

SYKES ENTERPRISES INC

Form 10-Q

November 06, 2018

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, 2018

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, Suite 2800, Tampa, FL 33602

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

(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 every Interactive Data File required to be submitted 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 such files).

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 18, 2018, there were 42,781,399 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

Form 10-Q

INDEX

<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets – September 30, 2018 and December 31, 2017 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) – Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statement of Changes in Shareholders' Equity – Nine Months Ended September 30, 2018 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	59
Item 4. <u>Controls and Procedures</u>	61
<u>Part II. OTHER INFORMATION</u>	62
Item 1. <u>Legal Proceedings</u>	62
Item <u>Risk Factors</u>	
1A.	62
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
Item 3. <u>Defaults Upon Senior Securities</u>	62
Item 4. <u>Mine Safety Disclosures</u>	62
Item 5. <u>Other Information</u>	62
Item 6. <u>Exhibits</u>	63
<u>SIGNATURE</u>	64

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except per share data)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 157,268	\$ 343,734
Receivables, net	353,909	341,958
Prepaid expenses	23,047	22,132
Other current assets	17,792	19,743
Assets held for sale	1,173	-
Total current assets	553,189	727,567
Property and equipment, net	138,812	160,790
Goodwill, net	268,075	269,265
Intangibles, net	152,310	140,277
Deferred charges and other assets	33,946	29,193
	\$ 1,146,332	\$ 1,327,092
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 26,709	\$ 32,133
Accrued employee compensation and benefits	104,979	102,899
Income taxes payable	355	2,606
Deferred revenue and customer liabilities	31,322	34,717
Other accrued expenses and current liabilities	38,175	30,888
Total current liabilities	201,540	203,243
Deferred grants	2,353	3,233
Long-term debt	82,000	275,000
Long-term income tax liabilities	23,771	27,098
Other long-term liabilities	24,832	22,039
Total liabilities	334,496	530,613
Commitments and loss contingency (Note 13)		
Shareholders' equity:		
Preferred stock, \$0.01 par value per share, 10,000 shares authorized;	-	-

no shares issued and outstanding

Common stock, \$0.01 par value per share, 200,000 shares authorized;

42,781 and 42,899 shares issued, respectively	428	429
Additional paid-in capital	284,275	282,385
Retained earnings	581,740	546,843
Accumulated other comprehensive income (loss)	(52,275)	(31,104)
Treasury stock at cost: 125 and 117 shares, respectively	(2,332)	(2,074)
Total shareholders' equity	811,836	796,479
	\$ 1,146,332	\$ 1,327,092

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$ 399,333	\$ 407,309	\$ 1,210,489	\$ 1,166,761
Operating expenses:				
Direct salaries and related costs	261,474	267,489	801,470	763,240
General and administrative	105,148	93,355	309,625	277,635
Depreciation, net	14,072	14,227	43,468	41,395
Amortization of intangibles	3,638	5,293	11,480	15,774
Impairment of long-lived assets	555	680	9,256	5,071
Total operating expenses	384,887	381,044	1,175,299	1,103,115
Income from operations	14,446	26,265	35,190	63,646
Other income (expense):				
Interest income	183	169	529	468
Interest (expense)	(1,168)	(2,021)	(3,523)	(5,585)
Other income (expense), net	919	28	537	1,634
Total other income (expense), net	(66)	(1,824)	(2,457)	(3,483)
Income before income taxes	14,380	24,441	32,733	60,163
Income taxes	628	2,746	855	10,911
Net income	\$ 13,752	\$ 21,695	\$ 31,878	\$ 49,252
Net income per common share:				
Basic	\$ 0.33	\$ 0.52	\$ 0.76	\$ 1.18
Diluted	\$ 0.33	\$ 0.52	\$ 0.76	\$ 1.17
Weighted average common shares outstanding:				
Basic	42,136	41,879	42,070	41,800
Diluted	42,204	42,033	42,201	42,006

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 13,752	\$ 21,695	\$ 31,878	\$ 49,252
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments, net of taxes	(2,177)	11,502	(15,483)	31,884
Unrealized gain (loss) on net investment hedges, net				
of taxes	-	(1,916)	-	(5,220)
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(2,097)	1,326	(5,471)	1,462
Unrealized actuarial gain (loss) related to pension liability, net of taxes	16	(19)	(113)	(58)
Unrealized gain (loss) on postretirement obligation, net				
of taxes	(84)	(13)	(104)	(38)
Other comprehensive income (loss), net of taxes	(4,342)	10,880	(21,171)	28,030
Comprehensive income (loss)	\$ 9,410	\$ 32,575	\$ 10,707	\$ 77,282

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statement of Changes in Shareholders' Equity

Nine Months Ended September 30, 2018

(Unaudited)

	Common Stock		Additional		Accumulated		
	Shares	Amount	Paid-in	Retained	Other Comprehensive Income (Loss)	Treasury Stock	Total
(in thousands)	Issued	Amount	Capital	Earnings	(Loss)	Stock	Total
Balance at December 31, 2017	42,899	\$ 429	\$ 282,385	\$ 546,843	\$ (31,104)	\$ (2,074)	\$ 796,479
Cumulative effect of accounting change	-	-	-	3,019	-	-	3,019
Stock-based compensation expense	-	-	5,317	-	-	-	5,317
Issuance of common stock under equity award							
plans, net of forfeitures	-	-	258	-	-	(258)	-
Shares repurchased for tax withholding on equity awards	(118)	(1)	(3,685)	-	-	-	(3,686)
Comprehensive income (loss)	-	-	-	31,878	(21,171)	-	10,707
Balance at September 30, 2018	42,781	\$ 428	\$ 284,275	\$ 581,740	\$ (52,275)	\$ (2,332)	\$ 811,836

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 31,878	\$ 49,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,852	41,778
Amortization of intangibles	11,480	15,774
Amortization of deferred grants	(533)	(550)
Impairment losses	9,256	5,071
Unrealized foreign currency transaction (gains) losses, net	(686)	(1,714)
Stock-based compensation expense	5,317	4,429
Deferred income tax provision (benefit)	229	7,395
Unrealized (gains) losses and premiums on financial instruments, net	661	126
Amortization of deferred loan fees	201	201
Imputed interest expense and fair value adjustments to contingent consideration	-	(529)
Other	375	173
Changes in assets and liabilities, net of acquisitions:		
Receivables, net	(12,756)	(3,844)
Prepaid expenses	(1,164)	1,048
Other current assets	(1,101)	(4,523)
Deferred charges and other assets	(3,731)	(667)
Accounts payable	(1,490)	2,937
Income taxes receivable / payable	(6,429)	(7,285)
Accrued employee compensation and benefits	3,426	12,038
Other accrued expenses and current liabilities	10,447	(697)
Deferred revenue and customer liabilities	(1,612)	2,476
Other long-term liabilities	1,830	(4,515)
Net cash provided by operating activities	89,450	118,374
Cash flows from investing activities:		
Capital expenditures	(36,853)	(48,430)
Cash paid for business acquisitions, net of cash acquired	(21,845)	(9,075)
Net investment hedge settlement	-	(5,122)
Purchase of intangible assets	(8,106)	(4,825)
Investment in equity method investees	(5,000)	(5,012)
Other	698	49
Net cash (used for) investing activities	(71,106)	(72,415)

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Continued)

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities:		
Payments of long-term debt	(220,000)	-
Proceeds from issuance of long-term debt	27,000	-
Shares repurchased for tax withholding on equity awards	(3,686)	(3,859)
Payments of contingent consideration related to acquisitions	-	(4,760)
Other	42	139
Net cash (used for) financing activities	(196,644)	(8,480)
Effects of exchange rates on cash, cash equivalents and restricted cash	(8,186)	24,133
Net increase (decrease) in cash, cash equivalents and restricted cash	(186,486)	61,612
Cash, cash equivalents and restricted cash – beginning	344,805	267,594
Cash, cash equivalents and restricted cash – ending	\$ 158,319	\$ 329,206
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$ 2,893	\$ 4,852
Cash paid during period for income taxes	\$ 15,423	\$ 21,169
Non-cash transactions:		
Property and equipment additions in accounts payable	\$ 2,450	\$ 5,165
Unrealized gain (loss) on postretirement obligation, net of taxes in		
accumulated other comprehensive income (loss)	\$ (104)	\$ (38)
Shares repurchased for tax withholding on equity awards included in		
current liabilities	\$ -	\$ 123

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Nine Months Ended September 30, 2018 and 2017

(Unaudited)

Note 1. Overview and Basis of Presentation

Business — Sykes Enterprises, Incorporated and consolidated subsidiaries (“SYKES” or the “Company”) is a leading provider of multichannel demand generation and global customer engagement services. SYKES provides differentiated full lifecycle customer engagement solutions and services to Global 2000 companies and their end customers primarily within the communications, financial services, technology, transportation and leisure, healthcare, retail and other industries. SYKES primarily provides customer engagement solutions and services with an emphasis on inbound multichannel demand generation, customer service and technical support to its clients’ customers. Utilizing SYKES’ integrated onshore/offshore global delivery model, SYKES provides its services through multiple communication channels including phone, e-mail, social media, text messaging, chat and digital self-service. SYKES also provides various enterprise support services in the United States that include services for its clients’ internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, SYKES also provides fulfillment services, which includes order processing, payment processing, inventory control, product delivery and product returns handling. The Company has operations in two reportable segments entitled (1) the Americas, 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, which includes the United States, Canada, Latin America, Australia and the Asia Pacific Rim; and (2) EMEA, which includes Europe, the Middle East and Africa.

2017 Tax Reform Act

In December 2017, the President of the United States (“U.S.”) signed into law the Tax Cuts and Jobs Act (the “2017 Tax Reform Act”). In general, the 2017 Tax Reform Act reduces the U.S. federal corporate tax rate from 35% to 21%, effective in 2018. The 2017 Tax Reform Act moves from a worldwide business taxation approach to a participation exemption regime. The 2017 Tax Reform Act also imposes base-erosion prevention measures on non-U.S. earnings of U.S. entities, as well as a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings which was recorded in the fourth quarter of 2017. The impact of the 2017 Tax Reform Act on the consolidated financial results began with the fourth quarter of 2017, the period of enactment. This impact, along with the transitional taxes discussed in Note 11, Income Taxes, is reflected in the Other segment.

Telecommunications Asset Acquisition

In April 2017, the Company entered into a definitive Asset Purchase Agreement (the “Purchase Agreement”) to acquire certain assets from a Global 2000 telecommunications services provider. The aggregate purchase price of \$7.5 million was paid on May 31, 2017, using cash on hand, resulting in \$6.0 million of property and equipment and \$1.5 million of customer relationship intangibles (the “Telecommunications Asset acquisition”). The Purchase Agreement contained customary representations and warranties, indemnification obligations and covenants. The results of the Telecommunications Assets’ operations have been included in the Company’s consolidated financial statements in the Americas segment since its acquisition on May 31, 2017.

The Company accounted for the Telecommunications Asset acquisition in accordance with ASC 805, Business Combinations, whereby the purchase price paid was allocated to the tangible and identifiable intangible assets

acquired based on their estimated fair values as of the closing date. The Company completed its analysis of the purchase price allocation during the second quarter of 2017.

WhistleOut Acquisition

On July 9, 2018, the Company, as guarantor, and its wholly-owned subsidiaries, Sykes Australia Pty Ltd, an Australian company, and Clear Link Technologies, LLC, a Delaware limited liability company, entered into and closed a definitive Share Sale Agreement (the “WhistleOut Sale Agreement”) with WhistleOut Nominees Pty Ltd as trustee for the WhistleOut Holdings Unit Trust, CPC Investments USA Pty Ltd, JJZL Pty Ltd, Kenneth Wong as trustee for Wong Family Trust and C41 Pty Ltd as trustee for the Ottery Family Trust (together, the “WhistleOut Sellers”) to acquire all of the outstanding shares of WhistleOut Pty Ltd and WhistleOut Inc. (together, known as “WhistleOut”).

The aggregate purchase price of AUD 30.2 million (\$22.4 million), was paid at the closing of the transaction on July 9, 2018, resulting in \$16.5 million of intangible assets, primarily indefinite-lived domain names, \$2.4 million of fixed

assets and \$2.2 million of goodwill. The aggregate purchase price is subject to certain post-closing adjustments related to WhistleOut's working capital. The purchase price was funded through \$22.0 million of additional borrowings under the Company's Credit Agreement. The WhistleOut Sale Agreement provides for a three-year, retention based earnout of AUD 14.0 million.

The WhistleOut Sale Agreement contains customary representations and warranties, indemnification obligations and covenants.

The Company accounted for the WhistleOut acquisition in accordance with ASC 805, whereby the purchase price paid was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the closing date. Certain amounts are provisional and are subject to change, including the finalization of the working capital adjustment, tax analysis of the assets acquired and liabilities assumed and goodwill. The Company expects to complete its analysis of the purchase price allocation during the second quarter of 2019 and any resulting adjustments will be recorded in accordance with ASU 2015-16, Business Combination (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "U.S. GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2018. 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, 2017, as filed with the Securities and Exchange Commission ("SEC") on March 1, 2018.

Principles of Consolidation — The condensed consolidated financial statements include the accounts of SYKES and its wholly-owned subsidiaries and controlled majority-owned subsidiaries. Investments in less than majority-owned subsidiaries in which the Company does not have a controlling interest, but does have significant influence, are accounted for as equity method investments. All intercompany transactions and balances have been eliminated in consolidation.

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

Subsequent Events — Subsequent events or transactions have been evaluated through the date and time of issuance of the condensed consolidated financial statements. On October 17, 2018, the Company entered into a verbal agreement to settle an outstanding legal action for \$1.2 million. See Note 13, Commitments and Loss Contingency, for further information. On October 18, 2018, the Company entered into a definitive Share Purchase Agreement (the "Symphony Purchase Agreement") to acquire all the outstanding shares of Symphony Ventures Ltd ("Symphony") for GBP 52.6 million (\$67.9 million). The transaction closed on November 1, 2018. See Note 19, Subsequent Event, for further information. There were no other material subsequent events that required recognition or disclosure in the accompanying condensed consolidated financial statements.

Cash, Cash Equivalents and Restricted cash — Cash and cash equivalents consist of cash and highly liquid short-term investments, primarily held in non-interest-bearing investments which have original maturities of less than 90 days. Restricted cash includes cash whereby the Company's ability to use the funds at any time is contractually limited or is generally designated for specific purposes arising out of certain contractual or other obligations.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Condensed Consolidated Balance Sheets that sum to the amounts reported in the Condensed Consolidated Statements of Cash Flows (in thousands):

	September 30, 2018	December 31, 2017	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 157,268	\$ 343,734	\$ 328,166	\$ 266,675
Restricted cash included in "Other current assets"	158	154	107	160
Restricted cash included in "Deferred charges and other assets"	893	917	933	759
	\$ 158,319	\$ 344,805	\$ 329,206	\$ 267,594

Investments in Equity Method Investees — The Company uses the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. The Company's proportionate share of the net income or loss of an equity method investment is included in consolidated net income. Judgment regarding the level of influence over an equity method investment includes considering key factors such as the Company's ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

The Company evaluates an equity method investment for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Factors considered by the Company when reviewing an equity method investment for impairment include the length of time (duration) and the extent (severity) to which the fair value of the equity method investment has been less than cost, the investee's financial condition and near-term prospects, and the intent and ability to hold the investment for a period of time sufficient to allow for anticipated recovery. An impairment that is other-than-temporary is recognized in the period identified. As of September 30, 2018 and December 31, 2017, the Company did not identify any instances where the carrying values of its equity method investments were not recoverable.

In July 2017, the Company made a strategic investment of \$10.0 million in XSell Technologies, Inc. ("XSell") for 32.8% of XSell's preferred stock. The Company is incorporating XSell's machine learning and artificial intelligence algorithms into its business. The Company believes this will increase the sales performance of its agents to drive revenue for its clients, improve the experience of the Company's clients' end customers and enhance brand loyalty, reduce the cost of customer care and leverage analytics and machine learning to source the best agents and improve their performance.

The Company's net investment in XSell of \$9.4 million and \$9.8 million was included in "Deferred charges and other assets" in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively. The Company paid \$5.0 million in July 2017 and the remaining \$5.0 million in August 2018. The Company's proportionate share of XSell's income (loss) of \$(0.2) million and less than \$(0.1) million for the three months ended September 30, 2018 and 2017, respectively, and \$(0.4) million and less than \$(0.1) million for the nine months ended September 30, 2018 and 2017, respectively, was included in "Other income (expense), net" in the accompanying Condensed Consolidated Statements of Operations.

Customer-Acquisition Advertising Costs — The Company's advertising costs are expensed as incurred. Total advertising costs included in the accompanying Condensed Consolidated Statements of Operations were as follows (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Customer-acquisition advertising costs included				
in "Direct salaries and related costs"	\$ 13,907	\$ 9,188	\$ 35,835	\$ 27,599
Customer-acquisition advertising costs included				
in "General and administrative"	24	18	35	79

Reclassifications — Certain balances in the prior period have been reclassified to conform to current period presentation.

New Accounting Standards Not Yet Adopted

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“ASU 2016-02”) and subsequent amendments (together, “ASC 842”). These amendments require the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases currently classified as operating leases under ASC 840, Leases. These amendments also require qualitative disclosures along with specific quantitative disclosures. These amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. Entities have the option to either apply the amendments (1) at the beginning of the earliest period presented using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements or (2) at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. There are also certain optional practical expedients that an entity may elect to apply.

The Company’s implementation team has compiled a detailed inventory of leases and a preliminary analysis of the impact to the financial statements. The Company continues to evaluate the critical factors of ASC 842. Based on an assessment of the Company’s business and system requirements, the implementation team is implementing a lease accounting software solution to assist the Company in complying with ASC. The Company expects the adoption of ASC 842 on January 1, 2019 to result in a material increase in the assets and liabilities on the consolidated balance sheets as a result of recognizing right-of-use assets and lease liabilities for existing operating leases based on the amount of the Company’s current lease commitments. The Company believes that the majority of its leases will maintain their current lease classification under ASC 842. The Company does not expect these amendments to have a material effect on its expense recognition timing or cash flows and, as a result, the Company expects the adoption of ASC 842 will result in an insignificant impact on the Company’s consolidated statements of income and on the consolidated statements of cash flows. The Company is continuing to evaluate the magnitude of the impact on financial statement presentation and related disclosures, as well as the optional practical expedients. The Company is also continuing to evaluate the full impact of ASC 842, as well as its impacts on its business processes, systems, and internal controls.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). These amendments remove, modify or add certain disclosure requirements for fair value measurements. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain of the amendments will be applied prospectively in the initial year of adoption while the remainder are required to be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The Company is evaluating the timing of its adoption of ASU 2018-13 but does not expect a material impact on its disclosures.

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans - General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans (“ASU 2018-14”). These amendments remove, modify or add certain disclosure requirements for defined benefit plans. These amendments are effective for fiscal years ending after December 15, 2020, with early adoption permitted. The Company is evaluating the timing of its adoption of ASU 2018-14 but does not expect a material impact on its disclosures.

Cloud Computing

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”). These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. These amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early application permitted in any interim period after issuance of this update. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the timing of its adoption of

ASU 2018-15 but does not expect a material impact on its financial condition, results of operations, cash flows and disclosures.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedge Activities (“ASU 2017-12”). These amendments help simplify certain aspects of hedge accounting and better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. For cash flow and net investment hedges as of the adoption date, the guidance requires a modified retrospective approach. The amended presentation and disclosure guidance is required only prospectively. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early application permitted in any interim period after issuance of this update. The Company does not expect the adoption of ASU 2017-12 to materially impact its financial condition, results of operations, cash flows and disclosures.

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). These amendments require measurement and recognition of expected versus incurred credit losses for financial assets held. These amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the guidance will have on its financial condition, results of operations and cash flows.

New Accounting Standards Recently Adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) and subsequent amendments (together, “ASC 606”). ASC 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and indicates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity should identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. The Company adopted ASC 606 as of January 1, 2018 using the modified retrospective transition method. See Note 2, Revenues, for further details.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). These amendments modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception applies to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such, these investments may be measured at cost. These amendments are effective for fiscal

years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). These amendments clarify the presentation of cash receipts and payments in eight specific situations. These amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. These amendments have been applied using a retrospective transition method to each period presented. The adoption of ASU 2016-15 on January 1, 2018 did not have a material impact on the Company's cash flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash (A Consensus of the FASB Emerging Issues Task Force (“ASU 2016-18”). These amendments clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows, requiring entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. These amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. These amendments have been applied using a retrospective transition method to each period presented. The inclusion of restricted cash increased the beginning balance of cash in the Condensed Consolidated Statements of Cash Flows by \$1.1 million for the nine months ended September 30, 2018 and increased the beginning and ending balances of cash by \$0.9 million and \$1.0 million, respectively, for the nine months ended September 30, 2017. Other than the change in presentation within the accompanying Condensed Consolidated Statements of Cash Flows, the retrospective adoption of ASU 2016-18 on January 1, 2018 did not have a material impact on the Company’s consolidated financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other than Inventory (“ASU 2016-16”). These amendments require recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. These amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The adoption of ASU 2016-16 on January 1, 2018 did not have a material impact on the Company’s consolidated financial statements and no cumulative-effect adjustment to retained earnings was required.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the 2017 Tax Reform Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or to treat any taxes on GILTI inclusions as period costs are both acceptable methods subject to an accounting policy election. The Company evaluated the accounting treatment options related to the GILTI provisions and elected to treat any potential GILTI inclusions as a current period cost. The election did not have a material impact on the Company’s consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 (“ASU 2018-05”). These amendments add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”). SAB 118, issued in December 2017, directs taxpayers to consider the implications of the 2017 Tax Reform Act as provisional when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. As described in Note 11, Income Taxes, and in accordance with SAB 118, the Company recorded amounts that were considered provisional.

Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220) (“ASU 2018-02”). These amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 Tax Reform Act. These amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendment in this update is permitted, including adoption in any interim period. These amendments can be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate tax rate in the 2017 Tax Reform Act is recognized. The early adoption of ASU 2018-02 on June 30, 2018 had no impact on the Company’s consolidated financial statements or disclosures.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) – Clarifying the Definition of a Business (“ASU 2017-01”). These amendments clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. These amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. These amendments were applied prospectively. The adoption of ASU 2017-01 on January 1, 2018 did not have a material impact on the Company’s consolidated financial statements.

Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”). These amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component outside of a subtotal of income from operations. If a separate line item is not used, the line items used in the income statement to present other components of net benefit cost must be disclosed. These amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. These amendments were applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements.

The Company adopted the income statement presentation aspects of ASU 2017-07 on a retrospective basis effective January 1, 2018. The following is a reconciliation of the effect of the reclassification of the interest cost and amortization of actuarial gain (loss) from operating expenses to other income (expense) in the Company’s Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 (in thousands):

	Adjustments		
	Due to the		
	Adoption of		
	As Previously	ASU	As
	Reported	2017-07	Revised
Three Months Ended September 30, 2017:			
Direct salaries and related costs	\$ 267,516	\$ (27)	\$ 267,489
General and administrative	93,364	(9)	93,355
Income from operations	26,229	36	26,265
Other income (expense), net	64	(36)	28
Nine Months Ended September 30, 2017:			
Direct salaries and related costs	\$ 763,324	\$ (84)	\$ 763,240
General and administrative	277,664	(29)	277,635
Income from operations	63,533	113	63,646
Other income (expense), net	1,747	(113)	1,634

Note 2. Revenues

Adoption of ASC 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC 606, which includes ASU 2014-09 and all related amendments, using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting for revenues under ASC 605, Revenue Recognition ("ASC 605").

The Company recorded an increase to opening retained earnings of \$3.0 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact, all in the Americas segment, primarily related to the change in timing of revenue recognition associated with certain customer contracts that provide fees upon renewal, as well as changes in estimating variable consideration with respect to penalties and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies. Revenues recognized under ASC 606 are expected to be slightly higher during 2018 than revenues would have been under ASC 605. This is primarily attributable to the change in the timing of revenue recognition, as discussed above. The impact on revenues recognized for the three and nine months ended September 30, 2018 is reported below.

The cumulative effect of the adjustments made to the Company's Condensed Consolidated Balance Sheet as of December 31, 2017 for the line items impacted by the adoption of ASC 606 was as follows (in thousands):

		Adjustments	
		Due to the	
		Adoption of	
	December 31, 2017	ASC 606	January 1, 2018
Receivables, net	\$ 341,958	\$ 825	\$ 342,783
Deferred charges and other assets	29,193	2,045	31,238
Income taxes payable	2,606	697	3,303
Deferred revenue and customer liabilities	34,717	(1,048)	33,669
Other long-term liabilities	22,039	202	22,241
Retained earnings	546,843	3,019	549,862

The financial statement line items impacted by the adoption of ASC 606 in the Company's Condensed Consolidated Balance Sheet as of September 30, 2018 were as follows (in thousands):

		Balances	
		Without	
		the	
		Impact of	Effect of
		the ASC	Adoption
		606	Increase
	As		
	Reported	Adoption	(Decrease)
Receivables, net	\$353,909	\$351,299	\$ 2,610
Deferred charges and other assets	33,946	28,025	5,921
Income taxes payable	355	(1,727)	2,082
Deferred revenue and customer liabilities	31,322	33,984	(2,662)
Other long-term liabilities	24,832	24,415	417
Retained earnings	581,740	573,046	8,694

The financial statement line items impacted by the adoption of ASC 606 in the Company's Condensed Consolidated Statement of Operations for the three months ended September 30, 2018 were as follows, along with the impact per share (in thousands, except per share data):

	Balances		
	Without		
	the		
	Impact of		
	the ASC		
	606		
	Increase		
	As		
	Reported	Adoption	(Decrease)
Revenues	\$ 399,333	\$ 397,343	\$ 1,990
Income from operations	14,446	12,456	1,990
Income before income taxes	14,380	12,390	1,990
Income taxes	628	181	447
Net income	13,752	12,209	1,543
Net income per common share:			
Basic	\$0.33	\$0.29	\$ 0.04
Diluted	\$0.33	\$0.29	\$ 0.04

The financial statement line items impacted by the adoption of ASC 606 in the Company's Condensed Consolidated Statement of Operations for the nine months ended September 30, 2018 were as follows, along with the impact per share (in thousands, except per share data):

	As	Balances	
	Reported	Without the Impact of the ASC 606	Effect of Adoption Increase
			(Decrease)
Revenues	\$1,210,489	\$1,203,102	\$ 7,387
Income from operations	35,190	27,803	7,387
Income before income taxes	32,733	25,346	7,387
Income taxes	855	(857)	1,712
Net income	31,878	26,203	5,675
Net income per common share:			
Basic	\$0.76	\$0.62	\$ 0.14
Diluted	\$0.76	\$0.62	\$ 0.14

The Company's net cash provided by operating activities for the nine months ended September 30, 2018 did not change due to the adoption of ASC 606.

Practical Expedients

The Company utilized the practical expedient that allows for the application of ASC 606 to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

Costs of Obtaining Customer Contracts

ASC 606 requires an entity to recognize as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (e.g., a sales commission). Because the Company's sales commissions are not directly incremental to obtaining customer contracts, they are expensed as incurred.

Recognition of Revenues Accounting Policy

The Company's "Recognition of Revenues" accounting policy under ASC 606 is outlined below. For the Company's accounting policy under ASC 605, see Note 1, Overview and Summary of Significant Accounting Policies, of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The Company recognizes revenues in accordance with ASC 606, whereby revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services.

Customer Engagement Solutions and Services

Under ASC 606, the Company accounts for a contract with a client when it has approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection. The Company's customer engagement solutions and services are classified as stand-ready performance obligations. Because the Company's customers simultaneously receive and consume the benefits of its services as they are delivered, the performance obligations are satisfied over time. The Company recognizes revenues over time using output methods such as a per minute, per hour, per call, per transaction or per time and materials basis. These output methods faithfully depict the satisfaction of the Company's obligation to deliver the services as requested and represent a direct measurement of value to the customer. The Company's contracts have a single performance obligation as the promise to transfer the customer solutions and services are not separately identifiable from other promises in the contract, and therefore not distinct.

The stated term of the Company's contracts with customers range from 30 days to six years. The majority of these contracts include termination for convenience or without cause provisions allowing either party to cancel the contract

without substantial cost or penalty within a defined notification period (“termination rights”), varying periods typically up to 180 days. Because of the termination rights, only the noncancelable portion qualifies as a legally enforceable contract under Step 1, Identify the Contract with a Customer, of ASC 606 (“Step 1”) and is accounted for as such, even if the customer is unlikely to exercise its termination right. Furthermore, the amounts excluded from assessment under Step 1 are, in effect, optional customer purchases of additional services.

If the termination right is only provided to the customer, the unsatisfied performance obligations will be evaluated as a customer option. The Company typically does not include options in customer contracts that would result in a material right. If options to purchase additional services or options to renew are included in customer contracts, the Company evaluates the option in order to determine if the arrangement includes promises that may represent a material right and needs to be accounted for as a performance obligation in the contract with the customer.

The Company’s primary billing terms are that payment is due within 30 or 60 days of the invoice date. Invoices are generally issued on a monthly basis as control transfers and/or as services are rendered. Revenue recognition is limited to the established transaction price, the amount to which the Company expects to be entitled to under the contract, including the amount of expected fees for those contracts with renewal provisions, and the amount that is not contingent upon delivery of any future product or service or meeting other specified performance obligations. The transaction price, once determined, is allocated to the single performance obligation on a contract by contract basis.

The Company’s customer contracts include penalties and holdbacks provisions for failure to meet specified minimum service levels and other performance-based contingencies, as well as the right of certain of the Company’s clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred. Certain customers also receive cash discounts for early payment. These provisions are accounted for as variable consideration and are estimated using the expected value method based on historical service and pricing trends, the individual contract provisions, and the Company’s best judgment at the time. None of these variable consideration components are subject to constraint due to the short time period to resolution, the Company’s extensive history with similar transactions, and the limited number of possible outcomes and third-party influence. The portion of the consideration received under the contract that the Company expects to ultimately refund to the customer is excluded from the transaction price and is recorded as a refund liability.

Other Revenues

In the Americas, the Company provides a range of enterprise support services including technical staffing services and outsourced corporate help desk services, primarily in the U.S. Revenues for enterprise support services are recognized over time using output methods such as number of positions filled.

In EMEA, the Company offers fulfillment services that are integrated with its customer care and technical support services. The Company’s fulfillment solutions include order processing, payment processing, inventory control, product delivery and product returns handling. Sales are recognized upon shipment to the customer and satisfaction of all obligations.

The Company also has miscellaneous other revenues in the Other segment.

In total, other revenues are immaterial, representing 0.5% and 0.5% of the Company’s consolidated total revenues for the three months ended September 30, 2018 and 2017, respectively, and 0.5% and 0.5% of the Company’s consolidated total revenues for the nine months ended September 30, 2018 and 2017, respectively.

Disaggregated Revenues

The Company disaggregates its revenues from contracts with customers by service type and geographic location (see Note 16, Segments and Geographic Information), for each of its reportable segments, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenues and cash flows are affected by economic factors.

The following table represents revenues from contracts with customers disaggregated by service type and by the reportable segment for each category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas:				
Customer engagement solutions and services	\$ 328,535	\$ 341,077	\$ 995,723	\$ 976,342
Other revenues	227	257	801	794
Total Americas	328,762	341,334	996,524	977,136
EMEA:				
Customer engagement solutions and services	68,859	64,230	208,302	184,135
Other revenues	1,684	1,727	5,588	5,429
Total EMEA	70,543	65,957	213,890	189,564
Other:				
Other revenues	28	18	75	61
Total Other	28	18	75	61
	\$ 399,333	\$ 407,309	\$ 1,210,489	\$ 1,166,761

Trade Accounts Receivable

The Company's trade accounts receivable, net, consists of the following (in thousands):

	September 30, 2018	January 1, 2018
Trade accounts receivable, net, current ⁽¹⁾	\$ 340,391	\$332,014
Trade accounts receivable, net, noncurrent ⁽²⁾	6,066	2,078
	\$ 346,457	\$334,092

⁽¹⁾ Included in "Receivables, net" in the accompanying Condensed Consolidated Balance Sheets. The January 1, 2018 balance includes the \$0.8 million adjustment recorded upon adoption of ASC 606.

⁽²⁾ Included in "Deferred charges and other assets" in the accompanying Condensed Consolidated Balance Sheets. The January 1, 2018 balance includes a \$2.1 million adjustment recorded upon adoption of ASC 606.

The Company's noncurrent trade accounts receivable result from contracts with customers that include renewal provisions that take effect subsequent to the satisfaction of the associated performance obligations. Payment is expected upon renewal, which occurs in bi-annual and annual increments over the associated expected contract term, the majority of which range from two to five years.

Deferred Revenue and Customer Liabilities

Deferred revenue and customer liabilities consists of the following (in thousands):

	September 30, 2018	January 1, 2018
Deferred revenue	\$ 4,507	\$4,598
Customer arrangements with termination rights	17,789	21,755
Estimated refund liabilities ⁽¹⁾	9,026	7,316
	\$ 31,322	\$33,669

⁽¹⁾ The January 1, 2018 balance includes the \$1.0 million adjustment recorded upon adoption of ASC 606.

Deferred Revenue

The Company receives up-front fees in connection with certain contracts. In accordance with ASC 606, the up-front fees are recorded as a contract liability only to the extent a legally enforceable contract exists, typically varying periods

up to 180 days. Accordingly, the up-front fees allocated to the notification period are recorded as deferred revenue, while the fees that extend beyond the notification period are classified as a customer arrangement with termination rights. These up-front fees do not represent a significant financing component since they were structured primarily to reduce the administrative burden in managing the operations of certain contracts, to provide the customer with un-interrupted service, and to assist in managing the overall risk and profitability of providing the services.

Revenues of \$0.1 million and \$4.3 million were recognized during the three and nine months ended September 30, 2018, respectively, from amounts included in deferred revenue at January 1, 2018. The Company expects to recognize the majority of its deferred revenue as of September 30, 2018 over the next 180 days.

Customer Liabilities – Customer Arrangements with Termination Rights

Customer arrangements with termination rights represent the amount of up-front fees received for unsatisfied performance obligations for periods that extend beyond the legally enforceable contract period. All customer arrangements with termination rights are classified as current as the customer can terminate the contracts and demand pro-rata refunds of the up-front fees over varying periods, typically up to 180 days. The Company expects to recognize the majority of the customer arrangements with termination rights into revenue as the Company has not historically experienced a high rate of contract terminations.

Customer Liabilities – Refund Liabilities

Refund liabilities represent consideration received under the contract that the Company expects to ultimately refund to the customer and primarily relates to estimated penalties, holdbacks and chargebacks. Penalties and holdbacks result from the failure to meet specified minimum service levels in certain contracts and other performance-based contingencies. Chargebacks reflect the right of certain of the Company's clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred.

Refund liabilities are generally resolved in 180 days, once it is determined whether the requisite service levels and client requirements were achieved to settle the contingency.

Note 3. Costs Associated with Exit or Disposal Activities

During the second quarter of 2018, the Company initiated a restructuring plan to streamline excess capacity through targeted seat reductions (the "Americas 2018 Exit Plan") in an on-going effort to manage and optimize capacity utilization. The Americas 2018 Exit Plan includes, but is not limited to, closing customer contact management centers and consolidating leased space in various locations in the U.S. and Canada. The Company anticipates finalizing the remainder of the site closures under the Americas 2018 Exit Plan by December 2018.

The Company's actions will result in a reduction in seats as well as anticipated general and administrative cost savings, and lower depreciation expense resulting from the 2018 site closures.

The cumulative costs expected and incurred to date related to cash and non-cash expenditures as a result of the Americas 2018 Exit Plan are outlined below as of September 30, 2018 (in thousands):

	Costs Expected To Be Incurred	Cumulative Costs Incurred To Date	Expected Remaining Costs
Lease obligations and facility exit costs ⁽¹⁾	\$ 7,344	\$ 6,860	\$ 484
Severance and related costs ⁽²⁾	3,434	3,417	17
Severance and related costs ⁽¹⁾	665	550	115
Non-cash impairment charges	5,730	5,730	-
	\$ 17,173	\$ 16,557	\$ 616

⁽¹⁾ Related to "General and administrative" costs.

⁽²⁾ Related to "Direct salaries and related costs."

The total costs expected to be incurred under the Americas 2018 Exit Plan increased \$1.1 million during the three months ended September 30, 2018 as the Company progressed with its plan and actual costs became known. The expected remaining lease obligations, facility exit costs and severance charges are anticipated to be incurred during the fourth quarter of 2018. The Company has paid \$5.2 million in cash through September 30, 2018.

The following table summarizes the accrued liability and related charges for the three months ended September 30, 2018 (none in 2017) (in thousands):

	Lease Obligations		
	and Facility	Severance and	
	Exit Costs	Related Costs	Total
Balance at the beginning of the period	\$ 2,815	\$ 490	\$3,305
Charges included in "Direct salaries and related costs"	-	3,015	3,015
Charges included in "General and administrative"	3,832	331	4,163
Cash payments	(1,440)	(3,209)	(4,649)
Balance sheet reclassifications ⁽¹⁾	119	-	119
Balance at the end of the period	\$ 5,326	\$ 627	\$5,953

⁽¹⁾ Consists of the reclassification of deferred rent balances to the restructuring liability for locations subject to closure.

The following table summarizes the accrued liability and related charges for the nine months ended September 30, 2018 (none in 2017) (in thousands):

	Lease Obligations		
	and Facility	Severance and	
	Exit Costs	Related Costs	Total
Balance at the beginning of the period	\$ -	\$ -	\$-
Charges included in "Direct salaries and related costs"	-	3,417	3,417
Charges included in "General and administrative"	6,860	550	7,410
Cash payments	(1,869)	(3,340)	(5,209)
Balance sheet reclassifications ⁽¹⁾	335	-	335
Balance at the end of the period	\$ 5,326	\$ 627	\$5,953

⁽¹⁾ Consists of the reclassification of deferred rent balances to the restructuring liability for locations subject to closure.

Restructuring Liability Classification

The following table summarizes the Company's short-term and long-term accrued liabilities associated with the Americas 2018 Exit Plan as of September 30, 2018 (none in 2017) (in thousands):

	Americas 2018
	Exit Plan
Short-term accrued restructuring liability ⁽¹⁾	\$ 4,491
Short-term accrued restructuring liability ⁽²⁾	627
Long-term accrued restructuring liability ⁽³⁾	835
Ending accrual at September 30, 2018	\$ 5,953

⁽¹⁾ Included in “Other accrued expenses and current liabilities” in the accompanying Condensed Consolidated Balance Sheet.

⁽²⁾ Included in “Accrued employee compensation and benefits” in the accompanying Condensed Consolidated Balance Sheet.

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

The long-term accrued restructuring liability relates to future rent obligations to be paid through the remainder of the lease terms, the last of which ends in June 2021.

Note 4. Fair Value

ASC 820, Fair Value Measurements and Disclosures (“ASC 820”) requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. This hierarchy requires the use of observable market data when available. These two types of inputs have created the following fair value hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Fair Value of Financial Instruments — The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, short-term and other investments, investments held in rabbi trust and accounts payable — The carrying values for cash, short-term and other investments, investments held in rabbi trust and accounts payable approximate their fair values.

Foreign currency forward contracts and options — Foreign currency forward contracts and options, including premiums paid on options, are recognized at fair value based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk.

Embedded derivatives — Embedded derivatives within certain hybrid lease agreements are bifurcated from the host contract and recognized at fair value based on pricing models or formulas using significant unobservable inputs, including adjustments for credit risk.

Long-term debt — The carrying value of long-term debt approximates its estimated fair value as the debt bears interest based on variable market rates, as outlined in the debt agreement.

Contingent consideration — The contingent consideration is recognized at fair value based on the discounted cash flow method.

Fair Value Measurements — ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820-10-20 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 825, Financial Instruments (“ASC 825”) permits an entity to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company has not elected to use the fair value option permitted under ASC 825 for any of its financial assets and financial liabilities that are not already recorded at fair value.

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

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

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

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

Embedded Derivatives — The Company uses significant unobservable inputs to determine the fair value of embedded derivatives, which are classified in Level 3 of the fair value hierarchy. These unobservable inputs include expected cash flows associated with the lease, currency exchange rates on the day of commencement, as well as forward currency exchange rates, the results of which are adjusted for credit risk. These items are classified in Level 3 of the fair value hierarchy. See Note 6, Financial Derivatives, for further information.

Investments Held in Rabbi Trust — The investment assets of the rabbi trust are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 7, Investments Held in Rabbi Trust, and Note 15, Stock-Based Compensation.

Contingent Consideration — The Company uses significant unobservable inputs to determine the fair value of contingent consideration, which is classified in Level 3 of the fair value hierarchy. The contingent consideration recorded related to the acquisition of Qelp B.V. and its subsidiary (together, known as “Qelp”) and liabilities assumed as part of the Clear Link Holdings, LLC (“Clearlink”) acquisition was recognized at fair value using a discounted cash flow methodology and a discount rate of approximately 14.0% and 10.0%, respectively.

The Company's assets and liabilities measured at fair value on a recurring basis subject to the requirements of ASC 820 consist of the following as of September 30, 2018 (in thousands):

Balance at	Fair Value Measurements Using:		
	Quoted	Significant	Significant
	Prices	Other	Unobservable
	in	Observable	Inputs
	Active Markets		

		For Identical	Inputs	
		Assets		
	September 30, 2018	Level 1	Level 2	Level 3
Assets:				
Foreign currency forward and option				
contracts ⁽¹⁾	\$ 307	\$-	\$ 307	\$ -
Embedded derivatives ⁽¹⁾	2	-	-	2
Equity investments held in rabbi trust for the				
Deferred Compensation Plan ⁽²⁾	9,116	9,116	-	-
Debt investments held in rabbi trust for the				
Deferred Compensation Plan ⁽²⁾	3,453	3,453	-	-
	\$ 12,878	\$12,569	\$ 307	\$ 2
Liabilities:				
Foreign currency forward and option				
contracts ⁽¹⁾	\$ 3,185	\$-	\$ 3,185	\$ -
Embedded derivatives ⁽¹⁾	404	-	-	404
	\$ 3,589	\$-	\$ 3,185	\$ 404

The Company's assets and liabilities measured at fair value on a recurring basis subject to the requirements of ASC 820 consist of the following as of December 31, 2017 (in thousands):

		Fair Value Measurements Using:		
		Quoted	Prices in	Significant
			Active Markets	Other
			For	Significant
			Identical	Observable
				Unobservable
	Balance at	Assets	Inputs	Inputs
	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Foreign currency forward and option				
contracts ⁽¹⁾	\$ 3,848	\$-	\$ 3,848	\$ -
Embedded derivatives ⁽¹⁾	52	-	-	52
Equity investments held in rabbi trust for the				
Deferred Compensation Plan ⁽²⁾	8,094	8,094	-	-
Debt investments held in rabbi trust for the				
Deferred Compensation Plan ⁽²⁾	3,533	3,533	-	-
	\$ 15,527	\$11,627	\$ 3,848	\$ 52
Liabilities:				
Foreign currency forward and option				
contracts ⁽¹⁾	\$ 256	\$-	\$ 256	\$ -
Embedded derivatives ⁽¹⁾	579	-	-	579
	\$ 835	\$-	\$ 256	\$ 579

⁽¹⁾ See Note 6, Financial Derivatives, for the classification in the accompanying Condensed Consolidated Balance Sheets.

⁽²⁾ Included in "Other current assets" in the accompanying Condensed Consolidated Balance Sheets. See Note 7, Investments Held in Rabbi Trust.

Reconciliations of Fair Value Measurements Categorized within Level 3 of the Fair Value Hierarchy

Embedded Derivatives in Lease Agreements

A rollforward of the net asset (liability) activity in the Company's fair value of the embedded derivatives is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at the beginning of the period	\$ (598)	\$ (171)	\$ (527)	\$ (555)
Gains (losses) recognized in "Other income (expense), net"	159	(193)	(6)	122
Settlements	38	66	118	134
Effect of foreign currency	(1)	(2)	13	(1)
Balance at the end of the period	\$ (402)	\$ (300)	\$ (402)	\$ (300)
Change in unrealized gains (losses) included in "Other income (expense), net" related to embedded derivatives held at the end of the period	\$ 153	\$ (193)	\$ (19)	\$ 122

Contingent Consideration

A rollforward of the activity in the Company's fair value of the contingent consideration (liability) is as follows (none in 2018) (in thousands):

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Balance at the beginning of the period	\$ (1,127)	\$ (6,100)
Imputed interest	(8)	(76)
Fair value gain (loss) adjustments ⁽¹⁾	(96)	605
Settlements	232	4,760
Effect of foreign currency	(1)	(189)
Balance at the end of the period	\$ (1,000)	\$ (1,000)
Change in unrealized gains (losses) included in "General and administrative" related to contingent consideration outstanding at the end of the period	\$ -	\$ -

⁽¹⁾ Included in "General and administrative" costs in the accompanying Condensed Consolidated Statements of Operations.

The Company recorded a fair value loss of \$0.1 million and net fair value gain of \$0.6 million in "General and administrative" during the three and nine months ended September 30, 2017, respectively, related to the Clearlink contingent consideration. All outstanding Clearlink contingent consideration liabilities remaining as of September 30, 2017 were paid prior to December 31, 2017.

The Company paid \$4.4 million in May 2017 to settle the outstanding Qelp contingent consideration obligation.

The Company accreted interest expense each period using the effective interest method until the contingent consideration reached the estimated future value. Interest expense related to the contingent consideration was included in "Interest (expense)" in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017.

Non-Recurring Fair Value

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs, including goodwill, other intangible assets, other long-lived assets and equity method investments. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if these assets were determined to be impaired. The adjusted carrying values for assets measured at fair value on a nonrecurring basis (no liabilities) subject to the requirements of ASC 820 were not material at September 30, 2018 and December 31, 2017.

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

	Total Impairment (Loss)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas:				
Property and equipment, net	\$ (555)	\$ (680)	\$ (9,256)	\$ (5,071)

In connection with the closure of certain under-utilized customer contact management centers and the consolidation of leased space in the U.S. and Canada, the Company recorded impairment charges of \$0.6 million and \$0.7 million during the three months ended September 30, 2018 and 2017, respectively, and \$9.3 million and \$4.9 million during the nine months ended September 2018 and 2017, respectively, related to leasehold improvements, equipment, furniture and fixtures which were not recoverable. See Note 3, Costs Associated with Exit or Disposal Activities, for further information.

The Company recorded an impairment charge of \$0.2 million related to the write-down of a vacant and unused parcel of land in the U.S. to its estimated fair value during the nine months ended September 30, 2017.

Note 5. Goodwill and Intangible Assets

Intangible Assets

The following table presents the Company's purchased intangible assets as of September 30, 2018 (in thousands):

				Weighted
				Average
	Gross	Accumulated	Net	Amortization
	Intangibles	Amortization	Intangibles	Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 170,449	\$ (104,144)	\$ 66,305	10
Trade names and trademarks	14,135	(10,070)	4,065	7
Non-compete agreements	2,037	(1,520)	517	3
Content library	524	(524)	-	2
Proprietary software	1,040	(690)	350	4
Intangible assets not subject to amortization:				
Domain names	81,073	-	81,073	N/A
	\$ 269,258	\$ (116,948)	\$ 152,310	4

The following table presents the Company's purchased intangible assets as of December 31, 2017 (in thousands):

				Weighted
				Average
	Gross	Accumulated	Net	Amortization
	Intangibles	Amortization	Intangibles	Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 170,853	\$ (95,175)	\$ 75,678	10
Trade names and trademarks	14,138	(8,797)	5,341	7
Non-compete agreements	1,820	(1,052)	768	3
Content library	542	(542)	-	2
Proprietary software	1,040	(585)	455	4
Intangible assets not subject to amortization:				
Domain names	58,035	-	58,035	N/A
	\$ 246,428	\$ (106,151)	\$ 140,277	6

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

The Company's estimated future amortization expense for the succeeding years relating to the purchased intangible assets resulting from acquisitions completed prior to September 30, 2018 is as follows (in thousands):

Years Ending December 31,	Amount
2018 (remaining three months)	3,662
2019	14,153
2020	11,475
2021	6,921
2022	5,811
2023	4,955
2024 and thereafter	24,260

Goodwill

Changes in goodwill for the nine months ended September 30, 2018 consisted of the following (in thousands):

			Effect of	
			Foreign	
	January 1, 2018	Acquisition	Currency	September 30, 2018
Americas	\$ 258,496	\$ 2,162	\$(2,874)	\$ 257,784
EMEA	10,769	-	(478)	10,291
	\$ 269,265	\$ 2,162	\$(3,352)	\$ 268,075

Changes in goodwill for the year ended December 31, 2017 consisted of the following (in thousands):

		Effect of		
		Foreign		
	January 1, 2017	Acquisition	Currency	December 31, 2017
Americas	\$ 255,842	\$ 390	\$ 2,264	\$ 258,496
EMEA	9,562	-	1,207	10,769
	\$ 265,404	\$ 390	\$ 3,471	\$ 269,265

The Company performs its annual goodwill impairment test during the third quarter, or more frequently if indicators of impairment exist.

For the annual goodwill impairment test, the Company elected to forgo the option to first assess qualitative factors and performed its annual quantitative goodwill impairment test as of July 31, 2018. Under ASC 350, the carrying value of assets is calculated at the reporting unit level. The quantitative assessment of goodwill includes comparing a reporting unit's calculated fair value to its carrying value. The calculation of fair value requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth, the useful life over which cash flows will occur and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recognized for the amount by which the carrying value exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

The process of evaluating the fair value of the reporting units is highly subjective and requires significant judgment and estimates as the reporting units operate in a number of markets and geographical regions. The Company considered the income and market approaches to determine its best estimates of fair value, which incorporated the following significant assumptions:

- Revenue projections, including revenue growth during the forecast periods;
- EBITDA margin projections over the forecast periods;
- Estimated income tax rates;
- Estimated capital expenditures; and
- Discount rates based on various inputs, including the risks associated with the specific reporting units as well as their revenue growth and EBITDA margin assumptions.

As of July 31, 2018, the Company concluded that goodwill was not impaired for all six of its reporting units with goodwill, based on generally accepted valuation techniques and the significant assumptions outlined above. While the fair values of four of the six reporting units were substantially in excess of their carrying value, the Qelp and Clearlink reporting units' fair values exceeded the respective carrying values, although not substantially.

The Qelp and Clearlink reporting units are at risk of future impairment if projected operating results are not met or other inputs into the fair value measurement change. However, as of September 30, 2018, the Company believes there were no indicators of impairment related to Qelp's \$10.3 million of goodwill and Clearlink's \$71.2 million of goodwill.

Note 6. Financial Derivatives

Cash Flow Hedges – The Company has derivative assets and liabilities relating to outstanding forward contracts and options, designated as cash flow hedges, as defined under ASC 815 Derivatives and Hedging (“ASC 815”), consisting of Philippine Peso, Costa Rican Colon, Hungarian Forint and Romanian Leu contracts. These contracts are entered into to hedge the exposure to variability in the cash flows of a specific asset or liability, or of a forecasted transaction that is attributable to changes in exchange rates.

The deferred gains (losses) and related taxes on the Company's cash flow hedges recorded in "Accumulated other comprehensive income (loss)" ("AOCI") in the accompanying Condensed Consolidated Balance Sheets are as follows (in thousands):

	September 30, 2018	December 31, 2017
Deferred gains (losses) in AOCI	\$ (3,086)	\$ 2,550
Tax on deferred gains (losses) in AOCI	86	(79)
Deferred gains (losses) in AOCI, net of taxes	\$ (3,000)	\$ 2,471
Deferred gains (losses) expected to be reclassified to "Revenues"		
from AOCI during the next twelve months	\$ (2,906)	

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

Non-Designated Hedges

Foreign Currency Forward Contracts – The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect the Company's interests against adverse foreign currency moves relating primarily to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than the Company's subsidiaries' functional currencies. These contracts generally do not exceed 180 days in duration.

Embedded Derivatives – The Company enters into certain lease agreements which require payments not denominated in the functional currency of any substantial party to the agreements. The foreign currency component of these contracts meets the criteria under ASC 815 as embedded derivatives. The Company has determined that the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contracts (lease agreements), and separate, stand-alone instruments with the same terms as the embedded derivative instruments would otherwise qualify as derivative instruments, thereby requiring separation from the lease agreements and recognition at fair value. Such instruments do not qualify for hedge accounting under ASC 815.

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

	September 30, 2018		December 31, 2017	
	Notional	Settle	Notional	Settle
	Amount	Through	Amount	Through
Contract Type	in USD	Date	in USD	Date
Cash flow hedges:				
Options:				
US Dollars/Philippine Pesos	\$50,500	December 2019	\$78,000	December 2018
Forwards:				

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

US Dollars/Philippine Pesos	48,900	September 2019	3,000	June 2018
US Dollars/Costa Rican Colones	81,500	December 2019	70,000	March 2019
Euros/Hungarian Forints	859	December 2018	3,554	December 2018
Euros/Romanian Leis	3,471	December 2018	13,977	December 2018
Non-designated hedges:				
Forwards	5,894	December 2018	9,253	March 2018
Embedded derivatives	12,050	April 2030	13,519	April 2030

Master netting agreements exist with each respective counterparty to reduce credit risk by permitting net settlement of derivative positions. In the event of default by the Company or one of its counterparties, these agreements include a set-off clause that provides the non-defaulting party the right to net settle all derivative transactions, regardless of the currency and settlement date. The maximum amount of loss due to credit risk that, based on gross fair value, the Company would incur if parties to the derivative transactions that make up the concentration failed to perform according to the terms of the contracts was \$0.3 million and \$3.8 million as of September 30, 2018 and December 31, 2017, respectively. After consideration of these netting arrangements and offsetting positions by counterparty, the total net settlement amount as it relates to these positions are asset positions of \$0 and \$3.6 million as of September 30, 2018 and December 31, 2017, respectively, and liability positions of \$2.9 million and \$0 as of September 30, 2018 and December 31, 2017, respectively.

Although legally enforceable master netting arrangements exist between the Company and each counterparty, the Company has elected to present the derivative assets and derivative liabilities on a gross basis in the accompanying Condensed Consolidated Balance Sheets. Additionally, the Company is not required to pledge, nor is it entitled to receive, cash collateral related to these derivative transactions.

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

	Derivative Assets	
	September 30, 2018	December 31, 2017
Derivatives designated as cash flow hedging		
instruments under ASC 815:		
Foreign currency forward and option		
contracts ⁽¹⁾	\$ 306	\$ 3,604
Foreign currency forward and option		
contracts ⁽²⁾	1	-
	307	3,604
Derivatives not designated as hedging		
instruments under ASC 815:		
Foreign currency forward contracts ⁽¹⁾	-	244
Embedded derivatives ⁽¹⁾	2	9
Embedded derivatives ⁽²⁾	-	43
Total derivative assets	\$ 309	\$ 3,900
Derivative Liabilities		
	September 30, 2018	December 31, 2017
Derivatives designated as cash flow hedging		
instruments under ASC 815:		
Foreign currency forward and option		
contracts ⁽³⁾	\$ 2,716	\$ 175
Foreign currency forward and option		
contracts ⁽⁴⁾	181	81
	2,897	256
Derivatives not designated as hedging		
instruments under ASC 815:		
Foreign currency forward contracts ⁽³⁾	288	-
Embedded derivatives ⁽³⁾	46	189

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Embedded derivatives ⁽⁴⁾	358	390
Total derivative liabilities	\$ 3,589	\$ 835

⁽¹⁾ Included in "Other current assets" in the accompanying Condensed Consolidated Balance Sheets.

⁽²⁾ Included in "Deferred charges and other assets" in the accompanying Condensed Consolidated Balance Sheets.

⁽³⁾ Included in "Other accrued expenses and current liabilities" in the accompanying Condensed Consolidated Balance Sheets.

⁽⁴⁾ Included in "Other long-term liabilities" in the accompanying Condensed Consolidated Balance Sheets.

The following table presents the effect of the Company's derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the three months ended September 30, 2018 and 2017 (in thousands):

					Gain (Loss)	
					Recognized in	
					"Revenues" on	
			Gain (Loss)		Derivatives	
	Gain (Loss)		Reclassified From		(Ineffective Portion	
	Recognized in AOCI		AOCI Into		and Amount	
	on Derivatives		"Revenues"		Excluded from	
	(Effective Portion)		(Effective Portion)		Effectiveness Testing)	
	September 30, 2018 2017		30, 2018 2017		September 30, 2018 2017	
Derivatives designated as cash flow hedging						
instruments under ASC 815:						
Foreign currency forward and option contracts	\$(1,839)	\$585	\$206	\$(766)	\$(23)	\$-
Derivatives designated as net investment						
hedging instruments under ASC 815:						
Foreign currency forward contracts	-	(2,979)	-	-	-	-
	\$(1,839)	\$(2,394)	\$206	\$(766)	\$(23)	\$-

The following table presents the gains (losses) recognized in “Other income (expense), net” of the Company’s derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the three months ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,	
	2018	2017
Derivatives not designated as hedging instruments under ASC 815:		
Foreign currency forward contracts	\$ (539)	\$ (252)
Embedded derivatives	159	(193)
	\$ (380)	\$ (445)

The following table presents the effect of the Company's derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the nine months ended September 30, 2018 and 2017 (in thousands):

	Gain (Loss)		Recognized in		"Revenues" on	
	Gain (Loss)		Reclassified		Derivatives	
	Recognized in		From		(Ineffective	
	AOCI		AOCI Into		Portion	
	on Derivatives		"Revenues"		and Amount	
	(Effective		(Effective		Effectiveness	
	Portion)		Portion)		Testing)	
	September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017
Derivatives designated as cash flow hedging						
instruments under ASC 815:						
Foreign currency forward and option contracts	\$(4,840)	\$(881)	\$634	\$(2,346)	\$ (15)	\$ -
Derivatives designated as net investment						
hedging instruments under ASC 815:						
Foreign currency forward contracts	-	(8,352)	-	-	-	-
	\$(4,840)	\$(9,233)	\$634	\$(2,346)	\$ (15)	\$ -

The following table presents the gains (losses) recognized in “Other income (expense), net” of the Company’s derivative instruments included in the accompanying Condensed Consolidated Financial Statements for the nine months ended September 30, 2018 and 2017 (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Derivatives not designated as hedging instruments under ASC 815:		
Foreign currency forward contracts	\$ (1,801)	\$ (170)
Embedded derivatives	(6)	122
	\$ (1,807)	\$ (48)

Note 7. Investments Held in Rabbi Trust

The Company’s investments held in rabbi trust, classified as trading securities and included in “Other current assets” in the accompanying Condensed Consolidated Balance Sheets, at fair value, consist of the following (in thousands):

	September 30, 2018		December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 8,588	\$ 12,569	\$ 8,096	\$ 11,627

The mutual funds held in rabbi trust were 73% equity-based and 27% debt-based as of September 30, 2018. Net investment income (losses), included in “Other income (expense), net” in the accompanying Condensed Consolidated Statements of Operations consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net realized gains (losses) from sale of trading securities	\$ 10	\$ 13	\$ 42	\$ 162
Dividend and interest income	31	28	99	67
Net unrealized holding gains (losses)	366	401	383	943
Net investment income (losses)	\$ 407	\$ 442	\$ 524	\$ 1,172

Note 8. Deferred Grants

Deferred grants, net of accumulated amortization, consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Property grants	\$ 2,460	\$ 2,843
Lease grants	397	507
Employment grants	39	61
Total deferred grants	2,896	3,411
Less: Property grants - short-term ^{(1),(2)}	(393)	-
Less: Lease grants - short-term ⁽¹⁾	(111)	(117)
Less: Employment grants - short-term ⁽¹⁾	(39)	(61)
Total long-term deferred grants	\$ 2,353	\$ 3,233

⁽¹⁾ Included in "Other accrued expenses and current liabilities" in the accompanying Condensed Consolidated Balance Sheets.

⁽²⁾ Represents deferred grants related to property included in "Assets held-for-sale" that met the held-for-sale criteria as of September 30, 2018.

Note 9. Borrowings

On May 12, 2015, the Company entered into a \$440 million revolving credit facility (the "Credit Agreement") with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner, Administrative Agent, Swing Line Lender and Issuing Lender ("KeyBank"). The Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants.

The Credit Agreement includes a \$200 million alternate-currency sub-facility, a \$10 million swingline sub-facility and a \$35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. The Company is not

currently aware of any inability of its lenders to provide access to the full commitment of funds that exist under the revolving credit facility, if necessary. However, there can be no assurance that such facility will be available to the Company, even though it is a binding commitment of the financial institutions.

The Credit Agreement matures on May 12, 2020, and had outstanding borrowings of \$82.0 million and \$275.0 million at September 30, 2018 and December 31, 2017, respectively, included in “Long-term debt” in the accompanying Condensed Consolidated Balance Sheets.

Borrowings under the Credit Agreement bear interest at the rates set forth in the Credit Agreement. In addition, the Company is required to pay certain customary fees, including a commitment fee determined quarterly based on the Company’s leverage ratio and due quarterly in arrears as calculated on the average unused amount of the Credit Agreement.

The Credit Agreement is guaranteed by all the Company’s existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all the direct foreign subsidiaries of the Company and those of the guarantors.

In May 2015, the Company paid an underwriting fee of \$0.9 million for the Credit Agreement, which is deferred and amortized over the term of the loan, along with the deferred loan fees of \$0.4 million related to the previous credit agreement.

The following table presents information related to our credit agreements (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average daily utilization	\$ 101,087	\$ 267,000	\$ 107,454	\$ 267,000
Interest expense ^{(1), (2)}	\$ 923	\$ 1,772	\$ 2,839	\$ 4,815
Weighted average interest rate ⁽²⁾	3.6	% 2.6	% 3.6	% 2.4

⁽¹⁾ Excludes the amortization of deferred loan fees.

⁽²⁾ Includes the commitment fee.

In January 2018, the Company repaid \$175.0 million of long-term debt outstanding under its Credit Agreement, primarily using funds repatriated from its foreign subsidiaries.

Note 10. Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) consist of the following (in thousands):

	Unrealized					
	Unrealized		Unrealized		Actuarial	
	Gain	(Loss)	Gain	(Loss)	Gain	Unrealized
	Foreign	(Loss) on	on	(Loss)	Related	Gain
	Currency	Net	Cash Flow	to	(Loss) on	
	Translation	Investment	Hedging	Pension	Postretirement	
	Adjustments	Hedge	Instruments	Liability	Obligation	Total
Balance at January 1, 2017	\$ (72,393)	\$ 6,266	\$ (2,225)	\$ 1,125	\$ 200	\$(67,027)
Pre-tax amount	36,101	(8,352)	2,276	527	(30)	30,522
Tax (provision) benefit	-	3,132	(54)	(18)	-	3,060
Reclassification of (gain) loss to net income	-	-	2,444	(53)	(50)	2,341
Foreign currency translation	(23)	-	30	(7)	-	-
Balance at December 31, 2017	(36,315)	1,046	2,471	1,574	120	(31,104)
Pre-tax amount	(15,757)	-	(4,855)	-	-	(20,612)
Tax (provision) benefit	-	-	201	57	-	258
Reclassification of (gain) loss to net income	-	-	(662)	(51)	(104)	(817)
Foreign currency translation	274	-	(155)	(119)	-	-
Balance at September 30, 2018	\$ (51,798)	\$ 1,046	\$ (3,000)	\$ 1,461	\$ 16	\$(52,275)

The following table summarizes the amounts reclassified to net income from accumulated other comprehensive income (loss) and the associated line item in the accompanying Condensed Consolidated Statements of Operations (in thousands):

	Statements of				
	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Operations Location
Gain (loss) on cash flow hedging instruments: ⁽¹⁾					
Pre-tax amount	\$ 183	\$ (766)	\$ 619	\$ (2,346)	Revenues
Tax (provision) benefit	19	25	43	83	Income taxes
Reclassification to net income	202	(741)	662	(2,263)	
Actuarial gain (loss) related to pension liability: ⁽²⁾					
Pre-tax amount					Other income (expense), net
	13	10	42	31	
Tax (provision) benefit	3	-	9	-	Income taxes
Reclassification to net income	16	10	51	31	
Gain (loss) on postretirement obligation: ^{(2),(3)}					
Reclassification to net income	84	12	104	37	Other income (expense), net
Total reclassification of gain (loss) to net income	\$ 302	\$ (719)	\$ 817	\$ (2,195)	

⁽¹⁾ See Note 6, Financial Derivatives, for further information.

⁽²⁾ See Note 14, Defined Benefit Pension Plan and Postretirement Benefits, for further information.

⁽³⁾ No related tax (provision) benefit.

As discussed in Note 11, Income Taxes, for periods prior to December 31, 2017, any remaining outside basis differences associated with the Company's investments in its foreign subsidiaries are considered to be indefinitely reinvested and no provision for income taxes on those earnings or translation adjustments has been provided.

Note 11. Income Taxes

The Company's effective tax rates were 4.4% and 11.2% for the three months ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate in 2018 compared to 2017 was primarily due to a \$0.9 million increase in benefit associated with the resolution of uncertain tax positions and ancillary issues as well as a \$0.5 million benefit related to the decrease in the provisional estimate recorded at December 31, 2017 as a result of the 2017 Tax Reform Act. The effective rate impact of these benefits was partially offset by the 2017 recognition of a \$0.8 million benefit related to the increase in anticipated tax credits and reductions in estimated non-deferred foreign income, as well as a \$0.3 million benefit for the release of a valuation allowance. In addition, the Company recognized a benefit of \$0.3 million from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. The decrease in the effective tax rate was also affected by shifts in earnings among the various jurisdictions in which the Company operates. Several additional factors, none of which are individually material, also impacted the rate. The difference between the Company's effective tax rate as compared to the U.S. statutory federal tax rate of 21.0% was primarily due to the aforementioned factors as well as the recognition of tax benefits resulting from foreign tax rate differentials, income earned in certain tax holiday jurisdictions and tax credits, partially offset by the tax impact of permanent differences, state income and foreign withholding.

The Company's effective tax rates were 2.6% and 18.1% for the nine months ended September 30, 2018 and 2017, respectively. The decrease in the effective tax rate was primarily due to a net \$3.1 million increase in benefit associated with the resolution of uncertain tax positions as well as the aforementioned \$0.5 million decrease in the provisional estimate. This increase in benefit was partially offset by the recognition in 2017 of \$1.1 million of discrete items mentioned above. In addition, the Company recognized a benefit of \$1.4 million from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. These net benefits were partially offset by a \$0.6 million decrease in the amount of excess tax benefits from stock-based compensation recognized in the nine months ended September 30, 2018 as compared to September 30, 2017. The decrease in the effective tax rate was also affected by shifts in earnings among the various jurisdictions in which the Company operates. Several additional factors, none of which are individually material, also impacted the rate. The difference between the Company's effective tax rate as compared to the U.S. statutory federal tax rate of 21.0% was primarily due to the aforementioned

factors as well as the recognition of tax benefits resulting from foreign tax rate differentials, income earned in certain tax holiday jurisdictions and tax credits, partially offset by the tax impact of permanent differences, state income and foreign withholding.

The 2017 Tax Reform Act made significant changes to the Internal Revenue Code, including, but not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a participation exemption regime, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The Company estimated its provision for income taxes in accordance with the 2017 Tax Reform Act and guidance available upon enactment and as a result recorded \$32.7 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was signed into law. The \$32.7 million estimate includes the provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings of \$32.7 million based on cumulative foreign earnings of \$531.8 million and \$1.0 million of foreign withholding taxes on certain anticipated distributions. The provisional tax expense was partially offset by a provisional benefit of \$1.0 million related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future. The Company recorded a \$0.5 million adjustment to the provisional amounts as of September 30, 2018. The Company anticipates finalizing these provisional amounts no later than the fourth quarter of 2018.

Prior to December 31, 2017, no additional income taxes have been provided for any remaining outside basis differences inherent in the Company's investments in its foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining outside basis difference in these entities is not practicable due to the inherent complexity of the multi-national tax environment in which the Company operates.

On December 22, 2017, the SEC issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Reform Act. In accordance with SAB 118, the Company has determined that the deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at September 30, 2018 and December 31, 2017. The Company recorded a \$0.5 million adjustment to the provisional amount as of September 30, 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of identification, but no later than one year from the enactment date.

The 2017 Tax Reform Act instituted a number of new provisions effective January 1, 2018, including GILTI, Foreign Derived Intangible Income ("FDII") and Base Erosion and Anti-Abuse Tax ("BEAT"). The Company made a reasonable estimate of the impact of each of these provisions of the 2017 Tax Reform Act on its effective tax rate for the three and nine months ended September 30, 2018 and determined that the resulting impact was not material. The Company will continue to refine its provisional estimates related to the GILTI, FDII and BEAT rules as additional information is made available.

The Company received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and the Company paid mandatory security deposits to Canada as part of this process. As of June 30, 2017, the Company determined that all material aspects of the Canadian audit were effectively settled pursuant to ASC 740. As a result, the Company recognized an income tax benefit of \$1.2 million, net of the U.S. tax impact, at that time and the deposits were applied against the anticipated liability. During the nine months ended September 30, 2018, the Company finalized procedures ancillary to the Canadian audit and recognized an additional \$2.8 million income tax benefit due to the elimination of certain assessed penalties, interest and withholding taxes.

With the effective settlement of the Canadian audit, the Company has no significant tax jurisdictions under audit; however, the Company is currently under audit in several tax jurisdictions. The Company believes it is adequately reserved for the remaining audits and their resolution is not expected to have a material impact on its financial conditions and results of operations.

Note 12. Earnings Per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic:				
Weighted average common shares outstanding	42,136	41,879	42,070	41,800
Diluted:				
Dilutive effect of stock appreciation rights, restricted				
stock, restricted stock units and shares held in				
rabbi trust	68	154	131	206
Total weighted average diluted shares outstanding	42,204	42,033	42,201	42,006
Anti-dilutive shares excluded from the diluted earnings				
per share calculation	23	14	11	16

On August 18, 2011, the Company's Board of Directors (the "Board") authorized the Company to purchase up to 5.0 million shares of its outstanding common stock (the "2011 Share Repurchase Program"). On March 16, 2016, the Board authorized an increase of 5.0 million shares to the 2011 Share Repurchase Program for a total of 10.0 million shares. A total of 5.3 million shares have been repurchased under the 2011 Share Repurchase Program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date.

There were no shares repurchased under the Company's 2011 Share Repurchase Program during the three and nine months ended September 30, 2018 and 2017.

Note 13. Commitments and Loss Contingency

Commitments

During the nine months ended September 30, 2018, the Company entered into several leases in the ordinary course of business. The following is a schedule of future minimum rental payments required under operating leases that have noncancelable lease terms as of September 30, 2018, including the impact of the leases assumed in connection with the acquisition of WhistleOut (in thousands):

	Amount
2018 (remaining three months)	\$579
2019	8,777
2020	9,319
2021	9,425
2022	8,621
2023	3,698
2024 and thereafter	8,321
	\$48,740

During the nine months ended September 30, 2018, the Company entered into agreements with third-party vendors in the ordinary course of business whereby the Company committed to purchase goods and services used in its normal operations. These agreements generally are not cancelable, range from one to five-year periods and may contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments. The following is a schedule of the future minimum purchases remaining under the agreements as of September 30, 2018, including the impact of purchase commitments assumed in connection with the acquisition of WhistleOut (in thousands):

	Amount
2018 (remaining three months)	\$7,856
2019	9,434
2020	3,730
2021	193
2022	-
2023	-
2024 and thereafter	-
	\$21,213

Loss Contingency

Contingencies are recorded in the consolidated financial statements when it is probable that a liability will be incurred and the amount of the loss is reasonably estimable, or otherwise disclosed, in accordance with ASC 450, Contingencies (“ASC 450”). Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. In the event the Company determines that a loss is not probable, but is reasonably possible, and it becomes possible to develop what the Company believes to be a reasonable range of possible loss, then the Company will include disclosures related to such matter as appropriate and in compliance with ASC 450.

The Company received a state audit assessment and is currently rebutting the position. The Company has determined that the likelihood of a liability is reasonably possible and developed a range of possible loss up to \$1.1 million, net of federal benefit.

The Company, from time to time, is involved in legal actions arising in the ordinary course of business.

On August 24, 2017, a collective action lawsuit was filed against the Company in the United States District Court for the District of Colorado (the “Court”), *Slaughter v. Sykes Enterprises, Inc.*, Case No. 17 Civ. 2038. The lawsuit claimed that the Company failed to pay certain employees overtime compensation for the hours they worked over forty in a workweek, as required by the Fair Labor Standards Act. On October 17, 2018, the parties entered into a verbal agreement to fully resolve all claims and the fees for the plaintiffs’ attorneys for a total payment of \$1.2 million. The settlement agreement must still be approved by the Court. A charge of \$1.2 million was included in “General and administrative” in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018. As of September 30, 2018, the settlement had not been paid, and the \$1.2 million has been included in “Other accrued expenses and current liabilities” in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2018.

With respect to any such other currently pending matters, management believes that the Company has adequate legal defenses and/or, when possible and appropriate, has provided adequate accruals related to those matters such that the ultimate outcome will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 14. Defined Benefit Pension Plan and Postretirement Benefits

Defined Benefit Pension Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost	\$ 106	\$ 118	\$ 329	\$ 371
Interest cost	46	46	144	144
Recognized actuarial (gains)	(13)	(10)	(42)	(31)
	\$ 139	\$ 154	\$ 431	\$ 484

The Company's service cost for its qualified pension plans was included in "Direct salaries and related costs" and "General and administrative" costs in its Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017. The remaining components of net periodic benefit cost were included in "Other income (expense), net" in the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017. See Note 1, Overview and Basis of Presentation, for further information related to the adoption of ASU 2016-18.

Employee Retirement Savings Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
401(k) plan contributions	\$ 392	\$ 484	\$ 1,195	\$ 1,104

Split-Dollar Life Insurance Arrangement

In 1996, the Company entered into a split-dollar life insurance arrangement to benefit the former Chairman and Chief Executive Officer of the Company. Under the terms of the arrangement, the Company retained a collateral interest in the policy to the extent of the premiums paid by the Company. The postretirement benefit obligation included in "Other long-term liabilities" and the unrealized gains (losses) included in "Accumulated other comprehensive income" in the accompanying Condensed Consolidated Balance Sheets were as follows (in thousands):

September 30, 2018 December 31, 2017

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Postretirement benefit obligation	\$	15	\$	15
Unrealized gains (losses) in AOCI ⁽¹⁾		16		120

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

Note 15. Stock-Based Compensation

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Stock-based compensation reversal (expense)				
⁽¹⁾	\$ (1,567)	\$ 303	\$ (5,317)	\$ (4,429)
Income tax benefit ⁽²⁾	376	(161)	1,276	1,661

⁽¹⁾ Included in "General and administrative" costs in the accompanying Condensed Consolidated Statements of Operations.

⁽²⁾ Included in "Income taxes" in the accompanying Condensed Consolidated Statements of Operations.

There were no capitalized stock-based compensation costs as of September 30, 2018 and December 31, 2017.

Beginning January 1, 2017, as a result of the adoption of ASU 2016-09, Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), the Company began accounting for forfeitures as they occur, rather than estimating expected forfeitures. The net cumulative effect of this change was recognized as a \$0.2 million reduction to retained earnings as of January 1, 2017. Additionally, excess tax benefits (deficiencies) from stock compensation are included in “Income taxes” in the accompanying Condensed Consolidated Statements of Operations subsequent to the adoption of ASU 2016-09.

2011 Equity Incentive Plan — The Company’s Board of Directors (the “Board”) adopted the Sykes Enterprises, Incorporated 2011 Equity Incentive Plan (the “2011 Plan”) on March 23, 2011, as amended on May 11, 2011 to reduce the number of shares of common stock available to 4.0 million shares. The 2011 Plan was approved by the shareholders at the May 2011 Annual Shareholders’ Meeting. The 2011 Plan replaced and superseded the Company’s 2001 Equity Incentive Plan (the “2001 Plan”), which expired on March 14, 2011. The outstanding awards granted under the 2001 Plan will remain in effect until their exercise, expiration or termination. The 2011 Plan permits the grant of restricted stock, stock appreciation rights, stock options and other stock-based awards to certain employees of the Company, members of the Company’s Board and certain non-employees who provide services to the Company in order to encourage them to remain in the employment of, or to faithfully provide services to, the Company and to increase their interest in the Company’s success.

Stock Appreciation Rights — The Board, at the recommendation of the Compensation and Human Resources Development Committee (the “Compensation Committee”), has approved in the past, and may approve in the future, awards of stock-settled stock appreciation rights (“SARs”) for eligible participants. SARs represent the right to receive, without payment to the Company, a certain number of shares of common stock, as determined by the Compensation Committee, equal to the amount by which the fair market value of a share of common stock at the time of exercise exceeds the grant price. The SARs are granted at the fair market value of the Company’s common stock on the date of the grant and vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date. The SARs have a term of 10 years from the date of grant. The fair value of each SAR is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions.

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

	Nine Months Ended September 30,			
	2018		2017	
Expected volatility	21.4	%	19.3	%
Weighted-average volatility	21.4	%	19.3	%
Expected dividend rate	0.0	%	0.0	%
Expected term (in years)	5.0		5.0	
Risk-free rate	2.5	%	1.9	%

The following table summarizes SARs activity as of September 30, 2018 and for the nine months then ended:

		Weighted		
		Average		
		Weighted	Remaining	Aggregate
		Average	Contractual	
		Exercise	Term	Intrinsic
			(in years)	Value (000s)
Stock Appreciation Rights	Shares (000s)	Price		
Outstanding at January 1, 2018	734	\$ -		
Granted	333	\$ -		
Exercised	(50)	\$ -		
Forfeited or expired	(43)	\$ -		
Outstanding at September 30, 2018	974	\$ -	8.4	\$ 1,909
Vested or expected to vest at September 30, 2018	974	\$ -	8.4	\$ 1,909
Exercisable at September 30, 2018	356	\$ -	7.3	\$ 914

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

	Nine Months Ended September 30,	
	2018	2017
Number of SARs granted	333	396
Weighted average grant-date fair value per SAR	\$ 6.84	\$ 6.24
Intrinsic value of SARs exercised	\$ 316	\$ 1,678
Fair value of SARs vested	\$ 1,950	\$ 1,846

The following table summarizes nonvested SARs activity as of September 30, 2018 and for the nine months then ended:

	Weighted	
	Average	
	Grant-Date	
Nonvested Stock Appreciation Rights	Shares (000s)	Fair Value
Nonvested at January 1, 2018	600	\$ 6.88
Granted	333	\$ 6.84
Vested	(272)) \$ 7.16
Forfeited or expired	(43)) \$ 6.75
Nonvested at September 30, 2018	618	\$ 6.74

As of September 30, 2018, there was \$3.1 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested SARs granted under the 2011 Plan. This cost is expected to be recognized over a weighted average period of 1.4 years.

Restricted Shares – The Board, at the recommendation of the Compensation Committee, has approved in the past, and may approve in the future, awards of performance and employment-based restricted shares (“restricted shares”) for eligible participants. In some instances, where the issuance of restricted shares has adverse tax consequences to the recipient, the Board may instead issue restricted stock units (“RSUs”). The restricted shares are shares of the Company’s common stock (or in the case of RSUs, represent an equivalent number of shares of the Company’s common stock) which are issued to the participant subject to (a) restrictions on transfer for a period of time and (b) forfeiture under certain conditions. The performance goals, including revenue growth and income from operations targets, provide a range of vesting possibilities from 0% to 100% and will be measured at the end of the performance period. If the performance conditions are met for the performance period, the shares will vest and all restrictions on the transfer of the restricted shares will lapse (or in the case of RSUs, an equivalent number of shares of the Company’s common stock will be issued to the recipient). The Company recognizes compensation cost, net of actual forfeitures, based on

the fair value (which approximates the current market price) of the restricted shares (and RSUs) on the date of grant ratably over the requisite service period based on the probability of achieving the performance goals.

Changes in the probability of achieving the performance goals from period to period will result in corresponding changes in compensation expense. The employment-based restricted shares currently outstanding vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date.

The following table summarizes nonvested restricted shares/RSUs activity as of September 30, 2018 and for the nine months then ended:

		Weighted
		Average
		Grant-Date
Nonvested Restricted Shares and RSUs	Shares (000s)	Fair Value
Nonvested at January 1, 2018	1,109	\$ 28.50
Granted	492	\$ 28.16
Vested	(323)) \$ 25.78
Forfeited or expired	(123)) \$ 28.15
Nonvested at September 30, 2018	1,155	\$ 29.15

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

	Nine Months Ended September 30,	
	2018	2017
Number of restricted shares/RSUs granted	492	480
Weighted average grant-date fair value per restricted share/RSU	\$ 28.16	\$ 29.42
Fair value of restricted shares/RSUs vested	\$ 8,342	\$ 6,868

As of September 30, 2018, there was \$29.8 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested restricted shares/RSUs granted under the 2011 Plan. This cost is expected to be recognized over a weighted average period of 1.6 years.

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

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

In addition to the Annual Retainer award, the 2004 Fee Plan also provided for any non-employee Chairman of the Board to receive an additional annual cash award of \$100,000, and each non-employee director serving on a committee of the Board to receive an additional annual cash award. The additional annual cash award for the Chairperson of the Audit Committee is \$20,000 and Audit Committee members are entitled to an annual cash award of \$10,000. The annual cash awards for the Chairpersons of the Compensation Committee, Finance Committee and Nominating and Corporate Governance Committee are \$15,000, \$12,500 and \$12,500, respectively, and all other

members of such committees are entitled to an annual cash award of \$7,500.

The 2004 Fee Plan expired in May 2014, prior to the 2014 annual shareholders' meeting. In March 2014, upon the recommendation of the Compensation Committee, the Board determined that, following the expiration of the 2004 Fee Plan, the compensation of non-employee Directors should continue on the same terms as provided in the Fifth Amended and Restated Non-Employee Director Fee Plan, except the amounts of cash and equity grants shall be determined annually by the Board and that the stock portion of such compensation would be issued under the 2011 Plan.

At the Board's regularly scheduled meeting on December 10, 2014, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash and equity compensation payable to non-employee directors beginning on the date of the 2015 annual shareholders' meeting would be increased as follows: cash compensation would be increased by \$5,000 per year to a total of \$55,000 and equity compensation would be increased by \$25,000 per year to a total of \$100,000. No change would be made in the additional amounts payable to the

Chairman of the Board or the Chairs or members of the various Board committees for their service on such committees, and no changes would be made in the payment terms described above for such cash and equity compensation.

At the Board's regularly scheduled meeting on December 6, 2016, upon the recommendation of the Compensation Committee, the Board determined that the amount of the cash compensation payable to non-employee directors beginning on the date of the 2017 annual shareholders' meeting would be increased by \$15,000 per year to a total of \$70,000.

The Board may pay additional cash compensation to any non-employee director for services on behalf of the Board over and above those typically expected of directors, including but not limited to service on a special committee of the Board. Directors who are executive officers of the Company receive no compensation for service as members of either the Board of Directors or any committees of the Board.

The following table summarizes nonvested common stock share award activity as of September 30, 2018 and for the nine months then ended:

		Weighted Average Grant-Date
Nonvested Common Stock Share Awards	Shares (000s)	Fair Value
Nonvested at January 1, 2018	8	\$ 32.21
Granted	34	\$ 27.68
Vested	(23)) \$ 29.15
Forfeited or expired	(2)) \$ 27.68
Nonvested at September 30, 2018	17	\$ 27.73

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

	Nine Months Ended September 30,	
	2018	2017
Number of share awards granted	34	24
Weighted average grant-date fair value per share award	\$ 27.68	\$ 32.93
Fair value of share awards vested	\$ 665	\$ 640

As of September 30, 2018, there was \$0.4 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested common stock share awards granted under the Fee Plan. This cost is expected to be recognized over a weighted average period of less than one year.

Deferred Compensation Plan — The Company’s non-qualified Deferred Compensation Plan (the “Deferred Compensation Plan”), which is not shareholder-approved, was adopted by the Board effective December 17, 1998. It was last amended and restated on August 15, 2017, effective January 1, 2018. Eligibility is limited to a select group of key management and employees who are expected to receive an annualized base salary (which will not take into account bonuses or commissions) that exceeds the amount taken into account for purposes of determining highly compensated employees under Section 414(q) of the Internal Revenue Code of 1986 based on the current year’s base salary and applicable dollar amounts. The Deferred Compensation Plan provides participants with the ability to defer between 1% and 80% of their compensation (between 1% and 100% prior to June 30, 2016, the effective date of the first amendment) until the participant’s retirement, termination, disability or death, or a change in control of the Company. Using the Company’s common stock, the Company matches 50% of the amounts deferred by participants on a quarterly basis up to a total of \$12,000 per year for the president, chief executive officer and executive vice presidents, \$7,500 per year for senior vice presidents, global vice presidents and vice presidents, and, effective January 1, 2017, \$5,000 per year for all other participants (there was no match for other participants prior to January 1, 2017, the effective date of the second amendment). Matching contributions and the associated earnings vest over a seven-year service period. Vesting will be accelerated in the event of the participant’s death or disability, a change in control or retirement (defined as separate from service after age 65). In the event of a distribution of benefits as a result of a change in control of the Company, the Company will increase the benefit by an amount sufficient to offset the income tax obligations created by the distribution of benefits. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include investments in various mutual funds and shares of the Company’s common stock (see Note 7, Investments Held in Rabbi Trust).

As of September 30, 2018 and December 31, 2017, liabilities of \$12.5 million and \$11.6 million, respectively, of the Deferred Compensation Plan were recorded in “Accrued employee compensation and benefits” in the accompanying Condensed Consolidated Balance Sheets. Additionally, the Company’s common stock match associated with the Deferred Compensation Plan, with a carrying value of approximately \$2.3 million and \$2.1 million as of September 30, 2018 and December 31, 2017, respectively, is included in “Treasury stock” in the accompanying Condensed Consolidated Balance Sheets.

The following table summarizes nonvested common stock activity as of September 30, 2018 and for the nine months then ended:

		Weighted Average Grant-Date
Nonvested Common Stock	Shares (000s)	Fair Value
Nonvested at January 1, 2018	3	\$ 29.56
Granted	13	\$ 29.23
Vested	(9)	\$ 28.92
Forfeited or expired	-	\$ -
Nonvested at September 30, 2018	7	\$ 29.85

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

	Nine Months Ended September 30,	
	2018	2017
Number of shares of common stock granted	13	12
Weighted average grant-date fair value per common stock	\$ 29.23	\$ 30.39
Fair value of common stock vested	\$ 281	\$ 310
Cash used to settle the obligation	\$ 672	\$ 590

As of September 30, 2018, there was \$0.1 million of total unrecognized compensation cost, net of actual forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted average period of 3.6 years.

Note 16. Segments and Geographic Information

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

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

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

	Americas	EMEA	Other ⁽¹⁾	Consolidated
Three Months Ended September 30, 2018:				
Revenues	\$328,762	\$70,543	\$28	\$399,333
Percentage of revenues	82.3 %	17.7 %	0.0 %	100.0 %
Depreciation, net	\$11,838	\$1,473	\$761	\$14,072
Amortization of intangibles	\$3,439	\$199	\$-	\$3,638
Income (loss) from operations	\$25,666	\$5,098	\$(16,318)	\$14,446
Total other income (expense), net			(66)	(66)
Income taxes			(628)	(628)
Net income				\$13,752
Three Months Ended September 30, 2017:				
Revenues	\$341,334	\$65,957	\$18	\$407,309
Percentage of revenues	83.8 %	16.2 %	0.0 %	100.0 %
Depreciation, net	\$12,064	\$1,375	\$788	\$14,227
Amortization of intangibles	\$5,081	\$212	\$-	\$5,293
Income (loss) from operations	\$35,932	\$4,523	\$(14,190)	\$26,265
Total other income (expense), net			(1,824)	(1,824)
Income taxes			(2,746)	(2,746)
Net income				\$21,695
Nine Months Ended September 30, 2018:				
Revenues	\$996,524	\$213,890	\$75	\$1,210,489
Percentage of revenues	82.3 %	17.7 %	0.0 %	100.0 %
Depreciation, net	\$36,856	\$4,360	\$2,252	\$43,468
Amortization of intangibles	\$10,846	\$634	\$-	\$11,480
Income (loss) from operations	\$71,354	\$11,957	\$(48,121)	\$35,190
Total other income (expense), net			(2,457)	(2,457)
Income taxes			(855)	(855)
Net income				\$31,878
Nine Months Ended September 30, 2017:				
Revenues	\$977,136	\$189,564	\$61	\$1,166,761
Percentage of revenues	83.8 %	16.2 %	0.0 %	100.0 %
Depreciation, net	\$35,374	\$3,815	\$2,206	\$41,395
Amortization of intangibles	\$15,048	\$726	\$-	\$15,774
Income (loss) from operations	\$100,031	\$12,266	\$(48,651)	\$63,646
Total other income (expense), net			(3,483)	(3,483)
Income taxes			(10,911)	(10,911)
Net income				\$49,252

⁽¹⁾ Other items (including corporate and other costs, other income and expense, and income taxes) are included for purposes of reconciling to the Company's consolidated totals as shown in the tables above for the periods shown. Inter-segment revenues are not material to the Americas and EMEA segment results.

The Company's reportable segments are evaluated regularly by its chief operating decision maker to decide how to allocate resources and assess performance. The chief operating decision maker evaluates performance based upon

reportable segment revenue and income (loss) from operations. Because assets by segment are not reported to or used by the Company's chief operating decision maker to allocate resources, or to assess performance, total assets by segment are not disclosed.

The following table represents a disaggregation of revenue from contracts with customers by geographic location and by the reportable segment for each category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas:				
United States	\$ 161,429	\$ 166,527	\$ 498,523	\$ 471,825
The Philippines	57,953	62,958	174,610	178,277
Costa Rica	33,120	32,882	96,168	99,131
Canada	25,549	28,423	77,566	85,165
El Salvador	20,732	19,792	61,327	56,506
People's Republic of China	8,337	9,659	25,834	28,201
Australia	8,619	7,634	24,021	20,724
Mexico	6,221	6,540	18,171	17,981
Other	6,802	6,919	20,304	19,326
Total Americas	328,762	341,334	996,524	977,136
EMEA:				
Germany	22,448	20,396	69,027	59,290
Sweden	13,422	14,639	41,226	42,983
United Kingdom	12,333	10,166	37,640	29,306
Romania	8,704	7,157	25,031	20,235
Other	13,636	13,599	40,966	37,750
Total EMEA	70,543	65,957	213,890	189,564
Total Other	28	18	75	61
	\$ 399,333	\$ 407,309	\$ 1,210,489	\$ 1,166,761

Revenues are attributed to countries based on location of customer, except for revenues for The Philippines, Costa Rica, the People's Republic of China and India which are primarily comprised of customers located in the U.S. but serviced by centers in those respective geographic locations.

Note 17. Other Income (Expense)

Other income (expense), net consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Foreign currency transaction gains (losses)	\$ 1,066	\$ (77)	\$ 3,155	\$ 567
Gains (losses) on derivative instruments not				
designated as hedges	(380)	(445)	(1,807)	(48)

Other miscellaneous income (expense)	233	550	(811)	1,115
	\$ 919	\$ 28	\$ 537	\$ 1,634

Note 18. Related Party Transactions

In January 2008, the Company entered into a lease for a customer engagement center located in Kingstree, South Carolina. The landlord, Kingstree Office One, LLC, is an entity controlled by John H. Sykes, the founder, former Chairman and former Chief Executive Officer of the Company and the father of Charles Sykes, President and Chief Executive Officer of the Company. The lease payments on the 20-year lease were negotiated at or below market rates, and the lease is cancellable at the option of the Company. The Company paid \$0.1 million to the landlord during both the three months ended September 30, 2018 and 2017 and \$0.3 million during both the nine months ended September 30, 2018 and 2017 under the terms of the lease.

During the three and nine months ended September 30, 2018, the Company contracted to receive services from XSell, an equity method investee, for \$0.1 million and \$0.1 million, respectively. There were no such transactions in 2017. These related party transactions occurred in the normal course of business on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, were measured at the exchange amount.

Note 19. Subsequent Event

On October 18, 2018, the Company as guarantor and its wholly-owned subsidiary, SEI International Services S.a.r.l, a Luxembourg company, entered into the Symphony Purchase Agreement with Pascal Baker, Ian Barkin, David Brain, David Poole, FIS Nominee Limited, Baronsmead Venture Trust plc and Baronsmead Second Venture Trust plc (together, the “Symphony Sellers”) to acquire all of the outstanding shares of Symphony Ventures Ltd.

Symphony, headquartered in London, England, provides robotic process automation (“RPA”) services, offering RPA consulting, implementation, hosting and managed services for front, middle and back-office processes. Symphony serves numerous industries globally, including financial services, healthcare, business services, manufacturing, consumer products, communications, media and entertainment.

The aggregate purchase price of GBP 52.6 million (\$67.9 million) is subject to certain post-closing adjustments related to Symphony’s working capital. The Company paid GBP 44.6 million (\$57.6 million) at the closing of the transaction on November 1, 2018 using cash on hand as well as \$31.0 million of additional borrowings under the Company’s Credit Agreement. The remaining GBP 8.0 million (\$10.3 million) of purchase price has been deferred and will be paid in equal installments over the next three years. The Symphony Purchase Agreement also provides for a three-year, retention based earnout payable in RSUs with a value of GBP 3.0 million.

The Symphony Purchase Agreement contains customary representations and warranties, indemnification obligations and covenants.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Sykes Enterprises, Incorporated

Tampa, Florida

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of September 30, 2018, the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2018 and 2017, changes in shareholders' equity for the nine-month period ended September 30, 2018, and of cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 1, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Deloitte & Touche LLP

Tampa, Florida

November 6, 2018

46

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated ("SYKES," "our," "we" or "us") Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission ("SEC").

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

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

Executive Summary

We are a leading provider of multichannel demand generation and global comprehensive customer engagement services. We provide differentiated full lifecycle customer engagement solutions and services to Global 2000 companies and their end customers primarily in the communications, financial services, technology, transportation and leisure, healthcare, retail and other industries. Our differentiated full lifecycle management services platform effectively engages customers at every touchpoint within the customer journey, including digital marketing and acquisition, sales expertise, customer service, technical support and retention. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, Australia and the Asia Pacific Rim) and EMEA (Europe, the Middle East and Africa). Our Americas and EMEA regions primarily provide customer engagement solutions and services with an emphasis on inbound multichannel demand generation, customer service and technical support to our clients' customers. These services, which represented 99.5% and 99.5% of consolidated revenues during the three months ended September 30, 2018 and 2017, respectively, and 99.5% and 99.5% of consolidated revenues during the nine months ended September 30, 2018 and 2017, respectively, are delivered through

multiple communication channels including phone, e-mail, social media, text messaging, chat and digital self-service. We also provide various enterprise support services in the United States (“U.S.”) that include services for our clients’ internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, we also provide fulfillment services, which includes order processing, payment processing, inventory control, product delivery and product returns handling. Our complete service offering helps our clients acquire, retain and increase the lifetime value of their customer relationships. We have developed an extensive global reach with customer engagement centers across six continents, including North America, South America, Europe, Asia, Australia and Africa. We deliver cost-effective solutions that generate demand, enhance the customer service experience, promote stronger brand loyalty, and bring about high levels of performance and profitability.

Recent Developments

Americas 2018 Exit Plan

During the second quarter of 2018, we initiated a restructuring plan to streamline excess capacity through targeted seat reductions (the “Americas 2018 Exit Plan”) in an on-going effort to manage and optimize capacity utilization. The Americas 2018 Exit Plan includes, but is not limited to, closing customer contact management centers and consolidating leased space in various locations in the U.S. and Canada. We anticipate finalizing the remainder of the site closures under the Americas 2018 Exit Plan by December 2018.

The actions are expected to impact approximately 5,000 seats, of which 4,200 seats have been rationalized as of September 30, 2018. We anticipate annualized gross general and administrative cost savings, and lower depreciation expense of approximately \$26.0 million as a result of the 2018 site closures.

See Note 3, Costs Associated with Exit and Disposal Activities, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

2017 Tax Reform Act

In December 2017, the President of the United States (“U.S.”) signed into law the Tax Cuts and Jobs Act (the “2017 Tax Reform Act”). In general, the 2017 Tax Reform Act reduces the U.S. federal corporate tax rate from 35% to 21%, effective in 2018. The 2017 Tax Reform Act moves from a worldwide business taxation approach to a participation exemption regime. The 2017 Tax Reform Act also imposes base-erosion prevention measures on non-U.S. earnings of U.S. entities, as well as a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings which was recorded in the fourth quarter of 2017. The impact of the 2017 Tax Reform Act on our consolidated financial results began with the fourth quarter of 2017, the period of enactment. This impact, along with the transitional taxes discussed in Note 11, Income Taxes, in the accompanying “Notes to Condensed Consolidated Financial Statements” is reflected in the Other segment.

Telecommunications Assets Acquisition

In May 2017, we completed the acquisition of certain assets of a Global 2000 telecommunications service provider (the “Telecommunications Asset acquisition”) to strengthen and create new partnerships and expand our geographic footprint in North America. The total purchase price of \$7.5 million was funded through cash on hand. The results of operations of the Telecommunications Asset acquisition have been reflected in our consolidated financial statements since May 31, 2017.

WhistleOut Acquisition

On July 9, 2018, we completed the acquisition of WhistleOut Pty Ltd and WhistleOut Inc. (together, “WhistleOut”). WhistleOut is a consumer comparison platform focused on mobile, broadband and pay TV services, principally across Australia and the U.S. The acquisition broadens our digital marketing capabilities geographically and extends our home services product portfolio. The total purchase price of AUD 30.2 million (\$22.4 million) was funded by borrowings under our existing credit agreement. The results of WhistleOut’s operations have been reflected in our consolidated financial statements since July 9, 2018.

Results of Operations

The following table sets forth, for the periods indicated, the amounts presented in the accompanying Condensed Consolidated Statements of Operations as well as the change between the respective periods:

(in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	\$ Change	2018	2017	\$ Change
Revenues	\$399,333	\$407,309	\$(7,976)	\$1,210,489	\$1,166,761	\$43,728
Operating expenses:						
Direct salaries and related costs	261,474	267,489	(6,015)	801,470	763,240	38,230
General and administrative	105,148	93,355	11,793	309,625	277,635	31,990
Depreciation, net	14,072	14,227	(155)	43,468	41,395	2,073
Amortization of intangibles	3,638	5,293	(1,655)	11,480	15,774	(4,294)
Impairment of long-lived assets	555	680	(125)	9,256	5,071	4,185
Total operating expenses	384,887	381,044	3,843	1,175,299	1,103,115	72,184
Income from operations	14,446	26,265	(11,819)	35,190	63,646	(28,456)
Other income (expense):						
Interest income	183	169	14	529	468	61
Interest (expense)	(1,168)	(2,021)	853	(3,523)	(5,585)	2,062
Other income (expense), net	919	28	891	537	1,634	(1,097)
Total other income (expense), net	(66)	(1,824)	1,758	(2,457)	(3,483)	1,026
Income before income taxes	14,380	24,441	(10,061)	32,733	60,163	(27,430)
Income taxes	628	2,746	(2,118)	855	10,911	(10,056)
Net income	\$13,752	\$21,695	\$(7,943)	\$31,878	\$49,252	\$(17,374)

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Revenues

(in thousands)	Three Months Ended September 30,			2017		\$ Change
	2018			2017		
Americas	\$328,762	82.3%	Amount	\$341,334	83.8%	\$(12,572)
EMEA	70,543	17.7%	Amount	65,957	16.2%	4,586
Other	28	0.0%	Amount	18	0.0%	10
Consolidated	\$399,333	100.0%	Amount	\$407,309	100.0%	\$(7,976)

Consolidated revenues decreased \$8.0 million, or 2.0%, for the three months ended September 30, 2018 from the comparable period in 2017.

The decrease in Americas' revenues was due to end-of-life client programs of \$19.1 million, lower volumes from existing clients of \$2.3 million and a negative foreign currency impact of \$1.9 million, partially offset by new clients of \$10.7 million. Revenues from our offshore operations represented 40.5% of Americas' revenues in 2018, compared to 40.6% for the comparable period in 2017.

The increase in EMEA's revenues was due to higher volumes from existing clients of \$6.7 million and new clients of \$1.0 million, partially offset by end-of-life client programs of \$1.3 million and a negative foreign currency impact of \$1.8 million.

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and subsequent amendments (together, "ASC 606") on January 1, 2018. See Note 2, Revenues, in the accompanying "Notes to Condensed Consolidated Financial Statements" for further information.

On a consolidated basis, we had 49,600 brick-and-mortar seats as of September 30, 2018, a decrease of 2,800 seats from the comparable period in 2017. We rationalized 4,200 seats in the Americas as part of the 2018 Americas Exit Plan, which was partially offset by seat additions internationally for demand. The capacity utilization rate on a combined basis was 70% compared to 71% in the comparable period in 2017.

On a segment basis, 42,100 seats were located in the Americas, a decrease of 3,100 seats from the comparable period in 2017, and 7,500 seats were located in EMEA, an increase of 300 seats from the comparable period in 2017. Capacity utilization rates as of September 30, 2018 were 69% for the Americas and 76% for EMEA, compared to 70% and 80%, respectively, in the comparable period in 2017. The decrease in the Americas utilization was driven by lower demand and operational inefficiencies, while the reduction in EMEA was driven by lower demand in the communications vertical. We strive to attain a capacity utilization rate of 85% at each of our locations.

Direct Salaries and Related Costs

		Three Months Ended September 30,					
		2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	\$ Change	Change in % of Revenues	
Americas	\$212,457	64.6%	\$221,365	64.9%	\$(8,908)	-0.3%	
EMEA	49,017	69.5%	46,124	69.9%	2,893	-0.4%	
Consolidated	\$261,474	65.5%	\$267,489	65.7%	\$(6,015)	-0.2%	

The decrease of \$6.0 million in direct salaries and related costs included a positive foreign currency impact of \$2.9 million in the Americas and a positive foreign currency impact of \$1.5 million in EMEA.

The decrease in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower compensation costs of 2.8% driven by an increase in agent productivity principally within the communications and financial services verticals in the current period, lower communications costs of 0.2% and lower auto tow claim costs of 0.2%, partially offset by higher customer-acquisition advertising costs of 1.8%, higher severance costs related to the Americas 2018 Exit Plan of 0.9% and higher dues and subscription costs of 0.2%.

The decrease in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower compensation costs of 1.2% primarily due to an increase in agent productivity principally within the financial services vertical in the current period, partially offset by higher communications costs of 0.5% and higher other costs of 0.3%.

General and Administrative

		Three Months Ended September 30,					
		2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	\$ Change	Change in % of Revenues	
Americas	\$74,807	22.8%	\$66,212	19.4%	\$8,595	3.4%	
EMEA	14,756	20.9%	13,723	20.8%	1,033	0.1%	
Other	15,585	-	13,420	-	2,165	-	
Consolidated	\$105,148	26.3%	\$93,355	22.9%	\$11,793	3.4%	

The increase of \$11.8 million in general and administrative expenses included a positive foreign currency impact of \$1.0 million in the Americas and a positive foreign currency impact of \$0.5 million in EMEA.

The increase in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to higher facility-related costs of 1.3% resulting from the Americas 2018 Exit Plan (see Note 3, Costs Associated with Exit and Disposal Activities, in the accompanying "Notes to Condensed Consolidated Financial Statements" for further information), higher legal and professional fees of 0.7%, higher merger and integration costs of 0.6%, higher compensations costs of 0.6% and higher other costs of 0.5%, partially offset by lower software and maintenance costs of 0.3%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.7%, partially offset by lower advertising and marketing costs of 0.3% and lower other costs of 0.3%.

The increase of \$2.2 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to higher compensation costs of \$2.7 million and higher merger and integration costs of \$0.8 million, partially offset by lower severance costs of \$0.9 million, lower legal and professional fees of \$0.3 million and lower other costs of \$0.1 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

	Three Months Ended September 30, 2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	\$ Change	Change in % of Revenues
Depreciation, net:						
Americas	\$11,838	3.6%	\$12,064	3.5%	\$(226)	0.1%
EMEA	1,473	2.1%	1,375	2.1%	98	0.0%
Other	761	-	788	-	(27)	-
Consolidated	\$14,072	3.5%	\$14,227	3.5%	\$(155)	0.0%
Amortization of intangibles:						
Americas	\$3,439	1.0%	\$5,081	1.5%	\$(1,642)	-0.5%
EMEA	199	0.3%	212	0.3%	(13)	0.0%
Other	-	-	-	-	-	-
Consolidated	\$3,638	0.9%	\$5,293	1.3%	\$(1,655)	-0.4%
Impairment of long-lived						
assets:						
Americas	\$555	0.2%	\$680	0.2%	\$(125)	0.0%
EMEA	-	0.0%	-	0.0%	-	0.0%
Other	-	-	-	-	-	-
Consolidated	\$555	0.1%	\$680	0.2%	\$(125)	-0.1%

The decrease in depreciation was primarily due to the impact since the prior period of certain fully depreciated fixed assets and fixed assets that were impaired and disposed of as part of the Americas 2018 Exit Plan, partially offset by new depreciable fixed assets placed into service supporting site expansions and infrastructure upgrades.

The decrease in amortization was primarily due to certain fully amortized intangible assets.

See Note 3, Costs Associated with Exit and Disposal Activities, and Note 4, Fair Value, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information regarding the impairment of long-lived assets.

Other Income (Expense)

(in thousands)	Three Months Ended September 30,		\$ Change
	2018	2017	
Interest income	\$183	\$169	\$14

Interest (expense)	\$ (1,168)	\$ (2,021)	\$ 853
Other income (expense), net:			
Foreign currency transaction gains (losses)	\$ 1,066	\$ (77)	\$ 1,143
Gains (losses) on derivative instruments not			
designated as hedges	(380)	(445)	65
Other miscellaneous income (expense)	233	550	(317)
Total other income (expense), net	\$ 919	\$ 28	\$ 891

Interest income remained relatively consistent with the comparable period.

The decrease in interest (expense) was primarily due to a decrease in the outstanding borrowings under the Credit Agreement as a result of \$193.0 million of repayments, net, in 2018, partially offset by an increase in weighted average interest rates on outstanding borrowings.

The change in other miscellaneous income (expense) was primarily due to the Patient Protection and Affordable Care Act ("Affordable Care Act") compliance costs, and losses from our equity method investee, XSell, partially offset by a reversal of certain payroll tax compliance costs.

Income Taxes

	Three Months Ended September 30,			
(in thousands)	2018	2017		\$ Change
Income before income taxes	\$ 14,380	\$ 24,441		\$(10,061)
Income taxes	628	2,746		(2,118)
				% Change
Effective tax rate	4.4	% 11.2	%	-6.8 %

The decrease in the effective tax rate in 2018 compared to 2017 was primarily due to a \$0.9 million increase in benefit associated with the resolution of uncertain tax positions and ancillary issues as well as a \$0.5 million benefit related to the decrease in the provisional estimates recorded at December 31, 2017 as a result of the 2017 Tax Reform Act. The effective rate impact of these benefits is partially offset by the 2017 recognition of a \$0.8 million benefit related to the increase in anticipated tax credits and reductions in estimated non-deferred foreign income, as well as a \$0.3 million benefit for the release of a valuation allowance. In addition, we recognized a benefit of \$0.3 million from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. The increase in the effective tax rate was also affected by shifts in earnings among the various jurisdictions in which we operate. Several additional factors, none of which are individually material, also impacted the rate.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Revenues

	Nine Months Ended September 30,				
	2018		2017		\$ Change
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$996,524	82.3%	\$977,136	83.8%	\$19,388
EMEA	213,890	17.7%	189,564	16.2%	24,326
Other	75	0.0%	61	0.0%	14
Consolidated	\$1,210,489	100.0%	\$1,166,761	100.0%	\$43,728

Consolidated revenues increased \$43.7 million, or 3.7%, for the nine months ended September 30, 2018 from the comparable period in 2017.

The increase in Americas' revenues was due to higher volumes from existing clients of \$50.7 million, new clients of \$21.6 million and a positive foreign currency impact of \$4.6 million, partially offset by end-of-life client programs of \$57.5 million. Revenues from our offshore operations represented 39.8% of Americas' revenues in 2018, compared to 40.9% for the comparable period in 2017.

The increase in EMEA's revenues was due to higher volumes from existing clients of \$15.1 million, new clients of \$1.9 million and a positive foreign currency impact of \$11.4 million, partially offset by end-of-life client programs of \$4.1 million.

See Note 2, Revenues, in the accompanying "Notes to Condensed Consolidated Financial Statements" for further information regarding the adoption of ASC 606.

Direct Salaries and Related Costs

Nine Months Ended September 30,						
2018			2017			
					\$	Change in % of
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	Change	Revenues
Americas	\$650,112	65.2%	\$630,067	64.5%	\$20,045	0.7%
EMEA	151,358	70.8%	133,173	70.3%	18,185	0.5%
Consolidated	\$801,470	66.2%	\$763,240	65.4%	\$38,230	0.8%

The increase of \$38.2 million in direct salaries and related costs included a positive foreign currency impact of \$2.4 million in the Americas and a negative foreign currency impact of \$7.5 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher customer-acquisition advertising costs of 0.8%, higher severance costs related to the Americas 2018 Exit Plan

of 0.3% and higher other costs of 0.3%, partially offset by lower auto tow claim costs of 0.3%, lower compensation costs of 0.2% and lower communications costs of 0.2%.

The increase in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher communications costs of 0.3% and higher other costs of 0.4%, partially offset by lower compensation costs of 0.2%.

General and Administrative

		Nine Months Ended September 30,					
		2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	\$	Change	Change in % of Revenues
Americas	\$218,100	21.9%	\$191,545	19.6%	\$26,555		2.3%
EMEA	45,581	21.3%	39,584	20.9%	5,997		0.4%
Other	45,944	-	46,506	-	(562)		-
Consolidated	\$309,625	25.6%	\$277,635	23.8%	\$31,990		1.8%

The increase of \$32.0 million in general and administrative expenses included a positive foreign currency impact of \$1.1 million in the Americas and a negative foreign currency impact of \$2.3 million in EMEA.

The increase in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensations costs of 0.7%, higher facility-related costs of 0.7% resulting from the Americas 2018 Exit Plan, higher legal and professional fees of 0.4%, higher merger and integration costs of 0.3% and higher other costs of 0.2%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.4%, higher recruiting costs of 0.3% and higher other costs of 0.2%, partially offset by lower advertising and marketing costs of 0.3% and lower legal and professional fees of 0.2%.

The decrease of \$0.6 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower legal and professional fees of \$1.2 million, lower severance costs of \$0.6 million, lower travel costs of \$0.2 million and lower other costs of \$0.2 million, partially offset by higher compensation costs of \$0.7 million, higher merger and integration costs of \$0.6 million, higher software and maintenance costs of \$0.3 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

		Nine Months Ended September 30,					
		2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	\$	Change	Change in % of Revenues

Depreciation, net:						
Americas	\$36,856	3.7%	\$35,374	3.6%	\$1,482	0.1%
EMEA	4,360	2.0%	3,815	2.0%	545	0.0%
Other	2,252	-	2,206	-	46	-
Consolidated	\$43,468	3.6%	\$41,395	3.5%	\$2,073	0.1%

Amortization of intangibles:						
Americas	\$10,846	1.1%	\$15,048	1.5%	\$(4,202)	-0.4%
EMEA	634	0.3%	726	0.4%	(92)	-0.1%
Other	-	-	-	-	-	-
Consolidated	\$11,480	0.9%	\$15,774	1.4%	\$(4,294)	-0.5%

Impairment of long-lived assets:						
Americas	\$9,256	0.9%	\$5,071	0.5%	\$4,185	0.4%
EMEA	-	0.0%	-	0.0%	-	0.0%
Other	-	-	-	-	-	-
Consolidated	\$9,256	0.8%	\$5,071	0.4%	\$4,185	0.4%

The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions and infrastructure upgrades, partially offset by the impact since the prior period of certain fully depreciated fixed assets and fixed assets that were impaired and disposed of as part of the Americas 2018 Exit Plan.

The decrease in amortization was primarily due to certain fully amortized intangible assets.

See Note 3, Costs Associated with Exit and Disposal Activities, and Note 4, Fair Value, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information regarding the impairment of long-lived assets.

Other Income (Expense)

	Nine Months Ended September 30,		
(in thousands)	2018	2017	\$ Change
Interest income	\$529	\$468	\$61
Interest (expense)	\$(3,523)	\$(5,585)	\$2,062
Other income (expense), net:			
Foreign currency transaction gains (losses)	\$3,155	\$567	\$2,588
Gains (losses) on derivative instruments not designated as hedges	(1,807)	(48)	(1,759)
Other miscellaneous income (expense)	(811)	1,115	(1,926)
Total other income (expense), net	\$537	\$1,634	\$(1,097)

Interest income remained relatively consistent with the comparable period.

The decrease in interest (expense) was primarily due to a decrease in the outstanding borrowings under the Credit Agreement as a result of \$193.0 million of repayments, net, in 2018, partially offset by an increase in weighted average interest rates on outstanding borrowings.

The change in other miscellaneous income (expense) was primarily due to net investment income (losses) related to the investments held in a rabbi trust, Affordable Care Act compliance costs, losses from our equity method investee, XSell, and payroll tax compliance costs. See Note 7, Investments Held in Rabbi Trust, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

Income Taxes

	Nine Months Ended September 30,	
(in thousands)	2018	2017

					\$
					Change
Income before income taxes	\$32,733		\$60,163		\$(27,430)
Income taxes	855		10,911		(10,056)
					%
					Change
Effective tax rate	2.6	%	18.1	%	-15.5 %

The decrease in the effective tax rate in 2018 compared to 2017 was primarily due to a net \$3.1 million increase in benefit related to the resolution of uncertain tax positions as well as the aforementioned \$0.5 million decrease in the provisional estimate related to the 2017 Tax Reform Act. This increase in benefit was partially offset by the recognition in 2017 of the \$1.1 million 2017 discrete items previously mentioned. In addition, we recognized a benefit of \$1.4 million from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. These net benefits were partially offset by a \$0.6 million decrease in the amount of excess tax benefits from stock-based compensation recognized in 2018 as compared to 2017. The decrease in the effective tax rate was also affected by shifts in earnings among the various jurisdictions in which we operate. Several additional factors, none of which are individually material, also impacted the rate.

Client Concentration

Our top ten clients accounted for approximately 44.3% and 47.6% of our consolidated revenues in the three months ended September 30, 2018 and 2017, respectively, and approximately 45.3% and 48.1% of our consolidated revenues in the nine months ended September 30, 2018 and 2017, respectively.

Total revenues by segment from AT&T Corporation (“AT&T”), a major provider of communication services for which we provide various customer support services over several distinct lines of AT&T businesses, were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$43,923	13.4%	\$56,448	16.5%	\$126,858	12.7%	\$173,609	17.8%
EMEA	89	0.1%	-	0.0%	89	0.0%	-	0.0%
	\$44,012	11.0%	\$56,448	13.9%	\$126,947	10.5%	\$173,609	14.9%

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire at varying dates between 2018 and 2020. We have historically renewed most of these contracts. However, there is no assurance that these contracts will be renewed, or if renewed, will be on terms as favorable as the existing contracts. Each line of business is governed by separate business terms, conditions and metrics. Each line of business also has a separate decision maker such that a loss of one line of business would not necessarily impact our relationship with the client and decision makers on other lines of business. The loss of (or the failure to retain a significant amount of business with) any of our key clients, including AT&T, could have a material adverse effect on our performance. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short notice. Also, clients may unilaterally reduce their use of our services under our contracts without penalty.

Total revenues by segment from our next largest client, which was in the financial services vertical in each of the periods, were as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$23,172	7.0%	\$28,644	8.4%	\$83,703	8.4%	\$76,388	7.8%
EMEA	-	0.0%	-	0.0%	-	0.0%	-	0.0%
	\$23,172	5.8%	\$28,644	7.0%	\$83,703	6.9%	\$76,388	6.5%

Other than AT&T, total revenues by segment of our clients that each individually represents 10% or greater of that segment’s revenues in each of the periods were as follows (in thousands):

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$-	0.0%	\$-	0.0%	\$-	0.0%	\$-	0.0%
EMEA	18,402	26.1%	20,684	31.4%	79,007	36.9%	58,813	31.0%
	\$18,402	4.6%	\$20,684	5.1%	\$79,007	6.5%	\$58,813	5.0%

Business Outlook

For the three months ended December 31, 2018, we anticipate the following financial results:

- Revenues in the range of \$415.0 million to \$420.0 million;
- Effective tax rate of approximately 17%;
- Fully diluted share count of approximately 42.3 million;
- Diluted earnings per share in the range of \$0.53 to \$0.57; and
- Capital expenditures in the range of \$8.0 million to \$10.0 million.

55

For the twelve months ended December 31, 2018, we anticipate the following financial results:

- Revenues in the range of \$1,625.0 million to \$1,630.0 million;
- Effective tax rate of approximately 8%;
- Fully diluted share count of approximately 42.2 million;
- Diluted earnings per share in the range of \$1.28 to \$1.32; and
- Capital expenditures in the range of \$45.0 million to \$47.0 million.

We are revising our full-year 2018 revenue outlook downward by approximately \$7.0 million relative to the outlook provided in August 2018. Roughly \$4.0 million of the revenue revision is related to foreign exchange rate flux, with the remaining \$3.0 million being driven principally by the communications vertical, which being driven primarily by staffing inefficiencies. Although the communications vertical remains soft, we recently won some potentially significant long-term opportunities that could drive growth in that vertical in the latter half of 2019. Additionally, we are raising our full-year 2018 diluted earnings per share outlook relative to the outlook provided in August 2018 due to a lower than expected tax rate as well as lower other expenses. We expect the benefits of the capacity rationalization initiatives to continue flowing through the fourth quarter of 2018, which should yield significant improvement in year-over-year operating margins relative to the fourth quarter of 2017.

On November 1, 2018, we consummated the acquisition of Symphony Ventures Ltd (“Symphony”), which is expected to contribute approximately \$4.0 million (the remaining two-months of revenues) to fourth quarter 2018 revenues and is reflected in the full-year revenue revision. However, we still anticipate the impact of the acquisition to full year 2018 diluted earnings per share to be dilutive.

Our fourth quarter 2018 business outlook anticipates a pre-tax charge of approximately \$0.7 million, or \$0.01 on an after-tax basis, related to capacity rationalization. The pre-tax charge is expected to be in cash. The full-year outlook reflects a pre-tax charge of approximately \$22.0 million, or \$0.40 on an after-tax basis, split roughly evenly between non-cash and cash.

Our revenues and earnings per share assumptions for the fourth quarter and full year 2018 are based on foreign exchange rates as of October 2018. Therefore, the continued volatility in foreign exchange rates between the U.S. Dollar and the functional currencies of the markets we serve could have a further impact, positive or negative, on revenues and earnings per share relative to the business outlook for the fourth quarter and full-year as discussed above.

We anticipate total other interest income (expense), net of approximately \$(1.2) million for the fourth quarter and \$(3.7) million for the full year 2018. The amounts in the other interest income (expense), net, however, exclude the potential impact of any future foreign exchange gains or losses.

We expect a further reduction in our full-year 2018 effective tax rate compared to what was provided in our August 2018 outlook due largely to discrete benefits in the third quarter of 2018.

Not included in this guidance is the impact of any future acquisitions, share repurchase activities or a potential sale of previously exited customer engagement centers.

Liquidity and Capital Resources

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facility. We utilize these capital resources to make capital expenditures

associated primarily with our customer engagement services, invest in technology applications and tools to further develop our service offerings and for working capital and other general corporate purposes, including repurchase of our common stock in the open market and to fund acquisitions. In future periods, we anticipate similar uses of these funds.

Our Board of Directors authorized us to purchase up to 10.0 million shares of our outstanding common stock (the “2011 Share Repurchase Program”) on August 18, 2011, as amended on March 16, 2016. A total of 5.3 million shares have been repurchased under the 2011 Share Repurchase Program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price, management discretion and general market conditions. The 2011 Share Repurchase Program has no expiration date.

During the nine months ended September 30, 2018, cash increased \$89.5 million from operating activities, \$27.0 million from proceeds from issuance of long-term debt and \$0.7 million from other investing and financing activities. This increase was offset by \$220.0 million used to repay long-term debt, \$36.9 million used for capital expenditures, \$21.8 million of cash paid for acquisitions, an \$8.1 million purchase of intangible assets, a \$5.0 million investment in equity method investees and \$3.7 million to repurchase common stock for tax withholding on equity awards, resulting in a \$186.5 million decrease in available cash, cash equivalents and restricted cash (including the unfavorable effects of foreign currency exchange rates on cash, cash equivalents and restricted cash of \$8.2 million).

Net cash flows provided by operating activities for the nine months ended September 30, 2018 were \$89.5 million, compared to \$118.4 million for the comparable period in 2017. The \$28.9 million decrease in net cash flows from operating activities was due to a \$17.4 million decrease in net income, a net decrease of \$9.5 million in cash flows from assets and liabilities and a \$2.0 million decrease in non-cash reconciling items such as depreciation, amortization, impairment and deferred income tax provision (benefit). The \$9.5 million decrease in 2018 from 2017 in cash flows from assets and liabilities was principally a result of an \$8.9 million increase in accounts receivable, a \$4.1 million decrease in deferred revenue and a \$1.9 million increase in other assets, partially offset by a \$4.5 million increase in other liabilities and a \$0.9 million decrease in taxes receivable, net. The \$8.9 million increase in the change in accounts receivable in the nine months ended September 30, 2018 over the comparable period in 2017 was primarily due to the timing of billings and collections.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were \$36.9 million for the nine months ended September 30, 2018, compared to \$48.4 million for the comparable period in 2017, a decrease of \$11.5 million. In 2018, we anticipate capital expenditures in the range of \$45.0 million to \$47.0 million, primarily for maintenance, new seat additions, facility upgrades and systems infrastructure.

On May 12, 2015, we entered into a \$440 million revolving credit facility (the “Credit Agreement”) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent, Swing Line Lender and Issuing Lender (“KeyBank”). The Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At September 30, 2018, we were in compliance with all loan requirements of the Credit Agreement and had \$82.0 million of outstanding borrowings under this facility.

Our Credit Agreement had an average daily utilization of \$101.1 million and \$267.0 million during the three months ended September 30, 2018 and 2017, respectively, and \$107.5 million and \$267.0 million during the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018 and 2017, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$0.9 million and \$1.8 million, respectively, which represented weighted average interest rates of 3.6% and 2.6%, respectively. During the nine months ended September 30, 2018 and 2017, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$2.8 million and \$4.8 million, respectively, which represented weighted average interest rates of 3.6% and 2.4%, respectively.

The Credit Agreement includes a \$200 million alternate-currency sub-facility, a \$10 million swingline sub-facility and a \$35 million letter of credit sub-facility, and may be used for general corporate purposes including acquisitions, share repurchases, working capital support and letters of credit, subject to certain limitations. We are not currently aware of any inability of our lenders to provide access to the full commitment of funds that exist under the Credit Agreement, if necessary. However, there can be no assurance that such facility will be available to us, even though it is a binding commitment of the financial institutions. The Credit Agreement will mature on May 12, 2020.

Borrowings under the Credit Agreement bear interest at the rates set forth in the Credit Agreement. In addition, we are required to pay certain customary fees, including a commitment fee determined quarterly based on our leverage

ratio and due quarterly in arrears as calculated on the average unused amount of the Credit Agreement.

The Credit Agreement is guaranteed by all our existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all of our direct foreign subsidiaries and those of the guarantors.

We received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and we paid mandatory security deposits to Canada as part of this process of approximately \$13.8 million. As of June 30, 2017, we determined that all material aspects of the Canadian audit were effectively settled pursuant to ASC 740, Income Taxes. As a result, we recognized a net income tax benefit of \$1.2 million and the deposits were netted against the anticipated liability at that

time. During the nine months ended September 30, 2018, we finalized procedures ancillary to the Canadian audit and recognized an additional \$2.8 million income tax benefit due to the elimination of certain penalties, interest and assessed withholding taxes.

With the effective settlement of the Canadian audit, we have no significant tax jurisdictions under audit; however, we are currently under audit in several tax jurisdictions. We believe we are adequately reserved for the remaining audits and their resolution is not expected to have a material impact on our financial condition and results of operations.

The 2017 Tax Reform Act provides for a one-time transition tax based on our undistributed foreign earnings on which we previously had deferred U.S. income taxes. We recorded a \$28.3 million provisional liability, which is net of \$5.0 million of available tax credits, for our one-time transition tax. As of September 30, 2018, \$2.0 million of the provisional liability was netted in “Income taxes receivable” and \$3.8 million was included in “Income taxes payable” as of December 31, 2017 in the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2018 and December 31, 2017, \$20.4 million and \$24.5 million, respectively, of the long-term provisional liability were included in “Long-term income tax liabilities” in the accompanying Condensed Consolidated Balance Sheets. This transition tax liability will be paid over the next eight years. As of December 31, 2017, no additional income taxes have been provided for any remaining outside basis difference inherent in our investments in our foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations.

On November 1, 2018, we closed a definitive Share Purchase Agreement to acquire all the outstanding shares of Symphony for GBP 52.6 million (\$67.9 million). The Company paid GBP 44.6 million (\$57.6 million) at the closing of the transaction on November 1, 2018 using cash on hand as well as \$31.0 million of additional borrowings under our Credit Agreement. The remaining GBP 8.0 million (\$10.3 million) of purchase price has been deferred and will be paid in equal installments over the next three years. Symphony, headquartered in London, England, is a leading global pure-play and best-of-breed provider of robotic process automation (“RPA”) services. Symphony is a premier provider to blue chip clients, offering RPA consulting, implementation, hosting and managed services. Approximately 200 people strong, Symphony has one of the largest independent global teams of Intelligent Automation experts. With a proven track record of success in automating thousands of front, middle and back-office processes at marquee brands, Symphony serves numerous industries globally, including financial services, healthcare, business services, manufacturing, consumer products, communications, media and entertainment.

As of September 30, 2018, we had \$157.3 million in cash and cash equivalents, of which approximately 86.4%, or \$135.9 million, was held in international operations. As a result of the 2017 Tax Reform Act, most of these funds will not be subject to additional taxes if repatriated to the United States. There are circumstances where we may be unable to repatriate some of the cash and cash equivalents held by our international operations due to country restrictions.

We expect our current cash levels and cash flows from operations to be adequate to meet our anticipated working capital needs, including investment activities such as capital expenditures and debt repayment for the next twelve months and the foreseeable future. However, from time to time, we may borrow funds under our Credit Agreement as a result of the timing of our working capital needs, including capital expenditures.

Our cash resources could also be affected by various risks and uncertainties, including but not limited to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements and Other

As of September 30, 2018, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been

established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include, but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct and (ii) indemnities involving breach of contract, the accuracy of representations and warranties, or other liabilities assumed by us in certain contracts. In addition, we have agreements whereby we will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these

indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Condensed Consolidated Balance Sheets. In addition, we have some client contracts that do not contain contractual provisions for the limitation of liability and other client contracts that contain agreed upon exceptions to limitation of liability. We have not recorded any liability in the accompanying Condensed Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

Contractual Obligations

During the nine months ended September 30, 2018, we repaid \$193.0 million, net, of long-term debt outstanding under our Credit Agreement, primarily using funds repatriated from our foreign subsidiaries, resulting in a remaining outstanding debt balance of \$82.0 million.

See Note 1, Overview and Basis of Presentation, in the accompanying “Notes to Condensed Consolidated Financial Statements” for information related to the WhistleOut acquisition completed on July 9, 2018.

See Note 13, Commitments and Loss Contingency, in the accompanying “Notes to Condensed Consolidated Financial Statements” for operating leases and purchase obligations entered into in the normal course of business during the nine months ended September 30, 2018.

See Note 19, Subsequent Event, to the accompanying “Notes to Condensed Consolidated Financial Statements” for information related to the Symphony acquisition completed on November 1, 2018.

Except for the contractual obligations mentioned above, there have not been any material changes to the outstanding contractual obligations from the disclosure in our Annual Report on Form 10-K as of and for the year ended December 31, 2017.

Critical Accounting Estimates

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our critical accounting estimates.

The adoption of ASC 606 did not result in a material change to our “Recognition of Revenues” critical accounting estimate. See Note 2, Revenues, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information on the adoption of ASC 606.

New Accounting Standards Not Yet Adopted

See Note 1, Overview and Basis of Presentation, in the accompanying “Notes to Condensed Consolidated Financial Statements” for information related to recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in certain earnings and cash flows caused by volatility in foreign currency exchange

(“FX”) rates. We also utilize derivative contracts to hedge intercompany receivables and payables that are denominated in a foreign currency and to hedge net investments in foreign operations.

We serve a number of U.S.-based clients using customer engagement center capacity in The Philippines and Costa Rica, which are within our Americas segment. Although a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine Pesos (“PHP”) and Costa Rican Colones (“CRC”), the contracts with these clients are priced in USDs, which represent FX exposures. Additionally, our EMEA segment services clients in Hungary and Romania with a substantial portion of the costs incurred to render services under these contracts denominated in Hungarian Forints (“HUF”) and Romanian Leis (“RON”), where the contracts are priced in Euros (“EUR”).

In order to hedge a portion of our anticipated revenues denominated in USD and EUR, we had outstanding forward contracts and options as of September 30, 2018 with counterparties through December 2019 with notional amounts totaling \$185.2 million. As of September 30, 2018, we had net total derivative liabilities associated with these contracts with a fair value of \$2.6 million. If the USD was to weaken against the PHP and CRC and the EUR was to weaken against the HUF and RON by 10% from current period-end levels, we would incur a loss of approximately \$16.2 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had outstanding forward exchange contracts as of September 30, 2018 with notional amounts totaling \$5.9 million that are not designated as hedges. The purpose of these derivative instruments is to protect against FX volatility pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than our subsidiaries’ functional currencies. As of September 30, 2018, the fair value of these derivatives was a net liability of \$0.3 million. The potential loss in fair value at September 30, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$1.3 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had embedded derivative contracts with notional amounts totaling \$12.1 million that are not designated as hedges. As of September 30, 2018, the fair value of these derivatives was a net liability of \$0.4 million. The potential loss in fair value at September 30, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$1.9 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

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

We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates. As a general rule, we do not use financial instruments to hedge local currency denominated operating expenses in countries where a natural hedge exists. For example, in many countries, revenue from the local currency services substantially offsets the local currency denominated operating expenses.

Interest Rate Risk

Our exposure to interest rate risk results from variable rate debt outstanding under our revolving credit facility. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. As of September 30, 2018, we had \$82.0 million in borrowings outstanding under the revolving credit facility. Based on our level of variable rate debt outstanding during the three and nine months ended September 30, 2018, a 1.0% increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had

an impact of \$0.3 million and \$0.8 million, respectively, on our results of operations.

We have not historically used derivative instruments to manage exposure to changes in interest rates.

Fluctuations in Quarterly Results

For the year ended December 31, 2017, quarterly revenues as a percentage of total consolidated annual revenues were approximately 24%, 24%, 26% and 26%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing and frequency of client spending for customer engagement services, non-U.S. currency fluctuations, and the seasonal pattern of customer engagement support and fulfillment services.

Item 4. Controls and Procedures

As of September 30, 2018, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a – 15(e) under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time period specified by the SEC’s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We concluded that, as of September 30, 2018, our disclosure controls and procedures were effective at the reasonable assurance level.

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal actions arising in the ordinary course of business. With respect to any such currently pending matters, we believe that we have adequate legal defenses and/or, when possible and appropriate, has provided adequate accruals related to those matters such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

Item 1A. Risk Factors

For risk factors, see Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary of stock repurchases for the three months ended September 30, 2018 (in thousands, except average price per share). See Note 12, Earnings Per Share, of “Notes to Condensed Consolidated Financial Statements” for information regarding our stock repurchase program.

Period	Total Number of		Maximum Number	
	Total	Average	Shares Purchased	of Shares That May
	Number of	Price	as Part of Publicly	Yet Be Purchased
	Shares	Paid Per	Announced Plans	Under Plans or
	Purchased	Share	or Programs	Programs ⁽¹⁾
July 1, 2018 - July 31, 2018	-	\$ -	-	4,748
August 1, 2018 - August 31, 2018	-	\$ -	-	4,748
September 1, 2018 - September 30, 2018	-	\$ -	-	4,748
Total	-	-	-	4,748

⁽¹⁾ The total number of shares approved for repurchase under the 2011 Share Repurchase Program dated August 18, 2011, as amended on March 16, 2016, is 10.0 million. The 2011 Share Repurchase Program has no expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

62

Item 6. Exhibits

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

No.	Description
15*	<u>Awareness letter.</u>
31.1*	<u>Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).</u>
31.2*	<u>Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).</u>
32.1**	<u>Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.</u>
32.2**	<u>Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.</u>
101.INS*+	XBRL Instance Document
101.SCH*+	XBRL Taxonomy Extension Schema Document
101.CAL*+	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*+	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*+	XBRL Taxonomy Extension Definition Linkbase Document
*	Filed herewith as an Exhibit.
**	Furnished herewith as an Exhibit.
+	Submitted electronically with this Quarterly Report.

SIGNATURE

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

SYKES
ENTERPRISES,
INCORPORATED
(Registrant)

Date: November 6, 2018 By: /s/ John Chapman
John Chapman
Executive Vice
President and Chief
Financial Officer
(Principal Financial
and Accounting
Officer)