SYKES ENTERPRISES INC
Form 10-K
February 26, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the fiscal year ended December 31, 2018

Or

Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For The Transition Period From To

Commission File Number 0-28274

Sykes Enterprises, Incorporated

(Exact name of registrant as specified in its charter)

Florida	56-1383460
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
400 N. Ashley Drive, Suite 2800, Tampa, Florida	33602
(Address of principal executive offices)	(Zip Code)

(813) 274-1000

(Registrant’s telephone number, including area code)

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

Title of Each Class	Name of each exchange on which registered
Common Stock $.01 Par Value	NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

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

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

Yes No

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant computed by reference to the closing sales price of such shares on the NASDAQ Global Select Market on June 30, 2018, the last business day of the Registrant's most recently completed second fiscal quarter, was $1,185,240,552.

As of February 7, 2019, there were 42,777,546 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
Portions of the Proxy Statement for the year 2019 Annual Meeting of Shareholders	Part III Items 10–14

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PART I

Item 1. Business

General

Sykes Enterprises, Incorporated and consolidated subsidiaries (“SYKES,” “our,” “us” or “we”) is a leading provider of multichannel demand generation and global customer engagement solutions and services. SYKES provides 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 and healthcare 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 automation (“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 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 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. (See Note 25, Segments and Geographic Information, of the accompanying “Notes to Consolidated Financial Statements” for further information on our segments.) 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.

SYKES was founded in 1977 in North Carolina and we moved our headquarters to Florida in 1993. In March 1996, we changed our state of incorporation from North Carolina to Florida. Our headquarters are located at 400 North Ashley Drive, Suite 2800, Tampa, Florida 33602, and our telephone number is (813) 274-1000.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our proxy statements and other materials which are filed with, or furnished to, the Securities and Exchange Commission (“SEC”) are made available, free of charge, on or through our internet website at www.sykes.com by first clicking on “Company,” then “Investor Relations” and then on “SEC Filings” under the heading “Financial Reports & Filings” as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

Recent Developments

Americas 2018 Exit Plan

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

The actions impacted approximately 5,000 seats, all of which were rationalized as of December 31, 2018. Approximately $25.3 million in annualized gross savings resulted from the 2018 site closures, primarily related to reduced general and administrative costs and lower depreciation expense.

See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying “Notes to 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 United States (“U.S.”) corporate income 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. This impact, along with the transitional taxes discussed in Note 20, Income Taxes, in the accompanying “Notes to Consolidated Financial Statements” is reflected in the Other segment.

Acquisitions

On November 1, 2018, we completed the acquisition of Symphony Ventures Ltd. 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 52.5 million ($67.6 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 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 the next three years. 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 30.2 million ($22.4 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.

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

In April 2016, we completed the acquisition of Clear Link Holdings, LLC (“Clearlink”), pursuant to a definitive agreement and plan of merger, dated March 6, 2016. Clearlink is an inbound demand generation and sales conversion platform. The total purchase price of $207.9 million was funded by borrowings under our credit agreement. The results of Clearlink’s operations have been reflected in our consolidated financial statements since April 1, 2016.

Industry Overview

The customer engagement solutions and services industry – which includes services such as digital marketing and demand generation, customer acquisition, customer support and customer retention – is highly fragmented and significant in size. According to Everest Group, an industry research firm, the total size of the customer engagement solutions and services industry worldwide measured in terms of the U.S dollar was estimated between $320 billion and $350 billion in 2017. Of the total size of the industry worldwide, approximately 26% was outsourced to third-party engagement centers with the remaining 74% utilizing in-house engagement centers. In 2018, the outsourced portion of the customer engagement solutions and services industry worldwide was estimated to be between $84 billion and $86 billion, growing at rate of approximately 4% from 2016 to 2018.

We believe that growth for broader outsourced customer engagement solutions and services will be fueled by the trend of Global 2000 companies and medium-sized businesses utilizing outsourcers. In today's marketplace, companies increasingly are seeking a comprehensive suite of innovative full lifecycle customer engagement management solutions and services that allow them to acquire customers, enhance the end user's experience with their products and services, strengthen and enhance their company brands, maximize the lifetime value of their customers through retention and up-sell and cross-sell, efficiently and effectively deliver human interactions when and where customers value it most, and deploy best-in-class customer management strategies, processes and technologies. However, a myriad of factors, among them intense global competition, pricing pressures, softness in the global economy and rapid changes in technology, continue to make it difficult for companies to cost-effectively maintain the in-house personnel necessary to handle all of their customer engagement needs.

To address these needs, we offer multichannel demand generation and comprehensive global customer engagement solutions and services that leverage brick-and-mortar and at-home agent delivery infrastructure as well as digital self-service, RPA and AI capabilities. We provide consistent high-value support for our clients' customers across the globe in a multitude of languages, leveraging our dynamic, secure communications infrastructure and our global footprint that reaches across 21 countries. This global footprint includes established brick-and-mortar operations in both onshore and offshore geographies where companies have access to high-quality customer engagement solutions at lower costs compared to other markets. We further complement our brick-and-mortar global delivery model with a highly differentiated and ready-made best-in-class at-home agent delivery model. In addition, we provide digital self-service customer support that differentiates our go-to-market strategy as it expands options for companies to best service their customers in their channel of choice to deliver an "effortless customer experience." By working in partnership with outsourcers, companies can ensure that the crucial task of acquiring, growing and retaining their customer base is addressed while creating operating flexibility, enabling focus on their core competencies, ensuring service excellence and execution, achieving cost savings through a variable cost structure, leveraging scale, entering niche markets speedily, and efficiently allocating capital within their organizations.

Business Strategy

Broadly speaking, our value proposition to our clients is that of a trusted partner, which provides a comprehensive suite of RPA and AI enabled differentiated full lifecycle multichannel demand generation and global customer engagement solutions and services primarily to Global 2000 companies that drive customer acquisition, differentiation, brand loyalty and increased lifetime value of end customer relationships. By outsourcing their customer acquisition and service solutions to us, clients are able to achieve exceptional customer experience and drive tangible business impact with greater operational flexibility, enhanced revenues, lower operating costs and faster speed to market, all of which are at the center of our value proposition. At a tactical level, we deliver on this value proposition through consistent delivery of operational and client excellence. Our business strategy is to leverage this value proposition in order to capitalize on and increase our share of the large and underpenetrated addressable market opportunity for customer engagement solutions and services worldwide. We believe through successful execution of our business strategy, we could generate a healthy level of revenue growth and drive targeted long-term operating margins. To deliver on our long-term growth potential and operating margin objectives, we need to manage the key levers of our business strategy, the principles of which include the following:

Build Long-Term Client Relationships Through Customer Service Excellence. We believe that providing high-value, high-quality service is critical in our clients' decisions to outsource and in building long-term relationships with our clients. To ensure service excellence and consistency across each of our centers globally, we leverage a portfolio of techniques, including SYKES Science of Service®. This standard is a compilation of more than 30 years of experience and best practices. Every customer engagement center strives to meet or exceed the standard, which addresses leadership, hiring and training, performance management down to the agent level, forecasting and scheduling, and the client relationship including continuous improvement, disaster recovery plans and feedback.

Increasing Share of Seats Within Existing Clients and Winning New Clients. We provide customer engagement solutions and services to primarily Global 2000 companies. With this large target market, we have the opportunity to grow our client base. We strive to achieve this by winning a greater share of our clients' in-house seats as well as gaining share from our competitors by providing consistently high-quality service as clients continue to consolidate their vendor base. In addition, as we further integrate the recently-acquired RPA and AI capabilities with digital marketing and leverage it across our brick-and-mortar and at-home agent delivery platforms both domestically and internationally within our vertical markets mix, we plan to win new clients as a way to broaden our base of growth.

Diversifying Verticals and Expanding Service Lines. To mitigate the impact of any negative economic and product cycles on our growth rate, we continue to seek ways to diversify into verticals and service lines that have countercyclical features and healthy growth rates. We are targeting the following verticals for growth: financial services, communications, technology, transportation & leisure, healthcare, and other, which includes retail. These verticals cover various business lines, including credit card/consumer fraud protection, gaming, wireless services, broadband, media, retail banking, peer-to-peer lending, consumer and high-end enterprise tech support, telemedicine and soft and hard goods online and through brick and mortar retailers.

Maximizing Capacity Utilization Rates and Strategically Adding Seat Capacity. Revenues and profitability growth are driven by increasing the capacity utilization rate in conjunction with seat capacity additions. We plan to sustain our focus on increasing the capacity utilization rate by further penetrating existing clients, adding new clients and rationalizing underutilized seat capacity as deemed necessary. With greater operating flexibility resulting from our at-home agent delivery model, we believe we can rationalize underutilized capacity more efficiently and drive capacity utilization rates.

Broadening At-Home Agent and Brick-and-Mortar Global Delivery Footprint. Just as increased capacity utilization rates and increased seat capacity are key drivers of our revenues and profitability growth, where we deploy both the seat capacity and the at-home agent delivery platform geographically is also important. By broadening and continuously strengthening our brick-and-mortar global delivery footprint and our at-home agent delivery platform, we believe we are able to meet both our existing and new clients' customer engagement needs globally as they enter new markets. At the end of 2018, our global delivery brick-and-mortar footprint spanned 21 countries while our at-home agent delivery platform now increasingly spans EMEA, building on our existing presence in 40 states and ten provinces within the U.S. and Canada, respectively.

Creating Value-Added Service Enhancements. To improve both revenue and margin expansion, we intend to continue to introduce new service offerings and add-on enhancements. Digital marketing and demand generation, multilingual customer support, digital self-service support, back office services, RPA and AI are examples of horizontal service offerings, while data analytics and process improvement products are examples of add-on enhancements. Additionally, with the proliferation of on-line communities, such as Facebook and Twitter, we continue to make on-going investments in our social media service offerings, which can be leveraged across both our brick-and-mortar and at-home agent delivery platforms.

Continuing to Focus on Expanding the Addressable Market Opportunities. As part of our growth strategy, we continually seek to expand the number of markets we serve. The United States, Canada and Germany, for instance, are markets which are served by in-country centers, centers in offshore regions or a combination thereof. We continually seek ways to broaden the addressable market for our customer engagement services. We currently operate in 14 markets.

Continue to Grow Our Business Organically, through Strategic Investments and Partnerships, and through Acquisitions. We have grown our customer engagement solutions and services utilizing a combination of internal organic growth, strategic investments and partnerships, and external acquisitions. Our organic growth, partnership and acquisition strategies are to target markets, clients, verticals, delivery geographies and service mix that will expand our addressable market opportunity, and thus drive our organic growth. Entry into the Philippines, El Salvador, Romania and Colombia are examples of how we leveraged these delivery geographies to further penetrate our base of both existing and new clients, verticals and service mix in order to drive organic growth. While the Alpine Access, Inc. ("Alpine"), Qelp B.V. ("Qelp"), Clearlink and Symphony acquisitions are examples of how we used acquisitions to augment our service offerings and differentiate our delivery model, the ICT Group, Inc. ("ICT") acquisition is an example of how we used an acquisition to gain overall size and critical mass in key verticals, clients and geographies. In 2017, we also made a strategic investment of $10.0 million in XSell for 32.8% of XSell's preferred stock. XSell optimizes the sales performance capabilities of a broader base of agents as compared to what has historically been an extremely narrow base by leveraging machine learning and AI algorithms. As customer contact programs increasingly incorporate up-selling and cross-selling, and measures based on sales conversion, XSell's targeted offering can be leveraged across both chat and voice channels, across traditional customer contact management opportunities, and the Clearlink platform to enhance sales performance and conversion on behalf of our clients.

Services

We specialize in providing differentiated full lifecycle customer engagement solutions and services primarily to Global 2000 companies and their end customers at key touchpoints on a global basis. These services include digital marketing, demand generation, customer acquisition, customer support, technical support, up-sell/cross-sell and retention. Our comprehensive customer engagement solutions and services are provided through two reportable segments — the Americas and EMEA. The Americas region, representing 81.9% of consolidated revenues in 2018, includes the United States, Canada, Latin America, Australia and the Asia Pacific Rim. The sites within Latin America and the Asia Pacific Rim are included in the Americas region as they provide a significant service delivery vehicle for U.S.-based companies that are utilizing our customer engagement solutions and services in these locations to support their customer care needs. In addition, the Americas region also includes revenues from our at-home agent delivery solution, which serves markets in both the U.S. and Canada. The EMEA region, representing 18.1% of consolidated revenues in 2018, includes Europe, the Middle East and Africa. See Note 25, Segments and Geographic Information, of the accompanying “Notes to Consolidated Financial Statements” for further information on our segments. The following is a description of our customer engagement solutions and services:

Outsourced Customer Engagement Solutions and Services. Our outsourced customer engagement solutions and services represented approximately 99.0% of total 2018 consolidated revenues. Each year, we handle over 250 million customer engagements including phone, e-mail, social media, text messaging, chat and digital self-service support throughout the Americas and EMEA regions. We provide these services utilizing our advanced technology infrastructure, human resource management skills and industry experience. These services include:

- Customer care — Customer care contacts primarily include handling billing inquiries and claims, activating customer accounts, resolving complaints, cross-selling/up-selling, prequalifying and warranty management, providing health information and dispatching roadside assistance;
- Technical support — Technical support contacts primarily include support around complex networks, hardware and software, communications equipment, internet access technology and internet portal usage; and
- Customer acquisition — Our customer acquisition services are focused around digital marketing, multichannel demand generation, inbound up-selling and sales conversion, as well as some outbound selling of our clients’ products and services.

We provide these services, primarily inbound customer calls, in many languages through our extensive global network of customer engagement centers. In addition, we augment those inbound calls with the option of digital self-service customer support. Our technology infrastructure and managed service solutions allow for effective distribution of calls to one or more centers. These technology offerings provide our clients and us with the leading-edge tools needed to maximize quality and customer satisfaction while controlling and minimizing costs.

Robotic Process Automation. In Europe and the U.S., we offer a suite of solutions such as consulting, implementation, hosting and managed services under the heading of RPA to help clients drive efficiency in their back-office workflow. RPA can also help clients further reduce the cost of customer engagement services and solutions by automating processes such as on-boarding, off-boarding and agents navigating multiple systems.

Fulfillment Services. In Europe, we offer fulfillment services that are integrated with our customer care and technical support services. Our fulfillment solutions include order processing via the internet and phone, inventory control, product delivery and product returns handling.

Enterprise Support Services. In the United States, we provide a range of enterprise support services including technical staffing services and outsourced corporate help desk solutions.

Operations

Customer Engagement Centers. We operate across 21 countries in 72 customer engagement centers, which breakdown as follows: 25 centers across EMEA, 20 centers in the United States, one center in Canada, three centers in Australia and 23 centers offshore, including the People’s Republic of China, the Philippines, Costa Rica, El Salvador, India, Mexico, Brazil and Colombia. In addition to our customer engagement centers, we employ approximately 5,830 at-home customer engagement agents across 40 states in the U.S., across ten provinces in Canada and in several locations across EMEA.

We utilize a sophisticated workforce management system to provide efficient scheduling of personnel. Our internally developed digital private communications network complements our workforce by allowing for effective call volume management and disaster recovery backup. Through this network and our dynamic intelligent call routing capabilities, we can rapidly respond to changes in client call volumes and move call volume traffic based on agent availability and skill throughout our network of centers, improving the responsiveness and productivity of our agents. We also can offer cost competitive solutions for taking calls to our offshore locations.

Our data warehouse captures and downloads customer engagement information for reporting on a daily, real-time and historical basis. This data provides our clients with direct visibility into the services that we are providing for them. The data warehouse supplies information for our performance management systems such as our agent scorecarding application, which provides us with the information required for effective management of our operations.

Our customer engagement centers are protected by a fire extinguishing system, backup generators with significant capacity and 24 hour refueling contracts and short-term battery backups in the event of a power outage, reduced voltage or a power surge. Rerouting of call volumes to other customer engagement centers is also available in the event of a telecommunications failure, natural disaster or other emergency. Security measures are imposed to prevent unauthorized physical access. Software and related data files are backed up daily and stored off site at multiple locations. We carry business interruption insurance covering interruptions that might occur as a result of certain types of damage to our business.

Robotic Process Automation. We have a total of approximately 200 RPA consultants, sales and marketing associates operating through offices in South Asia, Europe, North America and Latin America.

Fulfillment Centers. We currently have one fulfillment center located in Europe. We provide our fulfillment services primarily to certain clients operating in Europe who desire this complementary service in connection with outsourced customer engagement services.

Enterprise Support Services Office. Our enterprise support services office, located in a metropolitan area in the United States, provides recruitment services for high-end knowledge workers, a local presence to service major accounts, and outsourced corporate help desk solutions.

Sales and Marketing

Our sales and marketing objective is to leverage our vertical expertise, global presence, and end-to-end lifecycle of service offerings to develop long-term relationships with existing and future clients. Our customer engagement solutions have been developed to help our clients market, acquire, retain and increase the lifetime value of their customer relationships. Our plans for increasing our visibility and impacting the market include the launch of new service offerings in digital support and digital marketing, participation in market-specific industry associations, trade shows and seminars, digital and content marketing to industry leading corporations, and consultative personal visits and solution designs. We research and publish thought provoking perspectives on key industry issues, and use forums, speaking engagements, articles and white papers, as well as our website and broad global digital and social media presence to establish our leadership position in the market.

Our sales force is composed of business development managers who pursue new business opportunities and strategic account managers who manage and grow relationships with existing accounts. We emphasize account development to strengthen relationships with existing clients. Business development management and strategic account managers are assigned to markets in their area of expertise in order to develop a complete understanding of each client's particular needs, to form strong client relationships and encourage cross-selling of our other service offerings. We have inside customer sales representatives who receive customer inquiries and who provide pre-sales relationship development for the business development managers. Utilizing best practices from our recent Clearlink acquisition, we are employing modern methods of search and digital marketing to cultivate interest in our brand and services. We use a methodical approach to collecting client feedback through quarterly business reviews, annual strategic reviews, and through our bi-annual Voice of the Client program, which enables us to react to early warning signs, and quickly identify and remedy challenges. It also is used to highlight our most loyal clients, who we then work with to provide references, testimonials and joint speaking engagements at industry conferences.

As part of our marketing efforts, we invite existing and potential clients to experience our customer engagement centers and at-home agent delivery operations, where we can demonstrate the expertise of our skilled staff in partnering to deliver new ways of growing clients’ revenues, customer satisfaction and retention rates, and thus profit, through timely, insightful and proven solutions. This forum allows us to demonstrate our capabilities to design, launch and scale programs. It also allows us to illustrate our best innovations in talent management, analytics, and digital channels, and how they can be best integrated into a program’s design.

Clients

We provide service to clients from our locations in the United States, Canada, Latin America, Australia, the Asia Pacific Rim, Europe, the Middle East and Africa. These clients are Global 2000 corporations, medium-sized businesses and public institutions, which span the financial services, communications, technology, transportation & leisure, healthcare and other industries. Revenue by industry vertical for 2018, as a percentage of our consolidated revenues, was 30% for financial services, 26% for communications, 19% for technology, 8% for transportation & leisure, 5% for healthcare and 12% for all other verticals, including retail and utilities. We believe our globally recognized client base presents opportunities for further cross marketing of our services.

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

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$164,793	12.4%	$220,010	16.6%	$239,033	19.6%
EMEA	179	0.1%	—	0.0%	—	0.0%
	$164,972	10.1%	$220,010	13.9%	$239,033	16.4%

We have multiple distinct contracts with AT&T spread across multiple lines of businesses, which expire at varying dates between 2019 and 2021. 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 years, were as follows (in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$105,852	8.0%	$109,475	8.3%	$90,508	7.4%
EMEA	—	0.0%	—	0.0%	—	0.0%
	$105,852	6.5%	$109,475	6.9%	$90,508	6.2%

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 years were as follows (in thousands):

	Years Ended December 31,					
	2018		2017		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Americas	$—	0.0%	$—	0.0%	$—	0.0%
EMEA	104,856	35.5%	104,829	40.3%	96,115	40.2%
	$104,856	6.4%	$104,829	6.6%	$96,115	6.6%

Our top ten clients accounted for approximately 44.2%, 46.9% and 49.2% of our consolidated revenues during the years ended December 31, 2018, 2017 and 2016, respectively.

Competition

The industry in which we operate is global, highly fragmented and extremely competitive. While many companies provide customer engagement solutions and services, we believe no one company is dominant in the industry.

In most cases, our principal competition stems from our existing and potential clients' in-house customer engagement operations. When it is not the in-house operations of a client or potential client, our public and private direct competition includes [24]7.ai, Alorica, Arise, Atento, Concentrix, Groupe Acticall/Sitel, iQor, LiveOps, StarTek, Sutherland, Teleperformance, TTEC, Transcom and Working Solutions, as well as the customer care arm of such companies as Accenture, Conduent, Infosys, Tech Mahindra and Wipro, among others. There are other numerous and varied providers of such services, including firms specializing in various CRM consulting, other customer engagement solutions providers, niche or large market companies, as well as product distribution companies that provide fulfillment services. Some of these companies possess substantially greater resources, greater name recognition and a more established customer base than we do.

We believe that the most significant competitive factors in the sale of outsourced customer engagement services include service quality, tailored value-added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security, price and financial strength. As a result of intense competition, outsourced customer engagement solutions and services frequently are subject to pricing pressure. Clients also require outsourcers to be able to provide services in multiple locations. Competition for contracts for many of our services takes the form of competitive bidding in response to requests for proposal.

Intellectual Property

The success of our business depends, in part, on our proprietary technology and intellectual property. We rely on a combination of intellectual property laws and contractual arrangements to protect our intellectual property. We and our subsidiaries have registered various trademarks and service marks in the U.S. and/or other countries, including SYKES®, REAL PEOPLE. REAL SOLUTIONS®, SYKES HOME®, SCIENCE OF SERVICE®, TALENTSPROUT®, SECURE TALK®, CLEARLINK®, BUYCALLS®, A SECURE LIFE®, LEADAMP®, TRUE PROTECT®, SAFEWISE®, USDIRECT®, PORTENT®, BIGLOCAL®, RAINGAGE®, TERMLIFE2GO®, HOW TO BUY HAPPY®, and WHISTLEOUT®. The duration of trademark and service mark registrations varies from country to country but may generally be renewed indefinitely as long as the marks are in use and their registrations are properly maintained. We have a pending U.S. patent application that relates to a system and method of analysis and recommendation for distributed employee management and digital collaboration, a pending U.S. patent application that relates to foundational analytics enabling digital transformations, and a pending U.S. patent application that relates to systems and methods for secure authentication to computer networks and virtual work environment setup. Our subsidiary, Alpine, was issued U.S. Patent No. 8,565,413 in 2013, which relates to a system and method for establishment and management of a remote agent engagement center. Alpine was also issued U.S. Patent No. 9,100,484 in 2015, which relates to a secure call environment.

Employees

As of January 31, 2019, we had approximately 51,600 employees worldwide, including 36,620 customer engagement agents handling technical and customer support inquiries at our centers, 5,830 at-home customer engagement agents handling technical and customer support inquiries, 8,830 in management, administration, information technology, finance, sales and marketing roles, 200 in RPA, 100 in fulfillment services and 20 in enterprise support services. Our employees, with the exception of approximately 1,600 employees in Brazil and various European countries, are not union members and we have never suffered a material interruption of business as a result of a labor dispute. We consider our relations with our employees worldwide to be satisfactory.

We employ personnel through a continually updated recruiting network. This network includes a seasoned team of recruiters, competency-based selection standards and the sharing of global best practices in order to advertise to and source qualified candidates through proven recruiting techniques. Nonetheless, demand for qualified professionals with the required language and technical skills may still exceed supply at times as new skills are needed to keep pace with the requirements of customer engagements. As such, competition for such personnel is intense. Additionally, employee turnover in our industry is high.

Executive Officers

The following table provides the names and ages of our executive officers, and the positions and offices currently held by each of them:

Name	Age	Principal Position
Charles E. Sykes	56	President and Chief Executive Officer and Director
John Chapman	52	Executive Vice President and Chief Financial Officer
Lawrence R. Zingale	62	Executive Vice President and General Manager
Jenna R. Nelson	55	Executive Vice President, Human Resources
David L. Pearson	60	Executive Vice President and Chief Information Officer
James T. Holder	60	Executive Vice President, General Counsel and Corporate Secretary
William N. Rocktoff	56	Senior Vice President and Corporate Controller

Charles E. Sykes joined SYKES in 1986 and was named President and Chief Executive Officer and Director in August 2004. From July 2003 to August 2004, Mr. Sykes was the Chief Operating Officer. From March 2000 to June 2001, Mr. Sykes was Senior Vice President, Marketing, and in June 2001, he was appointed to the position of General Manager, Senior Vice President — the Americas. From December 1996 to March 2000, he served as Vice President, Sales, and held the position of Regional Manager of the Midwest Region for Professional Services from 1992 until 1996.

John Chapman, F.C.C.A, joined SYKES in September 2002 as Vice President, Finance, managing the EMEA finance function and was named Senior Vice President, EMEA Global Region in January 2012, adding operational responsibility. In April 2014, he was named Executive Vice President and Chief Financial Officer. Prior to joining SYKES, Mr. Chapman served as financial controller for seven years for Raytheon UK.

Lawrence R. Zingale joined SYKES in January 2006 as Senior Vice President, Global Sales and Client Management. In May 2010, he was named Executive Vice President, Global Sales and Client Management and in September 2012, he was named Executive Vice President and General Manager. Prior to joining SYKES, Mr. Zingale served as Executive Vice President and Chief Operating Officer of StarTek, Inc. since 2002. From December 1999 until November 2001, Mr. Zingale served as President of the Americas at Stonehenge Telecom, Inc. From May 1997 until November 1999, Mr. Zingale served as President and Chief Operating Officer of International Community Marketing. From February 1980 until May 1997, Mr. Zingale held various senior level positions at AT&T.

Jenna R. Nelson joined SYKES in August 1993 and was named Senior Vice President, Human Resources, in July 2001. In May 2010, she was named Executive Vice President, Human Resources. From January 2001 until July 2001, Ms. Nelson held the position of Vice President, Human Resources. In August 1998, Ms. Nelson was appointed Vice President, Human Resources, and held the position of Director, Human Resources and Administration, from August 1996 to July 1998. From August 1993 until July 1996, Ms. Nelson served in various management positions within SYKES, including Director of Administration.

David L. Pearson joined SYKES in February 1997 as Vice President, Engineering, and was named Vice President, Technology Systems Management, in 2000 and Senior Vice President and Chief Information Officer in August 2004. In May 2010, he was named Executive Vice President and Chief Information Officer. Prior to SYKES, Mr. Pearson held various engineering and technical management roles over a fifteen-year period, including eight years at Compaq Computer Corporation and five years at Texas Instruments.

James T. Holder, J.D., joined SYKES in December 2000 as General Counsel and was named Corporate Secretary in January 2001, Vice President in January 2004 and Senior Vice President in December 2006. In May 2010, he was named Executive Vice President. From November 1999 until November 2000, Mr. Holder served in a consulting capacity as Special Counsel to Checkers Drive-In Restaurants, Inc., a publicly held restaurant operator and franchisor. From November 1993 until November 1999, Mr. Holder served in various capacities at Checkers including Corporate Secretary, Chief Financial Officer and Senior Vice President and General Counsel.

William N. Rocktoff, C.P.A., joined SYKES in August 1997 as Corporate Controller and was named Treasurer and Corporate Controller in December 1999, Vice President and Corporate Controller in March 2002 and Global Vice

President in January 2011. In June 2017, he was named Senior Vice President and Corporate Controller. From November 1989 to August 1997, Mr. Rocktoff held various financial positions, including Corporate Controller, at Kimmins Corporation.

Item 1A. Risk Factors

Factors Influencing Future Results and Accuracy of Forward-Looking Statements

This Annual Report on Form 10-K contains 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 us, 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 "may," "expects," "projects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," 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 Annual Report on Form 10-K. 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 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: the marketplace's continued receptivity to our terms and elements of services offered under our standardized contract for future bundled service offerings; our ability to continue the growth of our service revenues through additional customer engagement centers; our ability to further penetrate into vertically integrated markets; our ability to expand revenues within the global markets; our ability to continue to establish a competitive advantage through sophisticated technological capabilities, and the following risk factors:

Risks Related to Our Business and Industry

Unfavorable general economic conditions could negatively impact our operating results and financial condition.

Unfavorable general economic conditions could negatively affect our business. While it is often difficult to predict the impact of general economic conditions on our business, these conditions could adversely affect the demand for some of our clients' products and services and, in turn, could cause a decline in the demand for our services. Also, our clients may not be able to obtain adequate access to credit, which could affect their ability to make timely payments to us. If that were to occur, we could be required to increase our allowance for doubtful accounts, and the number of days outstanding for our accounts receivable could increase. In addition, we may not be able to renew our revolving credit facility at terms that are as favorable as those terms available under our current credit facility. Also, the group of lenders under our credit facility may not be able to fulfill their funding obligations, which could adversely impact our liquidity. For these reasons, among others, if unfavorable economic conditions persist or increase, this could adversely affect our revenues, operating results and financial condition, as well as our ability to access debt under comparable terms and conditions.

Our business is dependent on key clients, and the loss of a key client could adversely affect our business and results of operations.

We derive a substantial portion of our revenues from a few key clients. Our top ten clients accounted for approximately 44.2% of our consolidated revenues in 2018. The loss of (or the failure to retain a significant amount of business with) any of our key clients could have a material adverse effect on our business, financial condition and results of operations. 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-term notice. Also, clients may unilaterally reduce their use of our services under these contracts without penalty. Thus, our contracts with our clients do not ensure that we will generate a minimum level of revenues.

Cyber-attacks as well as improper disclosure or control of personal information could result in liability and harm our reputation, which could adversely affect our business and results of operations.

Our business is heavily dependent upon our computer and voice technologies, systems and platforms. Attacks on any of those, hosted on-premise or by third-parties, could disrupt the normal operations of our engagement centers and impede our ability to provide critical services to our clients, thereby subjecting us to liability under our contracts. Additionally, our business involves the use, storage and transmission of information about our employees, our clients and customers of our clients. While we take measures to protect the security of, and unauthorized access to, our systems, as well as the privacy of personal and proprietary information, it is possible that our security controls over our systems, as well as other security practices we follow, may not prevent the improper access to or disclosure of personally identifiable or proprietary information. We also rely on the control environments of the third-parties who provide hosting and cloud-based services to protect this information. Such disclosure could harm our reputation and subject us to liability under our contracts and laws that protect personal data, resulting in increased costs or loss of revenue. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services.

The European Union's ("EU") General Data Protection Regulation ("GDPR") requires EU member states to meet stringent requirements regarding the handling of personal data. Failure to meet the GDPR requirements could result in substantial penalties of up to the greater of €20 million or 4% of global annual revenue of the preceding financial year. Additionally, compliance with the GDPR resulted in operational costs to implement procedures corresponding to legal rights granted under the law. Although the GDPR applies across the EU without a need for local implementing legislation, local data protection authorities have the ability to interpret the GDPR through so-called opening clauses, which permit region-specific data protection legislation and have the potential to create inconsistencies on a country-by-country basis.

Our efforts to comply with GDPR and other privacy and data protection laws may impose significant costs and challenges that are likely to increase over time. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in impairment to our reputation in the marketplace and we could incur substantial penalties or litigation related to violation of existing or future data privacy laws and regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to substantial competition.

The markets for many of our services operate on a commoditized basis and are highly competitive and subject to rapid change. While many companies provide outsourced customer engagement services, we believe no one company is dominant in the industry. There are numerous and varied providers of our services, including firms specializing in engagement center operations, temporary staffing and personnel placement, consulting and integration firms, and niche providers of outsourced customer engagement services, many of whom compete in only certain markets. Our competitors include both companies that possess greater resources and name recognition than we do, as well as small niche providers that have few assets and regionalized (local) name recognition instead of global name recognition. In addition to our competitors, many companies who might utilize our services or the services of one of our competitors may utilize in-house personnel to perform such services. Increased competition, our failure to compete successfully, pricing pressures, loss of market share and loss of clients could have a material adverse effect on our business, financial condition and results of operations.

Many of our large clients purchase outsourced customer engagement services from multiple preferred vendors. We have experienced and continue to anticipate significant pricing pressure from these clients in order to remain a preferred vendor. These companies also require vendors to be able to provide services in multiple locations. Although we believe we can effectively meet our clients' demands, there can be no assurance that we will be able to compete effectively with other outsourced customer engagement services companies on price. We believe that the most significant competitive factors in the sale of our core services include the standard requirements of service quality, tailored value-added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security, price and financial strength.

The concentration of customer engagement centers in certain geographies poses risks to our operations which could adversely affect our financial condition.

Although we have engagement centers in many locations throughout the world, we have a concentration of centers in certain geographies outside of the U.S. and Canada, specifically the Philippines and Latin America. Our concentration of operations in those geographies is a result of our ability to access significant numbers of employees with certain language and other skills at costs that are advantageous. However, the concentration of business activities in any geographical area creates risks which could harm operations and our financial condition. Certain risks, such as natural disasters, armed conflict and military or civil unrest, political instability and disease transmission, as well as the risk of interruption to our delivery systems, is magnified when the realization of these, or any other risks, would affect a large portion of our business at once, which may result in a disproportionate increase in operating costs.

Our business is dependent on the demand for outsourcing.

Our business and growth depend in large part on the industry demand for outsourced customer engagement services. Outsourcing means that an entity contracts with a third party, such as us, to provide customer engagement services rather than perform such services in-house. There can be no assurance that this demand will continue, as organizations may elect to perform such services themselves. A significant change in this demand could have a material adverse effect on our business, financial condition and results of operations. Additionally, there can be no assurance that our cross-selling efforts will cause clients to purchase additional services from us or adopt a single-source outsourcing approach.

We are subject to various uncertainties relating to future litigation.

We cannot predict whether any material suits, claims, or investigations may arise in the future. Regardless of the outcome of any future actions, claims, or investigations, we may incur substantial defense costs and such actions may cause a diversion of management time and attention. Also, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition and results of operations.

Our industry is subject to rapid technological change which could affect our business and results of operations.

Rapid technological advances, frequent new product introductions and enhancements, and changes in client requirements characterize the market for outsourced customer engagement services. Technological advancements in voice recognition software, as well as self-provisioning and self-help software, along with call avoidance technologies, have the potential to adversely impact call volume growth and, therefore, revenues. Our future success will depend in large part on our ability to service new products, platforms and rapidly changing technology. These factors will require us to provide adequately trained personnel to address the increasingly sophisticated, complex and evolving needs of our clients. In addition, our ability to capitalize on our acquisitions will depend on our ability to continually enhance software and services and adapt such software to new hardware and operating system requirements. Any failure by us to anticipate or respond rapidly to technological advances, new products and enhancements, or changes in client requirements could have a material adverse effect on our business, financial condition and results of operations.

Our business relies heavily on technology and computer systems, which subjects us to various uncertainties.

We have invested significantly in sophisticated and specialized communications and computer technology and have focused on the application of this technology to meet our clients' needs. We anticipate that the requirement to invest in new technologies will continue to grow and that it will be necessary to continue to invest in and develop new and enhanced technology on a timely basis to maintain our competitiveness. Significant capital expenditures are expected to be required to keep our technology up-to-date. There can be no assurance that any of our information systems will be adequate to meet our future needs or that we will be able to incorporate new technology to enhance and develop our existing services. Moreover, investments in technology, including future investments in upgrades and enhancements to software, may not necessarily maintain our competitiveness. Our future success will also depend in part on our ability to anticipate and develop information technology solutions that keep pace with evolving industry standards and changing client demands.

Emergency interruption of customer engagement center operations could affect our business and results of operations.

Our operations are dependent upon our ability to protect our customer engagement centers and our information databases against damage that may be caused by fire, earthquakes, severe weather and other disasters, power failure, telecommunications failures, unauthorized intrusion, computer viruses and other emergencies. The temporary or permanent loss of such systems could have a material adverse effect on our business, financial condition and results of operations. Notwithstanding precautions taken to protect us and our clients from events that could interrupt delivery of services, there can be no assurance that a fire, natural disaster, human error, equipment malfunction or inadequacy, or other event would not result in a prolonged interruption in our ability to provide services to our clients. Such an event could have a material adverse effect on our business, financial condition and results of operations.

Our operating results will be adversely affected if we are unable to maximize our facility capacity utilization.

Our profitability is significantly influenced by our ability to effectively manage our contact center capacity utilization. The majority of our business involves technical support and customer care services initiated by our clients' customers and, as a result, our capacity utilization varies and demands on our capacity are, to some degree, beyond our control. In order to create the additional capacity necessary to accommodate new or expanded outsourcing projects, we may need to open new contact centers. The opening or expansion of a contact center may result, at least in the short term, in idle capacity until we fully implement the new or expanded program. Additionally, the occasional need to open customer engagement centers fully, or primarily, dedicated to a single client, instead of spreading the work among existing facilities with idle capacity, negatively affects capacity utilization. We periodically assess the expected long-term capacity utilization of our contact centers. As a result, we may, if deemed necessary, consolidate, close or partially close under-performing contact centers to maintain or improve targeted utilization and margins. There can be no guarantee that we will be able to achieve or maintain optimal utilization of our contact center capacity.

As part of our effort to consolidate our facilities, we may seek to sell or sublease a portion of our surplus contact center space, if any, and recover certain costs associated with it. Failure to sell or sublease such surplus space will negatively impact results of operations.

Increases in the cost of telephone and data services or significant interruptions in such services could adversely affect our financial results.

Our business is significantly dependent on telephone and data service provided by various local and long distance telephone companies. Accordingly, any disruption of these services could adversely affect our business. We have taken steps to mitigate our exposure to service disruptions by investing in redundant circuits, although there is no assurance that the redundant circuits would not also suffer disruption. Any inability to obtain telephone or data services at favorable rates could negatively affect our business results. Where possible, we have entered into long-term contracts with various providers to mitigate short-term rate increases and fluctuations. There is no obligation, however, for the vendors to renew their contracts with us, or to offer the same or lower rates in the future, and such contracts are subject to termination or modification for various reasons outside of our control. A significant increase in the cost of telephone services that is not recoverable through an increase in the price of our services could adversely affect our financial results.

Our profitability may be adversely affected if we are unable to maintain and find new locations for customer engagement centers in countries with stable wage rates.

Our business is labor-intensive and therefore wages, employee benefits and employment taxes constitute the largest component of our operating expenses. As a result, expansion of our business is dependent upon our ability to find cost-effective locations in which to operate, both domestically and internationally. Some of our customer engagement centers are located in countries that have experienced inflation and rising standards of living, which requires us to increase employee wages. In addition, collective bargaining is being utilized in an increasing number of countries in which we currently, or may in the future, desire to operate. Collective bargaining may result in material wage and benefit increases. If wage rates and benefits increase significantly in a country where we maintain customer engagement centers, we may not be able to pass those increased labor costs on to our clients, requiring us to search for other cost-effective delivery locations. Additionally, some of our customer engagement centers are located in jurisdictions subject to minimum wage regulations, which may result in increased wages in the future. There is no assurance that we will be able to find such cost-effective locations, and even if we do, the costs of closing delivery locations and opening new customer engagement centers can adversely affect our financial results.

Risks Related to Our International Operations

Our international operations and expansion involve various risks.

We intend to continue to pursue growth opportunities in markets outside the United States. At December 31, 2018, our international operations were conducted from 39 customer engagement centers located in Australia, Cyprus, Denmark, Egypt, Finland, Germany, Hungary, India, Norway, the People's Republic of China, the Philippines, Romania, Scotland and Sweden. Revenues from these international operations for the years ended December 31, 2018, 2017, and 2016, were 36.8%, 36.1%, and 36.8% of consolidated revenues, respectively. We also conduct business from 12 customer engagement centers located in Brazil, Canada, Colombia, Costa Rica, El Salvador and Mexico. International operations are subject to certain risks common to international activities, such as changes in foreign governmental regulations, tariffs and taxes, import/export license requirements, the imposition of trade barriers, difficulties in staffing and managing international operations, political uncertainties, longer payment cycles, possible greater difficulties in accounts receivable collection, economic instability as well as political and country-specific risks.

We have been granted tax holidays in the Philippines, Colombia, Costa Rica and El Salvador that expire at varying dates from 2019 through 2028. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will renew them. This could potentially result in adverse tax consequences, the impact of which is not practicable to estimate due to the inherent complexity of estimating critical variables such as long-term future profitability, tax regulations and rates in the multi-national tax environment in which we operate. Any one or more of these factors could have an adverse effect on our international operations and, consequently, on our business, financial condition and results of operations. The tax holidays decreased the provision for income taxes by $4.1 million, $3.0 million and $3.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The 2017 Tax Reform Act requires companies to pay a one-time transition tax on earnings of foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings. We recognized a provisional amount of $32.7 million, which is included as a component of "Income taxes" in the accompanying Consolidated Statement of Operations for the year ended December 31, 2017. The Company recorded a $0.2 million decrease to the provisional amounts during the year ended December 31, 2018 upon finalization of the calculation.

As of December 31, 2018, we had cash balances of approximately $115.7 million held in international operations, most of which would not be subject to additional taxes if repatriated to the United States.

We provide U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. No additional income taxes have been provided for any remaining outside basis difference inherent in our foreign subsidiaries as these amounts continue to be indefinitely reinvested in foreign operations. Determination of any unrecognized deferred tax liability related to the outside basis difference in investments in foreign subsidiaries is not practicable due to the inherent complexity of the multi-national tax environment in which we operate.

We conduct business in various foreign currencies and are therefore exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact our results of operations and financial condition. We are also subject to certain exposures arising from the translation and consolidation of the financial results of our foreign subsidiaries. We enter into foreign currency forward and option contracts to hedge against the effect of certain foreign currency exchange exposures. However, there can be no assurance that we can take actions to mitigate such exposure in the future, and if taken, that such actions will be successful or that future changes in currency exchange rates will not have a material adverse impact on our future operating results. A significant change in the value of the U.S. Dollar against the currency of one or more countries where we operate may have a material adverse effect on our financial condition and results of operations. Additionally, our hedging exposure to counterparty credit risks is not secured by any collateral. Although each of the counterparty financial institutions with which we place hedging contracts are investment grade rated by the national rating agencies as of the time of the placement, we can provide no assurances as to the financial stability of any of our counterparties. If a counterparty to one or more of our hedge transactions were to become insolvent, we would be an unsecured creditor and our exposure at the time would depend on foreign exchange rate movements relative to the contracted foreign exchange rate and whether any gains result that are not realized due to a counterparty default.

The fundamental shift in our industry toward global service delivery markets presents various risks to our business.

Clients continue to require blended delivery models using a combination of onshore and offshore support. Our offshore delivery locations include Brazil, Colombia, Costa Rica, El Salvador, India, Mexico, the People's Republic of China and the Philippines, and while we have operated in global delivery markets since 1996, there can be no assurance that we will be able to successfully conduct and expand such operations, and a failure to do so could have a material adverse effect on our business, financial condition, and results of operations. The success of our offshore operations will be subject to numerous factors, some of which are beyond our control, including general and regional economic conditions, prices for our services, competition, changes in regulation and other risks. In addition, as with all of our operations outside of the United States, we are subject to various additional political, economic and market uncertainties (see "Our international operations and expansion involve various risks"). Additionally, a change in the political environment in the United States or the adoption and enforcement of legislation and regulations curbing the use of offshore customer engagement solutions and services could have a material adverse effect on our business, financial condition and results of operations.

Our global operations expose us to numerous legal and regulatory requirements.

We provide services to our clients' customers in 21 countries around the world. Accordingly, we are subject to numerous legal regimes on matters such as taxation, government sanctions, content requirements, licensing, tariffs, government affairs, data privacy and immigration as well as internal and disclosure control obligations. In the U.S., as well as several of the other countries in which we operate, some of our services must comply with various laws and regulations regarding the method and timing of placing outbound telephone calls. Violations of these various laws and regulations could result in liability for monetary damages, fines and/or criminal prosecution and unfavorable publicity. Changes in U.S. federal, state and international laws and regulations, specifically those relating to the outsourcing of jobs to foreign countries as well as statutory and regulatory requirements related to derivative transactions, may adversely affect our ability to perform our services at our overseas facilities or could result in additional taxes on such services, or impact our flexibility to execute strategic hedges, thereby threatening or limiting our ability or the financial benefit to continue to serve certain markets at offshore locations, or the risks associated therewith.

Corporate tax reform, base-erosion efforts and tax transparency continue to be high priorities in many tax jurisdictions where we have business operations. As a result, policies regarding corporate income and other taxes in numerous jurisdictions are under heightened scrutiny and tax reform legislation is being proposed or enacted in a number of jurisdictions. For example, the 2017 Tax Reform Act, adopting broad U.S. corporate income tax reform has, among other things, reduced the U.S. corporate income tax rate, but 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 2017 Tax Reform Act has affected the tax position reflected on our consolidated balance sheet and has had an impact on our consolidated financial results beginning with the fourth quarter of 2017, the period of enactment.

In addition, many countries are beginning to implement legislation and other guidance to align their international tax rules with the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting recommendations and action plan that aim to standardize and modernize global corporate tax policy, including changes to cross-border tax, transfer-pricing documentation rules, and nexus-based tax incentive practices. As a result of the heightened scrutiny of corporate taxation policies, prior decisions by tax authorities regarding treatments and positions of corporate income taxes could be subject to enforcement activities, and legislative investigation and inquiry, which could also result in changes in tax policies or prior tax rulings. Any such changes in policies or rulings may also result in the taxes we previously paid being subject to change.

Due to the large scale of our international business activities any substantial changes in international corporate tax policies, enforcement activities or legislative initiatives may materially and adversely affect our business, the amount of taxes we are required to pay and our financial condition and results of operations generally.

Failure to comply with laws, regulations and policies, including the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation, could result in fines, criminal penalties and an adverse effect on our business.

We are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and policies, including anti-corruption laws and export-import compliance and trade laws, due to our global operations. In particular, the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act of 2010 and similar anti-bribery laws in other jurisdictions generally prohibit companies, their agents, consultants and other business partners from making improper payments to government officials or other persons (i.e., commercial bribery) for the purpose of obtaining or retaining business or other improper advantage. They also impose recordkeeping and internal control provisions on companies such as ours. We operate and/or conduct business, and any acquisition target may operate and/or conduct business, in some parts of the world that are recognized as having governmental and commercial corruption and in such countries, strict compliance with anti-bribery laws may conflict with local customs and practices. Under some circumstances, a parent company may be civilly and criminally liable for bribes paid by a subsidiary. We cannot assure you that our internal control policies and procedures have protected us, or will protect us, from unlawful conduct of our employees, agents, consultants and other business partners. In the event that we believe or have reason to believe that violations may have occurred, including without limitation violations of anti-corruption laws, we may be required to investigate and/or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violation may result in substantial civil and/or criminal fines, disgorgement of profits, sanctions and penalties, debarment from future work with governments, curtailment of operations in certain jurisdictions, and imprisonment of the individuals involved. As a result, any such violations may materially and adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Any of these impacts could have a material, adverse effect on our business, results of operations or financial condition.

Risks Related to Our Employees

Our inability to attract and retain experienced personnel may adversely impact our business.

Our business is labor intensive and places significant importance on our ability to recruit, train, and retain qualified technical and consultative professional personnel in a tightening labor market. We generally experience high turnover of our personnel and are continuously required to recruit and train replacement personnel as a result of a changing and expanding work force. Additionally, demand for qualified technical professionals conversant in multiple languages, including English, and/or certain technologies may exceed supply, as new and additional skills are required to keep pace with evolving computer technology. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain qualified personnel or an increase in wages or other costs of attracting, training, or retaining qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

Our operations are substantially dependent on our senior management.

Our success is largely dependent upon the efforts, direction and guidance of our senior management. Our growth and success also depend in part on our ability to attract and retain skilled employees and managers and on the ability of our executive officers and key employees to manage our operations successfully. We have entered into employment and non-competition agreements with our executive officers. The loss of any of our senior management or key personnel, or the inability to attract, retain or replace key management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Health epidemics could disrupt our business and adversely affect our financial results.

Our customer engagement centers typically seat hundreds of employees in one location. Accordingly, an outbreak of a contagious infection in one or more of the markets in which we do business may result in significant worker absenteeism, lower asset utilization rates, voluntary or mandatory closure of our offices and delivery centers, travel restrictions on our employees, and other disruptions to our business. Any prolonged or widespread health epidemic could severely disrupt our business operations and have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Business Strategy

Our strategy of growing through selective acquisitions and mergers involves potential risks.

We evaluate opportunities to expand the scope of our services through acquisitions and mergers. We may be unable to identify companies that complement our strategies, and even if we identify a company that complements our strategies, we may be unable to acquire or merge with the company. Also, a decrease in the price of our common stock could hinder our growth strategy by limiting growth through acquisitions funded with SYKES' stock.

The integration of an acquired company may result in additional and unforeseen expenses, and the full amount of anticipated benefits of the integration plan may not be realized. If we are not able to adequately address these challenges, we may be unable to fully integrate the acquired operations into our own, or to realize the full amount of anticipated benefits of the integration of the companies.

Our acquisition strategy involves other potential risks. These risks include:

- the inability to obtain the capital required to finance potential acquisitions on satisfactory terms;
- the diversion of our attention to the integration of the businesses to be acquired;
- the risk that the acquired businesses will fail to maintain the quality of services that we have historically provided;
- the need to implement financial and other systems and add management resources;
- the risk that key employees of the acquired business will leave after the acquisition;
- potential liabilities of the acquired business;
- unforeseen difficulties in the acquired operations;
- adverse short-term effects on our operating results;
- lack of success in assimilating or integrating the operations of acquired businesses within our business;
- the dilutive effect of the issuance of additional equity securities;
- the impairment of goodwill and other intangible assets involved in any acquisitions;
- the businesses we acquire not proving profitable;
- incurring additional indebtedness; and
- in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.

We may incur significant cash and non-cash costs in connection with the continued rationalization of assets resulting from acquisitions.

We may incur a number of non-recurring cash and non-cash costs associated with the continued rationalization of assets resulting from acquisitions relating to the closing of facilities and disposition of assets.

If our goodwill or intangible assets become impaired, we could be required to record a significant charge to earnings.

We recorded substantial goodwill and intangible assets as a result of our recent acquisitions. We review our goodwill and intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We assess whether there has been an impairment in the value of goodwill at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or intangible assets may not be recoverable include declines in stock price, market capitalization or cash flows and slower growth rates in our industry. We could be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or intangible assets were determined, negatively impacting our results of operations.

Risks Related to Our Common Stock

Our organizational documents contain provisions that could impede a change in control.

Our Board of Directors is divided into three classes serving staggered three-year terms. The staggered Board of Directors and the anti-takeover effects of certain provisions contained in the Florida Business Corporation Act and in our Articles of Incorporation and Bylaws, including the ability of the Board of Directors to issue shares of preferred stock and to fix the rights and preferences of those shares without shareholder approval, may have the effect of delaying, deferring or preventing an unsolicited change in control. This may adversely affect the market price of our common stock or the ability of shareholders to participate in a transaction in which they might otherwise receive a premium for their shares.

The volatility of our stock price may result in loss of investment.

The trading price of our common stock has been and may continue to be subject to wide fluctuations over short and long periods of time. We believe that market prices of outsourced customer engagement services stocks in general have experienced volatility, which could affect the market price of our common stock regardless of our financial results or performance. We further believe that various factors such as general economic conditions, changes or volatility in the financial markets, changing market conditions in the outsourced customer engagement services industry, quarterly variations in our financial results, the announcement of acquisitions, strategic partnerships, or new product offerings, and changes in financial estimates and recommendations by securities analysts could cause the market price of our common stock to fluctuate substantially in the future.

Failure to adhere to laws, rules and regulations applicable to public companies operating in the U.S. may have an adverse effect on our stock price.

Because we are a publicly-traded company, we are subject to certain evolving and extensive federal, state and other rules and regulations relating to, among other things, assessment and maintenance of internal controls and corporate governance. Section 404 of the Sarbanes-Oxley Act of 2002, together with rules and regulations issued by the SEC require us to furnish, on an annual basis, a report by our management (included elsewhere in this Annual Report on Form 10-K) regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not our internal controls over financial reporting are effective. We must include a disclosure of any material weaknesses in our internal control over financial reporting identified by management during the annual assessment. We have in the past discovered, and may potentially in the future discover, areas of internal control over financial reporting which may require improvement. If at any time we are unable to assert that our internal controls over financial reporting are effective, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, our investors could lose confidence in the accuracy and/or completeness of our financial reports, which could have an adverse effect on our stock price.

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the year ended December 31, 2018 relating to our periodic or current reports filed under the Securities Exchange Act of 1934.

Item 2. Properties

Our principal executive offices are located in Tampa, Florida. This facility currently serves as the headquarters for senior management and the financial, information technology and administrative departments. In addition to our headquarters and the customer engagement centers (“centers”) used by our Americas and EMEA segments discussed below, we also have offices in several countries around the world which support our Americas and EMEA segments.

As of December 31, 2018, we operated one fulfillment location and 72 multi-client centers. Our centers were located in the following countries:

	Centers
Americas:	
Australia	3
Brazil	1
Canada	1
Colombia	1
Costa Rica	5
El Salvador	2
India	2
Mexico	2
People's Republic of China	3
The Philippines	7
United States	20
Total Americas centers	47
EMEA:	
Cyprus	1
Denmark	1
Egypt	1
Finland	1
Germany	5
Hungary	1
Norway	1
Romania	5
Scotland	4
Sweden	5
Total EMEA centers	25
Total centers	72

We believe our existing facilities, both owned and leased, are suitable and adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any physical expansion or any space required due to expiring leases not renewed. We operate from time to time in temporary facilities to accommodate growth before new centers are available. At December 31, 2018, our centers, taken as a whole, were utilized at average capacities of approximately 71% and were capable of supporting a higher level of market demand. We had utilization of 70% and 75% in the Americas and EMEA, respectively, at December 31, 2018.

Item 3. Legal Proceedings

Information with respect to this item may be found in Note 22, Commitments and Loss Contingency, of the accompanying “Notes to Consolidated Financial Statements” under the caption "Loss Contingency," which information is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock is quoted on the NASDAQ Global Select Market under the symbol SYKE.

Holders of our common stock are entitled to receive dividends out of the funds legally available when and if declared by the Board of Directors. We have not declared or paid any cash dividends on our common stock in the past and do not anticipate paying any cash dividends in the foreseeable future.

According to the records of our transfer agent as of February 1, 2019, there were approximately 780 holders of record of our common stock and we estimate there were approximately 12,900 beneficial owners.

Below is a summary of stock repurchases for the quarter ended December 31, 2018 (in thousands, except average price per share).

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)
October 1, 2018 - October 31, 2018	—	$ —	—	4,748
November 1, 2018 - November 30, 2018	—	$ —	—	4,748
December 1, 2018 - December 31, 2018	—	$ —	—	4,748
Total	—		—	4,748

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

Five-Year Stock Performance Graph

The following graph presents a comparison of the cumulative shareholder return on SYKES common stock with the cumulative total return on the NASDAQ Computer and Data Processing Services Index, the NASDAQ Telecommunications Index, the Russell 2000 Index, the S&P Small Cap 600, the Old SYKES Peer Group and the New SYKES Peer Group (as defined below). The New SYKES Peer Group is comprised of publicly traded companies that derive a substantial portion of their revenues from engagement centers, customer care businesses, have similar business models to SYKES, and are those most commonly compared to SYKES by industry analysts following SYKES. This graph assumes that $100 was invested on December 31, 2013 in SYKES common stock, the NASDAQ Computer and Data Processing Services Index, the NASDAQ Telecommunications Index, the Russell 2000 Index, the S&P Small Cap 600, the Old SYKES Peer Group and the New SYKES Peer Group, including reinvestment of dividends.

Comparison of Five-Year Cumulative Total Return (in dollars)

201320142015201620172018Sykes Enterprises, Incorporated Return %7.6131.15-6.248.97-21.37Cum $100.00107.61141.13132.32144.19113.38NASDAQ Computer and Data Processing Index Return %6.9231.108.7340.8710.32Cum $100.00106.92140.17152.40214.68236.84NASDAQ Telecommunications Stocks Return %11.51-5.2917.5920.225.27Cum $100.00111.51105.61124.18149.29157.15Russell 2000 Index Return %4.89-4.4121.3114.65-11.01Cum $100.00104.89100.26121.63139.45124.09S&P Small cap 600 Index Return %5.76-1.9726.5613.23-8.48Cum $100.00105.76103.67131.20148.56135.96New Peer Group Return %9.3517.6315.7141.640.52Cum $100.00109.35128.63148.84210.81211.91Old Peer Group Return %5.8719.1911.6331.521.30Cum $100.00105.87126.20140.88185.28187.68

New SYKES Peer Group	Exchange & Ticker Symbol
Atento S.A.	NYSE: ATTO
StarTek, Inc.	NYSE: SRT
Teleperformance	Paris: TEP
TTEC Holdings, Inc.	NASDAQ: TTEC

We changed the SYKES Peer Group in 2018 to remove Convergys Corporation due to its acquisition by Synnex Corporation (“Synnex”) in late 2018. Synnex has not been included in our peer group as its core business of distribution, logistics and integration services for the technology industry is significantly larger than its customer engagement services business.

There can be no assurance that SYKES’ stock performance will continue into the future with the same or similar trends depicted in the graph above. SYKES does not make or endorse any predictions as to the future stock performance.

The information contained in the Stock Performance Graph section shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Exchange Act of 1934.

Item 6. Selected Financial Data

Selected Financial Data

The following selected financial data has been derived from our consolidated financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the accompanying Consolidated Financial Statements and related notes thereto.

	Years Ended December 31,				
(in thousands, except per share data)	2018 (2)	2017	2016	2015	2014
Income Statement Data: (1)					
Revenues	$1,625,687	$1,586,008	$1,460,037	$1,286,340	$1,327,523
Income from operations (3),(4),(5),(6),(7)	63,202	87,042	92,373	94,358	79,609
Net income (3),(4),(5),(6),(7),(8)	48,926	32,216	62,390	68,597	57,791
Net Income Per Common Share: (1),(3),(4),(5),(6),(7),(8)					
Basic	$1.16	$0.77	$1.49	$1.64	$1.36
Diluted	$1.16	$0.76	$1.48	$1.62	$1.35
Weighted Average Common Shares:					
Basic	42,090	41,822	41,847	41,899	42,609
Diluted	42,246	42,141	42,239	42,447	42,814
Balance Sheet Data: (1),(9)					
Total assets	$1,171,967	$1,327,092	$1,236,403	$947,772	$944,500
Long-term debt	102,000	275,000	267,000	70,000	75,000
Shareholders' equity	826,609	796,479	724,522	678,680	658,218

(1) The amounts for 2018 include the WhistleOut acquisition completed on July 9, 2018 and the Symphony acquisition completed on November 1, 2018. The amounts for 2018 and 2017 include the Telecommunications Asset acquisition completed on May 31, 2017. The amounts for 2018, 2017 and 2016 include the Clearlink acquisition completed on April 1, 2016. The amounts for 2018, 2017, 2016 and 2015 include the Qelp acquisition completed on July 2, 2015. See Note 3, Acquisitions, of the accompanying "Notes to Consolidated Financial Statements" for further information.

(2) Effective January 1, 2018, the Company adopted new guidance on revenue recognition using the modified retrospective method; as such, 2014 – 2017 have not been restated. See Note 2, Revenues, of the accompanying "Notes to Consolidated Financial Statements" for further information.

(3) The amounts for 2018 include $11.5 million of exit costs and a $9.4 million impairment of long-lived assets. Additionally, the amounts for 2018 include $4.0 million in WhistleOut acquisition-related costs, $2.2 million in Symphony acquisition-related costs, a $1.2 million settlement of a legal case, $1.0 million in other immaterial acquisition-related costs and a $0.3 million net loss on disposal of property and equipment, primarily related to the sale of Company-owned sites in Wise, Virginia and Ponca City, Oklahoma. See Note 4, Costs Associated with Exit or Disposal Activities, Note 5, Fair Value, Note 13, Property and equipment, net, and Note 22, Commitments and Loss Contingency, of the accompanying "Notes to Consolidated Financial Statements" for further information.

(4) The amounts for 2017 include $0.7 million in Telecommunications Asset acquisition-related costs, $0.5 million in other immaterial acquisition-related costs, a $0.6 million net gain on contingent consideration, a $0.5 million net

loss on disposal of property and equipment, a $5.4 million impairment of long-lived assets and $0.1 million in interest accretion on contingent consideration.

(5) The amounts for 2016 include $4.6 million in Clearlink acquisition-related costs, a $2.3 million net gain on contingent consideration, $0.8 million in interest accretion on contingent consideration and a $0.3 million net loss on disposal of property and equipment, primarily related to the sale of a Company-owned site in Morganfield, Kentucky. See Note 13, Property and equipment, net, of the accompanying “Notes to Consolidated Financial Statements” for further information

(6) The amounts for 2015 include a $0.9 million net gain on insurance settlement, $0.6 million loss on liquidation of a foreign subsidiary, $0.5 million in Qelp acquisition-related costs, $0.4 million in interest accretion on contingent consideration and a $0.4 million net loss on disposal of property and equipment.

(7) The amounts for 2014 include a $2.0 million net gain on disposal of property and equipment primarily due to the sale of the land and building in Bismarck, North Dakota, a $0.1 million impairment of long-lived assets and a $0.3 million reversal of exit plan charges.

(8) The amounts for 2018 include $0.4 million of Symphony acquisition-related charges. Additionally, the amounts include $(0.2) million and $32.7 million in 2018 and 2017, respectively, related to the impact of the 2017 Tax Reform Act. See Note 20, Income Taxes, of the accompanying “Notes to Consolidated Financial Statements” for further information.

(9) The Company has not declared cash dividends per common share for any of the five years presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and the notes thereto that appear elsewhere in this Annual Report on Form 10-K. The following discussion and analysis compares the year ended December 31, 2018 ("2018") to the year ended December 31, 2017 ("2017"), and 2017 to the year ended December 31, 2016 ("2016").

The following discussion and analysis and other sections of this document contain forward-looking statements that involve risks and uncertainties. Words such as "may," "expects," "projects," "anticipates," "intends," "plans," "believes," "seel "estimates," 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. Future events and actual results could differ materially from the results reflected in these forward-looking statements, as a result of certain of the factors set forth below and elsewhere in this analysis and in this Annual Report on Form 10-K for the year ended December 31, 2018 in Item 1.A., "Risk Factors."

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, all of which are optimized by a suite of robotic process automation ("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 99.0%, 99.4% and 99.2% of consolidated revenues in 2018, 2017 and 2016, 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.

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Services are performed on either a per minute, per hour, per call, per transaction or per time and materials basis. Our customer contracts include penalty and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies, as well as the right of certain of our clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred. Certain customers also receive cash discounts for early payment. These provisions are accounted for as variable consideration and are estimated using the expected value method based on historical service and pricing trends, the individual contract provisions, and our best judgment at the time. Product sales, accounted for within our fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

Direct salaries and related costs include direct personnel compensation, severance, statutory and other benefits associated with such personnel and other direct costs associated with providing services to customers.

General and administrative costs include administrative, sales and marketing, occupancy and other costs.

Depreciation, net represents depreciation on property and equipment, net of the amortization of deferred property grants.

Amortization of intangibles represents amortization of finite-lived intangible assets.

Impairment of long-lived assets, primarily leasehold improvements, equipment, furniture and fixtures which were not recoverable in the Americas, is related to an effort to streamline excess capacity and consolidate leased space.

Interest income primarily relates to interest earned on cash and cash equivalents.

Interest (expense) includes interest on outstanding borrowings, commitment fees charged on the unused portion of our revolving credit facility and contingent consideration, as more fully described in this Item 7, under "Liquidity and Capital Resources."

Other income (expense), net includes gains and losses on derivative instruments not designated as hedges, foreign currency transaction gains and losses, gains and losses on the liquidation of foreign subsidiaries and other miscellaneous income (expense).

Our effective tax rate for the periods presented includes the effects of state income taxes, net of federal tax benefit, uncertain tax positions, tax holidays, valuation allowance changes, foreign rate differentials, foreign withholding and other taxes, and permanent differences.

Recent Developments

Americas 2018 Exit Plan

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

The actions impacted approximately 5,000 seats, all of which were rationalized as of December 31, 2018. Approximately $25.3 million in annualized gross savings resulted from the 2018 site closures, primarily related to reduced general and administrative costs and lower depreciation expense.

See Note 4, Costs Associated with Exit and Disposal Activities, in the accompanying "Notes to 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. corporate income 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. This impact, along with the transitional taxes discussed in Note 20, Income Taxes, of the accompanying "Notes to Consolidated Financial Statements" is reflected in the Other segment.

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 52.5 million ($67.6 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 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 the next three years. 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 30.2 million ($22.4 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.

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

In April 2016, we completed the acquisition of Clear Link Holdings, LLC ("Clearlink"), pursuant to a definitive agreement and plan of merger, dated March 6, 2016. Clearlink is an inbound demand generation and sales conversion platform. The total purchase price of $207.9 million was funded by borrowings under our credit agreement. The results of Clearlink's operations have been reflected in our consolidated financial statements since April 1, 2016.

Results of Operations

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

	Years Ended December 31,				
(in thousands)	2018	2017	$ Change	2016	$ Change
Revenues	$1,625,687	$1,586,008	$39,679	$1,460,037	$125,971
Operating expenses:					
Direct salaries and related costs	1,072,907	1,039,677	33,230	947,593	92,084
General and administrative	407,285	376,825	30,460	351,681	25,144
Depreciation, net	57,350	55,972	1,378	49,013	6,959
Amortization of intangibles	15,542	21,082	(5,540)	19,377	1,705
Impairment of long-lived assets	9,401	5,410	3,991	—	5,410
Total operating expenses	1,562,485	1,498,966	63,519	1,367,664	131,302
Income from operations	63,202	87,042	(23,840)	92,373	(5,331)
Other income (expense):					
Interest income	706	696	10	607	89
Interest (expense)	(4,743)	(7,689)	2,946	(5,570)	(2,119)
Other income (expense), net	(2,248)	1,258	(3,506)	1,474	(216)
Total other income (expense), net	(6,285)	(5,735)	(550)	(3,489)	(2,246)
Income before income taxes	56,917	81,307	(24,390)	88,884	(7,577)
Income taxes	7,991	49,091	(41,100)	26,494	22,597
Net income	$48,926	$32,216	$16,710	$62,390	$(30,174)

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The following table sets forth, for the years indicated, the amounts presented in the accompanying Consolidated Statements of Operations as a percentage of revenues:

	Years Ended December 31,		
	2018	2017	2016
Percentage of Revenue:			
Revenues	100.0 %	100.0 %	100.0 %
Direct salaries and related costs	66.0	65.6	64.9
General and administrative	25.1	23.8	24.1
Depreciation, net	3.5	3.5	3.4
Amortization of intangibles	1.0	1.3	1.3
Impairment of long-lived assets	0.6	0.3	—
Income from operations	3.8	5.5	6.3
Interest income	0.0	0.0	0.0
Interest (expense)	(0.3)	(0.5)	(0.4)
Other income (expense), net	(0.1)	0.1	0.2
Income before income taxes	3.4	5.1	6.1
Income taxes	0.5	3.1	1.8
Net income	2.9 %	2.0 %	4.3 %

2018 Compared to 2017

Revenues

	Years Ended December 31,				
	2018		2017		
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change
Americas	$1,330,638	81.9%	$1,325,643	83.6%	$4,995
EMEA	294,954	18.1%	260,283	16.4%	34,671
Other	95	0.0%	82	0.0%	13
Consolidated	$1,625,687	100.0%	$1,586,008	100.0%	$39,679

Consolidated revenues increased $39.7 million, or 2.5%, in 2018 from 2017.

The increase in Americas' revenues was due to higher volumes from existing clients of $48.6 million, new clients of $30.3 million and a favorable foreign currency impact of $1.3 million, partially offset by end-of-life client programs of $75.2 million. Revenues from our offshore operations represented 39.7% of Americas' revenues in 2018, compared to 40.7% for the comparable period in 2017.

The increase in EMEA's revenues was due to higher volumes from existing clients of $21.5 million, new clients of $10.0 million and a favorable foreign currency impact of $8.4 million, partially offset by end-of-life client programs of $5.2 million.

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

Statements" for further information.

On a consolidated basis, we had 48,800 brick-and-mortar seats as of December 31, 2018, a decrease of 3,800 seats from 2017. We rationalized 5,000 seats in the Americas as part of the 2018 Americas Exit Plan. This rationalization was partially offset by seat additions internationally for demand. The capacity utilization rate on a combined basis was 71% in 2018, compared to 72% in 2017.

On a segment basis, 41,200 seats were located in the Americas, a decrease of 4,200 seats from 2017, and 7,600 seats were located in EMEA, an increase of 400 seats from 2017. The capacity utilization rate for the Americas in 2018 was 70%, compared to 71% in 2017. The capacity utilization rate for EMEA in 2018 was 75%, compared to 81% in 2017, down primarily due to expansion and the utilization of our at-home platform as a complement to our brick-and-mortar facilities. We strive to attain a capacity utilization of 85% at each of our locations.

Direct Salaries and Related Costs

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$864,954	65.0%	$856,306	64.6%	$8,648	0.4%
EMEA	207,953	70.5%	183,371	70.5%	24,582	0.0%
Consolidated	$1,072,907	66.0%	$1,039,677	65.6%	$33,230	0.4%

The increase of $33.2 million in direct salaries and related costs included a favorable foreign currency impact of $6.3 million in the Americas and an unfavorable foreign currency impact of $5.0 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher customer-acquisition advertising costs of 1.1% primarily due to an increased reliance on paid search results over organic search results, higher severance costs related to the Americas 2018 Exit Plan of 0.2% and higher other costs of 0.4%, partially offset by lower compensation costs of 0.8%, lower auto tow claim costs of 0.3% and lower communications costs of 0.2%.

EMEA's direct salaries and related costs, as a percentage of revenues, were consistent with the prior period and primarily attributable to higher fulfillment materials costs of 1.0%, higher communications costs of 0.2% and higher other costs of 0.1%, offset by lower compensation costs of 1.3% primarily due to an increase in agent productivity principally within the financial services vertical in the current period.

General and Administrative

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$285,597	21.5%	$259,667	19.6%	$25,930	1.9%
EMEA	63,287	21.5%	54,696	21.0%	8,591	0.5%
Other	58,401	-	62,462	-	(4,061)	-
Consolidated	$407,285	25.1%	$376,825	23.8%	$30,460	1.3%

The increase of $30.5 million in general and administrative expenses included a favorable foreign currency impact of $2.4 million in the Americas and an unfavorable foreign currency impact of $1.5 million in EMEA.

The increase in Americas' general and administrative expenses, as a percentage of revenues, was primarily attributable to higher facility-related costs of 0.5% resulting from the Americas 2018 Exit Plan, higher compensations costs of 0.5%, higher merger and integration costs of 0.3%, higher legal and professional fees of 0.3% and higher other costs of 0.3%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.3% and higher other costs of 0.2%.

The decrease of $4.1 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower compensation costs of $2.9 million, lower legal and professional fees of $1.3 million, lower severance costs of $0.6 million, lower travel costs of $0.4 million and lower other costs of $0.2 million, partially offset by higher merger and integration costs of $1.1 million and higher software and maintenance costs of $0.2 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

	Years Ended December 31,					
	2018		2017			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Depreciation, net:						
Americas	$48,378	3.6%	$47,730	3.6%	$648	0.0%
EMEA	5,952	2.0%	5,211	2.0%	741	0.0%
Other	3,020	-	3,031	-	(11)	-
Consolidated	$57,350	3.5%	$55,972	3.5%	$1,378	0.0%
Amortization of intangibles:						
Americas	$14,287	1.1%	$20,144	1.5%	$(5,857)	-0.4%
EMEA	1,255	0.4%	938	0.4%	317	0.0%
Other	—	-	—	-	—	-
Consolidated	$15,542	1.0%	$21,082	1.3%	$(5,540)	-0.3%
Impairment of long-lived assets:						
Americas	$9,401	0.7%	$5,410	0.4%	$3,991	0.3%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	$9,401	0.6%	$5,410	0.3%	$3,991	0.3%

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

The decrease in amortization was primarily due to certain fully amortized intangible assets, partially offset by intangibles acquired during the year.

See Note 4, Costs Associated with Exit and Disposal Activities, and Note 5, Fair Value, in the accompanying “Notes to Consolidated Financial Statements” for further information regarding the impairment of long-lived assets.

Other Income (Expense)

	Years Ended December 31,		
(in thousands)	2018	2017	$ Change
Interest income	$706	$696	$10
Interest (expense)	$(4,743)	$(7,689)	$2,946
Other income (expense), net:			
Foreign currency transaction gains (losses)	$2,029	$(548)	$2,577

Gains (losses) on derivative instruments not designated as hedges	(1,751)	143	(1,894)
Gains (losses) on investments held in rabbi trust	(867)	1,619	(2,486)
Other miscellaneous income (expense)	(1,659)	44	(1,703)
Total other income (expense), net	$(2,248)	$1,258	$(3,506)

Interest income remained consistent with the prior year.

The decrease in interest (expense) was primarily due to a decrease in the outstanding borrowings under our Credit Agreement as a result of $173.0 million of repayments, net, in 2018, partially offset by an increase in weighted average interest rates on outstanding borrowings.

See Note 12, Investments Held in Rabbi Trust, of "Notes to Consolidated Financial Statements" for further information.

The change in other miscellaneous income (expense) was primarily due to Affordable Care Act compliance costs, losses from our equity method investee, XSell, and payroll tax compliance costs.

Income Taxes

	Years Ended December 31,		
(in thousands)	2018	2017	$ Change
Income before income taxes	$56,917	$81,307	$(24,390)
Income taxes	$7,991	$49,091	$(41,100)
			% Change
Effective tax rate	14.0 %	60.4 %	-46.4 %

The decrease in the effective tax rate in 2018 compared to 2017 was primarily due to the $32.7 million provisional estimate recognized in 2017 related to the 2017 Tax Reform Act. In addition, we recognized a benefit of $2.7 million in 2018 from the reduction in the U.S. federal corporate tax rate from 35% to 21% as a result of the 2017 Tax Reform Act. The effective tax rate was also affected by shifts in earnings among the various jurisdictions in which we operate along with several additional factors, the overall impact of which was not material.

2017 Compared to 2016

Revenues

	Years Ended December 31,				
	2017		2016		
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change
Americas	$1,325,643	83.6%	$1,220,818	83.6%	$104,825
EMEA	260,283	16.4%	239,089	16.4%	21,194
Other	82	0.0%	130	0.0%	(48)
Consolidated	$1,586,008	100.0%	$1,460,037	100.0%	$125,971

Consolidated revenues increased $126.0 million, or 8.6%, in 2017 from 2016.

The increase in Americas' revenues was primarily due to higher volumes from existing clients of $51.3 million, new client sales of $51.1 million and Clearlink acquisition revenues of $43.1 million, partially offset by end-of-life client programs of $39.7 million and an unfavorable foreign currency impact of $1.0 million. Revenues from our offshore operations represented 40.7% of Americas' revenues, compared to 41.2% in 2016.

The increase in EMEA's revenues was primarily due to higher volumes from existing clients of $24.9 million and new client sales of $2.7 million, partially offset by end-of-life client programs of $3.5 million and an unfavorable foreign currency impact of $2.9 million.

Direct Salaries and Related Costs

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$856,306	64.6%	$779,099	63.8%	$77,207	0.8%
EMEA	183,371	70.5%	168,494	70.5%	14,877	0.0%
Consolidated	$1,039,677	65.6%	$947,593	64.9%	$92,084	0.7%

The increase of $92.1 million in direct salaries and related costs included a favorable foreign currency impact of $8.7 million in the Americas and a favorable foreign currency impact of $1.1 million in EMEA.

The increase in Americas' direct salaries and related costs, as a percentage of revenues, was primarily attributable to higher compensation costs of 0.5% and higher customer-acquisition advertising costs of 0.5%, partially offset by lower communication costs of 0.2%.

EMEA's direct salaries and related costs, as a percentage of revenues, remained consistent and were primarily attributable to higher compensation costs of 0.4% and higher other costs of 0.4%, offset by lower fulfillment materials costs of 0.8%.

General and Administrative

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Americas	$259,667	19.6%	$240,698	19.7%	$18,969	-0.1%
EMEA	54,696	21.0%	46,635	19.5%	8,061	1.5%
Other	62,462	-	64,348	-	(1,886)	-
Consolidated	$376,825	23.8%	$351,681	24.1%	$25,144	-0.3%

The increase of $25.1 million in general and administrative expenses included a favorable foreign currency impact of $2.7 million 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 a reduction in technology costs of 0.2% allocated from corporate and lower technology equipment and maintenance costs of 0.2%, partially offset by higher compensation costs of 0.2% and higher other costs of 0.1%.

The increase in EMEA's general and administrative expenses, as a percentage of revenues, was primarily attributable to a gain on settlement of Qelp's contingent consideration in the prior period of 1.1%, higher compensation costs of 0.6% and higher recruiting costs of 0.4%, partially offset by lower advertising and marketing costs of 0.3% and lower other costs of 0.3%.

The decrease of $1.9 million in Other general and administrative expenses, which includes corporate and other costs, was primarily attributable to lower merger and integration costs of $3.8 million, lower compensation costs of $2.8 million and lower other costs of $0.1 million, partially offset by a reduction in technology costs of $2.5 million allocated to the Americas, higher legal and professional fees of $0.9 million, higher severance costs of $0.8 million and higher charitable contributions of $0.6 million.

Depreciation, Amortization and Impairment of Long-Lived Assets

	Years Ended December 31,					
	2017		2016			
(in thousands)	Amount	% of Revenues	Amount	% of Revenues	$ Change	Change in % of Revenues
Depreciation, net:						
Americas	$47,730	3.6%	$42,436	3.5%	$ 5,294	0.1%
EMEA	5,211	2.0%	4,532	1.9%	679	0.1%
Other	3,031	-	2,045	-	986	-
Consolidated	$55,972	3.5%	$49,013	3.4%	$ 6,959	0.1%
Amortization of intangibles:						

Americas	$20,144	1.5%	$18,329	1.5%	$1,815	0.0%
EMEA	938	0.4%	1,048	0.4%	(110)	0.0%
Other	—	-	—	-	—	-
Consolidated	$21,082	1.3%	$19,377	1.3%	$1,705	0.0%
Impairment of long-lived assets:						
Americas	$5,410	0.4%	$—	0.0%	$5,410	0.4%
EMEA	—	0.0%	—	0.0%	—	0.0%
Other	—	-	—	-	—	-
Consolidated	$5,410	0.3%	$—	0.0%	$5,410	0.3%

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The increase in depreciation was primarily due to new depreciable fixed assets placed into service supporting site expansions and infrastructure upgrades as well as the addition of depreciable fixed assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully depreciated fixed assets.

The increase in amortization was primarily due to the addition of intangible assets acquired in conjunction with the April 2016 Clearlink acquisition, partially offset by certain fully amortized intangible assets.

See Note 5, Fair Value, of the "Notes to Consolidated Financial Statements" for further information regarding the impairment of long-lived assets.

Other Income (Expense)

	Years Ended December 31,		
(in thousands)	2017	2016	$ Change
Interest income	$ 696	$ 607	$ 89
Interest (expense)	$ (7,689)	$ (5,570)	$ (2,119)
Other income (expense), net:			
Foreign currency transaction gains (losses)	$ (548)	$ 3,348	$ (3,896)
Gains (losses) on derivative instruments not designated as hedges	143	(2,270)	2,413
Gains (losses) on investments held in rabbi trust	1,619	582	1,037
Other miscellaneous income (expense)	44	(186)	230
Total other income (expense), net	$ 1,258	$ 1,474	$ (216)

Interest income remained consistent with the prior year.

The increase in interest (expense) was primarily due to $216.0 million in borrowings used to acquire Clearlink in April 2016 as well as an increase in weighted average interest rates on outstanding borrowings, partially offset by a decrease in the interest accretion on contingent consideration.

See Note 12, Investments Held in Rabbi Trust, of "Notes to Consolidated Financial Statements" for further information.

Income Taxes

	Years Ended December 31,		
(in thousands)	2017	2016	$ Change
Income before income taxes	$ 81,307	$ 88,884	$ (7,577)
Income taxes	$ 49,091	$ 26,494	$ 22,597

			% Change
Effective tax rate	60.4 %	29.8 %	30.6 %

The increase in the effective tax rate in 2017 compared to 2016 is primarily due to a $32.7 million one-time mandatory deemed repatriation tax on undistributed non-U.S. earnings resulting from the 2017 Tax Reform Act. This increase in the effective tax rate was partially offset by several other factors including the recognition of $2.0 million of previously unrecognized tax benefits, inclusive of penalties and interest, $1.2 million arising from the effective settlement of the Canadian Revenue Agency audit and $0.8 million arising from other favorable audit settlements and statute of limitation expirations. Additionally, we recognized a $0.8 million benefit related to the increase in anticipated tax credits and reductions in estimated non-deferred foreign income, as well as a $0.3 million benefit for the release of a valuation allowance where it is more likely than not that the benefit will be realized. We also recognized a $0.9 million benefit resulting from the adoption of ASU 2016-09 on January 1, 2017. 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.

Quarterly Results

The following information presents our unaudited quarterly operating results for 2018 and 2017. The data has been prepared on a basis consistent with the accompanying Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, and includes all adjustments, consisting of normal recurring accruals, that we consider necessary for a fair presentation thereof.

(in thousands, except per share data)	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017	9/30/2017	6/30/2017	3/31/2017
Revenues	$415,198	$399,333	$396,785	$414,371	$419,247	$407,309	$375,438	$384,014
Operating expenses:								
Direct salaries and related costs	271,437	261,474	264,924	275,072	276,437	267,489	248,615	247,136
General and administrative (1),(2),(3),(4),(5)	97,660	105,148	102,037	102,440	99,190	93,355	92,236	92,044
Depreciation, net	13,882	14,072	14,560	14,836	14,577	14,227	13,820	13,348
Amortization of intangibles	4,062	3,638	3,629	4,213	5,308	5,293	5,250	5,231
Impairment of long-lived assets (6)	145	555	5,175	3,526	339	680	4,189	202
Total operating expenses	387,186	384,887	390,325	400,087	395,851	381,044	364,110	357,961
Income from operations	28,012	14,446	6,460	14,284	23,396	26,265	11,328	26,053
Other income (expense):								
Interest income	177	183	175	171	228	169	144	155
Interest (expense)	(1,220)	(1,168)	(1,149)	(1,206)	(2,104)	(2,021)	(1,865)	(1,699)
Other income (expense), net (7)	(2,785)	919	(537)	155	(376)	28	793	813
Total other income (expense), net	(3,828)	(66)	(1,511)	(880)	(2,252)	(1,824)	(928)	(731)
Income before income taxes	24,184	14,380	4,949	13,404	21,144	24,441	10,400	25,322
Income taxes (8)	7,136	628	(2,229)	2,456	38,180	2,746	1,555	6,610
Net income (loss)	$17,048	$13,752	$7,178	$10,948	$(17,036)	$21,695	$8,845	$18,712
Net income (loss) per common share: (9)								
Basic	$0.40	$0.33	$0.17	$0.26	$(0.41)	$0.52	$0.21	$0.45
Diluted	$0.40	$0.33	$0.17	$0.26	$(0.41)	$0.52	$0.21	$0.45
Weighted average shares:								
Basic	42,145	42,136	42,125	41,939	41,888	41,879	41,854	41,654
Diluted	42,264	42,204	42,160	42,232	41,888	42,033	41,934	41,905

(1) The quarters ended December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018 include $3.8 million, $2.4 million, $0.6 million and $0.4 million of acquisition-related costs, respectively, related to the WhistleOut and Symphony acquisitions as well as another immaterial acquisition. The quarters ended December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017 include $0.4 million, $0.3 million, $0.4 million and $0.1 million of acquisition-related costs, respectively, related to the Telecommunications Asset acquisition as well as another immaterial acquisition.

(2) The quarters ended December 31, 2018, September 30, 2018 and June 30, 2018 include $0.7 million, $7.2 million and $3.6 million of exit costs. See Note 4, Costs Associated with Exit or Disposal Activities, for further information.

(3) The quarters ended September 30, 2017, June 30, 2017 and March 31, 2017 include (gain) loss on contingent consideration of $0.1 million, $(0.3) million and $(0.4) million, respectively. See Note 5, Fair Value, for further information.

(4) The quarter ended December 31, 2018 includes a $0.3 million net loss on the sale of fixed assets, land and buildings located in Wise, Virginia and Ponca City, Oklahoma. See Note 13, Property and Equipment, for further information. The quarters ended December 31, 2018, September 30, 2018, June 30, 2018 and March 31, 2018 include $(0.1) million, $0.3 million, $(0.3) million and $0.1 million of net (gain) loss on disposal of property and equipment, respectively. The quarters ended December 31, 2017, September 30, 2017, June 30, 2017 and March 31, 2017 include $0.2 million, $0.1 million, $0.1 million and $0.1 million of net loss on disposal of property and equipment, respectively.

(5) The quarter ended September 30, 2018 includes $1.2 million related to a legal settlement. See Note 22, Commitments and Loss Contingency, for further information.

(6) Impairment, primarily leasehold improvements, equipment and furniture and fixtures in the Americas, was related to an effort to streamline excess capacity and consolidate leased space. See Note 4, Costs Associated with Exit or Disposal Activities, and Note 5, Fair Value, for further information.

(7) The quarter ended December 31, 2018 includes $0.4 million of Symphony acquisition-related costs.

(8) The quarters ended December 31, 2018, September 30, 2018 and December 31, 2017 include $0.3 million, $(0.5) million and $32.7 million, respectively, related to the impact of the 2017 Tax Reform Act.

(9) Net income (loss) per basic and diluted common share is computed independently for each of the quarters presented and, therefore, may not sum to the total for the year.

Business Outlook

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

- Revenues in the range of $403.0 million to $408.0 million;
- Effective tax rate of approximately 26%;
- Fully diluted share count of approximately 42.3 million;
- Diluted earnings per share in the range of $0.29 to $0.32; and
- Capital expenditures in the range of $11.0 million to $13.0 million

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

- Revenues in the range of $1,656.0 million to $1,676.0 million;
- Effective tax rate of approximately 25%;
- Fully diluted share count of approximately 42.3 million;
- Diluted earnings per share in the range of $1.73 to $1.86; and
- Capital expenditures in the range of $45.0 million to $50.0 million

We are encouraged by initial indications of demand. This demand spans virtually all of our vertical markets and is being fueled by both existing and new clients, which should lead to comparable revenue growth in the second half of 2019 driven by ramps in the first half of the year. Deploying this demand across our existing capacity in combination with savings from capacity rationalization actions taken in 2018, additional benefits from incremental rationalization in 2019 and improved operational inefficiencies should aid operating margin expansion in 2019 relative to 2018.

Our revenues and earnings per share assumptions for the first quarter and full year 2019 are based on foreign exchange rates as of February 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 first quarter and full-year. Revenue growth in 2019 compared to 2018 reflects foreign exchange headwinds of approximately $20.0 million, or roughly 1% impact to full-year growth rate, with roughly $10.0 million, or approximately 2.5% of that impact, expected in the first quarter of 2019.

We anticipate total other interest income (expense), net of approximately $(1.2) million for the first quarter and $(4.8) million for the full year 2019. The amounts in other interest income (expense), net, however, exclude the potential impact of any future foreign exchange gains or losses.

We expect an increase in our full year 2019 effective tax rate compared to 2018 due largely to discrete benefits in 2018 and expected mix-shift in the geographic of mix of earnings to higher tax rate jurisdictions in 2019.

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 the repurchase of our common stock in the open market and to fund acquisitions. In future periods, we intend similar uses of these funds.

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

During 2018, cash increased $109.1 million from operating activities, $58.0 million from proceeds from issuance of long-term debt and $1.6 million from other investing and financing activities. This increase was offset by $231.0 million used to repay long-term debt, $78.4 million of cash paid for acquisitions, $46.9 million used for capital expenditures, an $8.2 million purchase of intangible assets, a $5.0 million investment in equity method investees and $3.7 million to repurchase common stock for tax withholding on equity awards, resulting in a $214.6 million decrease in available cash, cash equivalents and restricted cash (including the unfavorable effects of foreign currency exchange rates on cash, cash equivalents and restricted cash of $10.1 million).

Net cash flows provided by operating activities for 2018 were $109.1 million, compared to $134.8 million in 2017. The $25.7 million decrease in net cash flows from operating activities was due to a net decrease of $38.7 million in cash flows from assets and liabilities and a $3.7 million decrease in non-cash reconciling items such as depreciation, amortization, impairment, unrealized foreign currency transaction (gains) losses and deferred income tax provision (benefit), partially offset by a $16.7 million increase in net income. The $38.7 million decrease in cash flows from assets and liabilities was principally a result of a $29.3 million decrease in other liabilities, a $13.4 million increase in other assets and a $2.2 million increase in taxes receivable, net, partially offset by a $4.2 million increase in deferred revenue and customer liabilities and a $1.9 million decrease in accounts receivable. The $29.3 million decrease in the change in other liabilities was primarily due to a $14.9 million decrease in other long-term liabilities principally due to the provisional amounts recorded in the prior year related to the 2017 Tax Reform Act, a $11.5 million decrease principally related to the timing of accrued employee compensation and benefits and a $8.9 million decrease in accounts payable principally due to the timing of invoices and related payments, partially offset by a $6.0 million increase in other accrued expenses and current liabilities principally due to the settlement of contingent consideration and a change in the fair value of derivatives. The $13.4 million increase in the change in other assets was primarily due to a $12.7 million increase in deferred charges and other assets principally due to long-term accounts receivable recorded in accordance with ASC 606, subsequent to the January 1, 2018 adoption date.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were $46.9 million for 2018, compared to $63.3 million for 2017, a decrease of $16.4 million. In 2019, we anticipate capital expenditures in the range of $45.0 million to $50.0 million, primarily for maintenance, new seat additions, facility upgrades and systems infrastructure.

On May 12, 2015, we entered into a $440 million revolving credit facility (the “Credit Agreement”) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent, Swing Line Lender and Issuing Lender (“KeyBank”). The Credit Agreement is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. At December 31, 2018, we were in compliance with all loan requirements of the Credit Agreement and had $102.0 million of outstanding borrowings under this facility.

We repaid $173.0 million, net, of long-term debt outstanding under our credit agreement in 2018, primarily using funds we repatriated from our foreign subsidiaries, resulting in a remaining outstanding debt balance of $102.0 million. Our 2019 interest expense will vary based on our usage of the credit facility and market interest rates.

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

Our credit agreement had an average daily utilization of $106.2 million, $268.8 million and $222.6 million during the years ended December 31, 2018, 2017 and 2016, respectively. During the years ended December 31, 2018, 2017, and 2016, the related interest expense, including the commitment fee and excluding the amortization of deferred loan fees, was $3.8 million, $6.7 million and $4.0 million, respectively, which represented weighted average interest rates of 3.6%, 2.5% and 1.8%, respectively.

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

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

On February 14, 2019, we entered into a $500 million revolving credit facility, which replaced our prior $440 million revolving credit facility. The prior $440 million agreement was terminated simultaneously upon execution of the new agreement. Our new revolving credit facility will mature on February 14, 2024 includes a $200 million alternate-currency sub-facility, a $15 million swingline sub-facility and a $15 million letter of credit sub-facility, and has terms that are substantially similar to our $440 million revolving credit facility.

We received assessments for the Canadian 2003-2009 audit. Requests for Competent Authority Assistance were filed with both the Canadian Revenue Agency and the U.S. Internal Revenue Service and we paid mandatory security deposits to Canada as part of this process of approximately $13.8 million. As of June 30, 2017, we determined that all material aspects of the Canadian audit were effectively settled pursuant to ASC 740, Income Taxes. As a result, we recognized an income tax benefit of $1.2 million, net of the U.S. tax impact, and the deposits were netted against the anticipated liability at that time. During the year ended December 31, 2018, we finalized procedures ancillary to the Canadian audit and recognized an additional $2.8 million income tax benefit due to the elimination of certain penalties, interest and assessed withholding taxes.

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

The 2017 Tax Reform Act provides for a one-time transition tax based on our undistributed foreign earnings on which we previously had deferred U.S. income taxes. We recorded a $28.3 million provisional liability in 2017, which was net of $5.0 million of available tax credits, for our one-time transition tax. As of December 31, 2018 and 2017, $2.0 million and $3.8 million, respectively, of the liability was included in “Income taxes payable” in the accompanying Consolidated Balance Sheets. As of December 31, 2018 and 2017, $20.4 million and $24.5 million, respectively, of the long-term liability were included in “Long-term income tax liabilities” in the accompanying Consolidated Balance Sheets. This transition tax liability will be paid in yearly installments until 2025. We provide U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. 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 Symphony acquisition on November 1, 2018, a portion of the purchase price, with present value of GBP 7.9 million or $10.0 million, has been deferred and will be paid in equal installments over the next three years.

As of December 31, 2018, we had $128.7 million in cash and cash equivalents, of which approximately 89.9%, or $115.7 million, was held in international operations. As a result of the 2017 Tax Reform Act, most of these funds will not be subject to additional taxes if repatriated to the United States. There are circumstances where we may be unable to repatriate some of the cash and cash equivalents held by our international operations due to country restrictions.

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

Our cash resources could also be affected by various risks and uncertainties, including but not limited to, the risks detailed in Item 1A, Risk Factors.

Off-Balance Sheet Arrangements and Other

At December 31, 2018, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct and (ii) indemnities involving breach of contract, the accuracy of representations and warranties, or other liabilities assumed by us in certain contracts. In addition, we have agreements whereby we will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer’s or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Consolidated Balance Sheets. In addition, we have some client contracts that do not contain contractual provisions for the limitation of liability, and other client contracts that contain agreed upon exceptions to limitation of liability. We have not recorded any liability in the accompanying Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

Contractual Obligations

The following table summarizes our contractual cash obligations at December 31, 2018, and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

	Payments Due By Period					
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	Other
Operating leases (1),(2)	$253,267	$53,071	$92,094	$56,646	$51,456	$—
Purchase obligations (3)	81,351	61,281	18,524	1,546	—	—
Accounts payable (4)	26,923	26,923	—	—	—	—
Accrued employee compensation and benefits (4)	95,813	95,813	—	—	—	—
Income taxes payable (5)	1,433	1,433	—	—	—	—
Other accrued expenses and current liabilities (6)	31,111	31,111	—	—	—	—
Long-term debt (7)	102,000	—	102,000	—	—	—
Long-term income tax liabilities (8)	23,787	—	3,895	5,599	10,954	3,339
Other long-term liabilities (9)	17,112	—	13,342	438	3,332	—
	$632,797	$269,632	$229,855	$64,229	$65,742	$3,339

(1) Amounts represent the expected cash payments under our operating leases.
(2) As of December 31, 2018, we subleased three of our operating leases. Future contractual sublease income of $1.8 million, $3.7 million, $2.7 million and $2.8 million is expected in the periods of less than one year, one to three years, three to five years, and after five years, respectively.
(3) Amounts represent the expected cash payments under our purchase obligations, which include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.
(4) Accounts payable and accrued employee compensation and benefits, which represent amounts due to vendors and employees payable within one year.
(5) Income taxes payable, which represents amounts due to taxing authorities payable within one year.
(6) Other accrued expenses and current liabilities, which excludes deferred grants, include amounts primarily related to restructuring costs, legal and professional fees, telephone charges, rent, derivative contracts and other accruals.
(7) Amount represents total outstanding borrowings. We entered into a $500 million revolving credit facility on February 14, 2019 that matures in February 2024, which simultaneously replaced and terminated the Company's $440 million revolving credit facility. See Note 18, Borrowings, to the accompanying Consolidated Financial Statements.
(8) Long-term income tax liabilities include amounts owed in annual installments through 2025 related to our deemed repatriation under the 2017 Tax Reform Act, as well as uncertain tax positions and related penalties and interest as discussed in Note 20, Income Taxes, to the accompanying Consolidated Financial Statements. We cannot make reasonably reliable estimates of the cash settlement of $3.3 million of uncertain tax positions with the taxing authority; therefore, amounts have been excluded from payments due by period.
(9)

Other long-term liabilities, which excludes deferred income taxes and other non-cash long-term liabilities. See Note 23, Defined Benefit Pension Plan and Postretirement Benefits, to the accompanying Consolidated Financial Statements.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires estimations and assumptions that affect the reported amounts of assets and liabilities and the 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. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of our financial condition and operating results. Unless we need to clarify a point to readers, we will refrain from citing specific section references when discussing the application of accounting principles or addressing new or pending accounting rule changes.

Recognition of Revenues

We recognize revenue in accordance with ASC 606, Revenue Recognition. We primarily recognize revenues from services over time using output methods such as a per minute, per hour, per call, per transaction or per time and material basis, since our customers simultaneously receive and consume the benefits of our services as they are delivered. Our customer contracts include penalty and holdback provisions for failure to meet specified minimum service levels and other performance-based contingencies, as well as the right of certain of our clients to chargeback accounts that do not meet certain requirements for specified periods after a sale has occurred. Certain customers also receive cash discounts for early payment. These provisions are accounted for as variable consideration and are estimated using the expected value method based on historical service and pricing trends for the past six months, the individual contract provisions, and our best judgment at the time. Since we maintain a large portfolio of contracts with similar billing structures and characteristics, and the nature of these provisions can result in numerous potential outcomes, the expected value method provides a more accurate assessment of the consideration to which we are entitled. We utilize a rolling six-month historical servicing and pricing trend data in order to reduce the likelihood of a significant revenue reversal in the future since the majority of our customer contracts include termination for convenience or without cause provisions allowing either party to cancel within a defined notification period, typically up to 180 days.

Income Taxes

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies. Establishment or reversal of certain valuation allowances may have a significant impact on both current and future results. The recoverability of a net deferred tax asset is dependent upon future profitability, estimates of future taxable income and any applicable tax-planning strategies, within each taxing jurisdiction.

As of December 31, 2018, we determined that a total valuation allowance of $32.3 million was necessary to reduce U.S. deferred tax assets by $0.9 million and foreign deferred tax assets by $31.4 million, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. The recoverability of the remaining net deferred tax asset of $1.9 million as of December 31, 2018 is dependent upon future profitability within each tax jurisdiction. As of December 31, 2018, based on our estimates of future taxable income and any applicable tax-planning strategies within various tax jurisdictions, we believe that it is more likely than not that the remaining net deferred tax assets will be realized.

On December 22, 2017, the 2017 Tax Reform Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are 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. We have estimated our provision for income taxes in accordance with the 2017 Tax Reform Act and guidance available as of the date of this filing and as a result have recorded $32.7 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The $32.7 million estimate includes the provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings of $32.7 million based on cumulative foreign earnings of $531.8 million and $1.0 million of foreign withholding taxes on certain anticipated distributions. The provisional tax expense was partially offset by a provisional benefit of $1.0 million related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future.

The Company provides U.S. income taxes on the earnings of foreign subsidiaries unless they are exempted from taxation as a result of the new territorial tax system. No additional income taxes have been provided for any remaining outside basis difference inherent in these entities 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 we operate.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Reform Act. In accordance with SAB 118, we have determined that the deferred tax expense recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a reasonable estimate at December 31, 2017. The Company recorded a $0.2 million decrease to the provision for income tax during the year ended December 31, 2018 upon finalizing the impact of the 2017 Tax Reform Act.

We evaluate tax positions that have been taken or are expected to be taken in our tax returns, and record a liability for uncertain tax positions in accordance with ASC 740. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

As of December 31, 2018, we had $2.7 million of unrecognized tax benefits, a net increase of $1.4 million from $1.3 million as of December 31, 2017. Had we recognized these tax benefits, approximately $2.7 million and $1.3 million, along with the related interest and penalties, would have favorably impacted the effective tax rate in 2018 and 2017, respectively. We do not anticipate that any of the unrecognized tax benefits will be recognized in the next twelve months.

Our provision for income taxes is subject to volatility and is impacted by the distribution of earnings in the various domestic and international jurisdictions in which we operate. Our effective tax rate could be impacted by earnings being either proportionally lower or higher in foreign countries with tax rates different from the U.S. tax rates. In addition, we have been granted tax holidays in several foreign tax jurisdictions, which have various expiration dates ranging from 2019 through 2028. If we are unable to renew a tax holiday in any of these jurisdictions, our effective tax rate could be adversely impacted. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will permit a renewal. The tax holidays decreased the provision for income taxes by $4.0 million, $3.0 million and $3.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our effective tax rate could also be affected by several additional factors, including changes in the valuation of our deferred tax assets or liabilities, changing legislation, regulations, and court interpretations that impact tax law in multiple tax jurisdictions in which we operate, as well as new requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations.

Purchase Accounting

Our financial statements include the operations of an acquired business starting from the completion of the acquisition. In addition, the assets acquired and liabilities assumed are recorded on the date of acquisition at their respective estimated fair values, with any excess of the purchase price over the estimated fair values of the net assets acquired recorded as goodwill.

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. Accordingly, we typically obtain the assistance of third-party valuation specialists for significant items. The fair value estimates are based on available historical information and on future expectations and assumptions deemed reasonable by management but are inherently uncertain. We consider the income, market and cost approaches and place reliance on the approach or approaches deemed most indicative of value to estimate the fair value of intangible assets. Significant estimates and assumptions inherent in the valuations reflect a consideration of other marketplace participants and include the amount and timing of future cash flows (including expected growth rates and profitability), the underlying demand, technology life cycles, the economic barriers to entry and the discount rate applied to the cash flows. Unanticipated market or macroeconomic events and circumstances may occur that could affect the accuracy or validity of the estimates and assumptions.

Determining the useful life of an intangible asset also requires judgment. With the exception of domain names, the majority of our acquired intangible assets (e.g., customer relationships, trade names and trademarks) are expected to have determinable useful lives. Our assessment as to the useful lives of these intangible assets is based on a number of factors including competitive environment, market share, trademark, brand history, underlying demand, operating plans and the macroeconomic environment of the countries in which the services are provided. Finite-lived intangible assets are amortized over their estimated useful life.

Goodwill, Intangibles and Long-Lived Assets

The value of indefinite-lived intangible assets and goodwill is not amortized but is tested at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We perform our annual impairment test on July 31st of each year. To assess the realizability of goodwill, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. We may elect to forgo this option and proceed to the quantitative goodwill impairment test.

If we elect to perform the qualitative assessment and it indicates that a significant decline to fair value of a reporting unit is more likely than not, or if a reporting unit’s fair value has historically been closer to its carrying value, or we elect to forgo this qualitative assessment, we will proceed to the quantitative goodwill impairment test where we calculate the fair value of a reporting unit based on discounted future probability-weighted cash flows. If the quantitative goodwill impairment test indicates that the carrying value of a reporting unit is in excess of its fair value, we will recognize an impairment loss 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.

We test indefinite-lived intangibles by reviewing the book values compared to the fair value. We determine the fair value of our reporting units and indefinite-lived intangible assets based on the income and market approaches. We calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows.

We estimate fair value using discounted cash flows of the reporting units. The most significant assumptions used in these analyses are those made in estimating future cash flows. In estimating future cash flows, we use financial assumptions in our internal forecasting model such as projected capacity utilization, projected changes in the prices we charge for our services, projected labor costs, projected foreign currency exchange rates, as well as contract negotiation status. The financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate. We use a discount rate we consider appropriate for the country where the services are being provided. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows to measure fair value. If actual results differ substantially from the assumptions used in performing the impairment test, the fair value of the reporting units may be significantly lower, causing the carrying value to exceed the fair value and indicating an impairment has occurred.

We did not recognize any impairment charges for goodwill in the years presented, as our annual impairment testing indicated that all reporting unit goodwill fair values exceeded their respective carrying values. Future changes in the judgments, assumptions and estimates that are used in our impairment testing for goodwill and indefinite-lived intangible assets, including discount and tax rates and future cash flow projections, could result in significantly different estimates of the fair values. A significant reduction in the estimated fair values could result in impairment charges that could materially affect our results of operations.

We evaluate the carrying value of our other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows, which is at the individual asset level or the asset group level. An asset is considered to be impaired when the forecasted undiscounted cash flows are estimated to be less than its carrying value. The amount of impairment recognized is the difference between the carrying value of the asset or asset group and its fair value, which is determined by an appropriate market appraisal or other valuation technique. Undiscounted cash flows are based on assumptions concerning the amount and timing of estimated future cash flows. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future. Assets classified as held-for-sale, if any, are recorded at the lower of carrying value or fair value less costs to sell.

New Accounting Standards Not Yet Adopted

See Note 1, Overview and Summary of Significant Accounting Policies, of the accompanying "Notes to Consolidated Financial Statements" for information related to recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in certain earnings and cash flows caused by volatility in foreign currency exchange ("FX") rates. We also utilize derivative contracts to hedge intercompany receivables and payables that are denominated in a foreign currency and to hedge net investments in foreign operations.

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

In order to hedge a portion of our anticipated revenues denominated in USD, we had outstanding forward contracts and options as of December 31, 2018 with counterparties through December 2019 with notional amounts totaling $132.3 million. As of December 31, 2018, we had net total derivative liabilities associated with these contracts with a fair value of $1.6 million. If the USD was to weaken against the PHP and CRC by 10% from current period-end levels, we would incur a loss of approximately $11.1 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 December 31, 2018 with notional amounts totaling $19.3 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 December 31, 2018, the fair value of these derivatives was a net liability of $0.3 million. The potential loss in fair value at December 31, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately $1.2 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We had embedded derivative contracts with notional amounts totaling $14.1 million that are not designated as hedges. As of December 31, 2018, the fair value of these derivatives was a net liability of $0.4 million. The potential loss in fair value at December 31, 2018, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately $2.2 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 December 31, 2018, we had $102.0 million in borrowings outstanding under the revolving credit facility. Based on our level of variable rate debt outstanding during the year ended December 31, 2018, a 1.0% increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would have had an impact of $1.1 million on our results of operations.

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

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are located beginning on page 54 and page 34 of this report, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, we used the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management believes that, as of December 31, 2018, our internal control over financial reporting was effective.

We acquired WhistleOut Pty Ltd and WhistleOut Inc. (together, "WhistleOut") on July 9, 2018 and Symphony Ventures Ltd ("Symphony") on November 1, 2018. See Note 3, Acquisitions, of "Notes to Consolidated Financial Statements" for additional information. As permitted by the Securities and Exchange Commission, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition and management elected to exclude WhistleOut and Symphony (collectively, the "Excluded Acquisitions") from its assessment of internal control over financial reporting as of December 31, 2018. The aggregate assets and revenues of the Excluded Acquisitions constituted 8.7% and 0.9% of the Company's consolidated total assets and revenues as of and for the year ended December 31, 2018, respectively.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except for the change discussed under "Changes to Internal Control Over Financial Reporting" below.

Attestation Report of Independent Registered Public Accounting Firm

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on page 46.

Changes to Internal Control Over Financial Reporting

We have excluded WhistleOut and Symphony from our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. We have completed certain integration activities and both WhistleOut and Symphony have designed internal controls over financial reporting. Management will continue to assess the control environment.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Sykes Enterprises, Incorporated

Tampa, Florida

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and schedule as of and for the year ended December 31, 2018 of the Company and our report dated February 26, 2019 expressed an unqualified opinion on those financial statements and schedule.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at WhistleOut Pty Ltd, WhistleOut Inc. and Symphony Ventures Ltd (collectively, the “Excluded Acquisitions”) which were acquired during the year ended December 31, 2018, and whose financial statements constitute 8.7% of total assets and 0.9% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting of the Excluded Acquisitions.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Tampa, Florida

February 26, 2019

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item, with the exception of information on Executive Officers which appears in this report in Item 1 under the caption “Executive Officers,” will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018 and is incorporated herein by reference.

Our Board of Directors has adopted a code of ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The full text of our code of ethics is posted on the investor relations page on our website which is located at http://investor.sykes.com under the heading “Documents & Charters” of the “Corporate Governance” section. We will post any amendments to our code of ethics, or waivers of its requirements, on our website.

Item 11. Executive Compensation

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

Consolidated Financial Statements

The Index to Consolidated Financial Statements is set forth on page 54 of this report.

Financial Statements Schedule

Schedule II — Valuation and Qualifying Accounts is set forth on page 115 of this report.

Other schedules have been omitted because they are not required or applicable or the information is included in the Consolidated Financial Statements or notes thereto.

Exhibits:

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger, dated as of March 6, 2016, by and among Sykes Enterprises, Incorporated, Sykes Acquisition Corporation II, Inc., Clear Link Holdings, LLC, and Pamlico Capital Management, L.P. (Incorporated herein by reference from Exhibit 2.1 to Form 8-K filed on March 8, 2016.)
3.1	Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.1 to Form S-3, Registration No. 333-38513, filed on October 23, 1997.)
3.2	Articles of Amendment to Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.2 to Form 10-K filed on March 29, 1999.)
3.3	Bylaws of Sykes Enterprises, Incorporated, as amended. (Incorporated herein by reference from Exhibit 3.3 to Form 10-K filed on March 23, 2005.)
3.4	Amendment to Bylaws of Sykes Enterprises, Incorporated. (Incorporated herein by reference from Exhibit 3.1 to Form 8-K filed on March 24, 2014.)
4.1 (P)	Specimen certificate for the Common Stock of Sykes Enterprises, Incorporated. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.1 (P)*	Form of Split Dollar Plan Documents. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.2 (P)*	Form of Split Dollar Agreement. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)
10.3 (P)	

Form of Indemnity Agreement between Sykes Enterprises, Incorporated and directors & executive officers. (Incorporated herein by reference from exhibit to Form S-1, Registration No. 333-2324.)

10.4 * 2001 Equity Incentive Plan. (Incorporated herein by reference from Exhibit 10.32 to Form 10-Q filed on May 7, 2001.)

10.5 * Form of Restricted Share And Stock Appreciation Right Award Agreement dated as of March 29, 2006. (Incorporated herein by reference from Exhibit 99.1 to Form 8-K filed on April 4, 2006.)