SYKES ENTERPRISES INC
Form 10-Q
August 05, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File No. 0-28274
Sykes Enterprises, Incorporated
(Exact name of Registrant as specified in its charter)

Florida	**56-1383460**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

400 North Ashley Drive, 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 þ No o

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

Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

As of July 24, 2009, there were 41,321,938 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

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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, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 238,904**	$ 219,050
Receivables, net	**165,744**	157,067
Prep aid expenses	**9,597**	7,084
Other current assets	**11,723**	13,317
Total current assets	**425,968**	396,518
Property and equipment, net	**81,223**	80,390
Goodwill	**21,142**	23,191
Intangibles, net	**2,564**	4,586
Deferred charges and other assets	**23,870**	24,857
	$ 554,767	$ 529,542
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	**$ 17,941**	$ 26,419
Accrued employee compensation and benefits	**50,058**	47,194
Income taxes payable	**1,366**	4,485
Deferred revenue	**29,936**	26,955
Other accrued expenses and current liabilities	**15,614**	21,057
Total current liabilities	**114,915**	126,110
Deferred grants	**11,804**	9,340
Long-term income tax liabilities	**5,037**	5,077
Other long-term liabilities	**4,577**	4,985
Total liabilities	**136,333**	145,512
Commitments and loss contingency (Note 14)		
Shareholders equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued and outstanding		
	415	413

Common stock, $0.01 par value, 200,000 shares authorized; 41,530 and 41,271 shares issued				
Additional paid-in capital		**160,273**		158,216
Retained earnings		**266,306**		237,188
Accumulated other comprehensive (loss)		**(4,118)**		(10,683)
Treasury stock at cost: 328 shares and 96 shares		**(4,442)**		(1,104)
Total shareholders equity		**418,434**		384,030
	$	**554,767**	$	529,542

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	**2009**	**2008**	**2009**	**2008**
Revenues	**$ 208,839**	$ 207,629	**$ 412,080**	$ 411,350
Operating expenses:				
Direct salaries and related costs	**133,727**	133,708	**263,980**	264,688
General and administrative	**56,477**	57,355	**111,965**	113,779
Impairment loss on goodwill and intangibles	**1,584**		**1,584**	
Total operating expenses	**191,788**	191,063	**377,529**	378,467
Income from operations	**17,051**	16,566	**34,551**	32,883
Other income (expense):				
Interest income	**605**	1,258	**1,456**	3,080
Interest (expense)	**(237)**	(125)	**(351)**	(227)
Impairment (loss) on investment in SHPS	**(2,089)**		**(2,089)**	
Other income	**275**	3,733	**1,095**	4,264
Total other income (expense)	**(1,446)**	4,866	**111**	7,117
Income before provision for income taxes	**15,605**	21,432	**34,662**	40,000
Provision for income taxes	**1,257**	3,703	**5,544**	6,561
Net income	**$ 14,348**	$ 17,729	**$ 29,118**	$ 33,439
Net income per share:				
Basic	**$ 0.35**	$ 0.44	**$ 0.72**	$ 0.82
Diluted	**$ 0.35**	$ 0.43	**$ 0.71**	$ 0.82
Weighted average shares:				
Basic	**40,654**	40,599	**40,632**	40,545
Diluted	**40,953**	40,953	**40,999**	40,860

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Changes in Shareholders Equity
Six Months Ended June 30, 2008, Six Months Ended December 31, 2008 and
Six Months Ended June 30, 2009
(Unaudited)

(In thousands)	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2008	45,537	$ 455	$ 184,184	$ 195,203	$ 37,457	$ (51,978)	$ 365,321
Adjustment upon adoption of EITF 06-10				(482)			(482)
Issuance of common stock	90	1	1,087				1,088
Stock-based compensation expense			2,357				2,357
Excess tax benefit from stock- based compensation			591				591
Issuance of common stock and restricted stock under equity award plans	226	2	76			(114)	(36)
Retirement of treasury stock	(4,644)	(46)	(33,346)	(18,094)		51,486	
Comprehensive income (loss)				33,439	(14,997)		18,442
Balance at June 30, 2008	41,209	412	154,949	210,066	22,460	(606)	387,281
Issuance of common stock	15		86				86
Stock-based compensation expense			2,399				2,399
Excess tax benefit from stock- based compensation			121				121
	10	1	(15)			14	

Issuance of common stock and restricted stock under equity award plans							
Repurchase of common stock						(512)	(512)
Issuance of common stock for business acquisition	37		676				676
Comprehensive income (loss)				27,122	(33,143)		(6,021)
Balance at December 31, 2008	41,271	413	158,216	237,188	(10,683)	(1,104)	384,030
Issuance of common stock	**14**		**71**				**71**
Stock-based compensation expense			**2,800**				**2,800**
Excess tax benefit from stock- based compensation			**123**				**123**
Issuance of common stock and restricted stock under equity award plans	**245**	**2**	**(937)**			**(145)**	**(1,080)**
Repurchase of common stock						**(3,193)**	**(3,193)**
Comprehensive income				**29,118**	**6,565**		**35,683**
Balance at June 30, 2009	**41,530**	**$ 415**	**$ 160,273**	**$ 266,306**	**$ (4,118)**	**$ (4,442)**	**$ 418,434**

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries

Condensed Consolidated Statements of Cash Flows
Six months ended June 30, 2009 and 2008
(Unaudited)

(in thousands)	**2009**	**2008**
Cash flows from operating activities:		
Net income	**$ 29,118**	$ 33,439
Depreciation and amortization, net	**13,938**	14,196
Impairment losses	**3,673**	
Unrealized foreign currency transaction (gains), net	**(1,538)**	
Stock-based compensation expense	**2,800**	2,357
Excess tax benefit from stock-based compensation	**(123)**	(591)
Deferred income tax provision (benefit)	**330**	(129)
Net loss on disposal of property and equipment	**36**	
Bad debt expense	**774**	349
Write down of value added tax credit receivables	**320**	361
Unrealized loss on financial instruments, net	**349**	985
Amortization of discount on short-term investments		(173)
Amortization of actuarial gains on pension	**(30)**	(35)
Foreign exchange (gain) on liquidation of foreign entities	**(1)**	(10)
Amortization of unrealized (gain) on post retirement obligation	**(19)**	
Changes in assets and liabilities:		
Receivables	**(9,007)**	(16,745)
Prepaid expenses	**(2,205)**	(3,031)
Other current assets	**(588)**	752
Deferred charges and other assets	**(1,507)**	(86)
Accounts payable	**(4,295)**	(1,174)
Income taxes receivable/payable	**(2,682)**	(3,852)
Accrued employee compensation and benefits	**2,649**	2,578
Other accrued expenses and current liabilities	**(434)**	(14)
Deferred revenue	**1,941**	1,101
Other long-term liabilities	**(10)**	675
Net cash provided by operating activities	**33,489**	30,953
Cash flows from investing activities:		
Capital expenditures	**(18,308)**	(16,248)
Proceeds from sale of property and equipment	**162**	67
Sale of short-term investments		17,535
Investment in restricted cash		(997)
Proceeds from release of restricted cash	**839**	858
Other	**(2)**	(126)

Net cash (used for) provided by investing activities	**(17,309)**	1,089

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Six months ended June 30, 2009 and 2008
(Unaudited)

(continued)

(in thousands)	**2009**	**2008**
Cash flows from financing activities:		
Proceeds from issuance of stock	**71**	1,088
Excess tax benefit from stock-based compensation	**123**	591
Cash paid for repurchase of common stock	**(3,193)**	
Proceeds from grants	**3,440**	
Shares repurchased for minimum tax withholding on restricted stock	**(1,080)**	
Net cash (used for) provided by financing activities	**(639)**	1,679
Effects of exchange rates on cash	**4,313**	(2,998)
Net increase in cash and cash equivalents	**19,854**	30,723
Cash and cash equivalents beginning	**219,050**	177,682
Cash and cash equivalents ending	**$ 238,904**	$ 208,405
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	**$ 630**	$ 220
Cash paid during period for income taxes	**$ 6,274**	$ 9,974
Non-cash transactions:		
Property and equipment additions in accounts payable	**$ 1,338**	$ 1,485
Unrealized gain on post retirement obligation in accumulated other comprehensive income (loss)	**$ 461**	$

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements
Six months ended June 30, 2009 and 2008
(Unaudited)

Sykes Enterprises, Incorporated and consolidated subsidiaries (SYKES or the Company) provides outsourced customer contact management solutions and services in the business process outsourcing arena to companies, primarily within the communications, financial services, healthcare, technology/consumer and transportation and leisure industries. SYKES provides flexible, high quality outsourced customer contact management services (with an emphasis on inbound technical support and customer service), which includes customer assistance, healthcare and roadside assistance, technical support and product sales to its clients customers. Utilizing SYKES integrated onshore/offshore global delivery model, SYKES provides its services through multiple communications channels encompassing phone, e-mail, Web and chat. SYKES complements its outsourced customer contact management services with various enterprise support services in the United States that encompass services for a company s internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, SYKES also provides fulfillment services including multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery and product returns handling. The Company has operations in two geographic regions entitled (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, 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; and (2) EMEA, which includes Europe, the Middle East and Africa.

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

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) for interim financial information and with the instructions to Form 10-Q. 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 six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2009. 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, 2008, as filed with the Securities and Exchange Commission (SEC). Subsequent events have been evaluated through the date and time the condensed consolidated financial statements were issued on August 5, 2009. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in our condensed consolidated financial statements.

Property and Equipment The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . For purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable cash flows (the reporting unit). An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets. The Company determined that its property and equipment was not impaired as of June 30, 2009.

Investment in SHPS The Company holds a noncontrolling interest in SHPS, Inc. (SHPS), which was accounted for at cost of approximately $2.1 million as of December 31, 2008 and was included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet. In June 2009, the Company received notice from SHPS that the shareholders of SHPS had approved a merger agreement between SHPS and SHPS Acquisition, Inc., pursuant to which the common stock of SHPS, including the common stock owned by the Company, would be converted into the right to receive $0.000001 per share in cash. SHPS informed the Company that it believes the estimated fair value of the SHPS common stock to be equal to such per share amount. As a result of this transaction and evaluation of the Company s legal options, the Company believes it is more likely than not that we will not be

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Six months ended June 30, 2009 and 2008
(Unaudited)

Note 1 Basis of Presentation and Summary of Significant Accounting Policies (continued)

Investment in SHPS (continued)

able to recover the $2.1 million carrying value of the investment in SHPS. Therefore, due to the decline in value that is other than temporary, management recorded a non-cash impairment loss of $2.1 million included in Impairment loss on investment in SHPS in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009 (none in the comparable 2008 periods). See Note 2 for further information.

Goodwill The Company accounts for goodwill and other intangible assets under SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*. Goodwill and other intangible assets with indefinite lives are not subject to amortization, but instead must be reviewed at least annually, and more frequently in the presence of certain circumstances, for impairment by applying a fair value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values as appropriate. Under SFAS 142, the carrying value of assets is calculated at the lowest levels for which there are identifiable cash flows (the reporting unit). If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. The Company completed its annual goodwill impairment test during the third quarter of 2008, which included the consideration of recent economic developments and determined that the carrying amount of goodwill was not impaired. Subsequently, during the second quarter of 2009, based on the presence of certain circumstances, the Company recorded an impairment loss on goodwill related to the March 2005 acquisition of Kelly, Luttmer & Associates Limited (KLA). See Note 2 for further information. The Company expects to receive future benefits from the remaining previously acquired goodwill over an indefinite period of time.

Intangible Assets Intangible assets, primarily customer relationships, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives which approximates the pattern in which the economic benefits of the assets are consumed. The Company periodically evaluates the recoverability of intangible assets and takes into account events or changes in circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. Fair value for intangible assets is based on discounted cash flows, market multiples and/or appraised values as appropriate. The Company does not have intangible assets with indefinite lives. During the second quarter of 2009, based on changes in circumstances, the Company recorded an impairment loss on intangible assets related to the KLA acquisition mentioned above. See Note 2 for further information.

Value Added Tax Credit Receivables The Philippine operations are subject to Value Added Tax (VAT), which is usually applied to all goods and services purchased throughout the Philippines. Upon validation and certification of the VAT credit receivables by the Philippine government, the VAT credit receivables are held for sale through third-party brokers. The Company sells VAT credits to others due to its current tax holiday status in the Philippines and resulting inability to fully utilize these credits. This process through collection typically takes three to five years. The VAT credit receivables balance recorded at net realizable value, which approximates fair value, is approximately $7.1 million and $7.5 million as of June 30, 2009 and December 31, 2008, respectively. See Fair Value Measurements in this Note 1 for further information. As of June 30, 2009 and December 31