permanent loss of such systems could have a material adverse effect on our business, financial condition and results of operations. Notwithstanding precautions taken to protect us and our clients from events that could interrupt delivery of services, there can be no assurance that a fire, natural disaster, human error, equipment malfunction or inadequacy, or other event would not result in a prolonged interruption in our ability to provide services to our clients. Such an event could have a material adverse effect on our business, financial condition and results of operations.

Control By Principal Shareholder and Anti-Takeover Considerations

As of February 24, 2006, John H. Sykes, our founder and former Chairman of the Board and Chief Executive Officer, beneficially owned approximately 28.3% of our outstanding common stock. As a result, Mr. Sykes will have

substantial influence in the election of our directors and in determining the outcome of other matters requiring shareholder approval.

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Our Board of Directors is divided into three classes serving staggered three-year terms. The staggered Board of Directors and the anti-takeover effects of certain provisions contained in the Florida Business Corporation Act and in our Articles of Incorporation and Bylaws, including the ability of the Board of Directors to issue shares of preferred stock and to fix the rights and preferences of those shares without shareholder approval, may have the effect of delaying, deferring or preventing an unsolicited change in control. This may adversely affect the market price of our common stock or the ability of shareholders to participate in a transaction in which they might otherwise receive a premium for their shares.

Volatility of Stock Price May Result in Loss of Investment

The trading price of our common stock has been and may continue to be subject to wide fluctuations over short and long periods of time. We believe that market prices of outsourced customer contact management services stocks in general have experienced volatility, which could affect the market price of our common stock regardless of our financial results or performance. We further believe that various factors such as general economic conditions, changes or volatility in the financial markets, changing market conditions in the outsourced customer contact management services industry, quarterly variations in our financial results, the announcement of acquisitions, strategic partnerships, or new product offerings, and changes in financial estimates and recommendations by securities analysts could cause the market price of our common stock to fluctuate substantially in the future.

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the year ended December 31, 2005 relating to our periodic or current reports under the Securities Exchange Act of 1934.

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Our principal executive offices are located in Tampa, Florida. This facility currently serves as the headquarters for senior management and the financial, information technology and administrative departments. We believe our existing facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any physical expansion. We operate from time to time in temporary facilities to accommodate growth before new customer contact management centers are available. During 2005, the Company's customer contact management centers, taken as a whole, were utilized at average capacities of approximately 83% and were capable of supporting a higher level of market demand. The following table sets forth additional information concerning our facilities:

| Properties | General Usage | Square Feet | Lease Expiration |
|-------------------------------------|---|--------------------|-------------------------|
| <i>AMERICAS LOCATIONS</i> | | | |
| Tampa, Florida | Corporate headquarters | 67,600 | June 2010 |
| Bismarck, North Dakota | Customer contact management center | 42,000 | Company owned |
| Wise, Virginia | Customer contact management center | 42,000 | Company owned |
| Milton-Freewater, Oregon | Customer contact management center | 42,000 | Company owned |
| Morganfield, Kentucky | Customer contact management center | 42,000 | Company owned |
| Perry County, Kentucky | Customer contact management center ⁽¹⁾ | 42,000 | Company owned |
| Minot, North Dakota | Customer contact management center | 42,000 | Company owned |
| Ponca City, Oklahoma | Customer contact management center | 42,000 | Company owned |
| Sterling, Colorado | Customer contact management center | 34,000 | Company owned |
| London, Ontario, Canada | Customer contact management center/Headquarters | 50,000 | Company owned |
| LaAurora, Heredia, Costa Rica (two) | Customer contact management centers | 131,900 | September 2023 |
| San Salvador, El Salvador | Customer contact management center | 41,000 | November 2023 |
| Toronto, Ontario, Canada | Customer contact management center | 14,600 | December 2006 |
| North Bay, Ontario, Canada | Customer contact management center ⁽²⁾ | 5,600 | September 2006 |
| Sudbury, Ontario, Canada | Customer contact management center ⁽²⁾ | 2,000 | December 2007 |
| Moncton, New Brunswick, Canada | Customer contact management center ⁽²⁾ | 12,700 | February 2009 |
| Barthuste, New Brunswick | Customer contact management center ⁽²⁾ | 1,900 | December 2007 |

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| | | | |
|---|------------------------------------|---------|---------------|
| Makati City, The Philippines | Customer contact management center | 101,300 | January 2009 |
| | | 136,900 | March 2023 |
| Mandaue City, The Philippines | Customer contact management center | 67,700 | February 2023 |
| Pasig City, The Philippines | Customer contact management center | 127,400 | December 2023 |
| Quezon City, The Philippines | Customer contact management center | 80,100 | May 2024 |
| Shanghai, The Peoples Republic of China | Customer contact management center | 103,000 | February 2011 |
| Bangalore, India | Technology development services | 1,500 | January 2007 |
| Ada, Oklahoma | Leased facility ⁽³⁾ | 42,000 | Company owned |
| Palatka, Florida | Leased facility ⁽³⁾ | 42,000 | Company owned |
| Manhattan, Kansas | Leased facility ⁽³⁾ | 42,000 | Company owned |
| Pikeville, Kentucky | Leased facility ⁽³⁾ | 42,000 | Company owned |
| Cary, North Carolina | Office | 1,200 | March 2007 |
| Chesterfield, Missouri | Office | 3,600 | January 2016 |
| Calgary, Alberta, Canada | Office | 4,700 | July 2007 |

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| Properties | General Usage | Square Feet | Lease Expiration |
|------------------------------|---|--------------------|-------------------------|
| <i>EMEA LOCATIONS</i> | | | |
| Amsterdam, The Netherlands | Customer contact management center | 33,000 | September 2009 |
| Budapest, Hungary | Customer contact management center | 24,000 | August 2023 |
| Budapest, Hungary | Customer contact management center | 15,700 | May 2006 |
| Miskolc, Hungary | Customer contact management center | 2,800 | December, 2006 |
| Edinburgh, Scotland | Customer contact management center/ Office /Headquarters | 35,900 | October 2019 |
| Turku, Finland | Customer contact management center | 17,800 | March 2008 |
| Bochum, Germany | Customer contact management center | 12,500 | February 2007 |
| Bochum, Germany | Customer contact management center | 43,200 | July 2006 |
| Pasewalk, Germany | Customer contact management center | 41,900 | March 2007 |
| Wilhelmshaven, Germany (two) | Customer contact management centers | 76,000 | March 2009 |
| Johannesburg, South Africa | Customer contact management center | 99,000 | March 2025 |
| Ed, Sweden | Customer contact management center | 44,000 | October 2009 |
| Sveg, Sweden | Customer contact management center | 35,000 | May 2006 |
| Prato, Italy | Customer contact management center | 10,000 | October 2022 |
| Shannon, Ireland | Customer contact management center | | |