

**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, 2019

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**

(I.R.S. 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**

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
<b>Common Stock, \$0.01 par value</b>	<b>SYKE</b>	<b>NASDAQ Global Select Market</b>

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 (§232.405 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 17, 2019, there were 41,433,670 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)	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 142,572	\$ 128,697
Receivables, net	353,707	347,425
Prepaid expenses	20,658	23,754
Other current assets	18,540	16,761
Total current assets	535,477	516,637
Property and equipment, net	122,106	135,418
Operating lease right-of-use assets	203,417	—
Goodwill, net	303,800	302,517
Intangibles, net	160,479	174,031
Deferred charges and other assets	48,785	43,364
	<u>\$ 1,374,064</u>	<u>\$ 1,171,967</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 27,197	\$ 26,923
Accrued employee compensation and benefits	113,451	95,813
Income taxes payable	1,786	1,433
Deferred revenue and customer liabilities	28,906	30,176
Operating lease liabilities	48,323	—
Other accrued expenses and current liabilities	27,403	31,235
Total current liabilities	247,066	185,580
Long-term debt	77,000	102,000
Long-term income tax liabilities	22,198	23,787
Long-term operating lease liabilities	168,008	—
Other long-term liabilities	21,641	33,991
Total liabilities	535,913	345,358
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; 41,434 and 42,778 shares issued, respectively	414	428
Additional paid-in capital	289,110	286,544
Retained earnings	611,648	598,788
Accumulated other comprehensive income (loss)	(60,438)	(56,775)
Treasury stock at cost: 130 and 126 shares, respectively	(2,583)	(2,376)
Total shareholders' equity	838,151	826,609
	<u>\$ 1,374,064</u>	<u>\$ 1,171,967</u>

*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,	
	2019	2018	2019	2018
Revenues	\$ 397,547	\$ 399,333	\$ 1,189,478	\$ 1,210,489
Operating expenses:				
Direct salaries and related costs	253,669	261,474	767,558	801,470
General and administrative	102,620	105,148	311,582	309,625
Depreciation, net	12,449	14,072	39,398	43,468
Amortization of intangibles	4,103	3,638	12,516	11,480
Impairment of long-lived assets	—	555	1,711	9,256
Total operating expenses	372,841	384,887	1,132,765	1,175,299
Income from operations	24,706	14,446	56,713	35,190
Other income (expense):				
Interest income	234	183	611	529
Interest (expense)	(1,091)	(1,168)	(3,448)	(3,523)
Other income (expense), net	(55)	919	22	537
Total other income (expense), net	(912)	(66)	(2,815)	(2,457)
Income before income taxes	23,794	14,380	53,898	32,733
Income taxes	5,689	628	12,837	855
Net income	\$ 18,105	\$ 13,752	\$ 41,061	\$ 31,878
Net income per common share:				
Basic	\$ 0.44	\$ 0.33	\$ 0.98	\$ 0.76
Diluted	\$ 0.44	\$ 0.33	\$ 0.98	\$ 0.76
Weighted average common shares outstanding:				
Basic	41,190	42,136	41,808	42,070
Diluted	41,307	42,204	41,908	42,201

*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,	
	2019	2018	2019	2018
Net income	\$ 18,105	\$ 13,752	\$ 41,061	\$ 31,878
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments, net of taxes	(10,693)	(2,177)	(6,992)	(15,483)
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	(1,130)	(2,097)	3,370	(5,471)
Unrealized actuarial gain (loss) related to pension liability, net of taxes	(46)	16	(26)	(113)
Unrealized gain (loss) on postretirement obligation, net of taxes	(5)	(84)	(15)	(104)
Other comprehensive income (loss), net of taxes	(11,874)	(4,342)	(3,663)	(21,171)
Comprehensive income (loss)	\$ 6,231	\$ 9,410	\$ 37,398	\$ 10,707

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Sykes Enterprises, Incorporated and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
(Unaudited)

(in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Issued	Amount					
<b>Balance at December 31, 2018</b>	42,778	\$ 428	\$ 286,544	\$ 598,788	\$ (56,775)	\$ (2,376)	\$ 826,609
Cumulative effect of accounting change – adoption of ASC 842, <i>Leases</i> (Note 3)	—	—	—	110	—	—	110
Stock-based compensation expense	—	—	1,890	—	—	—	1,890
Issuance of common stock under equity award plans, net of forfeitures	(168)	(2)	182	—	—	(180)	—
Shares repurchased for tax withholding on equity awards	(45)	—	(1,269)	—	—	—	(1,269)
Comprehensive income (loss)	—	—	—	11,687	3,014	—	14,701
<b>Balance at March 31, 2019</b>	42,565	426	287,347	610,585	(53,761)	(2,556)	842,041
Stock-based compensation expense	—	—	2,200	—	—	—	2,200
Issuance of common stock under equity award plans, net of forfeitures	26	—	123	—	—	(123)	—
Repurchase of common stock	—	—	—	—	—	(20,178)	(20,178)
Retirement of treasury stock	(500)	(5)	(791)	(12,063)	—	12,859	—
Comprehensive income (loss)	—	—	—	11,269	5,197	—	16,466
<b>Balance at June 30, 2019</b>	42,091	421	288,879	609,791	(48,564)	(9,998)	840,529
Stock-based compensation expense	—	—	1,504	—	—	—	1,504
Issuance of common stock under equity award plans, net of forfeitures	(16)	(1)	(95)	—	—	96	—
Shares repurchased for tax withholding on equity awards	(1)	—	(10)	—	—	—	(10)
Repurchase of common stock	—	—	—	—	—	(10,103)	(10,103)
Retirement of treasury stock	(640)	(6)	(1,168)	(16,248)	—	17,422	—
Comprehensive income (loss)	—	—	—	18,105	(11,874)	—	6,231
<b>Balance at September 30, 2019</b>	41,434	\$ 414	\$ 289,110	\$ 611,648	\$ (60,438)	\$ (2,583)	\$ 838,151

  

(in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Issued	Amount					
<b>Balance at December 31, 2017</b>	42,899	\$ 429	\$ 282,385	\$ 546,843	\$ (31,104)	\$ (2,074)	\$ 796,479
Cumulative effect of accounting change – adoption of ASC 606, <i>Revenues</i> (Note 2)	—	—	—	3,019	—	—	3,019
Stock-based compensation expense	—	—	2,077	—	—	—	2,077
Issuance of common stock under equity award plans, net of forfeitures	18	—	59	—	—	(59)	—
Shares repurchased for tax withholding on equity awards	(118)	(1)	(3,681)	—	—	—	(3,682)
Comprehensive income (loss)	—	—	—	10,948	(2,695)	—	8,253
<b>Balance at March 31, 2018</b>	42,799	428	280,840	560,810	(33,799)	(2,133)	806,146
Stock-based compensation expense	—	—	1,673	—	—	—	1,673
Issuance of common stock under equity award plans, net of forfeitures	22	—	109	—	—	(109)	—
Comprehensive income (loss)	—	—	—	7,178	(14,134)	—	(6,956)
<b>Balance at June 30, 2018</b>	42,821	428	282,622	567,988	(47,933)	(2,242)	800,863
Stock-based compensation expense	—	—	1,567	—	—	—	1,567
Issuance of common stock under equity award plans, net of forfeitures	(40)	—	90	—	—	(90)	—
Shares repurchased for tax withholding on equity awards	—	—	(4)	—	—	—	(4)
Comprehensive income (loss)	—	—	—	13,752	(4,342)	—	9,410
<b>Balance at September 30, 2018</b>	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,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 41,061	\$ 31,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	39,574	43,852
Amortization of intangibles	12,516	11,480
Amortization of deferred grants	(266)	(533)
Impairment losses	1,711	9,256
Unrealized foreign currency transaction (gains) losses, net	(2,391)	(686)
Stock-based compensation expense	5,594	5,317
Deferred income tax provision (benefit)	(1,703)	229
Unrealized (gains) losses and premiums on financial instruments, net	(545)	661
Amortization of deferred loan fees	211	201
Other	752	375
Changes in assets and liabilities, net of acquisitions:		
Receivables, net	(10,067)	(12,756)
Prepaid expenses	(277)	(1,164)
Other current assets	23	(1,101)
Deferred charges and other assets	(3,413)	(3,731)
Accounts payable	(2,704)	(1,490)
Income taxes receivable / payable	(2,124)	(6,429)
Accrued employee compensation and benefits	15,985	3,426
Other accrued expenses and current liabilities	3,055	10,447
Deferred revenue and customer liabilities	(1,848)	(1,612)
Other long-term liabilities	1,666	1,830
Operating lease assets and liabilities	776	—
Net cash provided by operating activities	97,586	89,450
<b>Cash flows from investing activities:</b>		
Capital expenditures	(24,491)	(36,853)
Cash paid for business acquisitions, net of cash acquired	—	(21,845)
Purchase of intangible assets	(292)	(8,106)
Investment in equity method investees	—	(5,000)
Other	598	698
Net cash (used for) investing activities	(24,185)	(71,106)

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

(Unaudited)

(Continued)

(in thousands)	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(37,000)	(220,000)
Proceeds from issuance of long-term debt	12,000	27,000
Cash paid for repurchase of common stock	(30,281)	—
Shares repurchased for tax withholding on equity awards	(1,279)	(3,686)
Cash paid for loan fees related to long-term debt	(1,098)	—
Other	—	42
Net cash (used for) financing activities	(57,658)	(196,644)
<b>Effects of exchange rates on cash, cash equivalents and restricted cash</b>	(1,407)	(8,186)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	14,336	(186,486)
Cash, cash equivalents and restricted cash – beginning	130,231	344,805
Cash, cash equivalents and restricted cash – ending	\$ 144,567	\$ 158,319
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during period for interest	\$ 2,798	\$ 2,893
Cash paid during period for income taxes	\$ 18,185	\$ 15,423
<b>Non-cash transactions:</b>		
Property and equipment additions in accounts payable	\$ 5,104	\$ 2,450
Unrealized gain (loss) on postretirement obligation, net of taxes, in accumulated other comprehensive income (loss)	\$ (15)	\$ (104)

*See accompanying Notes to Condensed Consolidated Financial Statements.*



**Sykes Enterprises, Incorporated and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine Months Ended September 30, 2019 and 2018**  
(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 primarily to Global 2000 companies and their end customers, principally within the financial services, communications, technology, transportation & leisure, healthcare 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 include order processing, payment processing, inventory control, product delivery and product returns handling. Additionally, through the Company’s acquisition of robotic processing automation (“RPA”) provider Symphony Ventures Ltd (“Symphony”) coupled with its investment in artificial intelligence (“AI”) through XSell Technologies, Inc. (“XSell”), the Company also provides a suite of solutions such as consulting, implementation, hosting and managed services that optimizes its differentiated full lifecycle management services platform. 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.

*U.S. 2017 Tax Reform Act*

On December 20, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Reform Act”) was approved by Congress and received presidential approval on December 22, 2017. In general, the 2017 Tax Reform Act reduced the U.S. federal corporate tax rate from 35% to 21%, effective in 2018. The 2017 Tax Reform Act moved from a worldwide business taxation approach to a participation exemption regime. The 2017 Tax Reform Act also imposed 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. The impact of the 2017 Tax Reform Act on the Company’s consolidated financial results began with the fourth quarter of 2017, the period of enactment. See Note 11, Income Taxes, for further information.

*Acquisitions*

*Symphony Acquisition*

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.

Symphony, headquartered in London, England, provides 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 was GBP 52.5 million (\$67.6 million), subject to a post-closing working capital adjustment, of which 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 acquisition date present value of the remaining GBP 7.9 million (\$10.0 million) of purchase price has been deferred and is payable in equal installments over three years, on or around November 1, 2019, 2020 and 2021. The Symphony Purchase Agreement also provides for a three-year, retention based earnout payable in restricted stock units (“RSUs”) with a value of GBP 3.0 million. The Symphony Purchase Agreement contains customary representations and warranties, indemnification obligations and covenants.

Subsequent to the finalization of the working capital adjustments during the quarter ended March 31, 2019, the purchase price was adjusted to GBP 52.4 million (\$67.5 million). The acquisition resulted in \$26.1 million of intangible assets, primarily customer relationships and trade names, \$2.2 million of fixed assets and \$36.2 million of goodwill.

The Company accounted for the Symphony acquisition in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“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 tax analysis of the assets acquired and liabilities assumed and goodwill. The Company will complete its analysis of the purchase price allocation in the fourth quarter of 2019 and any resulting adjustments will be recorded in accordance with ASC 805.

#### *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 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. The WhistleOut Sale Agreement contained customary representations and warranties, indemnification obligations and covenants.

The aggregate purchase price of AUD 30.2 million (\$22.4 million) was paid at the closing of the transaction on July 9, 2018. Subsequent to the finalization of the working capital adjustments during the quarter ended March 31, 2019, the purchase price was adjusted to AUD 30.3 million (\$22.5 million). 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 payable in three installments on or about July 1, 2019, 2020 and 2021. The Company paid the first installment of the earn-out of AUD 6.0 million (\$4.2 million) in July 2019.

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. The Company completed its tax analysis of the assets acquired and liabilities assumed during the second quarter of 2019, which resulted in deferred tax assets and liabilities in accordance with ASC 805. The final purchase price allocation resulted in \$16.5 million of intangible assets, primarily indefinite-lived domain names, \$2.4 million of fixed assets and \$3.3 million of goodwill.

**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, 2019 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2019. 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, 2018](#), as filed with the Securities and Exchange Commission (“SEC”) on February 26, 2019.

**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 U.S. GAAP 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 November 5, 2019, the Company settled an insurance claim related to damage to its customer engagement center located in Fort Smith, Arkansas. 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, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 142,572	\$ 128,697	\$ 157,268	\$ 343,734
Restricted cash included in "Other current assets"	563	149	158	154
Restricted cash included in "Deferred charges and other assets"	1,432	1,385	893	917
	<u>\$ 144,567</u>	<u>\$ 130,231</u>	<u>\$ 158,319</u>	<u>\$ 344,805</u>

**Investments in Equity Method Investees** — In July 2017, the Company made a strategic investment of \$10.0 million in XSell for 32.8% of XSell's preferred stock. The Company is incorporating XSell's machine learning and AI 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 \$8.8 million and \$9.2 million was included in "Deferred charges and other assets" in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018, respectively. The Company's investment was paid in two installments of \$5.0 million, one in July 2017 and one in August 2018. The Company's proportionate share of XSell's net (loss) of \$(0.1) million and \$(0.2) million for the three months ended September 30, 2019 and 2018, respectively, and \$(0.3) million and \$(0.4) million for the nine months ended September 30, 2019 and 2018, respectively, was included in "Other income (expense), net" in the accompanying Condensed Consolidated Statements of Operations.

As of September 30, 2019 and December 31, 2018, the Company did not identify any instances where the carrying values of its equity method investments were not recoverable.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Customer-acquisition advertising costs	\$ 11,188	\$ 13,907	\$ 33,328	\$ 35,835

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

#### ***New Accounting Standards Not Yet Adopted***

##### ***Fair Value Measurements***

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 does not expect its adoption of ASU 2018-13 to have a material impact on its disclosures and does not expect to early adopt the standard.

#### 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 does not expect its adoption of ASU 2018-14 to have a material impact on its financial condition, results of operations, cash flows or disclosures and does not expect to early adopt the standard.

#### 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 does not expect its adoption of ASU 2018-15 to have a material impact on its financial condition, results of operations, cash flows or disclosures and does not expect to early adopt the standard.

#### 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. Entities are required to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model which includes historical experience, current conditions, and reasonable and supportable forecasts. Subsequently, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* in November 2018 and ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326) Targeted Transition Relief* in May 2019 (together, “subsequent amendments”). ASU 2016-13 and the subsequent amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted.

The Company’s implementation team is substantially complete with the assessment of its data and the design of its financial models to estimate expected credit losses and continues to evaluate the critical factors of ASU 2016-13 to determine its impact on the Company’s business processes, systems, and internal controls. The Company expects ASU 2016-13 to apply to its trade receivables but does not expect the adoption of the amendments to have a material impact on its financial condition, results of operations or cash flows because credit losses associated with trade receivables have historically been insignificant. The adoption of ASU 2016-13 will require expanded quantitative and qualitative disclosures about the Company’s expected credit losses. Additionally, the Company does not anticipate early adopting ASU 2016-13.

#### Codification Improvements – Financial Instruments – Credit Losses, Derivatives and Hedging, and Financial Instruments

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Derivatives and Hedging, and Topic 825, Financial Instruments* (“ASU 2019-04”). These amendments clarify new standards on credit losses, hedging and recognizing and measuring financial instruments and address implementation issues stakeholders have raised. The credit losses and hedging amendments have the same effective dates as the respective standards, unless an entity has already adopted the standards. The amendments related to recognizing and measuring financial instruments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2019-04 to have a material impact on its financial condition, results of operations, cash flows or disclosures.

## ***New Accounting Standards Recently Adopted***

### **Leases**

In February 2016, the FASB issued 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 classified as operating leases under ASC 840, *Leases* (“ASC 840”). 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 without the need to restate prior periods. There are also certain optional practical expedients that an entity may elect to apply. The Company adopted ASC 842 as of January 1, 2019 using a modified retrospective transition, with the cumulative-effect adjustment to the opening balance of retained earnings as of the effective date. Periods prior to January 1, 2019 have not been restated.

See Note 3, Leases, for further details as well as the Company’s significant accounting policy for leases.

### **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 adoption of ASU 2017-12 on January 1, 2019 did not have a material impact on the financial condition, results of operations, cash flows or disclosures of the Company. No cumulative-effect adjustment was recorded to opening retained earnings on the date of adoption as there was no ineffectiveness previously recorded in retained earnings that would have been included in other comprehensive income if the new guidance had been applied since hedge inception. Upon adoption of ASU 2017-12, the Company elected the spot method for assessing the effectiveness of net investment hedges and will record the amortization of excluded components of net investment hedges in “Other income (expense), net” in its consolidated financial statements.

## **Note 2. Revenues**

On January 1, 2018, the Company adopted ASC 606, *Revenue from Contracts with Customers* (“ASC 606”), which included 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. 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.

### ***Revenue from Contracts with Customers***

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**

The Company provides customer engagement solutions and services with an emphasis on inbound multichannel demand generation, customer service and technical support to its clients’ customers. These services are delivered through multiple communication channels including phone, e-mail, social media, text messaging, chat and digital

self-service. Revenues for customer engagement solutions and services are recognized over time using output methods such as a per minute, per hour, per call, per transaction or per time and materials basis.

#### *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 2.6% and 0.5% of the Company's consolidated total revenues for the three months ended September 30, 2019 and 2018, respectively, and 2.4% and 0.5% for the nine months ended September 30, 2019 and 2018, 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):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Americas:</b>				
Customer engagement solutions and services	\$ 317,806	\$ 328,535	\$ 952,438	\$ 995,723
Other revenues	291	227	743	801
Total Americas	318,097	328,762	953,181	996,524
<b>EMEA:</b>				
Customer engagement solutions and services	69,329	68,859	208,969	208,302
Other revenues	10,098	1,684	27,262	5,588
Total EMEA	79,427	70,543	236,231	213,890
<b>Other:</b>				
Other revenues	23	28	66	75
Total Other	23	28	66	75
	<u>\$ 397,547</u>	<u>\$ 399,333</u>	<u>\$ 1,189,478</u>	<u>\$ 1,210,489</u>

#### *Trade Accounts Receivable*

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Trade accounts receivable, net, current (1)	\$ 340,520	\$ 335,377
Trade accounts receivable, net, noncurrent (2)	19,457	15,948
	<u>\$ 359,977</u>	<u>\$ 351,325</u>

(1) Included in "Receivables, net" in the accompanying Condensed Consolidated Balance Sheets.

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

The Company's noncurrent trade accounts receivable result from contracts with customers that include renewal provisions, as well as contracts with customers under multi-year arrangements.

### ***Deferred Revenue and Customer Liabilities***

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Deferred revenue	\$ 3,691	\$ 3,655
Customer arrangements with termination rights	15,891	16,404
Estimated refund liabilities	9,324	10,117
	<u>\$ 28,906</u>	<u>\$ 30,176</u>

#### ***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. Accordingly, the up-front fees allocated to a contract's termination notification period, typically varying periods up to 180 days, are recorded as deferred revenue, while the fees that extend beyond the notification period are classified as customer arrangements with termination rights.

Revenues of \$0.2 million and \$0.1 million were recognized during the three months ended September 30, 2019 and 2018, respectively, and revenues of \$3.6 million and \$4.3 million were recognized during the nine months ended September 30, 2019 and 2018, respectively, from amounts included in deferred revenue at December 31, 2018 and January 1, 2018, respectively. The Company expects to recognize the majority of its deferred revenue as of September 30, 2019 over the next 180 days.

#### ***Customer Liabilities – Customer Arrangements with Termination Rights***

The majority of the Company's 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"). 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 early contract terminations.

#### ***Customer Liabilities – Estimated Refund Liabilities***

Estimated 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. Estimated 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. Leases**

#### ***Adoption of ASC 842, Leases***

On January 1, 2019, the Company adopted ASC 842, which includes ASU 2016-02 and all related amendments, using the modified retrospective method and recognized a cumulative-effect adjustment to the opening balance of retained earnings at the date of adoption. Results for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting for leases under ASC 840.

The adoption of ASC 842 on January 1, 2019 had a material impact on the Company's Condensed Consolidated Balance Sheet, resulting in the recognition of \$225.3 million of right-of-use ("ROU") assets, \$239.3 million of operating lease liabilities, a \$0.1 million increase to opening retained earnings, as well as \$14.1 million primarily related to the derecognition of net straight-line lease liabilities. The retained earnings adjustment was due to the

cumulative impact of adopting ASC 842, primarily resulting from the derecognition of embedded lease derivatives, the difference between deferred rent balances and the net of ROU assets and lease liabilities and the deferred tax impact.

The impact of the adoption of ASC 842 to the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 was not material. The Company's net cash provided by operating activities for the nine months ended September 30, 2019 did not change due to the adoption of ASC 842.

### ***Practical Expedients***

The Company elected the following practical expedients:

- The package of transitional practical expedients, consistently applied to all leases, that permits the Company to not reassess whether any expired or existing contracts are or contain leases, the historical lease classification for any expired or existing leases and initial direct costs for any expired or existing leases; and
- The practical expedient that permits the Company to make an accounting policy election (by class of underlying asset) to account for each separate lease component of a contract and its associated non-lease components as a single lease component for all leases entered into or modified after the January 1, 2019 adoption date.

### ***Accounting Policy***

In determining whether a contract contains a lease, the Company assesses whether the arrangement meets all three of the following criteria: 1) there is an identified asset; 2) the Company has the right to obtain substantially all the economic benefits from use of the identified asset; and 3) the Company has the right to direct the use of the identified asset. This involves evaluating whether the Company has the right to operate the asset or to direct others to operate the asset in a manner that it determines without the supplier having the right to change those operating instructions, as well as evaluating the Company's involvement in the design of the asset.

The Company capitalizes operating lease obligations with initial terms in excess of 12 months as ROU assets with corresponding lease liabilities on its balance sheet. Operating lease ROU assets represent the Company's right to use an underlying asset for the lease term, and operating lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Additionally, the ROU asset is adjusted for lease incentives, prepaid lease payments and initial direct costs. Operating lease expense is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, such as real estate taxes, insurance, common area maintenance and other operating costs. Lease and non-lease components are generally accounted for as a single component to the extent that the costs are fixed per the arrangement. The Company has applied this accounting policy to all asset classes. To the extent that the non-lease components are not fixed per the arrangement, these costs are treated as variable lease costs and expensed as incurred.

Certain of the Company's lease agreements include rental payments that adjust periodically based on an index or rate, generally the applicable Consumer Price Index ("CPI"). The operating lease liability is measured using the prevailing index or rate at the measurement date (i.e., the commencement date); however, the most recent CPI in effect as of January 1, 2019 was used to effectuate the adoption of ASC 842. Incremental payments due to changes to the index- and rate-based lease payments are treated as variable lease costs and expensed as incurred.

For purposes of calculating operating lease liabilities, the lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The primary factors used to estimate whether an option to extend a lease term will be exercised or not generally include the extent of the Company's capital investment, employee recruitment potential and operational cost and flexibility.



In determining the present value of lease payments, the Company typically uses incremental borrowing rates based on information available at the lease commencement date. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company's incremental borrowing rate is estimated using a synthetic credit rating model and forward currency exchange rates, as applicable.

Payments on leases with an initial term of 12 months or less are recognized in the accompanying Condensed Consolidated Statements of Operations on a straight-line basis over the lease term.

The ROU asset is evaluated for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment*. A loss is recognized when the ROU asset is impaired in connection with the impairment of a site's assets due to economic or other factors. When the ROU asset is impaired, it is typically amortized on a straight-line basis over the shorter of the remaining lease term or its useful life, and the related operating lease would no longer qualify for straight-line treatment of total lease expense.

### Leases

The Company leases facilities for its corporate headquarters, many of its customer engagement centers, several regional support offices and data centers. These leases are classified as operating leases and are included in "Operating lease right-of-use assets," "Operating lease liabilities" and "Long-term operating lease liabilities" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2019. The Company has no finance leases.

Lease terms for the Company's leases are generally three to 20 years with renewal options typically ranging from one month to five years and largely require the Company to pay a proportionate share of real estate taxes, insurance, common area maintenance, and other operating costs in addition to a base or fixed rent. The Company's operating leases have remaining lease terms of one month to 13 years as of September 30, 2019.

The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

The Company subleases certain of its facilities that have been abandoned before the expiration of the lease term. Operating lease costs on abandoned facilities are reduced by sublease income and included in "General and administrative" costs in the accompanying Condensed Consolidated Statements of Operations. The Company's sublease arrangements do not contain renewal options or restrictive covenants. The Company's subleases have varying remaining lease terms extending through 2025, and future contractual sublease income is expected to be \$13.2 million over the remaining lease terms.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense were as follows (in thousands):

	<u>Statement of Operations Location</u>	<u>Three Months Ended September 30, 2019</u>	<u>Nine Months Ended September 30, 2019</u>
Operating lease cost	Direct salaries and related costs	\$ 37	\$ 170
Operating lease cost	General and administrative	14,645	44,460
Short-term lease cost	General and administrative	970	1,783
Variable lease cost	Direct salaries and related costs	—	(1)
Variable lease cost	General and administrative	1,116	3,426
Sublease income	General and administrative	(870)	(1,867)
		<u>\$ 15,898</u>	<u>\$ 47,971</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	<u>Nine Months Ended September 30, 2019</u>
Cash paid for amounts included in the measurement of operating lease liabilities - operating cash flows	\$ 43,387
Right-of-use assets obtained in exchange for new operating lease liabilities	18,447

Additional supplemental information related to leases was as follows:

	September 30, 2019
Weighted average remaining lease term of operating leases	5.4 years
Weighted average discount rate of operating leases	3.7%

Maturities of operating lease liabilities as of September 30, 2019 were as follows (in thousands):

	Amount
2019 (remainder of the year)	\$ 10,767
2020	57,324
2021	51,118
2022	39,370
2023	25,829
2024 and thereafter	55,475
Total future lease payments	239,883
Less: Imputed interest	23,552
Present value of future lease payments	216,331
Less: Operating lease liabilities	48,323
Long-term operating lease liabilities	\$ 168,008

As of September 30, 2019, the Company had additional operating leases for customer engagement centers that had not yet commenced with future lease payments of \$0.7 million. These operating leases will commence during the fourth quarter of 2019 with lease terms between 1 and 6 years.

#### ***Disclosures related to periods prior to adoption of ASC 842***

Rental expense under operating leases, primarily included in “General and administrative” in the accompanying Condensed Consolidated Statement of Operations, for the three and nine months ended September 30, 2018 was \$19.0 million and \$53.6 million, respectively.

The following is a schedule of future minimum rental payments required under operating leases that had noncancelable lease terms as of December 31, 2018 under ASC 840 (in thousands):

	Amount
2019	\$ 53,071
2020	48,770
2021	43,324
2022	34,063
2023	22,583
2024 and thereafter	51,456
	\$ 253,267

#### **Note 4. Costs Associated with Exit or Disposal Activities**

During the first quarter of 2019, the Company initiated a restructuring plan to simplify and refine its operating model in the U.S. (the “Americas 2019 Exit Plan”), in part to improve agent attrition and absenteeism. The Americas 2019 Exit Plan includes, but is not limited to, closing customer contact management centers, consolidating leased space in various locations in the U.S. and management reorganization. The Company finalized these actions as of September 30, 2019.

During the second quarter of 2018, the Company initiated a restructuring plan to manage and optimize capacity utilization, which included closing customer contact management centers and consolidating leased space in various locations in the U.S. and Canada (the “Americas 2018 Exit Plan”). The Company finalized the remainder of the site closures under the Americas 2018 Exit Plan as of December 2018, resulting in a reduction of 5,000 seats.

The Company’s actions under both the Americas 2018 and 2019 Exit Plans are anticipated to result in general and administrative cost savings and lower depreciation expense.

The cumulative costs expected and incurred to date related to cash and non-cash expenditures resulting from the Americas 2018 Exit Plan and the Americas 2019 Exit Plan are outlined below as of September 30, 2019 (in thousands):

	Americas 2018 Exit Plan	Americas 2019 Exit Plan
Lease obligations and facility exit costs (1)	\$ 7,073	\$ 54
Severance and related costs (2)	3,426	191
Severance and related costs (1)	1,053	2,161
Non-cash impairment charges	5,875	1,582
Other non-cash charges	—	244
	<u>\$ 17,427</u>	<u>\$ 4,232</u>

(1) Included in "General and administrative" costs.

(2) Included in "Direct salaries and related costs."

The Company has paid a total of \$11.8 million in cash through September 30, 2019, of which \$10.4 million related to the Americas 2018 Exit Plan and \$1.4 million related to the Americas 2019 Exit Plan.

The following table summarizes the accrued liability and related charges for the three months ended September 30, 2019 (in thousands):

	Americas 2018 Exit Plan			Americas 2019 Exit Plan		
	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total
<b>Balance at the beginning of the period</b>	\$ 129	\$ 222	\$ 351	\$ 54	\$ 1,561	\$ 1,615
Charges (reversals) included in "General and administrative"	—	8	8	—	(8)	(8)
Cash payments	(33)	(129)	(162)	—	(649)	(649)
<b>Balance at the end of the period</b>	<u>\$ 96</u>	<u>\$ 101</u>	<u>\$ 197</u>	<u>\$ 54</u>	<u>\$ 904</u>	<u>\$ 958</u>

The following table summarizes the accrued liability and related charges for the three months ended September 30, 2018 (in thousands):

	Americas 2018 Exit Plan		
	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total
<b>Balance at the beginning of the period</b>	\$ 2,815	\$ 490	\$ 3,305
Charges (reversals) included in "Direct salaries and related costs"	—	3,015	3,015
Charges (reversals) included in "General and administrative"	3,832	331	4,163
Cash payments	(1,440)	(3,209)	(4,649)
Balance sheet reclassifications (1)	119	—	119
<b>Balance at the end of the period</b>	<u>\$ 5,326</u>	<u>\$ 627</u>	<u>\$ 5,953</u>

(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, 2019 (in thousands):

	Americas 2018 Exit Plan			Americas 2019 Exit Plan		
	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total
<b>Balance at the beginning of the period</b>	\$ 1,769	\$ 817	\$ 2,586	\$ —	\$ —	\$ —
Charges (reversals) included in "Direct salaries and related costs"	—	(3)	(3)	—	191	191
Charges (reversals) included in "General and administrative"	(4)	18	14	54	2,161	2,215
Cash payments	(331)	(731)	(1,062)	—	(1,448)	(1,448)
Balance sheet reclassifications (1)	(1,338)	—	(1,338)	—	—	—
<b>Balance at the end of the period</b>	<u>\$ 96</u>	<u>\$ 101</u>	<u>\$ 197</u>	<u>\$ 54</u>	<u>\$ 904</u>	<u>\$ 958</u>

(1) Consists of the reclassification from the restructuring liability to "Operating lease liabilities" and "Long-term operating lease liabilities" upon adoption of ASC 842 on January 1, 2019.

The following table summarizes the accrued liability and related charges for the nine months ended September 30, 2018 (in thousands):

	Americas 2018 Exit Plan		
	Lease Obligations and Facility Exit Costs	Severance and Related Costs	Total
<b>Balance at the beginning of the period</b>	\$ —	\$ —	\$ —
Charges (reversals) included in "Direct salaries and related costs"	—	3,417	3,417
Charges (reversals) included in "General and administrative"	6,860	550	7,410
Cash payments	(1,869)	(3,340)	(5,209)
Balance sheet reclassifications (1)	335	—	335
<b>Balance at the end of the period</b>	<u>\$ 5,326</u>	<u>\$ 627</u>	<u>\$ 5,953</u>

(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 its Americas 2018 and 2019 Exit Plans (in thousands):

	Americas 2018 Exit Plan		Americas 2019 Exit Plan
	September 30, 2019	December 31, 2018	September 30, 2019
<b>Lease obligations and facility exit costs:</b>			
Included in "Accounts payable"	\$ —	\$ 100	\$ 54
Included in "Other accrued expenses and current liabilities"	55	952	—
Included in "Other long-term liabilities"	41	717	—
	<u>96</u>	<u>1,769</u>	<u>\$ 54</u>
<b>Severance and related costs:</b>			
Included in "Accrued employee compensation and benefits"	101	793	902
Included in "Other accrued expenses and current liabilities"	—	24	2
	<u>101</u>	<u>817</u>	<u>904</u>
	<u>\$ 197</u>	<u>\$ 2,586</u>	<u>\$ 958</u>

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

#### **Note 5. Fair Value**

ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) defines fair value and establishes a framework for measuring fair value. ASC 820 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. Additionally, ASC 820 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for how 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.

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 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, if applicable.

Cash, Short-Term and Other Investments and Accounts Payable — The carrying values for cash, short-term and other investments and accounts payable approximate their fair values.

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.

Foreign Currency Contracts — The Company enters into foreign currency forward contracts and options over the counter and values such contracts, including premiums paid on options, at fair value 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 — Prior to the adoption of ASC 842, the Company had embedded derivatives within certain hybrid lease agreements that were bifurcated from the host contract and valued such contracts at fair value using significant unobservable inputs, which are classified in Level 3 of the fair value hierarchy. These unobservable inputs included 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 were adjusted for credit risk. These items were classified in Level 3 of the fair value hierarchy. See Note 3, Leases, and Note 7, 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 8, Investments Held in Rabbi Trust.

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 (in thousands):

	Balance at September 30, 2019	Fair Value Measurements Using:		
		Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Foreign currency contracts (1)	\$ 2,576	\$ —	\$ 2,576	\$ —
Equity investments held in rabbi trust for the Deferred Compensation Plan (2)	8,305	8,305	—	—
Debt investments held in rabbi trust for the Deferred Compensation Plan (2)	4,712	4,712	—	—
	<u>\$ 15,593</u>	<u>\$ 13,017</u>	<u>\$ 2,576</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Foreign currency contracts (1)	\$ 425	\$ —	\$ 425	\$ —
	<u>\$ 425</u>	<u>\$ —</u>	<u>\$ 425</u>	<u>\$ —</u>

	Balance at December 31, 2018	Fair Value Measurements Using:		
		Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Foreign currency contracts (1)	\$ 1,068	\$ —	\$ 1,068	\$ —
Embedded derivatives (1)	10	—	—	10
Equity investments held in rabbi trust for the Deferred Compensation Plan (2)	8,075	8,075	—	—
Debt investments held in rabbi trust for the Deferred Compensation Plan (2)	3,367	3,367	—	—
	<u>\$ 12,520</u>	<u>\$ 11,442</u>	<u>\$ 1,068</u>	<u>\$ 10</u>
<b>Liabilities:</b>				
Foreign currency contracts (1)	\$ 2,895	\$ —	\$ 2,895	\$ —
Embedded derivatives (1)	369	—	—	369
	<u>\$ 3,264</u>	<u>\$ —</u>	<u>\$ 2,895</u>	<u>\$ 369</u>

(1) See Note 7, 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 8, 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,	
	2019	2018	2019	2018
<b>Balance at the beginning of the period</b>	\$ —	\$ (598)	\$ (359)	\$ (527)
Derecognition of embedded derivatives <sup>(1)</sup>	—	—	359	—
Gains (losses) recognized in "Other income (expense), net"	—	159	—	(6)
Settlements	—	38	—	118
Effect of foreign currency	—	(1)	—	13
<b>Balance at the end of the period</b>	<u>\$ —</u>	<u>\$ (402)</u>	<u>\$ —</u>	<u>\$ (402)</u>
Change in unrealized gains (losses) included in "Other income (expense), net" related to embedded derivatives held at the end of the period	\$ —	\$ 153	\$ —	\$ (19)

(1) Derecognition upon adoption of ASC 842 on January 1, 2019. See Note 3, Leases, for more information.

### **Non-Recurring Fair Value**

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs, including goodwill, intangible assets, long-lived assets, ROU 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, 2019 and December 31, 2018.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Americas:				
Property and equipment, net	\$ —	\$ (555)	\$ (343)	\$ (9,256)
Operating lease right-of-use assets	—	—	(1,368)	—
	<u>\$ —</u>	<u>\$ (555)</u>	<u>\$ (1,711)</u>	<u>\$ (9,256)</u>

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 during the three and nine months ended September 30, 2019 and 2018 related to the exit of leased facilities as well as leasehold improvements, equipment, furniture and fixtures which were not recoverable. See Note 4, Costs Associated with Exit and Disposal Activities, for further information.

## Note 6. Goodwill and Intangible Assets

### Intangible Assets

The following table presents the Company's purchased intangible assets as of September 30, 2019 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 189,177	\$ (117,027)	\$ 72,150	10
Trade names and trademarks	19,093	(12,310)	6,783	8
Non-compete agreements	2,714	(2,088)	626	3
Content library	492	(492)	—	2
Proprietary software	870	(660)	210	5
Intangible assets not subject to amortization:				
Domain names	80,710	—	80,710	N/A
	<u>\$ 293,056</u>	<u>\$ (132,577)</u>	<u>\$ 160,479</u>	<u>5</u>

The following table presents the Company's purchased intangible assets as of December 31, 2018 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Intangible assets subject to amortization:				
Customer relationships	\$ 189,697	\$ (106,502)	\$ 83,195	10
Trade names and trademarks	19,236	(10,594)	8,642	8
Non-compete agreements	2,746	(1,724)	1,022	3
Content library	517	(517)	—	2
Proprietary software	1,040	(725)	315	4
Intangible assets not subject to amortization:				
Domain names	80,857	—	80,857	N/A
	<u>\$ 294,093</u>	<u>\$ (120,062)</u>	<u>\$ 174,031</u>	<u>5</u>

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, 2019 is as follows (in thousands):

	Amount
2019 (remainder of the year)	\$ 4,054
2020	13,897
2021	9,312
2022	8,035
2023	7,205
2024	6,960
2025 and thereafter	30,306

### Goodwill

Changes in goodwill for the nine months ended September 30, 2019 consisted of the following (in thousands):

	January 1, 2019	Acquisition- Related <sup>(1)</sup>	Effect of Foreign Currency	September 30, 2019
Americas	\$ 255,436	\$ 1,202	\$ 1,799	\$ 258,437
EMEA	47,081	(124)	(1,594)	45,363
	<u>\$ 302,517</u>	<u>\$ 1,078</u>	<u>\$ 205</u>	<u>\$ 303,800</u>



Changes in goodwill for the year ended December 31, 2018 consisted of the following (in thousands):

	January 1, 2018	Acquisition- Related <sup>(1)</sup>	Effect of Foreign Currency	December 31, 2018
Americas	\$ 258,496	\$ 2,175	\$ (5,235)	\$ 255,436
EMEA	10,769	36,361	(49)	47,081
	<u>\$ 269,265</u>	<u>\$ 38,536</u>	<u>\$ (5,284)</u>	<u>\$ 302,517</u>

(1) See Note 1, Overview and Basis of Presentation, for further information. The year ended December 31, 2018 includes the goodwill recorded upon acquisition of WhistleOut and Symphony, while the nine months ended September 30, 2019 includes the impact of adjustments to acquired goodwill upon finalization of working capital adjustments and the tax analysis of WhistleOut's assets acquired and liabilities assumed.

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, 2019. Under ASC 350, *Intangibles – Goodwill and Other*, 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 projected long-term growth rate 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, 2019, the Company had eight reporting units, seven of which have goodwill. The Company concluded that goodwill was not impaired for all seven of its reporting units with goodwill, based on generally accepted valuation techniques and the significant assumptions outlined above. The fair values of three of the seven reporting units were substantially in excess of their carrying value. The Clearlink, Symphony, LATAM and Qelp reporting units' fair values exceeded their respective carrying values, although the fair value cushion was not substantial. The decrease in the Clearlink reporting unit's cushion from the prior year was primarily attributable to a decrease in the projected long-term growth rate of the U.S. Gross Domestic Product as well as a decline in projected revenue growth. The decrease in the cushion from the prior year for the LATAM and Qelp reporting units was primarily attributable to an increase in the country-specific risk premiums which increased the applied weighted average cost of capital. Symphony was acquired by the Company in November 2018.

The Clearlink, Symphony, LATAM and Qelp reporting units are at risk of future impairment if projected operating results are not met or other inputs into the fair value measurement model change. As of September 30, 2019, the Company believes there were no indicators of impairment related to Clearlink's \$74.1 million of goodwill, Symphony's \$35.7 million of goodwill, LATAM's \$19.2 million of goodwill and Qelp's \$9.7 million of goodwill.

## Note 7. 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 foreign currency 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 were as follows (in thousands):

	September 30, 2019	December 31, 2018
Deferred gains (losses) in AOCI	\$ 1,553	\$ (1,825)
Tax on deferred gains (losses) in AOCI	(47)	(39)
Deferred gains (losses) in AOCI, net of taxes	<u>\$ 1,506</u>	<u>\$ (1,864)</u>
Deferred gains (losses) expected to be reclassified to "Revenues" from AOCI during the next twelve months	<u>\$ 1,553</u>	

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.

**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. Prior to the adoption of ASC 842 on January 1, 2019, the foreign currency component of these contracts met the criteria under ASC 815 as embedded derivatives. The Company has determined that the embedded derivatives were 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 did not qualify for hedge accounting under ASC 815. The Company’s embedded derivatives were derecognized on January 1, 2019.

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

Contract Type	September 30, 2019		December 31, 2018	
	Notional Amount in USD	Settle Through Date	Notional Amount in USD	Settle Through Date
<b>Cash flow hedges:</b>				
Options:				
US Dollars/Philippine Pesos	\$ 77,000	September 2020	\$ 26,250	December 2019
Forwards:				
US Dollars/Philippine Pesos	—	—	39,000	September 2019
US Dollars/Costa Rican Colones	27,000	June 2020	67,000	December 2019
Euros/Hungarian Forints	752	December 2019	—	—
Euros/Romanian Leis	4,142	December 2019	—	—
<b>Non-designated hedges:</b>				
Forwards	25,161	November 2021	19,261	November 2021
Embedded derivatives	—	—	14,069	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 \$2.6 million and \$1.1 million as of September 30, 2019 and December 31, 2018, 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 \$2.4 million and \$1.1 million as of September 30, 2019 and December 31, 2018, respectively, and liability positions of \$0.2 million and \$2.9 million as of September 30, 2019 and December 31, 2018, 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):

	Balance Sheet Location	Derivative Assets	
		September 30, 2019	December 31, 2018
<b>Derivatives designated as cash flow hedging instruments:</b>			
Foreign currency contracts	Other current assets	\$ 2,358	\$ 1,038
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency contracts	Other current assets	81	30
Foreign currency contracts	Deferred charges and other assets	137	—
Embedded derivatives	Other current assets	—	10
<b>Total derivative assets</b>		<b>\$ 2,576</b>	<b>\$ 1,078</b>

	Balance Sheet Location	Derivative Liabilities	
		September 30, 2019	December 31, 2018
<b>Derivatives designated as cash flow hedging instruments:</b>			
Foreign currency contracts	Other accrued expenses and current liabilities	\$ 28	\$ 2,604
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency contracts	Other accrued expenses and current liabilities	397	247
Foreign currency contracts	Other long-term liabilities	—	44
Embedded derivatives	Other accrued expenses and current liabilities	—	8
Embedded derivatives	Other long-term liabilities	—	361
<b>Total derivative liabilities</b>		<b>\$ 425</b>	<b>\$ 3,264</b>

The following table presents the effect of the Company's derivative instruments included in the accompanying condensed consolidated financial statements (in thousands):

	Location of Gains (Losses) in Net Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Revenues		\$ 397,547	\$ 399,333	\$ 1,189,478	\$ 1,210,489
<b>Derivatives designated as cash flow hedging instruments:</b>					
<b>Gains (losses) recognized in AOCI:</b>					
Foreign currency contracts		(36)	(1,839)	4,733	(4,840)
<b>Gains (losses) reclassified from AOCI:</b>					
Foreign currency contracts	Revenues	1,134	183	1,264	619
<b>Derivatives not designated as hedging instruments:</b>					
Gains (losses) recognized from foreign currency contracts	Other income (expense), net	\$ (363)	\$ (539)	\$ (828)	\$ (1,801)
Gains (losses) recognized from embedded derivatives	Other income (expense), net	—	159	—	(6)
		<u>\$ (363)</u>	<u>\$ (380)</u>	<u>\$ (828)</u>	<u>\$ (1,807)</u>

#### Note 8. 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, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 9,455	\$ 13,017	\$ 8,864	\$ 11,442

The mutual funds held in rabbi trust were 64% equity-based and 36% debt-based as of September 30, 2019. Net investment gains (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,	
	2019	2018	2019	2018
Net realized gains (losses) from sale of trading securities	\$ 62	\$ 10	\$ 128	\$ 42
Dividend and interest income	35	31	117	99
Net unrealized holding gains (losses)	(56)	366	1,402	383
	<u>\$ 41</u>	<u>\$ 407</u>	<u>\$ 1,647</u>	<u>\$ 524</u>

#### Note 9. Borrowings

On February 14, 2019, the Company entered into a \$500 million senior revolving credit facility (the "2019 Credit Agreement") with a group of lenders, KeyBank National Association, as Administrative Agent, Swing Line Lender and Issuing Lender ("KeyBank"), the lenders named therein, and KeyBanc Capital Markets Inc. as Lead Arranger and Sole Book Runner. The 2019 Credit Agreement replaced the Company's previous \$440 million revolving credit facility dated May 12, 2015 (the "2015 Credit Agreement"), which agreement was terminated simultaneous with entering into the 2019 Credit Agreement. The 2019 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants.

The 2019 Credit Agreement includes a \$200 million alternate-currency sub-facility, a \$15 million swingline sub-facility and a \$15 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 2019 Credit Agreement matures on February 14, 2024, and had outstanding borrowings of \$77.0 million at September 30, 2019 and the 2015 Credit Agreement had outstanding borrowings of \$102.0 million at December 31, 2018, included in “Long-term debt” in the accompanying Condensed Consolidated Balance Sheets.

Borrowings under the 2019 Credit Agreement bear interest at the rates set forth in the 2019 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 2019 Credit Agreement.

The 2019 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 February 2019, the Company paid debt issuance costs of \$1.1 million for the 2019 Credit Agreement, which is deferred and amortized over the term of the loan, along with the debt issuance costs of \$0.3 million related to the 2015 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,	
	2019	2018	2019	2018
Average daily utilization	\$ 91,935	\$ 101,087	\$ 92,495	\$ 107,454
Interest expense <sup>(1)</sup>	\$ 899	\$ 923	\$ 2,783	\$ 2,839
Weighted average interest rate <sup>(1)</sup>	3.9%	3.6%	4.0%	3.6%

(1) Excludes the amortization of deferred loan fees and includes the commitment fee.

In January 2018, the Company repaid \$175.0 million of long-term debt outstanding under its 2015 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):

	Foreign Currency Translation Adjustments	Unrealized Gain (Loss) on Net Investment Hedge	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Unrealized Actuarial Gain (Loss) Related to Pension Liability	Unrealized Gain (Loss) on Postretirement Obligation	Total
<b>Balance at January 1, 2018</b>	\$ (36,315)	\$ 1,046	\$ 2,471	\$ 1,574	\$ 120	\$ (31,104)
Pre-tax amount	(22,158)	—	(4,287)	783	—	(25,662)
Tax (provision) benefit	—	—	84	47	—	131
Reclassification of (gain) loss to net income	—	—	6	(66)	(80)	(140)
Foreign currency translation	220	—	(138)	(82)	—	—
<b>Balance at December 31, 2018</b>	(58,253)	1,046	(1,864)	2,256	40	(56,775)
Pre-tax amount	(7,048)	—	4,733	—	—	(2,315)
Tax (provision) benefit	—	—	(85)	10	—	(75)
Reclassification of (gain) loss to net income	—	—	(1,186)	(72)	(15)	(1,273)
Foreign currency translation	56	—	(92)	36	—	—
<b>Balance at September 30, 2019</b>	\$ (65,245)	\$ 1,046	\$ 1,506	\$ 2,230	\$ 25	\$ (60,438)

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):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>		<u>Statements of Operations Location</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
<b>Gain (loss) on cash flow hedging instruments: (1)</b>					
Pre-tax amount	\$ 1,134	\$ 183	\$ 1,264	\$ 619	Revenues
Tax (provision) benefit	(33)	19	(78)	43	Income taxes
Reclassification to net income	1,101	202	1,186	662	
<b>Actuarial gain (loss) related to pension liability: (2)</b>					
Pre-tax amount	21	13	63	42	Other income (expense), net
Tax (provision) benefit	3	3	9	9	Income taxes
Reclassification to net income	24	16	72	51	
<b>Gain (loss) on postretirement obligation: (2),(3)</b>					
Reclassification to net income	5	84	15	104	Other income (expense), net
	<u>\$ 1,130</u>	<u>\$ 302</u>	<u>\$ 1,273</u>	<u>\$ 817</u>	

(1) See Note 7, 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 as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Effective tax rate	23.9%	4.4%	23.8%	2.6%

The increase in the effective tax rate for the three months ended September 30, 2019 as compared to 2018 was primarily due to a \$1.9 million reduction in discrete taxes related to the resolution of uncertain tax positions and ancillary issues in the prior period. The increase was also affected by shifts in earnings among the various jurisdictions in which the Company operates. Several additional factors, none of which were 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 tax impact of permanent differences, state income and foreign withholding taxes, partially offset by the recognition of net tax benefits resulting from foreign tax rate differentials, income earned in certain tax holiday jurisdictions and tax credits.

The increase in the effective tax rate for the nine months ended September 30, 2019 as compared to 2018 was primarily due to a \$5.3 million reduction in discrete taxes from the aforementioned changes in uncertain tax positions, including the settlement of tax audits and ancillary issues in the prior period. The increase was also affected by shifts in earnings among the various jurisdictions in which the Company operates. Several additional factors, none of which were 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 tax impact of permanent differences, state income and foreign withholding taxes, partially offset by the recognition of net tax benefits resulting from foreign tax rate differentials, income earned in certain tax holiday jurisdictions and tax credits.

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 included 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 finalized the computation during the fourth quarter of 2018 and recorded a \$0.2 million decrease during the year ended December 31, 2018 to the original provisional amount recorded.

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.

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. 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.

The Company has no significant tax jurisdictions under audit; however, the Company is currently under audit in several tax jurisdictions. The Company believes it has adequate reserves related to all matters pertaining to the remaining audits. Should the Company experience unfavorable outcomes from these audits, such outcomes could have a significant impact on its financial condition, results of operations and cash flows.

## 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 were as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Basic:				
Weighted average common shares outstanding	41,190	42,136	41,808	42,070
Diluted:				
Dilutive effect of stock appreciation rights, restricted stock, restricted stock units and shares held in rabbi trust	117	68	100	131
Total weighted average diluted shares outstanding	<u>41,307</u>	<u>42,204</u>	<u>41,908</u>	<u>42,201</u>
Anti-dilutive shares excluded from the diluted earnings per share calculation	<u>52</u>	<u>23</u>	<u>174</u>	<u>11</u>

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 6.4 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.

The shares repurchased under the Company’s 2011 Share Repurchase Program were as follows (none in 2018) (in thousands, except per share amounts):

	Total Number of Shares Repurchased	Range of Prices Paid Per Share		Total Cost of Shares Repurchased
		Low	High	
<b>Three Months Ended:</b>				
September 30, 2019	369	\$ 26.81	\$ 28.00	\$ 10,103
<b>Nine Months Ended:</b>				
September 30, 2019	1,140	\$ 24.72	\$ 28.00	\$ 30,281

### Note 13. Commitments and Loss Contingency

#### Purchase Commitments

The Company enters into various purchase commitment agreements with third-party vendors in the ordinary course of business whereby the Company commits 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.

#### 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 \$1.5 million, net of federal benefit.

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

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,	
	2019	2018	2019	2018
Service cost	\$ 98	\$ 106	\$ 296	\$ 329
Interest cost	62	46	186	144
Recognized actuarial (gains)	(21)	(13)	(63)	(42)
	<u>\$ 139</u>	<u>\$ 139</u>	<u>\$ 419</u>	<u>\$ 431</u>

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, 2019 and 2018. 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, 2019 and 2018.



### 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,	
	2019	2018	2019	2018
401(k) plan contributions	\$ 410	\$ 392	\$ 1,295	\$ 1,195

### 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, 2019		December 31, 2018	
Postretirement benefit obligation	\$ 6	\$ 6	\$ 12	\$ 12
Unrealized gains (losses) in AOCI (1)	25	25	40	40

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

### Note 15. Stock-Based Compensation

The Company's Board of Directors adopted the Sykes Enterprises, Incorporated 2019 Equity Incentive Plan (the "2019 Plan") on March 12, 2019. The 2019 Plan was approved by the shareholders at the May 2019 annual shareholder meeting. The 2019 Plan replaced and superseded the Company's 2011 Equity Incentive Plan (the "2011 Plan"). The outstanding awards granted under the 2011 Plan will remain in effect until their exercise, expiration or termination. The 2019 Plan permits the grant of restricted stock, stock appreciation rights, stock options and other stock-based awards to certain employees of, 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.

The Company's stock-based compensation plans include the 2019 Plan for employees and certain non-employees, the Non-Employee Director Fee Plan for non-employee directors and the Deferred Compensation Plan for certain eligible employees. Stock-based awards under these plans may consist of common stock, stock options, cash-settled or stock-settled stock appreciation rights, restricted stock and other stock-based awards. The Company issues stock and uses treasury stock to satisfy stock option exercises or vesting stock awards. The methods and assumptions used in the determination of the fair value of stock-based awards are consistent with those described in the consolidated financial statements and notes thereto included in the Company's [Annual Report on Form 10-K for the year ended December 31, 2018](#).

The following table summarizes the stock-based compensation expense (primarily in the Americas) and income tax benefits related to the stock-based compensation, both plan and non-plan related (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock-based compensation (expense) (1)	\$ (1,504)	\$ (1,567)	\$ (5,594)	\$ (5,317)
Income tax benefit (2)	361	376	1,343	1,276

(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.

During the nine months ended September 30, 2019, the Company granted 338,732 performance-based restricted shares and 169,367 employment-based restricted stock units under the Company's 2011 Plan, all at a weighted average grant-date fair value of \$28.43 per share.

During the three and nine months ended September 30, 2019, the Company accelerated the vesting of 35,577 acquisition-related restricted stock units in conjunction with the departure of one of Symphony's executives from the Company. The fair value of the vested restricted stock units was \$1.1 million.

**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
<b>Three Months Ended September 30, 2019:</b>				
Revenues	\$ 318,097	\$ 79,427	\$ 23	\$ 397,547
Percentage of revenues	80.0%	20.0%	0.0%	100.0%
Depreciation, net	\$ 10,086	\$ 1,611	\$ 752	\$ 12,449
Amortization of intangibles	\$ 3,289	\$ 814	\$ —	\$ 4,103
Income (loss) from operations	\$ 34,516	\$ 5,688	\$ (15,498)	\$ 24,706
Total other income (expense), net			(912)	(912)
Income taxes			(5,689)	(5,689)
Net income				<u>\$ 18,105</u>
<b>Three Months Ended September 30, 2018:</b>				
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				<u>\$ 13,752</u>
<b>Nine Months Ended September 30, 2019:</b>				
Revenues	\$ 953,181	\$ 236,231	\$ 66	\$ 1,189,478
Percentage of revenues	80.1%	19.9%	0.0%	100.0%
Depreciation, net	\$ 32,252	\$ 4,865	\$ 2,281	\$ 39,398
Amortization of intangibles	\$ 10,015	\$ 2,501	\$ —	\$ 12,516
Income (loss) from operations	\$ 91,168	\$ 11,840	\$ (46,295)	\$ 56,713
Total other income (expense), net			(2,815)	(2,815)
Income taxes			(12,837)	(12,837)
Net income				<u>\$ 41,061</u>
<b>Nine Months Ended September 30, 2018:</b>				
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				<u>\$ 31,878</u>

(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,	
	2019	2018	2019	2018
<b>Americas:</b>				
United States	\$ 144,698	\$ 161,429	\$ 451,466	\$ 498,523
The Philippines	65,560	57,953	180,431	174,610
Costa Rica	31,228	33,120	93,524	96,168
Canada	24,815	25,549	74,885	77,566
El Salvador	20,904	20,732	61,447	61,327
People's Republic of China	8,681	8,337	26,489	25,834
Australia	7,425	8,619	22,382	24,021
Mexico	7,016	6,221	20,648	18,171
Colombia	4,513	4,704	13,957	13,395
Other	3,257	2,098	7,952	6,909
Total Americas	318,097	328,762	953,181	996,524
<b>EMEA:</b>				
Germany	23,471	22,448	70,148	69,027
United Kingdom	18,141	12,333	52,759	37,640
Sweden	12,850	13,422	39,891	41,226
Romania	8,457	8,704	24,850	25,031
Other	16,508	13,636	48,583	40,966
Total EMEA	79,427	70,543	236,231	213,890
Total Other	23	28	66	75
	\$ 397,547	\$ 399,333	\$ 1,189,478	\$ 1,210,489

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,	
	2019	2018	2019	2018
Foreign currency transaction gains (losses)	\$ 430	\$ 1,066	\$ (107)	\$ 3,155
Gains (losses) on derivative instruments not designated as hedges	(363)	(380)	(828)	(1,807)
Net investment gains (losses) on investments held in rabbi trust	41	407	1,647	524
Other miscellaneous income (expense)	(163)	(174)	(690)	(1,335)
	\$ (55)	\$ 919	\$ 22	\$ 537

**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, 2019 and 2018 under the terms of the lease. The Company paid \$0.4 million and \$0.3 million during the nine months ended September 30, 2019 and 2018, respectively.

The Company contracted to receive services from XSell, an equity method investee, for \$0.1 million during the three months ended September 30, 2018 (none in 2019), and less than \$0.1 million and \$0.1 million during the nine months ended September 30, 2019 and 2018, respectively. 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**

In May 2019, the building that houses the Company's customer engagement center located in Fort Smith, Arkansas experienced significant damage as a result of a tornado, primarily impacting its leasehold improvements and other fixed assets, and causing an interruption in its business operations. The Company filed an insurance claim of \$2.9 million with its property insurance company. The Company settled the claim with its insurance company on November 5, 2019. The Company expects to recognize a gain on settlement of the insurance claim in the range of \$0.8 million to \$1.3 million during the fourth quarter of 2019. This gain was offset by costs recognized in previous quarters not covered by the insurance claim.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Sykes Enterprises, Incorporated  
400 North Ashley Drive  
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, 2019, the related condensed consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2019 and 2018, and of changes in shareholders' equity and of cash flows for the nine-month periods ended September 30, 2019 and 2018, 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, 2018, 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 February 26, 2019, 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, 2018, 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 5, 2019

## 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, 2018](#), 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 for the year ended December 31, 2018](#), 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 primarily to Global 2000 companies and their end customers, principally in the financial services, communications, technology, transportation & leisure, healthcare 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, many of which can be optimized by a suite of robotic process optimization (“RPA”) and artificial intelligence (“AI”) solutions. 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 97.4% and

99.5% of consolidated revenues during the three months ended September 30, 2019 and 2018, respectively, and 97.6% and 99.5% of consolidated revenues during the nine months ended September 30, 2019 and 2018, 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 include order processing, payment processing, inventory control, product delivery and product returns handling. Additionally, through our acquisition of RPA provider Symphony Ventures Ltd (“Symphony”) coupled with our investment in AI through XSell Technologies, Inc. (“XSell”), we also provide a suite of solutions such as consulting, implementation, hosting and managed services that optimizes our differentiated full lifecycle management services platform. 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**

### ***Exit Plans***

#### ***Americas 2019 Exit Plan***

During the first quarter of 2019, we initiated a restructuring plan to simplify and refine our operating model in the U.S. (the “Americas 2019 Exit Plan”), in part to improve agent attrition and absenteeism. The Americas 2019 Exit Plan includes, but is not limited to, closing customer contact management centers, consolidating leased space in various locations in the U.S. and management reorganization. We finalized the actions under the Americas 2019 Exit Plan as of September 30, 2019. Annualized savings of \$7.1 million are expected as a result of these actions, primarily related to reduced general and administrative costs and lower depreciation.

#### ***Americas 2018 Exit Plan***

During the second quarter of 2018, we initiated a restructuring plan to manage and optimize capacity utilization, which included closing customer contact management centers and consolidating leased space in various locations in the U.S. and Canada (the “Americas 2018 Exit Plan”). We finalized the site closures under the Americas 2018 Exit Plan as of December 2018, which resulted in a decrease of approximately 5,000 seats.

See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

### ***U.S. 2017 Tax Reform Act***

On December 20, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Reform Act”) was approved by Congress and received presidential approval on December 22, 2017. In general, the 2017 Tax Reform Act reduced the U.S. federal corporate tax rate from 35% to 21%, effective in 2018. The 2017 Tax Reform Act moved from a worldwide business taxation approach to a participation exemption regime. The 2017 Tax Reform Act also imposed 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. The impact of the 2017 Tax Reform Act on our consolidated financial results began with the fourth quarter of 2017, the period of enactment. See Note 11, Income Taxes, in the accompanying “Notes to Condensed Consolidated Financial Statements.”

### ***Acquisitions***

On November 1, 2018, we completed the acquisition of Symphony. Symphony provides RPA services, offering RPA consulting, implementation, hosting and managed services for front, middle and back-office processes. Of the total purchase price of GBP 52.4 million (\$67.5 million), GBP 44.6 million (\$57.6 million) was paid upon closing using cash on hand as well as \$31.0 million of additional borrowings under our credit agreement, while the acquisition date present value of the remaining GBP 7.9 million (\$10.0 million) of the purchase price has been deferred and will be paid in equal installments over three years, on or around November 1, 2019, 2020 and 2021. The results of Symphony’s operations have been reflected in our consolidated financial statements since November 1, 2018.



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 30.3 million (\$22.5 million) was funded by borrowings under our 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,		
	2019	2018	\$ Change	2019	2018	\$ Change
Revenues	\$ 397,547	\$ 399,333	\$ (1,786)	\$ 1,189,478	\$ 1,210,489	\$ (21,011)
Operating expenses:						
Direct salaries and related costs	253,669	261,474	(7,805)	767,558	801,470	(33,912)
General and administrative	102,620	105,148	(2,528)	311,582	309,625	1,957
Depreciation, net	12,449	14,072	(1,623)	39,398	43,468	(4,070)
Amortization of intangibles	4,103	3,638	465	12,516	11,480	1,036
Impairment of long-lived assets	—	555	(555)	1,711	9,256	(7,545)
Total operating expenses	372,841	384,887	(12,046)	1,132,765	1,175,299	(42,534)
Income from operations	24,706	14,446	10,260	56,713	35,190	21,523
Other income (expense):						
Interest income	234	183	51	611	529	82
Interest (expense)	(1,091)	(1,168)	77	(3,448)	(3,523)	75
Other income (expense), net	(55)	919	(974)	22	537	(515)
Total other income (expense), net	(912)	(66)	(846)	(2,815)	(2,457)	(358)
Income before income taxes	23,794	14,380	9,414	53,898	32,733	21,165
Income taxes	5,689	628	5,061	12,837	855	11,982
Net income	\$ 18,105	\$ 13,752	\$ 4,353	\$ 41,061	\$ 31,878	\$ 9,183

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

#### Revenues

(in thousands)	Three Months Ended September 30,				\$ Change
	2019		2018		
	Amount	% of Revenues	Amount	% of Revenues	
Americas	\$ 318,097	80.0%	\$ 328,762	82.3%	\$ (10,665)
EMEA	79,427	20.0%	70,543	17.7%	8,884
Other	23	0.0%	28	0.0%	(5)
Consolidated	\$ 397,547	100.0%	\$ 399,333	100.0%	\$ (1,786)

Consolidated revenues decreased \$1.8 million, or 0.4%, for the three months ended September 30, 2019 from the comparable period in 2018.

The decrease in Americas’ revenues was due to end-of-life client programs of \$21.8 million primarily in the communications and other verticals and an unfavorable foreign currency impact of \$0.7 million, partially offset by new clients of \$7.5 million and higher volumes from existing clients of \$4.3 million. Revenues from our offshore operations represented 44.4% of Americas’ revenues in 2019, compared to 40.5% for the comparable period in 2018.

The increase in EMEA’s revenues was due to new clients of \$9.5 million and higher volumes from existing clients of \$5.5 million, partially offset by end-of-life client programs of \$2.3 million primarily in the communications and other verticals and an unfavorable foreign currency impact of \$3.8 million.

On a consolidated basis, we had 47,500 brick-and-mortar seats as of September 30, 2019, a decrease of 2,100 seats from the comparable period in 2018, primarily due to the capacity rationalization resulting from the 2018 Americas Exit Plan. The capacity utilization rate on a combined basis was 73% compared to 70% in the comparable period in 2018.

On a segment basis, 39,700 seats were located in the Americas, a decrease of 2,400 seats from the comparable period in 2018, and 7,800 seats were located in EMEA, an increase of 300 seats from the comparable period in 2018. The capacity utilization rate for the Americas in 2019 was 73%, compared to 69% in the comparable period in 2018, up primarily due to our capacity rationalization. The capacity utilization rate for EMEA in 2019 was 75%, compared to 76% in the comparable period in 2018. We strive to attain a capacity utilization rate of 85% at each of our locations.

#### **Direct Salaries and Related Costs**

(in thousands)	<b>Three Months Ended September 30,</b>					
	<b>2019</b>		<b>2018</b>		<b>\$ Change</b>	<b>Change in % of Revenues</b>
	<b>Amount</b>	<b>% of Revenues</b>	<b>Amount</b>	<b>% of Revenues</b>		
Americas	\$ 201,197	63.3%	\$ 212,457	64.6%	\$ (11,260)	-1.3%
EMEA	52,472	66.1%	49,017	69.5%	3,455	-3.4%
Consolidated	\$ 253,669	63.8%	\$ 261,474	65.5%	\$ (7,805)	-1.7%

The decrease of \$7.8 million in direct salaries and related costs included a favorable foreign currency impact of \$0.1 million in the Americas and a favorable foreign currency impact of \$2.7 million in EMEA.

The decrease in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower severance of 0.9% related to the Americas 2018 Exit Plan, lower customer-acquisition advertising costs of 0.8% and lower communications costs of 0.2%, partially offset by higher recruiting costs of 0.2% and higher other costs of 0.4%. See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying "Notes to Condensed Consolidated Financial Statements" for further information.

The decrease in EMEA's direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower compensation costs of 4.1% driven by an increase in agent productivity principally within the communications vertical in the current period, lower communications costs of 0.5% and lower recruiting costs of 0.3%, partially offset by higher software sales costs of 1.0%, higher travel costs of 0.4% and higher other costs of 0.1%.

#### **General and Administrative**

(in thousands)	<b>Three Months Ended September 30,</b>					
	<b>2019</b>		<b>2018</b>		<b>\$ Change</b>	<b>Change in % of Revenues</b>
	<b>Amount</b>	<b>% of Revenues</b>	<b>Amount</b>	<b>% of Revenues</b>		
Americas	\$ 69,009	21.7%	\$ 74,807	22.8%	\$ (5,798)	-1.1%
EMEA	18,842	23.7%	14,756	20.9%	4,086	2.8%
Other	14,769	-	15,585	-	(816)	-
Consolidated	\$ 102,620	25.8%	\$ 105,148	26.3%	\$ (2,528)	-0.5%

The decrease of \$2.5 million in general and administrative expenses included a negligible foreign currency impact in the Americas and a favorable foreign currency impact of \$1.0 million in EMEA.

The decrease in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to lower facility-related costs of 1.3% associated with the Americas 2018 Exit Plan, lower legal and professional fees of 0.7%, lower merger and integration costs of 0.4% and lower other costs of 0.3%, partially offset by higher software and maintenance costs of 0.8%, higher compensation costs of 0.6% and higher facility-related costs of 0.2%. See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying "Notes to Condensed Consolidated Financial Statements" for further information.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 1.5% driven primarily by Symphony's operations which has higher general and administrative labor costs relative to our mix of business in the prior period, higher software and

maintenance costs of 0.4%, higher merger and integration costs of 0.4%, higher facility-related costs of 0.2% and higher other costs of 0.3%.

The decrease in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower compensation costs of \$1.8 million, partially offset by higher merger and integration costs of \$0.2 million, higher software and maintenance costs of \$0.2 million, higher legal and professional fees of \$0.2 million, higher seminars and educational costs of \$0.2 million and higher other costs of \$0.2 million.

### **Depreciation, Amortization and Impairment of Long-Lived Assets**

(in thousands)	Three Months Ended September 30,				\$ Change	Change in % of Revenues
	2019		2018			
	Amount	% of Revenues	Amount	% of Revenues		
<b>Depreciation, net:</b>						
Americas	\$ 10,086	3.2%	\$ 11,838	3.6%	\$ (1,752)	-0.4%
EMEA	1,611	2.0%	1,473	2.1%	138	-0.1%
Other	752	-	761	-	(9)	-
Consolidated	<u>\$ 12,449</u>	<u>3.1%</u>	<u>\$ 14,072</u>	<u>3.5%</u>	<u>\$ (1,623)</u>	<u>-0.4%</u>
<b>Amortization of intangibles:</b>						
Americas	\$ 3,289	1.0%	\$ 3,439	1.0%	\$ (150)	0.0%
EMEA	814	1.0%	199	0.3%	615	0.7%
Other	—	-	—	-	—	-
Consolidated	<u>\$ 4,103</u>	<u>1.0%</u>	<u>\$ 3,638</u>	<u>0.9%</u>	<u>\$ 465</u>	<u>0.1%</u>
<b>Impairment of long-lived assets:</b>						
Americas	\$ —	0.0%	\$ 555	0.2%	\$ (555)	-0.2%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	<u>\$ —</u>	<u>0.0%</u>	<u>\$ 555</u>	<u>0.1%</u>	<u>\$ (555)</u>	<u>-0.1%</u>

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 and 2019 Exit Plans, partially offset by new depreciable fixed assets placed into service supporting site expansions, acquisitions and infrastructure upgrades.

The increase in amortization was primarily due to the addition of intangibles acquired in conjunction with the November 2018 Symphony acquisition, partially offset by certain fully amortized intangible assets.

See Note 4, Costs Associated with Exit and Disposal Activities, and Note 5, 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,		
	2019	2018	\$ Change
Interest income	<u>\$ 234</u>	<u>\$ 183</u>	<u>\$ 51</u>
Interest (expense)	<u>\$ (1,091)</u>	<u>\$ (1,168)</u>	<u>\$ 77</u>
<b>Other income (expense), net:</b>			
Foreign currency transaction gains (losses)	\$ 430	\$ 1,066	\$ (636)
Gains (losses) on derivative instruments not designated as hedges	(363)	(380)	17
Gains (losses) on investments held in rabbi trust	41	407	(366)
Other miscellaneous income (expense)	(163)	(174)	11
Total other income (expense), net	<u>\$ (55)</u>	<u>\$ 919</u>	<u>\$ (974)</u>

Interest income and interest (expense) remained consistent with the comparable period.

See Note 8, Investments Held in Rabbi Trust, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

### Income Taxes

(in thousands)	Three Months Ended September 30,				\$ Change
	2019		2018		
Income before income taxes	\$	23,794	\$	14,380	\$ 9,414
Income taxes		5,689		628	5,061
Effective tax rate		23.9%		4.4%	19.5%

The increase in the effective tax rate in 2019 compared to 2018 was primarily due to a \$1.9 million reduction in discrete taxes related to the resolution of uncertain tax positions and ancillary issues from the prior period. 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, 2019 Compared to Nine Months Ended September 30, 2018

#### Revenues

(in thousands)	Nine Months Ended September 30,					
	2019		2018		\$ Change	
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 953,181	80.1%	\$ 996,524	82.3%	\$ (43,343)	
EMEA	236,231	19.9%	213,890	17.7%	22,341	
Other	66	0.0%	75	0.0%	(9)	
Consolidated	\$ 1,189,478	100.0%	\$ 1,210,489	100.0%	\$ (21,011)	

Consolidated revenues decreased \$21.0 million, or 1.7%, for the nine months ended September 30, 2019 from the comparable period in 2018.

The decrease in Americas’ revenues was due to end-of-life client programs of \$60.2 million primarily in the communications and other verticals and an unfavorable foreign currency impact of \$7.9 million, partially offset by new clients of \$14.9 million and higher volumes from existing clients of \$9.9 million. Revenues from our offshore operations represented 42.4% of Americas’ revenues in 2019, compared to 39.8% for the comparable period in 2018.

The increase in EMEA’s revenues was due to new clients of \$24.1 million and higher volumes from existing clients of \$20.8 million, partially offset by end-of-life client programs of \$7.1 million primarily in the communications and technology verticals and an unfavorable foreign currency impact of \$15.5 million.

#### Direct Salaries and Related Costs

(in thousands)	Nine Months Ended September 30,					
	2019		2018		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 606,675	63.6%	\$ 650,112	65.2%	\$ (43,437)	-1.6%
EMEA	160,883	68.1%	151,358	70.8%	9,525	-2.7%
Consolidated	\$ 767,558	64.5%	\$ 801,470	66.2%	\$ (33,912)	-1.7%

The decrease of \$33.9 million in direct salaries and related costs included a favorable foreign currency impact of \$7.0 million in the Americas and a favorable foreign currency impact of \$11.1 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 1.6% driven by an increase in agent productivity principally within the financial services, communications and transportation verticals in the current period, lower communications costs of 0.3%

and lower severance of 0.3% related to the Americas 2018 Exit Plan, partially offset by higher recruiting costs of 0.3%, higher auto tow claim costs of 0.2% and higher other costs of 0.1%. See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

The decrease in EMEA’s direct salaries and related costs, as a percentage of revenues, was primarily attributable to lower compensation costs of 3.2% driven by an increase in agent productivity principally within the communications and financial services verticals in the current period, lower recruiting costs of 0.2%, lower communications costs of 0.2% and lower other costs of 0.2%, partially offset by higher software sales costs of 0.8% and higher travel costs of 0.3%.

**General and Administrative**

	Nine Months Ended September 30,					
	2019		2018		S Change	Change in % of Revenues
(in thousands)	Amount	% of Revenues	Amount	% of Revenues		
Americas	\$ 211,360	22.2%	\$ 218,100	21.9%	\$ (6,740)	0.3%
EMEA	56,142	23.8%	45,581	21.3%	10,561	2.5%
Other	44,080	-	45,944	-	(1,864)	-
Consolidated	\$ 311,582	26.2%	\$ 309,625	25.6%	\$ 1,957	0.6%

The increase of \$2.0 million in general and administrative expenses included a favorable foreign currency impact of \$2.0 million in the Americas and a favorable foreign currency impact of \$3.5 million in EMEA.

The increase in Americas’ general and administrative expenses, as a percentage of revenues, was primarily attributable to higher software and maintenance costs of 0.6%, higher compensation costs of 0.5% and higher merger and integration costs of 0.2%, partially offset by lower facility-related costs of 0.7% associated with the Americas 2018 Exit Plan and lower legal and professional fees of 0.3%. See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

The increase in EMEA’s general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 1.1% driven primarily by Symphony’s operations which has higher general and administrative labor costs relative to our mix of business in the prior period, higher merger and integration costs of 0.8%, higher software and maintenance costs of 0.3%, higher travel costs of 0.2% and higher other costs of 0.3%, partially offset by lower communications costs of 0.2%.

The decrease in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower compensation costs of \$1.2 million, lower merger and integration costs of \$0.9 million and lower other costs of \$0.5 million, partially offset by higher software and maintenance costs of \$0.7 million.

## Depreciation, Amortization and Impairment of Long-Lived Assets

(in thousands)	Nine Months Ended September 30,					
	2019		2018		\$ Change	Change in % of Revenues
	Amount	% of Revenues	Amount	% of Revenues		
<b>Depreciation, net:</b>						
Americas	\$ 32,252	3.4%	\$ 36,856	3.7%	\$ (4,604)	-0.3%
EMEA	4,865	2.1%	4,360	2.0%	505	0.1%
Other	2,281	-	2,252	-	29	-
Consolidated	<u>\$ 39,398</u>	3.3%	<u>\$ 43,468</u>	3.6%	<u>\$ (4,070)</u>	-0.3%
<b>Amortization of intangibles:</b>						
Americas	\$ 10,015	1.1%	\$ 10,846	1.1%	\$ (831)	0.0%
EMEA	2,501	1.1%	634	0.3%	1,867	0.8%
Other	—	-	—	-	—	-
Consolidated	<u>\$ 12,516</u>	1.1%	<u>\$ 11,480</u>	0.9%	<u>\$ 1,036</u>	0.2%
<b>Impairment of long-lived assets:</b>						
Americas	\$ 1,711	0.2%	\$ 9,256	0.9%	\$ (7,545)	-0.7%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	<u>\$ 1,711</u>	0.1%	<u>\$ 9,256</u>	0.8%	<u>\$ (7,545)</u>	-0.7%

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 and 2019 Exit Plans, partially offset by new depreciable fixed assets placed into service supporting site expansions, acquisitions and infrastructure upgrades.

The increase in amortization was primarily due to intangibles acquired in conjunction with the July 2018 WhistleOut acquisition and the November 2018 Symphony acquisition, partially offset by certain fully amortized intangible assets.

See Note 4, Costs Associated with Exit and Disposal Activities, and Note 5, 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)	Nine Months Ended September 30,		
	2019	2018	\$ Change
Interest income	<u>\$ 611</u>	<u>\$ 529</u>	<u>\$ 82</u>
Interest (expense)	<u>\$ (3,448)</u>	<u>\$ (3,523)</u>	<u>\$ 75</u>
Other income (expense), net:			
Foreign currency transaction gains (losses)	\$ (107)	\$ 3,155	\$ (3,262)
Gains (losses) on derivative instruments not designated as hedges	(828)	(1,807)	979
Gains (losses) on investments held in rabbi trust	1,647	524	1,123
Other miscellaneous income (expense)	(690)	(1,335)	645
Total other income (expense), net	<u>\$ 22</u>	<u>\$ 537</u>	<u>\$ (515)</u>

Interest income and interest (expense) remained consistent with the comparable period.

See Note 8, Investments Held in Rabbi Trust, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information.

The change in other miscellaneous income (expense) was primarily due to payroll tax compliance costs in the prior period.

### Income Taxes

(in thousands)	Nine Months Ended September 30,		
	2019	2018	\$ Change
Income before income taxes	\$ 53,898	\$ 32,733	\$ 21,165
Income taxes	12,837	855	11,982
			<b>% Change</b>
Effective tax rate	23.8%	2.6%	21.2%

The increase in the effective tax rate in 2019 compared to 2018 was primarily due to a \$5.3 million decrease in discrete taxes related to the resolution of uncertain tax positions, including the settlement of tax audits and ancillary issues in the prior year. 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.

### Client Concentration

Our top ten clients accounted for 42.8% and 44.3% of our consolidated revenues in the three months ended September 30, 2019 and 2018, respectively, and 42.5% and 45.3% of our consolidated revenues in the nine months ended September 30, 2019 and 2018, 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,			
	2019		2018		2019		2018	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ 25,313	8.0%	\$ 43,923	13.4%	\$ 84,177	8.8%	\$ 126,858	12.7%
EMEA	59	0.1%	89	0.1%	149	0.1%	89	0.0%
	<u>\$ 25,372</u>	<u>6.4%</u>	<u>\$ 44,012</u>	<u>11.0%</u>	<u>\$ 84,326</u>	<u>7.1%</u>	<u>\$ 126,947</u>	<u>10.5%</u>

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire at varying dates between 2019 and 2022. 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,			
	2019		2018		2019		2018	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ 30,024	9.4%	\$ 23,172	7.0%	\$ 78,983	8.3%	\$ 83,703	8.4%
EMEA	—	0.0%	—	0.0%	—	0.0%	—	0.0%
	<u>\$ 30,024</u>	<u>7.6%</u>	<u>\$ 23,172</u>	<u>5.8%</u>	<u>\$ 78,983</u>	<u>6.6%</u>	<u>\$ 83,703</u>	<u>6.9%</u>

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):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	\$ —	0.0%	\$ —	0.0%	\$ —	0.0%	\$ —	0.0%
EMEA	10,027	12.6%	18,402	26.1%	30,063	12.7%	79,007	36.9%
	<u>\$ 10,027</u>	<u>2.5%</u>	<u>\$ 18,402</u>	<u>4.6%</u>	<u>\$ 30,063</u>	<u>2.5%</u>	<u>\$ 79,007</u>	<u>6.5%</u>

## Business Outlook

For the three months ended December 31, 2019, we anticipate the following financial results:

- Revenues in the range of \$415.0 million to \$420.0 million;
- Effective tax rate of approximately 27.0%;
- Fully diluted share count of approximately 41.3 million;
- Diluted earnings per share in the range of \$0.54 to \$0.58; and
- Capital expenditures in the range of \$13.0 million to \$16.0 million.

For the twelve months ended December 31, 2019, we anticipate the following financial results:

- Revenues in the range of \$1,604.0 million to \$1,609.0 million;
- Effective tax rate of approximately 25.0%;
- Fully diluted share count of approximately 41.8 million;
- Diluted earnings per share in the range of \$1.52 to \$1.56; and
- Capital expenditures in the range of \$37.0 million to \$40.0 million.

We delivered healthy operating performance in the third quarter. Underlying demand remains consistent with the strong trends highlighted in the second quarter. Based on the opportunities we anticipate across our vertical markets mix, we are increasingly confident with the current consensus revenue growth projections for 2020 despite the revision in revenues for the remainder of 2019. Moreover, even with the updated revenue revision for 2019, our implied income from operations and operating margin for 2019 is projected to be higher than what was implied in our previous business outlook in July 2019 due to continued strong operational performance.

The downward revisions to revenue and diluted earnings per share for the balance of 2019 relative to the mid-point in the prior outlook provided July 2019 are approximately \$22.0 million and approximately \$0.03 net, respectively. The driver of the revenue change is split roughly equally among foreign exchange volatility, lower revenues from our once-largest communications client and elongated ramps. The approximately \$0.04 diluted earnings per share impact is primarily a function of higher effective tax rate than previously forecasted, partially offset by a \$0.01 benefit from lower interest expenses relative to prior forecast.

Our revenues and earnings per share assumptions for the fourth quarter and full year 2019 are based on foreign exchange rates as of October 2019. 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 \$(1.0) million for the fourth quarter and \$(3.8) million for the full year 2019. The full year 2019 amount is expected to be lower than provided previously due to a lower average debt balance and lower interest rate. The amounts in the other interest income (expense), net, however, exclude the potential impact of any future foreign exchange gains or losses.

We expect our full-year 2019 effective tax rate to be slightly higher than previously forecasted due largely to a shift in the mix of earnings to higher tax rate jurisdictions.

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 6.4 million shares have been repurchased under the 2011 Share Repurchase Program as of September 30, 2019. 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, 2019, cash increased \$97.6 million from operating activities, \$12.0 million of debt proceeds and \$0.6 million of other cash inflows, partially offset by \$37.0 million used to repay long-term debt, \$30.3 million used to repurchase common stock, \$24.5 million used for capital expenditures, \$1.3 million to repurchase common stock for tax withholding on equity awards, \$1.1 million of loan fees related to the 2019 Credit Agreement and \$0.3 million used for the purchase of intangible assets, resulting in a \$14.3 million increase 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 \$1.4 million).

Net cash flows provided by operating activities for the nine months ended September 30, 2019 were \$97.6 million, compared to \$89.5 million for the comparable period in 2018. The \$8.1 million increase in net cash flows from operating activities was due to a \$9.2 million increase in net income and a net increase of \$13.6 million in cash flows from assets and liabilities, partially offset by a \$14.7 million decrease in non-cash reconciling items such as depreciation, amortization, impairment, deferred income tax provision (benefit), unrealized foreign currency transaction (gains) losses, net and unrealized (gains) losses and premiums on financial instruments, net. The \$13.6 million increase in 2019 from 2018 in cash flows from assets and liabilities was principally a result of a \$4.3 million change in net taxes payable, a \$3.8 million increase in other liabilities, a \$2.7 million decrease in accounts receivable and a \$2.3 million decrease in other assets. The \$4.3 million change in net taxes payable was primarily driven by a decrease in income taxes receivable. The \$3.8 million increase in the change in other liabilities was primarily due to a \$12.6 million increase principally related to the timing of accrued employee compensation and benefits, partially offset by a \$7.4 million decrease in the change in other accrued expenses and current liabilities principally resulting from fluctuations in our derivatives and the impact of the adoption of ASC 842, *Leases*, on our deferred rent balance and our lease liability associated with the Americas 2018 Exit Plan. See Note 3, *Leases*, and Note 4, *Costs Associated with Exit and Disposal Activities*, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information. The \$2.7 million decrease in the change in accounts receivable was primarily due to the timing of billings and collections. The \$2.3 million decrease in the change in other assets was primarily due to a \$1.1 million decrease in other current assets and a \$0.9 million decrease in prepaid assets.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were \$24.5 million for the nine months ended September 30, 2019, compared to \$36.9 million for the comparable period in 2018, a decrease of \$12.4 million. In 2019, we anticipate capital expenditures in the range of \$37.0 million to \$40.0 million, primarily for maintenance, new seat additions, facility upgrades and systems infrastructure.

On February 14, 2019, we entered into a \$500 million senior revolving credit facility (the “2019 Credit Agreement”) with a group of lenders, KeyBank National Association, as Administrative Agent, Swing Line Lender and Issuing Lender (“KeyBank”), the lenders named therein, and KeyBanc Capital Markets Inc. as Lead Arranger and Sole Book Runner. The 2019 Credit Agreement replaced our previous \$440 million revolving credit facility dated May 12, 2015 (the “2015 Credit Agreement”), which agreement was terminated simultaneous with entering into the 2019 Credit Agreement. The 2019 Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. We are not currently aware of any inability of our lenders to provide access to the full commitment of funds that exist under the 2019 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 2019 Credit Agreement will mature on February 14, 2024. At September 30, 2019, we were in

compliance with all loan requirements of the 2019 Credit Agreement and had \$77.0 million of outstanding borrowings under this facility.

Our credit agreements had an average daily utilization of \$91.9 million and \$101.1 million during the three months ended September 30, 2019 and 2018, respectively, and \$92.5 million and \$107.5 million during the nine months ended September 30, 2019 and 2018, respectively. During the three months ended September 30, 2019 and 2018, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$0.9 million and \$0.9 million, respectively, which represented weighted average interest rates of 3.9% and 3.6%, respectively. During the nine months ended September 30, 2019 and 2018, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was \$2.8 million and \$2.8 million, respectively, which represented weighted average interest rates of 4.0% and 3.6%, respectively.

We have no significant tax jurisdictions under audit; however, we are currently under audit in several tax jurisdictions. We believe we have adequate reserves related to all matters pertaining to the remaining audits. Should we experience unfavorable outcomes from these audits, such outcomes could have a significant impact on our financial condition, results of operations and cash flows.

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 in 2017, which was net of \$5.0 million of available tax credits, for our one-time transition tax. As of September 30, 2019 and December 31, 2018, \$1.9 million and \$2.0 million, respectively, of the liability was included in "Income taxes payable" in the accompanying Condensed Consolidated Balance Sheets. As of September 30, 2019 and December 31, 2018, \$18.5 million and \$20.4 million, respectively, of the long-term liability was included in "Long-term income tax liabilities" in the accompanying Condensed Consolidated Balance Sheets. This transition tax liability will be paid in yearly installments until 2025. 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.

As part of the July 1, 2018 WhistleOut acquisition, an AUD 14.0 million three-year retention bonus is payable in installments on or around July 1, 2019, 2020 and 2021. We paid the first installment of AUD 6.0 million (\$4.2 million) in July 2019. Also, as part of the Symphony acquisition on November 1, 2018, a portion of the purchase price, with an acquisition date present value of GBP 7.9 million (\$10.0 million), has been deferred and is payable in equal installments over three years, on or around November 1, 2019, 2020 and 2021. We paid the first installment of GBP 2.7 million (\$3.3 million) on October 31, 2019.

As of September 30, 2019, we had \$142.6 million in cash and cash equivalents, of which approximately 88.9%, or \$126.8 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 in the United States if repatriated, however certain jurisdictions may impose additional withholding taxes. 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 2019 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, 2018](#).

#### ***Off-Balance Sheet Arrangements***

As of September 30, 2019, 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.

### Contractual Obligations

See Note 3, Leases, in the accompanying “Notes to Condensed Consolidated Financial Statements” for information about our operating leases as of September 30, 2019.

Except for the contractual obligations mentioned above, there have not been any material changes outside of the ordinary course of business to the outstanding contractual obligations from the disclosure in our [Annual Report on Form 10-K for the year ended December 31, 2018](#).

### 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, 2018](#) for a discussion of our critical accounting estimates, including a description of the methods and key assumptions used and how the key assumptions were determined.

See Note 3, Leases, in the accompanying “Notes to Condensed Consolidated Financial Statements” for further information on the adoption of ASC 842, *Leases*.

### Goodwill

We maintain eight reporting units, seven of which comprise our goodwill balance. The value of goodwill is not amortized but is tested at least annually for impairment on July 31st, or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Events or changes that could negatively affect our key assumptions include a sustained decrease in our market capitalization, increased competition or unexpected loss of market share, increased input costs beyond projections (for example, due to local labor market, regulatory or industry changes), disposals of significant components of our business, unexpected business disruptions (for example due to a natural disaster or loss of a customer, supplier, or other significant business relationship), unexpected significant declines in operating results, significant adverse changes in the markets in which we operate, or changes in management strategy.

As outlined in Note 6, Goodwill and Intangible Assets, in the accompanying “Notes to Condensed Consolidated Financial Statements,” four of our reporting units with goodwill are at risk of future impairment as the fair value is not substantially in excess of carrying value (“cushion”). Information related to these reporting units as of July 31, 2019, the date of our annual impairment test was as follows (in thousands):

<b>Reporting Unit</b>	<b>Allocated Goodwill</b>	<b>Percentage by Which Fair Value Exceeds Carrying Value</b>
Clearlink (1)	\$ 74,161	10-20%
Symphony (2)	\$ 35,691	10-20%
LATAM (3)	\$ 19,501	30-40%
Qelp (3)	\$ 9,892	10-20%

(1) Decrease in the fair value cushion from the prior year was primarily attributable to a decrease in the projected long-term growth rate of the U.S. Gross Domestic Product as well as a decline in projected revenue growth.

(2) Acquired on November 1, 2018 and as such, this is the first annual impairment test for this reporting unit.

(3) Decrease in the cushion from the prior year was primarily attributable to an increase in the country-specific risk premium which increased the applied weighted average cost of capital.

A hypothetical 10% decrease in the fair value of the Clearlink, Symphony, LATAM and Qelp reporting units would not have resulted in the recognition of an impairment loss as of the date of our annual impairment test.

Although we believe we have used reasonable estimates and assumptions to calculate the fair values of our reporting units with goodwill balances, these estimates and assumptions could be materially different from actual results. If actual market conditions are less favorable than those projected, or if events occur or circumstances change that would reduce the fair values below the respective carrying values, we may be required to recognize impairment charges, which may be material, in future periods.

## **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 USD, 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, 2019 with counterparties through September 2020 with notional amounts totaling \$108.9 million. As of September 30, 2019, we had net total derivative assets associated with these contracts with a fair value of \$2.3 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 \$9.7 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, 2019 with notional amounts totaling \$25.2 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, 2019, the fair value of these derivatives was a net liability of \$0.2 million. The potential loss in fair value at September 30, 2019, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately \$1.1 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, 2019, we had \$77.0 million in borrowings outstanding under the 2019 Credit Agreement. Based on our level of variable rate debt outstanding during the three and nine months ended September 30, 2019, 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 \$0.2 million and \$0.7 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, 2018, quarterly revenues as a percentage of total consolidated annual revenues were approximately 25%, 24%, 25% 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, 2019, under the direction of our Chief Executive Officer and Chief Finance 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 Finance Officer, as appropriate to allow timely decisions regarding required disclosure. We concluded that, as of September 30, 2019, 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, 2019 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, have 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, 2018](#).

### 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, 2019 (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 Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs (1)
July 1, 2019 - July 31, 2019	229	\$ 27.23	229	3,748
August 1, 2019 - August 31, 2019	140	\$ 27.64	140	3,608
September 1, 2019 - September 30, 2019	—	\$ —	—	3,608
Total	<u>369</u>		<u>369</u>	<u>3,608</u>

(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.

## Item 6. Exhibits

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

<u>No.</u>	<u>Description</u>
15	<a href="#">Awareness letter.</a>
31.1	<a href="#">Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).</a>
31.2	<a href="#">Certification of Chief Finance Officer, pursuant to Rule 13a-14(a).</a>
32.1*	<a href="#">Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.</a>
32.2*	<a href="#">Certification of Chief Finance Officer, pursuant to 18 U.S.C. §1350.</a>
101.INS+	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104+	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included in Exhibit 101)
*	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 5, 2019

By: /s/ John Chapman  
John Chapman  
Chief Finance Officer  
(Principal Financial and Accounting Officer)



November 5, 2019

Sykes Enterprises, Incorporated  
400 North Ashley Drive  
Tampa, Florida

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Sykes Enterprises, Incorporated and subsidiaries for the periods ended September 30, 2019, and 2018, as indicated in our report dated November 5, 2019; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, is incorporated by reference in Registration Statement No. 333-178670 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Tampa, Florida

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a)**

I, Charles E. Sykes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 5, 2019

/s/ Charles E. Sykes

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Charles E. Sykes, President, Chief Executive Officer and Director

**CERTIFICATION OF CHIEF FINANCE OFFICER  
PURSUANT TO RULE 13a-14(a)**

I, John Chapman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 5, 2019

/s/ John Chapman

\_\_\_\_\_  
John Chapman, Chief Finance Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Sykes, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

By: /s/ Charles E. Sykes

Charles E. Sykes

President, Chief Executive Officer and Director

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Chapman, Executive Vice President and Chief Finance Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2019

By: /s/ John Chapman

John Chapman

Chief Finance Officer

(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.