

SYKES ENTERPRISES INC

Form 10-Q

May 05, 2015

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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 March 31, 2015**

**.. 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)
400 North Ashley Drive, Suite 2800, Tampa, FL 33602
(Address of principal executive offices) (Zip Code)

56-1383460
(IRS Employer
Identification No.)

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 April 23, 2015, there were 43,368,693 outstanding shares of common stock.

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Sykes Enterprises, Incorporated and Subsidiaries

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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)	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 214,064	\$ 215,137
Receivables, net	270,924	290,397
Prepaid expenses	14,740	14,896
Other current assets	41,765	29,656
Total current assets	541,493	550,086
Property and equipment, net	104,169	109,880
Goodwill, net	190,517	193,831
Intangibles, net	56,419	60,620
Deferred charges and other assets	26,486	30,083
	\$ 919,084	\$ 944,500
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,349	\$ 25,523
Accrued employee compensation and benefits	75,621	82,072
Current deferred income tax liabilities	249	144
Income taxes payable	4,401	3,662
Deferred revenue	28,702	34,245
Other accrued expenses and current liabilities	22,702	22,216
Total current liabilities	153,024	167,862
Deferred grants	4,988	5,110
Long-term debt	74,000	75,000
Long-term income tax liabilities	21,937	20,630
Other long-term liabilities	17,209	17,680
Total liabilities	271,158	286,282
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; 43,099 and 43,291 shares issued, respectively

	431	433
Additional paid-in capital	280,442	279,288
Retained earnings	416,153	400,514
Accumulated other comprehensive income (loss)	(42,390)	(20,561)
Treasury stock at cost: 358 and 132 shares, respectively	(6,710)	(1,456)

Total shareholders' equity	647,926	658,218
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	\$ 919,084	\$ 944,500
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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 March 31,	
	2015	2014
Revenues	\$ 323,685	\$ 324,429
Operating expenses:		
Direct salaries and related costs	213,927	221,625
General and administrative	72,727	73,377
Depreciation, net	11,059	11,298
Amortization of intangibles	3,431	3,651
Total operating expenses	301,144	309,951
Income from operations	22,541	14,478
Other income (expense):		
Interest income	166	231
Interest (expense)	(439)	(499)
Other income (expense)	(829)	663
Total other income (expense)	(1,102)	395
Income before income taxes	21,439	14,873
Income taxes	5,800	4,560
Net income	\$ 15,639	\$ 10,313
Net income per common share:		
Basic	\$ 0.37	\$ 0.24
Diluted	\$ 0.37	\$ 0.24
Weighted average common shares outstanding:		
Basic	42,181	42,739
Diluted	42,440	42,837

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 March 31,	
	2015	2014
Net income	\$ 15,639	\$ 10,313
Other comprehensive income (loss), net of taxes:		
Foreign currency translation gain (loss), net of taxes	(27,124)	(5,559)
Unrealized gain (loss) on net investment hedges, net of taxes	3,903	35
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(8)	(21)
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	1,415	(2,742)
Unrealized gain (loss) on postretirement obligation, net of taxes	(15)	6
Other comprehensive income (loss), net of taxes	(21,829)	(8,281)
Comprehensive income (loss)	\$ (6,190)	\$ 2,032

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

Three Months Ended March 31, 2015

(Unaudited)

	Common Stock		Additional		Retained	Accumulated Other Comprehensive	Treasury	Total
(in thousands)	Shares Issued	Amount	Paid-in Capital		Earnings	Income (Loss)	Stock	
Balance at December 31, 2014	43,291	\$ 433	\$ 279,288	\$	400,514	\$ (20,561)	\$ (1,456)	\$ 658,218
Issuance of common stock	17							
Stock-based compensation expense			1,996					1,996
Excess tax benefit (deficiency) from stock-based compensation			169					169
Net vesting (forfeitures) of common stock and restricted stock under equity award plans	(209)	(2)	(1,011)				(118)	(1,131)
Repurchase of common stock							(5,136)	(5,136)
Comprehensive income (loss)					15,639	(21,829)		(6,190)
Balance at March 31, 2015	43,099	\$ 431	\$ 280,442	\$	416,153	\$ (42,390)	\$ (6,710)	\$ 647,926

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)	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 15,639	\$ 10,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,255	11,539
Amortization of intangibles	3,431	3,651
Amortization of deferred grants	(199)	(589)
Unrealized foreign currency transaction (gains) losses, net	(277)	277
Stock-based compensation expense	1,996	754
Excess tax (benefit) from stock-based compensation	(169)	(54)
Deferred income tax provision (benefit)	2,748	3,371
Net (gain) loss on disposal of property and equipment	20	48
Bad debt expense (reversals)	74	6
Unrealized (gains) losses on financial instruments, net	(70)	950
Amortization of deferred loan fees	65	65
Other	54	(122)
Changes in assets and liabilities:		
Receivables	8,716	(7,079)
Prepaid expenses	(160)	515
Other current assets	(11,391)	(6,182)
Deferred charges and other assets	2,144	8,329
Accounts payable	(26)	2,537
Income taxes receivable / payable	737	(868)
Accrued employee compensation and benefits	(4,174)	(7,545)
Other accrued expenses and current liabilities	1,430	(1,321)
Deferred revenue	(3,234)	1,271
Other long-term liabilities	33	(3,710)
Net cash provided by operating activities	28,642	16,156
Cash flows from investing activities:		
Capital expenditures	(10,869)	(11,706)
Proceeds from sale of property and equipment	50	16
Investment in restricted cash	(5)	
Release of restricted cash		168
Net cash (used for) investing activities	(10,824)	(11,522)

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

(Unaudited)

(Continued)

(in thousands)		Three Months Ended March 31,	
		2015	2014
Cash flows from financing activities:			
Payments of long-term debt		(1,000)	(2,000)
Excess tax benefit from stock-based compensation		169	54
Cash paid for repurchase of common stock		(5,136)	(2,605)
Proceeds from grants		49	58
Shares repurchased for minimum tax withholding on equity awards		(1,131)	(385)
Net cash (used for) financing activities		(7,049)	(4,878)
Effects of exchange rates on cash and cash equivalents		(11,842)	(1,243)
Net increase (decrease) in cash and cash equivalents		(1,073)	(1,487)
Cash and cash equivalents beginning		215,137	211,985
Cash and cash equivalents ending		\$ 214,064	\$ 210,498
Supplemental disclosures of cash flow information:			
Cash paid during period for interest		\$ 368	\$ 445
Cash paid during period for income taxes		\$ 5,606	\$ 3,796
Non-cash transactions:			