

SYKES ENTERPRISES INC
Form 10-Q
August 07, 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 June 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

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes
No

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

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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
Accelerated filer (Do not check if a smaller reporting company)
Non-accelerated filer

Smaller reporting company
Emerging growth company

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 July 19, 2018, there were 42,821,212 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

Form 10-Q

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Balance Sheets**

(Unaudited)

| (in thousands, except per share data) | June 30, 2018 | December 31, 2017 |
|---|----------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 162,422 | \$ 343,734 |
| Receivables, net | 347,885 | 341,958 |
| Prepaid expenses | 23,516 | 22,132 |
| Other current assets | 19,140 | 19,743 |
| Total current assets | 552,963 | 727,567 |
| Property and equipment, net | 142,920 | 160,790 |
| Goodwill, net | 265,991 | 269,265 |
| Intangibles, net | 139,829 | 140,277 |
| Deferred charges and other assets | 32,698 | 29,193 |
| | \$ 1,134,401 | \$ 1,327,092 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 22,236 | \$ 32,133 |
| Accrued employee compensation and benefits | 98,557 | 102,899 |
| Income taxes payable | 843 | 2,606 |
| Deferred revenue and customer liabilities | 32,503 | 34,717 |
| Other accrued expenses and current liabilities | 36,765 | 30,888 |
| Total current liabilities | 190,904 | 203,243 |
| Deferred grants | 2,913 | 3,233 |
| Long-term debt | 90,000 | 275,000 |
| Long-term income tax liabilities | 24,471 | 27,098 |
| Other long-term liabilities | 25,250 | 22,039 |
| Total liabilities | 333,538 | 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 | - | - |

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| | | |
|--|--------------|--------------|
| Common stock, \$0.01 par value per share, 200,000 shares authorized; 42,821 and 42,899 shares issued, respectively | 428 | 429 |
| Additional paid-in capital | 282,622 | 282,385 |
| Retained earnings | 567,988 | 546,843 |
| Accumulated other comprehensive income (loss) | (47,933) | (31,104) |
| Treasury stock at cost: 122 and 117 shares, respectively | (2,242) | (2,074) |
| Total shareholders' equity | 800,863 | 796,479 |
| | \$ 1,134,401 | \$ 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 June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | \$ 396,785 | \$ 375,438 | \$ 811,156 | \$ 759,452 |
| Operating expenses: | | | | |
| Direct salaries and related costs | 264,924 | 248,615 | 539,996 | 495,751 |
| General and administrative | 102,037 | 92,236 | 204,477 | 184,280 |
| Depreciation, net | 14,560 | 13,820 | 29,396 | 27,168 |
| Amortization of intangibles | 3,629 | 5,250 | 7,842 | 10,481 |
| Impairment of long-lived assets | 5,175 | 4,189 | 8,701 | 4,391 |
| Total operating expenses | 390,325 | 364,110 | 790,412 | 722,071 |
| Income from operations | 6,460 | 11,328 | 20,744 | 37,381 |
| Other income (expense): | | | | |
| Interest income | 175 | 144 | 346 | 299 |
| Interest (expense) | (1,149) | (1,865) | (2,355) | (3,564) |
| Other income (expense), net | (537) | 793 | (382) | 1,606 |
| Total other income (expense), net | (1,511) | (928) | (2,391) | (1,659) |
| Income before income taxes | 4,949 | 10,400 | 18,353 | 35,722 |
| Income taxes | (2,229) | 1,555 | 227 | 8,165 |
| Net income | \$ 7,178 | \$ 8,845 | \$ 18,126 | \$ 27,557 |
| Net income per common share: | | | | |
| Basic | \$ 0.17 | \$ 0.21 | \$ 0.43 | \$ 0.66 |
| Diluted | \$ 0.17 | \$ 0.21 | \$ 0.43 | \$ 0.66 |
| Weighted average common shares outstanding: | | | | |
| Basic | 42,125 | 41,854 | 42,035 | 41,756 |
| Diluted | 42,160 | 41,934 | 42,197 | 41,919 |

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 June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 7,178 | \$ 8,845 | \$ 18,126 | \$ 27,557 |
| Other comprehensive income (loss), net of taxes: | | | | |
| Foreign currency translation adjustments, net of taxes | (13,597) | 16,484 | (13,306) | 20,382 |
| Unrealized gain (loss) on net investment hedges, net of taxes | - | (2,936) | - | (3,304) |
| Unrealized gain (loss) on cash flow hedging instruments, net of taxes | (481) | (396) | (3,374) | 136 |
| Unrealized actuarial gain (loss) related to pension liability, net of taxes | (46) | (16) | (129) | (39) |
| Unrealized gain (loss) on postretirement obligation, net of taxes | (10) | (12) | (20) | (25) |
| Other comprehensive income (loss), net of taxes | (14,134) | 13,124 | (16,829) | 17,150 |
| Comprehensive income (loss) | \$ (6,956) | \$ 21,969 | \$ 1,297 | \$ 44,707 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statement of Changes in Shareholders' Equity

Six Months Ended June 30, 2018

(Unaudited)

| (in thousands) | Accumulated | | | | | | Total |
|---|------------------|--------|--------------------|------------|------------------|------------|------------|
| | Common Stock | | Additional | Retained | Other | Treasury | |
| | Shares Issued | Amount | Paid-in Capital | | Income (Loss) | | |
| 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 | - | - | 3,750 | - | - | - | 3,750 |
| Issuance of common stock under equity award plans, net of forfeitures | 40 | - | 168 | - | - | (168) | - |
| Shares repurchased for tax withholding on equity awards | (118) | (1) | (3,681) | - | - | - | (3,682) |
| Comprehensive income (loss) | - | - | - | 18,126 | (16,829) | - | 1,297 |
| Balance at June 30, 2018 | 42,821 | \$ 428 | \$ 282,622 | \$ 567,988 | \$ (47,933) | \$ (2,242) | \$ 800,863 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

| (in thousands) | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | \$ 18,126 | \$ 27,557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 29,651 | 27,423 |
| Amortization of intangibles | 7,842 | 10,481 |
| Amortization of deferred grants | (344) | (374) |
| Impairment losses | 8,701 | 4,391 |
| Unrealized foreign currency transaction (gains) losses, net | (370) | (611) |
| Stock-based compensation expense | 3,750 | 4,732 |
| Deferred income tax provision (benefit) | 1,070 | 9,785 |
| Unrealized (gains) losses and premiums on financial instruments, net | 625 | 42 |
| Amortization of deferred loan fees | 134 | 134 |
| Imputed interest expense and fair value adjustments to contingent consideration | - | (633) |
| Other | (90) | 144 |
| Changes in assets and liabilities, net of acquisitions: | | |