

SYKES ENTERPRISES INC

Form 10-Q

November 03, 2009

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

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

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-28274**

**Sykes Enterprises, Incorporated**  
(Exact name of Registrant as specified in its charter)

**Florida**  
(State or other jurisdiction of incorporation or  
organization)

**56-1383460**  
(IRS Employer Identification No.)

**400 North Ashley Drive, Tampa, FL 33602**  
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes ☒ No ☐

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

Yes ☐ No ☐

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

|                            |                                                          |                                                   |                                                       |
|----------------------------|----------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------|
| Large<br>accelerated filer | Accelerated filer<br><input checked="" type="checkbox"/> | Non-accelerated filer<br><input type="checkbox"/> | Smaller reporting company<br><input type="checkbox"/> |
|----------------------------|----------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------|

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

As of October 22, 2009, there were 41,366,049 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1 Financial Statements**

**Sykes Enterprises, Incorporated and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

| <i>(in thousands, except per share data)</i>                                                  | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|-----------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Assets</b>                                                                                 |                               |                              |
| Current assets:                                                                               |                               |                              |
| Cash and cash equivalents                                                                     | \$ 270,638                    | \$ 219,050                   |
| Receivables, net                                                                              | 178,985                       | 157,067                      |
| Prepaid expenses                                                                              | 10,375                        | 7,084                        |
| Other current assets                                                                          | 12,094                        | 13,317                       |
| Total current assets                                                                          | 472,092                       | 396,518                      |
| Property and equipment, net                                                                   | 80,680                        | 80,390                       |
| Goodwill                                                                                      | 21,120                        | 23,191                       |
| Intangibles, net                                                                              | 2,308                         | 4,586                        |
| Deferred charges and other assets                                                             | 26,249                        | 24,857                       |
|                                                                                               | \$ 602,449                    | \$ 529,542                   |
| <b>Liabilities and Shareholders' Equity</b>                                                   |                               |                              |
| Current liabilities:                                                                          |                               |                              |
| Accounts payable                                                                              | \$ 20,105                     | \$ 26,419                    |
| Accrued employee compensation and benefits                                                    | 55,944                        | 47,194                       |
| Income taxes payable                                                                          | 4,049                         | 4,485                        |
| Deferred revenue                                                                              | 33,064                        | 26,955                       |
| Other accrued expenses and current liabilities                                                | 16,295                        | 21,057                       |
| Total current liabilities                                                                     | 129,457                       | 126,110                      |
| Deferred grants                                                                               | 11,539                        | 9,340                        |
| Long-term income tax liabilities                                                              | 5,104                         | 5,077                        |
| Other long-term liabilities                                                                   | 4,814                         | 4,985                        |
| Total liabilities                                                                             | 150,914                       | 145,512                      |
| Commitments and loss contingency (Note 14)                                                    |                               |                              |
| Shareholders' equity:                                                                         |                               |                              |
| Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued and outstanding |                               |                              |
| Common stock, \$0.01 par value, 200,000 shares authorized; 41,635 and 41,271 shares issued    | 416                           | 413                          |
| Additional paid-in capital                                                                    | 163,124                       | 158,216                      |
| Retained earnings                                                                             | 285,088                       | 237,188                      |

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|                                                  |                   |                   |
|--------------------------------------------------|-------------------|-------------------|
| Accumulated other comprehensive income (loss)    | <b>7,367</b>      | (10,683)          |
| Treasury stock at cost: 329 shares and 96 shares | <b>(4,460)</b>    | (1,104)           |
| Total shareholders' equity                       | <b>451,535</b>    | 384,030           |
|                                                  | <b>\$ 602,449</b> | <b>\$ 529,542</b> |

See accompanying notes to condensed consolidated financial statements.

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Table of Contents**Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Statements of Operations**

(Unaudited)

| <i>(in thousands, except per share data)</i> | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                              | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Revenues                                     | <b>\$ 213,494</b>                           | \$ 207,066  | <b>\$ 625,574</b>                          | \$ 618,416  |
| Operating expenses:                          |                                             |             |                                            |             |
| Direct salaries and related costs            | <b>134,429</b>                              | 130,509     | <b>398,409</b>                             | 395,197     |
| General and administrative                   | <b>58,047</b>                               | 57,304      | <b>170,011</b>                             | 171,083     |
| Impairment loss on goodwill and intangibles  | <b>324</b>                                  |             | <b>1,908</b>                               |             |
| Total operating expenses                     | <b>192,800</b>                              | 187,813     | <b>570,328</b>                             | 566,280     |
| Income from operations                       | <b>20,694</b>                               | 19,253      | <b>55,246</b>                              | 52,136      |
| Other income (expense):                      |                                             |             |                                            |             |
| Interest income                              | <b>495</b>                                  | 1,274       | <b>1,951</b>                               | 4,354       |
| Interest (expense)                           | <b>(138)</b>                                | (47)        | <b>(490)</b>                               | (274)       |
| Impairment (loss) on investment in SHPS      |                                             |             | <b>(2,089)</b>                             |             |
| Other income                                 | <b>119</b>                                  | 2,737       | <b>1,214</b>                               | 7,001       |
| Total other income (expense)                 | <b>476</b>                                  | 3,964       | <b>586</b>                                 | 11,081      |
| Income before provision for income taxes     | <b>21,170</b>                               | 23,217      | <b>55,832</b>                              | 63,217      |
| Provision for income taxes                   | <b>2,388</b>                                | 3,725       | <b>7,932</b>                               | 10,286      |
| Net income                                   | <b>\$ 18,782</b>                            | \$ 19,492   | <b>\$ 47,900</b>                           | \$ 52,931   |
| Net income per share:                        |                                             |             |                                            |             |
| Basic                                        | <b>\$ 0.46</b>                              | \$ 0.48     | <b>\$ 1.18</b>                             | \$ 1.30     |
| Diluted                                      | <b>\$ 0.46</b>                              | \$ 0.47     | <b>\$ 1.17</b>                             | \$ 1.29     |
| Weighted average shares:                     |                                             |             |                                            |             |
| Basic                                        | <b>40,743</b>                               | 40,678      | <b>40,662</b>                              | 40,590      |
| Diluted                                      | <b>41,097</b>                               | 41,070      | <b>41,011</b>                              | 40,928      |

See accompanying notes to condensed consolidated financial statements.



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**Condensed Consolidated Statements of Changes in Shareholders' Equity**  
**Nine months Ended September 30, 2008, Three months Ended December 31, 2008 and**  
**Nine months Ended September 30, 2009**  
(Unaudited)

|                                                                        | <b>Common Stock</b> |               | <b>Additional</b> |                 | <b>Accumulated</b>   |                 |              |
|------------------------------------------------------------------------|---------------------|---------------|-------------------|-----------------|----------------------|-----------------|--------------|
|                                                                        | <b>Shares</b>       |               | <b>Paid-in</b>    | <b>Retained</b> | <b>Other</b>         | <b>Treasury</b> |              |
| <i>(In thousands)</i>                                                  | <b>Issued</b>       | <b>Amount</b> | <b>Capital</b>    | <b>Earnings</b> | <b>Comprehensive</b> | <b>Stock</b>    | <b>Total</b> |
|                                                                        |                     |               |                   |                 | <b>Income</b>        |                 |              |
|                                                                        |                     |               |                   |                 | <b>(Loss)</b>        |                 |              |
| <b>Balance at January 1, 2008</b>                                      | 45,537              | \$ 455        | \$ 184,184        | \$ 195,203      | \$ 37,457            | \$ (51,978)     | \$ 365,321   |
| Adjustment upon adoption of ASC 715-60                                 |                     |               |                   | (482)           |                      |                 | (482)        |
| Issuance of common stock                                               | 105                 | 1             | 1,173             |                 |                      |                 | 1,174        |
| Stock-based compensation expense                                       |                     |               | 3,554             |                 |                      |                 | 3,554        |
| Excess tax benefit from stock-based compensation                       |                     |               | 688               |                 |                      |                 | 688          |
| Issuance of common stock and restricted stock under equity award plans | 233                 | 3             | 93                |                 |                      | (132)           | (36)         |
| Retirement of treasury stock                                           | (4,644)             | (46)          | (33,346)          | (18,094)        |                      | 51,486          |              |
| Issuance of common stock for business acquisition                      | 37                  |               | 676               |                 |                      |                 | 676          |
| Comprehensive income (loss)                                            |                     |               |                   | 52,931          | (35,340)             |                 | 17,591       |
| <b>Balance at September 30, 2008</b>                                   | 41,268              | 413           | 157,022           | 229,558         | 2,117                | (624)           | 388,486      |
| Stock-based compensation expense                                       |                     |               | 1,202             |                 |                      |                 | 1,202        |
| Excess tax benefit from stock-based compensation                       |                     |               | 24                |                 |                      |                 | 24           |
|                                                                        | 3                   |               | (32)              |                 |                      | 32              |              |

|                                                                        |               |               |                   |                   |                 |                   |                   |
|------------------------------------------------------------------------|---------------|---------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| Issuance of common stock and restricted stock under equity award plans |               |               |                   |                   |                 |                   |                   |
| Repurchase of common stock                                             |               |               |                   |                   |                 | (512)             | (512)             |
| Comprehensive income (loss)                                            |               |               |                   | 7,630             | (12,800)        |                   | (5,170)           |
| <b>Balance at December 31, 2008</b>                                    | <b>41,271</b> | <b>413</b>    | <b>158,216</b>    | <b>237,188</b>    | <b>(10,683)</b> | <b>(1,104)</b>    | <b>384,030</b>    |
| Issuance of common stock                                               | <b>112</b>    | <b>1</b>      | <b>1,599</b>      |                   |                 |                   | <b>1,600</b>      |
| Stock-based compensation expense                                       |               |               | <b>3,981</b>      |                   |                 |                   | <b>3,981</b>      |
| Excess tax benefit from stock-based compensation                       |               |               | <b>247</b>        |                   |                 |                   | <b>247</b>        |
| Issuance of common stock and restricted stock under equity award plans | <b>252</b>    | <b>2</b>      | <b>(919)</b>      |                   |                 | <b>(163)</b>      | <b>(1,080)</b>    |
| Repurchase of common stock                                             |               |               |                   |                   |                 | <b>(3,193)</b>    | <b>(3,193)</b>    |
| Comprehensive income                                                   |               |               |                   | <b>47,900</b>     | <b>18,050</b>   |                   | <b>65,950</b>     |
| <b>Balance at September 30, 2009</b>                                   | <b>41,635</b> | <b>\$ 416</b> | <b>\$ 163,124</b> | <b>\$ 285,088</b> | <b>\$ 7,367</b> | <b>\$ (4,460)</b> | <b>\$ 451,535</b> |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Statements of Cash Flows  
Nine months ended September 30, 2009 and 2008  
(Unaudited)**

| <i>(in thousands)</i>                                           | <b>2009</b>   | <b>2008</b>   |
|-----------------------------------------------------------------|---------------|---------------|
| <b>Cash flows from operating activities:</b>                    |               |               |
| Net income                                                      | \$ 47,900     | \$ 52,931     |
| Depreciation and amortization, net                              | 20,917        | 21,125        |
| Impairment losses                                               | 3,997         |               |
| Unrealized foreign currency transaction (gains), net            | (2,632)       | (6,524)       |
| Stock-based compensation expense                                | 3,981         | 3,554         |
| Excess tax benefit from stock-based compensation                | (247)         | (688)         |
| Deferred income tax provision (benefit)                         | (2,015)       | 219           |
| Net loss on disposal of property and equipment                  | 129           |               |
| Bad debt expense                                                | 1,147         | 457           |
| Write down of value added tax credit receivables                | 414           | 482           |
| Unrealized loss on financial instruments, net                   | 973           | 1,108         |
| Amortization of discount on short-term investments              |               | (173)         |
| Amortization of actuarial gains on pension                      | (46)          | (49)          |
| Foreign exchange (gain) loss on liquidation of foreign entities | (5)           | 3             |
| Release of valuation allowance on deferred tax assets           | (2,285)       | (6,121)       |
| Amortization of unrealized (gain) on post retirement obligation | (28)          |               |
| Changes in assets and liabilities:                              |               |               |
| Receivables                                                     | (19,488)      | (17,679)      |
| Prepaid expenses                                                | (2,582)       | (2,455)       |
| Other current assets                                            | (1,203)       | 369           |
| Deferred charges and other assets                               | (809)         | (759)         |
| Accounts payable                                                | (3,173)       | 1,789         |
| Income taxes receivable / payable                               | 2,993         | 1,600         |
| Accrued employee compensation and benefits                      | 7,564         | 3,984         |
| Other accrued expenses and current liabilities                  | 1,711         | 128           |
| Deferred revenue                                                | 2,662         | 2,379         |
| Other long-term liabilities                                     | (41)          | 750           |
| Net cash provided by operating activities                       | <b>59,834</b> | <b>56,430</b> |
| <b>Cash flows from investing activities:</b>                    |               |               |
| Capital expenditures                                            | (23,207)      | (25,730)      |
| Cash paid for business acquisitions, net of cash acquired       |               | (2,400)       |
| Proceeds from sale of property and equipment                    | 170           | 167           |
| Sale of short-term investments                                  |               | 17,535        |
| Investment in restricted cash                                   |               | (997)         |
| Proceeds from release of restricted cash                        | 839           | 855           |
| Other                                                           |               | (130)         |

|                                          |          |          |
|------------------------------------------|----------|----------|
| Net cash (used for) investing activities | (22,198) | (10,700) |
|------------------------------------------|----------|----------|

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

(continued)

| <i>(in thousands)</i>                                                                          | <b>2009</b>       | <b>2008</b> |
|------------------------------------------------------------------------------------------------|-------------------|-------------|
| <b>Cash flows from financing activities:</b>                                                   |                   |             |
| Proceeds from issuance of stock                                                                | <b>1,600</b>      | 1,174       |
| Excess tax benefit from stock-based compensation                                               | <b>247</b>        | 688         |
| Cash paid for repurchase of common stock                                                       | <b>(3,193)</b>    |             |
| Proceeds from grants                                                                           | <b>3,491</b>      |             |
| Shares repurchased for minimum tax withholding on restricted stock                             | <b>(1,080)</b>    |             |
| Net cash provided by financing activities                                                      | <b>1,065</b>      | 1,862       |
| <b>Effects of exchange rates on cash</b>                                                       | <b>12,887</b>     | (5,223)     |
| <b>Net increase in cash and cash equivalents</b>                                               | <b>51,588</b>     | 42,369      |
| Cash and cash equivalents    beginning                                                         | <b>219,050</b>    | 177,682     |
| Cash and cash equivalents    ending                                                            | <b>\$ 270,638</b> | \$ 220,051  |
| <b>Supplemental disclosures of cash flow information:</b>                                      |                   |             |
| Cash paid during period for interest                                                           | <b>\$ 752</b>     | \$ 277      |
| Cash paid during period for income taxes                                                       | <b>\$ 11,522</b>  | \$ 13,702   |
| <b>Non-cash transactions:</b>                                                                  |                   |             |
| Property and equipment additions in accounts payable                                           | <b>\$ 2,035</b>   | \$ 2,562    |
| Unrealized gain on post retirement obligation in accumulated other comprehensive income (loss) | <b>\$ 342</b>     | \$          |
| Issuance of common stock for business acquisition                                              | <b>\$</b>         | \$ 676      |
| See accompanying notes to condensed consolidated financial statements                          |                   |             |

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**Sykes Enterprises, Incorporated and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**Nine months ended September 30, 2009 and 2008**

(Unaudited)

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

**Note 1 Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( generally accepted accounting principles ) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission ( SEC ). Subsequent events have been evaluated through the date and time the condensed consolidated financial statements were issued on November 3, 2009. See Note 16 Subsequent Event.

**Recognition of Revenue** Revenue is recognized pursuant to Accounting Standards Codification ( ASC ) 605 *Revenue Recognition*. The Company primarily recognizes its revenue from services as those services are performed, which is based on either a per minute, per call or per transaction basis, under a fully executed contractual agreement and records reductions to revenue for contractual penalties and holdbacks for failure to meet specified minimum service levels and other performance based contingencies. Revenue recognition is limited to the amount that is not contingent upon delivery of any future product or service or meeting other specified performance conditions. Product sales, accounted for within fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

In accordance with ASC 605-25, *Revenue Recognition- Multiple-Element Arrangements* , revenue from contracts with multiple-deliverables is allocated to separate units of accounting based on their relative fair value, if the deliverables in the contract(s) meet the criteria for such treatment. Certain fulfillment services contracts contain multiple-deliverables. Additionally, the Company had a contract containing multiple-deliverables for customer contact management services and fulfillment services that ended during 2008. Separation criteria included whether a delivered item has value to the customer on a standalone basis, whether there is objective and reliable evidence of the fair value of the undelivered items and, if the arrangement includes a general right of return related to a delivered item, whether delivery of the undelivered item is considered probable and in the Company s control. Fair value is the price of a deliverable when it is regularly sold on a standalone basis, which generally consists of vendor-specific objective

evidence of fair value. If there is no evidence of the fair value for a delivered product or service, revenue is allocated first to the fair value of the undelivered product or service and then the residual revenue is allocated to the delivered product or service. If there is no evidence of the fair value for an undelivered product or service, the contract(s) is accounted for as a single unit of accounting, resulting in delay of revenue recognition for the delivered

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**Sykes Enterprises, Incorporated and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**Nine months ended September 30, 2009 and 2008**

(Unaudited)

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

**Recognition of Revenue (continued)**

product or service until the undelivered product or service portion of the contract is complete. The Company recognizes revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding client acceptance are resolved, and there are no client-negotiated refund or return rights affecting the revenue recognized for delivered elements. Once the Company determines the allocation of revenue between deliverable elements, there are no further changes in the revenue allocation. If the separation criteria are met, revenue from these services is recognized as the services are performed under a fully executed contractual agreement. If the separation criteria are not met because there is insufficient evidence to determine fair value of one of the deliverables, all of the services are accounted for as a single combined unit of accounting. For these deliverables with insufficient evidence to determine fair value, revenue is recognized on the proportional performance method using the straight-line basis over the contract period, or the actual number of operational seats used to serve the client, as appropriate.

**Property and Equipment** The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360 *Property, Plant and Equipment*. For purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable cash flows (the reporting unit). An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets. The Company determined that its property and equipment was not impaired as of September 30, 2009.

**Investment in SHPS** The Company held a noncontrolling interest in SHPS, Inc. ( SHPS ), which was accounted for at cost of approximately \$2.1 million as of December 31, 2008 and was included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet. In June 2009, the Company received notice from SHPS that the shareholders of SHPS had approved a merger agreement between SHPS and SHPS Acquisition, Inc., pursuant to which the common stock of SHPS, including the common stock owned by the Company, would be converted into the right to receive \$0.000001 per share in cash. SHPS informed the Company that it believed the estimated fair value of the SHPS common stock to be equal to such per share amount. As a result of this transaction and evaluation of the Company's legal options, the Company believed it was more likely than not that it would not be able to recover the \$2.1 million carrying value of the investment in SHPS. Therefore, due to the decline in value that is other than temporary, management recorded a non-cash impairment loss of \$2.1 million included in Impairment loss on investment in SHPS during the second quarter ended June 30, 2009. Subsequent to the recording of the impairment loss, the Company liquidated its noncontrolling interest in SHPS by converting its SHPS common stock into cash for \$0.000001 per share during the three months ended September 30, 2009. See Note 2 for further information.

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(Unaudited)

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

**Goodwill** - The Company accounts for goodwill and other intangible assets under ASC 350 ( *ASC 350* ) *Intangibles Goodwill and Other*. Goodwill and other intangible assets with indefinite lives are not subject to amortization, but instead must be reviewed at least annually, and more frequently in the presence of certain circumstances, for impairment by applying a fair value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values as appropriate. Under ASC 350, the carrying value of assets is calculated at the lowest levels for which there are identifiable cash flows (the reporting unit). If the fair value of the reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. During the second quarter of 2009, based on the presence of certain circumstances, the Company recorded an impairment loss on the goodwill related to the March 2005 acquisition of Kelly, Luttmer & Associates Limited ( *KLA* ). See Note 2 for further information.

During the third quarter of 2009, the Company completed its annual goodwill impairment test, which included the consideration of recent economic developments, and determined that the carrying amount of goodwill was not impaired as of September 30, 2009. The Company expects to receive future benefits from the remaining previously acquired goodwill over an indefinite period of time.

**Intangible Assets** - Intangible assets, primarily customer relationships, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives which approximates the pattern in which the economic benefits of the assets are consumed. The Company periodically evaluates the recoverability of intangible assets and takes into account events or changes in circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. Fair value for intangible assets is based on discounted cash flows, market multiples and/or appraised values as appropriate. The Company does not have intangible assets with indefinite lives. During the three and nine months ended September 30, 2009, based on changes in circumstances, the Company recorded an impairment loss on intangible assets related to the KLA acquisition mentioned above. See Note 2 for further information.

**Value Added Tax Credit Receivables** The Philippine operations are subject to Value Added Tax ( *VAT* ), which is usually applied to all goods and services purchased throughout the Philippines. Upon validation and certification of the VAT credit receivables by the Philippine government, the VAT credit receivables are held for sale through third-party brokers. The Company sells VAT credits to others due to its current tax holiday status in the Philippines and resulting inability to fully utilize these credits. This process through collection typically takes three to five years. The VAT credit receivables balance recorded at net realizable value, which approximates fair value, is approximately \$6.5 million and \$7.5 million as of September 30, 2009 and December 31, 2008, respectively. See *Fair Value Measurements* in this Note 1 for further information. As of September 30, 2009 and December 31, 2008, the VAT credit receivables of \$5.1 million and \$4.9 million, respectively, are included in *Deferred Charges and Other Assets*, \$1.4 million and \$1.1 million, respectively, are included in *Other Current Assets* and \$0.0 million and \$1.5 million, respectively, are included in *Receivables, net* in the accompanying Condensed Consolidated Financial Statements. During the three and nine months ended September 30, 2009, the Company determined that a portion of the VAT credit receivable balance was not recoverable and wrote down the balance by \$0.1 million and \$0.4 million, respectively. During the comparable 2008 periods, the Company wrote down the balance by \$0.1 million and \$0.5 million, respectively.

**Stock-Based Compensation** The Company has three stock-based compensation plans: the 2001 Equity Incentive Plan (for employees and certain non-employees), the 2004 Non-Employee Director Fee Plan (for non-employee directors), both approved by the shareholders, and the Deferred Compensation Plan (for certain eligible employees).

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

**Stock-Based Compensation (continued)**

All of these plans are discussed more fully in Note 12. Stock-based awards under these plans may consist of common stock, common stock units, stock options, cash-settled or stock-settled stock appreciation rights, restricted stock and other stock-based awards. The Company issues common stock and treasury stock to satisfy stock option exercises or vesting of stock awards.

The Company recognizes in its statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Compensation expense for equity-based awards is recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) is measured to fair-value at each balance sheet date until the award is settled.

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

Cash, Accounts Receivable, Value Added Tax Credit Receivables, Short-term and Other Investments, Investments Held in Rabbi Trust and Accounts Payable. The carrying values reported in the balance sheet for cash, accounts receivable, value added tax credit receivables, short-term investments, investments held in rabbi trust and accounts payable approximate their fair values.

Foreign currency forward contracts. Foreign currency forward contracts are recognized in the balance sheet at fair value based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions.

Long-Term Debt. The fair value of long-term debt, including the current portion thereof, is estimated based on the quoted market price for the same or similar types of borrowing arrangements. As of September 30, 2009 and December 31, 2008, the Company had no outstanding long-term debt.

**Fair Value Measurements** - Effective January 1, 2008, the Company adopted the provisions of ASC 820 ( ASC 820 )

*Fair Value Measurements and Disclosures* and ASC 825 ( ASC 825 ) *Financial Instruments* . ASC 820, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10-20 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 825 permits an entity to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. Since the date of adoption on January 1, 2008, the Company has not elected to use the fair value option permitted under ASC 825 for any of its financial assets and financial liabilities that are not already recorded at fair value.

A description of the Company's policies regarding fair value measurement is summarized below.

**Fair Value Hierarchy** - ASC 820-10-35 requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These two types of inputs have created the following fair-value hierarchy:

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**Note 1 Basis of Presentation and Summary of Significant Accounting Policies (continued)**  
**Fair Value Measurements (continued)**

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

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

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

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

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

The following section describes the valuation methodologies used by the Company to measure fair value, including an indication of the level in the fair value hierarchy in which each asset or liability is generally classified.

***Money Market Funds and Open-end Mutual Funds*** The Company uses quoted market prices in active markets to determine the fair value of money market funds and open-end mutual funds, which are classified in Level 1 of the fair value hierarchy.

***Foreign Currency Forward Contracts*** The Company enters into foreign currency forward contracts over the counter and values such contracts based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions. The key inputs include forward foreign currency exchange rates and interest rates. The item is classified in Level 2 of the fair value hierarchy.

***Investments Held in Rabbi Trust*** The Company maintains a non-qualified deferred compensation plan structured as a rabbi trust for certain eligible employees. The investment assets of the rabbi trust are valued using quoted market prices multiplied by the number of shares held in the trust, which are classified in Level 1 of the fair value hierarchy. For additional information about our deferred compensation plan, see Notes 5 and 12.

***Guaranteed Investment Certificates*** Guaranteed investment certificates, with variable interest rates linked to the prime rate, approximate fair value due to the automatic ability to reprice with changes in the market; such items are classified in Level 2 of the fair value hierarchy.

***Value Added Tax Credit Receivables*** The VAT credit receivables are recorded at net realizable value, which approximates fair value. The Company determines the net realizable value based on estimated discounted future cash flows using such factors as historical sales experience and current market conditions. Such items are classified in Level 3 of the fair value hierarchy.

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

**Foreign Currency Translation** - The assets and liabilities of the Company's foreign subsidiaries, whose functional currency is other than the U.S. Dollar, are translated at the exchange rates in effect on the reporting date, and income and expenses are translated at the weighted average exchange rate during the period. The net effect of translation gains and losses is not included in determining net income, but is included in Accumulated other comprehensive income (loss), which is reflected as a separate component of shareholders' equity until the sale or until the complete or substantially complete liquidation of the net investment in the foreign subsidiary. Foreign currency transactional gains and losses are included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations.

**Foreign Currency and Derivative Instruments** - The Company accounts for financial derivative instruments under ASC 815 (ASC 815) *Derivatives and Hedging*. The Company generally utilizes non-deliverable forward contracts expiring within one to 24 months to reduce its foreign currency exposure due to exchange rate fluctuations on forecasted cash flows denominated in non-functional foreign currencies. Upon proper qualification, these contracts are accounted for as cash-flow hedges, as defined by ASC 815. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

All derivatives, including foreign currency forward contracts, are recognized in the balance sheet at fair value. On the date the derivative contract is entered into, the Company determines whether the derivative contract should be designated as a cash flow hedge. Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in Accumulated other comprehensive income (loss), until the forecasted underlying transactions occur. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenues. Cash flows from the derivative contracts are classified within Cash flows from operating activities in the accompanying Condensed Consolidated Statement of Cash Flows. Ineffectiveness is measured based on the change in fair value of the forward contracts and the fair value of the hypothetical derivatives with terms that match the critical terms of the risk being hedged. Hedge ineffectiveness is recognized within Revenues.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items on a prospective and retrospective basis. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge or if a forecasted hedge is no longer probable of occurring, the Company discontinues hedge accounting prospectively. At September 30, 2009, all hedges were determined to be highly effective.

The Company also periodically enters into forward contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange rates. The Company records changes in the fair value of these derivative instruments within Revenues or Other income, depending on the purpose of the transaction, in the accompanying Condensed Consolidated Statements of Operations. See Note 4 for further information on financial derivative instruments.

**Recent Accounting Pronouncements** - In September 2006, the Financial Accounting Standards Board (FASB) issued ASC 820 (ASC 820) *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The Company adopted the provisions of ASC 820 on January 1, 2008. The

adoption of this standard did not have a material impact on the Company's financial condition, results of operations or cash flows. See Note 2 Fair Value for further information.

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

**Recent Accounting Pronouncements (continued)**

In March 2007, the Emerging Issues Task Force ( EITF ) reached a consensus on ASC 715-60 ( ASC 715-60 ) *Topic 715 Compensation Retirement Benefits Subtopic 60 Defined Benefits Plans Other Postretirement* ASC 715-60 provides guidance on the employer's recognition of assets, liabilities and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods. The Company adopted the provisions of ASC 715-60 on January 1, 2008. As a result of the implementation of ASC 715-60, the Company recognized a \$0.5 million liability for a postretirement benefit obligation related to a split dollar arrangement on behalf of its founder and former Chairman and Chief Executive Officer which was accounted for as a reduction to the January 1, 2008 balance of retained earnings. See Note 13 Defined Benefit Pension Plan and Post-Retirement Benefits for further information.

In December 2007, the FASB issued ASC 805 ( ASC 805 ) *Business Combinations* and modifications to ASC 810 ( ASC 810 ) *Consolidation* . ASC 805 changes how business acquisitions are accounted for and impacts financial statements both on the acquisition date and in subsequent periods. ASC 810 includes changes to the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of shareholders' equity. On January 1, 2009, the Company adopted the provisions of ASC 805 and the modifications to ASC 810, relating to noncontrolling interests. ASC 805 will be applied prospectively for all business combinations entered into after January 1, 2009, the date of adoption. The modified provisions of ASC 810 will also be applied prospectively to all noncontrolling interests, except for the presentation and disclosure provisions which are applied retrospectively to any noncontrolling interests that arose before January 1, 2009. The adoption of these standards did not have a material impact on the Company's financial condition, results of operations or cash flows.

In March 2008, the FASB issued modifications to ASC 815 ( ASC 815 ) *Derivatives and Hedging* , requiring increased qualitative, quantitative, and credit-risk disclosures about an entity's derivative instruments and hedging activities. On January 1, 2009, the Company adopted the modifications to ASC 815. The adoption of this standard did not have a material impact on the Company's financial condition, results of operations or cash flows. See Note 4 Financial Derivatives for further information.

In April 2008, the FASB issued modifications to ASC 350 ( ASC 350 ) *Intangibles Goodwill and Other* . The modifications to ASC 350 amended the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. On January 1, 2009, the Company adopted the modifications to ASC 350. The adoption of this standard did not have a material impact on the Company's financial condition, results of operations or cash flows.

In December 2008, the FASB issued modifications to ASC 715-20 ( ASC 715-20 ) *Topic 715 Compensation Retirement Benefits Subtopic 20 Defined Benefits Plans General* , which provides additional guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The modifications to ASC 715-20 are effective for financial statements issued for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of adopting the modifications to ASC 715-20 on its financial condition, results of operations and cash flows.

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

**Recent Accounting Pronouncements (continued)**

In April 2009, the FASB issued modifications to ASC 805-20 ( ASC 805-20 ) *Topic 805 Business Combinations Subtopic 20 Identifiable Assets and Liabilities, and Any Noncontrolling Interests*, which requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC 450 ( ASC 450 ) *Contingencies* . Further, ASC 805-20 requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities arising from contingencies be developed based on their nature. The modifications to ASC 805-20 are effective for assets or liabilities arising from contingencies in business combinations whose acquisition date is on or after January 1, 2009. The adoption of these modifications to ASC 805-20 did not have a material impact on the Company's financial condition, results of operations or cash flows.

In April 2009, the FASB issued modifications to ASC 825 ( ASC 825 ) *Financial Instruments* , to extend the annual disclosures about fair value of financial instruments to interim reporting periods. The modifications to ASC 825 is effective for interim reporting periods ending after June 15, 2009, and were adopted on April 1, 2009. The adoption of these modifications to ASC 825 did not have a material impact on the Company's financial condition, results of operations or cash flows. See Note 1- Basis of Presentation and Summary of Significant Accounting Policies Fair Value Measurements for further information.

In April 2009, the FASB issued modifications to ASC 820. The modifications to ASC 820 provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The modifications to ASC 820 also provide guidance on circumstances that may indicate a transaction is not orderly (that is, distressed or forced). The modifications to ASC 820 are effective on a prospective basis for interim and annual reporting periods ending after June 15, 2009, and were adopted on April 1, 2009. The adoption of these modifications to ASC 820 did not have a material impact on the Company's financial condition, results of operations or cash flows.

In April 2009, the FASB issued modifications to ASC 320 ( ASC 320 ) *Investments Debt and Equity Securities* , which amends the recognition and presentation of other-than-temporary impairments for debt securities and provides new disclosure requirements for both debt and equity securities. Upon adoption of the modifications to ASC 320, the non-credit component of previously recognized other-than-temporary impairment on debt securities held on that date is reclassified from Retained Earnings to Accumulated Other Comprehensive Income and reported as a cumulative-effect adjustment as of the beginning of the period of adoption, if the entity does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery of its amortized cost basis. The modifications to ASC 320 are effective for interim and annual reporting periods ending after June 15, 2009, and were adopted on April 1, 2009. The adoption of these ASC 320 modifications did not have a material impact on the Company's financial condition, results of operations or cash flows. See Note 5 Investments Held in Rabbi Trust for further information.

In May 2009, the FASB issued ASC 855 ( ASC 855 ) *Subsequent Events* , which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. ASC 855 is effective on a prospective basis for interim or annual periods ending after June 15, 2009, and was adopted on April 1, 2009. This standard did not have a material impact on the Company's financial condition, results of operations and cash flows.

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

**Recent Accounting Pronouncements (continued)**

In June 2009, the FASB issued ASC 105 ( ASC 105 ) *Generally Accepted Accounting Principles* . ASC 105 states that the FASB Accounting Standards Codification ( Codification ) will become the single source of authoritative U.S. generally accepted accounting principles ( GAAP ) recognized by the FASB. The Codification and all of its contents, which changes the referencing of financial standards, will carry the same level of authority. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP, authoritative and nonauthoritative. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, and was adopted July 1, 2009. Therefore, all references to GAAP use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing GAAP, it did not have an impact on the Company's financial condition, results of operations and cash flows.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05 ( ASU 2009-05 ), *Measuring Liabilities at Fair Value* , which provides clarification for the fair value measurement of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available. ASU 2009-05 is effective for the first interim period ending after December 15, 2009, and was adopted on October 1, 2009. This standard did not have a material impact on the Company's financial condition, results of operations or cash flows.

In September 2009, the FASB issued ASU No. 2009-12 ( ASU 2009-12 ), *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* , which provides guidance on measuring the fair value of certain alternative investments. ASU 2009-12 amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share. ASU 2009-12 is effective for interim and annual periods ending after December 15, 2009. The Company is currently evaluating the impact of adopting this standard on its financial condition, results of operations and cash flows.

In October 2009, the FASB issued ASU No. 2009-13 ( ASU 2009-13 ), *Multiple-Deliverable Revenue Arrangements* , which amends ASC 605, *Revenue Recognition* . ASU 2009-13 provides guidance related to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across the individual deliverables. Also, the standard expands the disclosure requirements for revenue arrangements with multiple deliverables. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of adopting this standard on its financial condition, results of operations and cash flows.

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**Note 2 Fair Value**

The Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 subject to the requirements of ASC 820 consist of the following (in thousands):

|                                                                                   | Fair Value Measurements at September 30, 2009 Using: |                                                                                      |                                                               |                                                        |
|-----------------------------------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------|
|                                                                                   | Balance<br>at<br>September<br>30, 2009               | Quoted<br>Prices<br>in Active<br>Markets For<br>Identical<br>Assets<br><br>Level (1) | Significant<br>Other<br>Observable<br>Inputs<br><br>Level (2) | Significant<br>Unobservable<br>Inputs<br><br>Level (3) |
| <b>Assets:</b>                                                                    |                                                      |                                                                                      |                                                               |                                                        |
| Money Market Funds and Open-end Mutual Funds <sup>(1)</sup>                       | \$ 86,168                                            | \$ 86,168                                                                            | \$                                                            | \$                                                     |
| Foreign Currency Forward Contracts <sup>(2)</sup>                                 | 1,136                                                |                                                                                      | 1,136                                                         |                                                        |
| Investments held in Rabbi Trust for the Deferred Compensation Plan <sup>(3)</sup> | 2,250                                                | 2,250                                                                                |                                                               |                                                        |
| Guaranteed Investment Certificates <sup>(4)</sup>                                 | 47                                                   |                                                                                      | 47                                                            |                                                        |
| Value Added Tax Credit Receivables <sup>(5)</sup>                                 | 6,485                                                |                                                                                      |                                                               | 6,485                                                  |
| <b>Total Assets</b>                                                               | <b>\$ 96,086</b>                                     | <b>\$ 88,418</b>                                                                     | <b>\$ 1,183</b>                                               | <b>\$ 6,485</b>                                        |
| <b>Liabilities:</b>                                                               |                                                      |                                                                                      |                                                               |                                                        |
| Foreign Currency Forward Contracts <sup>(6)</sup>                                 | \$ 3,934                                             | \$                                                                                   | \$ 3,934                                                      | \$                                                     |
| <b>Total Liabilities</b>                                                          | <b>\$ 3,934</b>                                      | <b>\$</b>                                                                            | <b>\$ 3,934</b>                                               | <b>\$</b>                                              |

<sup>(1)</sup> Included \$85.5 million in Cash and cash equivalents and \$0.7 million in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

- (2) Included  
\$1.0 million in  
Other current  
assets and  
\$0.2 million in  
Deferred  
charges and  
other assets in  
the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.  
See Note 4.
- (3) Included in  
Other current  
assets in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.  
See Note 5.
- (4) Included in  
Deferred  
charges and  
other assets in  
the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.
- (5) Included  
\$5.1 million in  
Deferred  
charges and  
other assets and  
\$1.4 million in  
Other current  
assets in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.
- (6) Included in  
Other accrued  
expense and

current  
liabilities in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.  
See Note 4.

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**Note 2 Fair Value (continued)**

The Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 subject to the requirements of ASC 820 consist of the following (in thousands):

| <b>Fair Value Measurements at December 31, 2008 Using:</b>                        |                                                 |                                                                                                    |                                                                           |                                                                   |
|-----------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------|
|                                                                                   |                                                 | <b>Quoted<br/>Prices<br/>in Active<br/>Markets For<br/>Identical<br/>Assets<br/><br/>Level (1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/><br/>Level (2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/><br/>Level (3)</b> |
|                                                                                   | <b>Balance<br/>at<br/>December<br/>31, 2008</b> |                                                                                                    |                                                                           |                                                                   |
| <b>Assets:</b>                                                                    |                                                 |                                                                                                    |                                                                           |                                                                   |
| Money Market Funds and Open-end Mutual Funds <sup>(1)</sup>                       | \$ 111,423                                      | \$ 111,423                                                                                         | \$                                                                        | \$                                                                |
| Investments held in Rabbi Trust for the Deferred Compensation Plan <sup>(2)</sup> | 1,386                                           | 1,386                                                                                              |                                                                           |                                                                   |
| Guaranteed Investment Certificates <sup>(3)</sup>                                 | 858                                             |                                                                                                    | 858                                                                       |                                                                   |
| Value Added Tax Credit Receivables <sup>(4)</sup>                                 | 7,501                                           |                                                                                                    |                                                                           | 7,501                                                             |
| <b>Total Assets</b>                                                               | <b>\$ 121,168</b>                               | <b>\$ 112,809</b>                                                                                  | <b>\$ 858</b>                                                             | <b>\$ 7,501</b>                                                   |
| <b>Liabilities:</b>                                                               |                                                 |                                                                                                    |                                                                           |                                                                   |
| Foreign Currency Forward Contracts <sup>(5)</sup>                                 | \$ 11,654                                       | \$                                                                                                 | \$ 11,654                                                                 | \$                                                                |
| <b>Total Liabilities</b>                                                          | <b>\$ 11,654</b>                                | <b>\$</b>                                                                                          | <b>\$ 11,654</b>                                                          | <b>\$</b>                                                         |

<sup>(1)</sup> Included \$110.7 million in Cash and cash equivalents and \$0.7 million in Deferred charges and other assets in the accompanying Condensed Consolidated

Balance Sheet.

- (2) Included in  
Other current  
assets in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.  
See Note 5.
- (3) Included in  
Other current  
assets in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.
- (4) Included  
\$4.9 million in  
Deferred  
charges and  
other assets,  
\$1.1 million in  
Other current  
assets and  
\$1.5 million in  
Receivables in  
the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.
- (5) Included in  
Other accrued  
expense and  
current  
liabilities in the  
accompanying  
Condensed  
Consolidated  
Balance Sheet.  
See Note 4.

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**Note 2 Fair Value (continued)**

The following table presents a reconciliation of the beginning and ending balances for the Company's value added tax credit receivables measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three and nine months ended September 30, 2009 and 2008 (in thousands):

| <b>Description</b>                      | <b>Three Months Ended September 30,</b> |                     |
|-----------------------------------------|-----------------------------------------|---------------------|
|                                         | <b>2009</b>                             | <b>2008</b>         |
| <b>Beginning Balance, July 1</b>        | <b>\$ 7,062</b>                         | <b>\$ 7,238</b>     |
| Included in earnings <sup>(1)</sup>     | (94)                                    | (121)               |
| Purchases, issuances and settlements    | (483)                                   | 33                  |
| <br><b>Ending Balance, September 30</b> | <br><b>\$ 6,485</b>                     | <br><b>\$ 7,150</b> |

| <b>Description</b>                      | <b>Nine Months Ended September 30,</b> |                     |
|-----------------------------------------|----------------------------------------|---------------------|
|                                         | <b>2009</b>                            | <b>2008</b>         |
| <b>Beginning Balance, January 1</b>     | <b>\$ 7,501</b>                        | <b>\$ 8,247</b>     |
| Included in earnings <sup>(1)</sup>     | (414)                                  | (482)               |
| Purchases, issuances and settlements    | (602)                                  | (615)               |
| <br><b>Ending Balance, September 30</b> | <br><b>\$ 6,485</b>                    | <br><b>\$ 7,150</b> |

|                                                             | <b>2009</b> | <b>2008</b> |
|-------------------------------------------------------------|-------------|-------------|
| <b>Unrealized Gains (Losses) Included in Earnings Above</b> |             |             |
| For the three months ended September 30                     | \$          | \$          |
| For the nine months ended September 30                      | \$          | \$          |

- <sup>(1)</sup> Represents the write down to net realizable value included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.



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**Note 2 Fair Value (continued)**

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs as described in Note 1, like those associated with acquired businesses, including goodwill and other intangible assets, investments at cost and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if one or more of these assets are determined to be impaired. The Company's assets measured at fair value on a nonrecurring basis (no liabilities) as of September 30, 2009 subject to the requirements of ASC 820 consist of the following (in thousands):

|                                   |                                                  |  |          | <b>Level (3) Fair Value<br/>Measurements<br/>at September 30, 2009:</b>                           |                                                                                          |
|-----------------------------------|--------------------------------------------------|--|----------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
|                                   |                                                  |  |          | <b>Three<br/>Months<br/>Ended<br/>September<br/>30,<br/>2009<br/>Total<br/>Gains<br/>(Losses)</b> | <b>Nine Months<br/>Ended<br/>September<br/>30,<br/>2009<br/>Total Gains<br/>(Losses)</b> |
|                                   | <b>Balance at<br/>September<br/>30,<br/>2009</b> |  |          |                                                                                                   |                                                                                          |
| <b>Assets:</b>                    |                                                  |  |          |                                                                                                   |                                                                                          |
| KLA assets:                       |                                                  |  |          |                                                                                                   |                                                                                          |
| Goodwill                          | \$                                               |  | \$       |                                                                                                   | \$ (629)                                                                                 |
| Intangibles, net                  |                                                  |  | (324)    |                                                                                                   | (1,279)                                                                                  |
|                                   |                                                  |  | (324)    |                                                                                                   | (1,908)                                                                                  |
| Investment in SHPS <sup>(1)</sup> |                                                  |  |          |                                                                                                   | (2,089)                                                                                  |
| <b>Total Assets</b>               | \$                                               |  | \$ (324) |                                                                                                   | \$ (3,997)                                                                               |

<sup>(1)</sup> See Note 1, Investment in SHPS, for the reason for the fair value measurement, description of the inputs and the information used to develop

the inputs.

On June 30, 2009, the Company committed to a plan to sell or close its Employee Assistance and Occupational Health operations in Calgary, Alberta, Canada, which was originally acquired on March 1, 2005 when the Company purchased the shares of KLA. As a result of KLA's actual and forecasted operating results for 2009, deterioration of the KLA customer base and loss of key employees, the Company determined to sell or close the Calgary operations on or before December 31, 2009 for less than its current carrying value. This decline in value was other than temporary, therefore, the Company recorded a non-cash impairment loss of \$1.0 million related to intangible assets (primarily customer relationships) and \$0.6 million related to goodwill included in Impairment loss on goodwill and intangibles during the three months ended June 30, 2009. Subsequently, the Company determined to close the Calgary operations and wrote off the remaining balance of the intangible assets of \$0.3 million during the three months ended September 30, 2009. The accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 includes Impairment loss on goodwill and intangibles of \$0.3 million and \$1.9 million, respectively, related to the Calgary operations (none in the comparable 2008 period). In addition, the Company estimates \$0.6 million to \$1.0 million of cash expenditures for the Calgary closing, including facility-related costs of \$0.5 million to \$0.9 million to be paid through the remainder of the lease term ending July 2012 and \$0.1 million in one-time employee termination benefits. The exact timing and actual amounts of the facility-related payments are dependent upon the Company's ability to sublease these facilities. If the events and circumstances regarding the Company's ability to sublease the facilities change, these estimates would change. Income (loss) from operations for KLA for the three and nine months ended September 2009 and 2008 were not material to the consolidated income from operations; therefore, the results of operations of KLA have not been presented as discontinued operations in the accompanying Condensed Consolidated Statement of Operations.

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**Note 3 Goodwill and Intangible Assets**

The following table presents the Company's purchased intangible assets (in thousands) as of September 30, 2009:

|                        | <b>Gross</b>       | <b>Accumulated</b>  | <b>Net</b>         | <b>Weighted<br/>Average<br/>Amortization<br/>Period<br/>(years)</b> |
|------------------------|--------------------|---------------------|--------------------|---------------------------------------------------------------------|
|                        | <b>Intangibles</b> | <b>Amortization</b> | <b>Intangibles</b> |                                                                     |
| Customer relationships | \$ 4,421           | \$ 2,395            | \$ 2,026           | 6                                                                   |
| Trade name             | 804                | 522                 | 282                | 5                                                                   |
| Non-compete agreement  | 161                | 161                 |                    | 2                                                                   |
| Other                  | 133                | 133                 |                    | 3                                                                   |
|                        | <b>\$ 5,519</b>    | <b>\$ 3,211</b>     | <b>\$ 2,308</b>    | <b>6</b>                                                            |

The following table presents the Company's purchased intangible assets (in thousands) as of December 31, 2008:

|                        | <b>Gross</b>       | <b>Accumulated</b>  | <b>Net</b>         | <b>Weighted<br/>Average<br/>Amortization<br/>Period<br/>(years)</b> |
|------------------------|--------------------|---------------------|--------------------|---------------------------------------------------------------------|
|                        | <b>Intangibles</b> | <b>Amortization</b> | <b>Intangibles</b> |                                                                     |
| Customer relationships | \$ 6,711           | \$ 2,596            | \$ 4,115           | 7                                                                   |
| Trade name             | 892                | 446                 | 446                | 5                                                                   |
| Non-compete agreement  | 610                | 610                 |                    | 2                                                                   |
| Other                  | 237                | 212                 | 25                 | 3                                                                   |
|                        | <b>\$ 8,450</b>    | <b>\$ 3,864</b>     | <b>\$ 4,586</b>    | <b>6</b>                                                            |

Amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2009, respectively, is included in

General and administrative costs in the accompanying Condensed Consolidated Statements of Operations. In the comparable 2008 periods, the Company recognized amortization expense of \$0.4 million and \$1.1 million, respectively.

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**Note 3 Goodwill and Intangible Assets (continued)**

The Company's estimated future amortization expense for the five succeeding years is as follows (in thousands):

| Years Ending December 31,     | Amount |
|-------------------------------|--------|
| 2009 (remaining three months) | \$225  |
| 2010                          | \$898  |
| 2011                          | \$817  |
| 2012                          | \$368  |
| 2013                          | \$     |

Changes in goodwill, within the America's segment, consist of the following (in thousands):

| Years Ending December 31,               | Amount    |
|-----------------------------------------|-----------|
| <b>Balance at December 31, 2007</b>     | \$ 22,468 |
| Contingent payment for Apex acquisition | 3,076     |
| Foreign currency translation            | (2,353)   |
| <b>Balance at December 31, 2008</b>     | 23,191    |
| Impairment on KLA goodwill (see Note 2) | (629)     |
| Foreign currency translation            | (1,442)   |
| <b>Balance at September 30, 2009</b>    | \$ 21,120 |

**Note 4 Financial Derivatives**

The Company had derivative assets and liabilities relating to outstanding forward contracts, designated as cash flow hedges, as defined under ASC 815, consisting of Philippine peso ( PHP ) contracts, maturing within 15 months with a notional value of \$66.4 million and \$107.0 million as of September 30, 2009 and December 31, 2008, respectively. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates.

The Company had a total of \$0.4 million and \$7.8 million of deferred losses, net of taxes of \$0.4 million and \$3.3 million, on these derivative instruments as of September 30, 2009 and December 31, 2008, respectively, recorded in Accumulated other comprehensive income (loss) ( AOCI ) in the accompanying Condensed Consolidated Balance Sheets. The deferred losses expected to be reclassified to Revenues from AOCI during the next twelve months is \$1.0 million. However, this amount and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts.

In October 2009, the Company entered into forward contracts to sell U.S. dollars of \$5.1 million at fixed prices of 5.5 million Canadian dollars to hedge intercompany forecasted cash outflows through June 2010.

The Company also periodically enters into forward contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange rates, primarily related to intercompany loan payments. During the nine months ended September 30, 2009, the Company entered into and settled forward contracts to sell \$0.9 million U.S. dollars at fixed prices of 1.1 million Canadian dollars as well as forward contracts to sell PHP 175.0 million at fixed prices of Euro 2.8 million. During the nine months ended September 30, 2008, the Company entered into a forward contract to sell 25.0 million Canadian dollars at fixed prices of Euro 14.6 million through

December 2009. See Note 1 for further information on foreign currency and derivative instruments.

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**Note 4 Financial Derivatives (continued)**

The Company had the following outstanding foreign currency forward contracts (in thousands):

| As of September 30, 2009 |                               | As of December 31, 2008 |                               |
|--------------------------|-------------------------------|-------------------------|-------------------------------|
| Foreign<br>Currency      | Currency<br>Denomination      | Foreign<br>Currency     | Currency<br>Denomination      |
| U.S. Dollars             | Philippine<br>Pesos 3,164,419 | U.S. Dollars            | Philippine<br>Pesos 4,645,715 |
| Canadian Dollars         | Euros 14,641                  | Canadian Dollars        | Euros 14,641                  |

As of September 30, 2009, the maximum amount of loss due to credit risk that, based on the gross fair value of the financial instruments, the Company would incur if parties to the financial instruments that make up the concentration failed to perform according to the terms of the contracts is \$1.1 million.

The following tables present the fair value of the Company's derivative instruments as of September 30, 2009 and December 31, 2008 included in the accompanying Condensed Consolidated Balance Sheets (in thousands):

|                                                                 | Derivative Assets                             |                 |                   |               |
|-----------------------------------------------------------------|-----------------------------------------------|-----------------|-------------------|---------------|
|                                                                 | September 30, 2009                            |                 | December 31, 2008 |               |
|                                                                 | Balance<br>Sheet                              | Fair<br>Value   | Balance<br>Sheet  | Fair<br>Value |
| Derivatives designated as hedging instruments under<br>ASC 815: | Location                                      |                 | Location          |               |
| Foreign currency forward contracts                              | Other<br>current<br>assets                    | \$ 971          |                   | \$            |
| Foreign currency forward contracts                              | Deferred<br>charges<br>and<br>other<br>assets | 165             |                   |               |
| <b>Total derivative assets</b>                                  |                                               | <b>\$ 1,136</b> |                   | <b>\$</b>     |

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**Note 4 Financial Derivatives (continued)**

|                                                                                       | Location                                       | Derivative Liabilities |                                                | Location | Fair Value       |
|---------------------------------------------------------------------------------------|------------------------------------------------|------------------------|------------------------------------------------|----------|------------------|
|                                                                                       |                                                | September 30, 2009     | December 31, 2008                              |          |                  |
|                                                                                       |                                                | Fair Value             |                                                |          |                  |
| <b>Derivatives designated as hedging instruments under ASC 815:</b>                   |                                                |                        |                                                |          |                  |
|                                                                                       | Other accrued expenses and current liabilities |                        | Other accrued expenses and current liabilities |          |                  |
| Foreign currency forward contracts                                                    |                                                | \$ 1,992               |                                                |          | \$ 11,377        |
| <b>Derivatives not designated as hedging instruments under ASC 815<sup>(1)</sup>:</b> |                                                |                        |                                                |          |                  |
|                                                                                       | Other accrued expenses and current liabilities |                        | Other accrued expenses and current liabilities |          |                  |
| Foreign currency forward contracts                                                    |                                                | 1,942                  |                                                |          | 277              |
| <b>Total derivative liabilities</b>                                                   |                                                | <b>\$ 3,934</b>        |                                                |          | <b>\$ 11,654</b> |

<sup>(1)</sup> See Note 1 for additional information on the Company's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

The following tables present the effect of the Company's derivative instruments for the three months ended September 30, 2009 and 2008 in the accompanying Condensed Consolidated Financial Statements (in thousands):

| Gain (Loss)<br>Recognized in AOCI | Gain (Loss)<br>Reclassified From<br>Accumulated AOCI | Gain (Loss) |
|-----------------------------------|------------------------------------------------------|-------------|
|-----------------------------------|------------------------------------------------------|-------------|

|                                                                | on Derivative                          |                                        | Statement of Operations Location | Into Income (Effective Portion) |                    | Recognized in Income on Derivative (Ineffective Portion) |                    |
|----------------------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------|---------------------------------|--------------------|----------------------------------------------------------|--------------------|
|                                                                | (Effective Portion) September 30, 2009 | (Effective Portion) September 30, 2008 |                                  | September 30, 2009              | September 30, 2008 | September 30, 2009                                       | September 30, 2008 |
| <b>Derivatives in ASC 815 cash flow hedging relationships:</b> |                                        |                                        |                                  |                                 |                    |                                                          |                    |
| Foreign currency forward contracts                             | <b>\$1,528</b>                         | <b>\$(1,964)</b>                       | <b>Revenues</b>                  | <b>\$(2,291)</b>                | <b>\$(1,621)</b>   | <b>\$</b>                                                | <b>\$(5)</b>       |
|                                                                | <b>\$1,528</b>                         | <b>\$(1,964)</b>                       |                                  | <b>\$(2,291)</b>                | <b>\$(1,621)</b>   | <b>\$</b>                                                | <b>\$(5)</b>       |

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**Note 4 Financial Derivatives (continued)**

|                                                                             | Statement of<br>Operations<br>Location | Gain (Loss)<br>Recognized<br>in Income on<br>Derivative<br>September 30, |      |
|-----------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------|------|
|                                                                             |                                        | 2009                                                                     | 2008 |
| <b>Derivatives not designated as hedging<br/>instruments under ASC 815:</b> |                                        |                                                                          |      |
| Foreign currency forward contracts                                          | Revenues                               | \$                                                                       | \$   |
|                                                                             | Other income                           |                                                                          |      |
| Foreign currency forward contracts                                          | and (expense)                          | (877)                                                                    |      |
|                                                                             |                                        | \$ (877)                                                                 | \$   |

The following tables present the effect of the Company's derivative instruments for the nine months ended September 30, 2009 and 2008 in the accompanying Condensed Consolidated Financial Statements (in thousands):

| Derivatives in ASC 815<br>cash flow hedging<br>relationships: | Gain (Loss)           |             | Statement<br>of<br>Operations<br>Location | Gain (Loss)<br>Reclassified From<br>Accumulated AOCI<br>Into Income<br>(Effective<br>Portion) |          | Gain (Loss)<br>Recognized in<br>Income<br>on Derivative<br>(Ineffective<br>Portion) |          |
|---------------------------------------------------------------|-----------------------|-------------|-------------------------------------------|-----------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------|----------|
|                                                               | Recognized in AOCI    |             |                                           | Recognized in AOCI                                                                            |          | Recognized in AOCI                                                                  |          |
|                                                               | on Derivative         |             |                                           | on Derivative                                                                                 |          | on Derivative                                                                       |          |
|                                                               | (Effective Portion)   |             |                                           | (Effective Portion)                                                                           |          | (Effective Portion)                                                                 |          |
|                                                               | September 30,<br>2009 | 2008        |                                           | September 30,<br>2009                                                                         | 2008     | September 30,<br>2009                                                               | 2008     |
| Foreign currency forward contracts                            | \$ 2,331              | \$ (20,016) | Revenues                                  | \$ (7,837)                                                                                    | \$ 1,841 | \$                                                                                  | \$ (488) |
|                                                               | \$ 2,331              | \$ (20,016) |                                           | \$ (7,837)                                                                                    | \$ 1,841 | \$                                                                                  | \$ (488) |

|                                                                             | Statement of<br>Operations<br>Location | Gain (Loss) Recognized<br>in Income on Derivative<br>September 30, |      |
|-----------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------|------|
|                                                                             |                                        | 2009                                                               | 2008 |
| <b>Derivatives not designated as hedging<br/>instruments under ASC 815:</b> |                                        |                                                                    |      |
| Foreign currency forward contracts                                          | Revenues                               | \$ (53)                                                            | \$ 6 |
|                                                                             | Other income and                       |                                                                    |      |
| Foreign currency forward contracts                                          | (expense)                              | (1,393)                                                            |      |
|                                                                             |                                        | \$ (1,446)                                                         | \$ 6 |



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**Note 5 Investments Held in Rabbi Trust**

The Company's Investments Held in Rabbi Trust, classified as trading securities and included in Other current assets at fair value in the accompanying Condensed Consolidated Balance Sheets consist of the following (in thousands):

|              | <b>September 30, 2009</b> |                   | <b>December 31, 2008</b> |                   |
|--------------|---------------------------|-------------------|--------------------------|-------------------|
|              | <b>Cost</b>               | <b>Fair Value</b> | <b>Cost</b>              | <b>Fair Value</b> |
| Mutual Funds | \$ 2,343                  | \$ 2,250          | \$ 1,810                 | \$ 1,386          |

Investments Held in Rabbi Trust were comprised of mutual funds, 67% of which are equity-based and 33% were debt-based at September 30, 2009. Investment income, included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009 and 2008 consists of the following (in thousands):

|                                                       | <b>Three Months Ended<br/>September 30,<br/>2009</b> |             | <b>Nine Months Ended<br/>September 30,<br/>2009</b> |             |
|-------------------------------------------------------|------------------------------------------------------|-------------|-----------------------------------------------------|-------------|
|                                                       | <b>2009</b>                                          | <b>2008</b> | <b>2009</b>                                         | <b>2008</b> |
| Gross realized gains from sale of trading securities  | \$ 38                                                | \$          | \$ 40                                               | \$ 1        |
| Gross realized losses from sale of trading securities |                                                      | (7)         | (21)                                                | (9)         |
| Dividend and interest income                          | 7                                                    | 5           | 21                                                  | 18          |
| Net unrealized holding gains (losses)                 | 202                                                  | (209)       | 292                                                 | (359)       |
| Net investment income (losses)                        | \$ 247                                               | \$ (211)    | \$ 332                                              | \$ (349)    |

**Note 6 Deferred Revenue**

The components of deferred revenue consist of the following (in thousands):

|                                             | <b>September 30,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|---------------------------------------------|-------------------------------|------------------------------|
| Future service                              | \$ 26,142                     | \$ 23,530                    |
| Estimated potential penalties and holdbacks | 6,922                         | 3,425                        |
|                                             | \$ 33,064                     | \$ 26,955                    |

**Note 7 Accumulated Other Comprehensive Income (Loss)**

The Company presents data in the Condensed Consolidated Statements of Changes in Shareholders' Equity in accordance with ASC 220 (ASC 220) *Comprehensive Income*. ASC 220 establishes rules for the reporting of comprehensive income (loss) and its components. The components of accumulated other comprehensive income (loss) consist of the following (in thousands):

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**Note 7 Accumulated Other Comprehensive Income (Loss) (continued)**

|                                      | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Actuarial<br>Gain<br>(Loss)<br>Related<br>to Pension<br>Liability | Unrealized<br>Gain (Loss)<br>on<br>Cash Flow<br>Hedging<br>Instruments | Unrealized<br>Gain<br>(Loss) on<br>Post<br>Retirement<br>Obligation | Total           |
|--------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------|
| <b>Balance at January 1, 2008</b>    | \$ 30,292                                        | \$ 2,165                                                                        | \$ 5,000                                                               | \$                                                                  | \$ 37,457       |
| Pre tax amount                       | (34,451)                                         | 48                                                                              | (21,247)                                                               |                                                                     | (55,650)        |
| Tax (provision) benefit              |                                                  | (479)                                                                           | 5,664                                                                  |                                                                     | 5,185           |
| Reclassification to net income       | (4)                                              | (61)                                                                            | 2,390                                                                  |                                                                     | 2,325           |
| Foreign currency translation         | (73)                                             | (286)                                                                           | 359                                                                    |                                                                     |                 |
| <b>Balance at December 31, 2008</b>  | (4,236)                                          | 1,387                                                                           | (7,834)                                                                |                                                                     | (10,683)        |
| Pre tax amount                       | <b>10,431</b>                                    |                                                                                 | <b>2,331</b>                                                           | <b>370</b>                                                          | <b>13,132</b>   |
| Tax (provision) benefit              |                                                  |                                                                                 | <b>(2,850)</b>                                                         |                                                                     | <b>(2,850)</b>  |
| Reclassification to net income       | <b>5</b>                                         | <b>(46)</b>                                                                     | <b>7,837</b>                                                           | <b>(28)</b>                                                         | <b>7,768</b>    |
| Foreign currency translation         | <b>(106)</b>                                     | <b>5</b>                                                                        | <b>101</b>                                                             |                                                                     |                 |
| <b>Balance at September 30, 2009</b> | <b>\$ 6,094</b>                                  | <b>\$ 1,346</b>                                                                 | <b>\$ (415)</b>                                                        | <b>\$ 342</b>                                                       | <b>\$ 7,367</b> |

Except as discussed in Note 9, earnings associated with the Company's investments in its subsidiaries are considered to be permanently invested and no provision for income taxes on those earnings or translation adjustments has been provided.

**Note 8 Borrowings**

On March 30, 2009, the Company entered into a new credit agreement with KeyBank National Association and Bank of America, N.A. (the "Credit Facility"). The Credit Facility replaces the Company's prior credit agreement, dated March 15, 2004, among the Company, KeyBank National Association and BNP Paribas. The new Credit Facility provides the Company with a \$50 million revolving credit facility, which amount is subject to certain borrowing limitations, and includes certain customary financial and restrictive covenants. Pursuant to the terms of the Credit Facility, the amount of \$50 million may be increased up to a maximum of \$100 million with the prior written consent of the lenders. The \$50 million Credit Facility includes a \$40 million multi-currency subfacility, a \$10 million swingline subfacility and a \$5 million letter of credit subfacility. The Credit Facility will terminate on March 29, 2012.

The Credit Facility may be used for general corporate purposes including strategic acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. Under the Credit Facility, the Company may obtain base rate loans (which include all loans under the swingline subfacility), eurodollar loans and alternate currency loans. Base rate loans accrue interest at the highest of the base rate (defined as the higher of the lender's prime rate, the Federal Funds rate plus 0.50%, or the London Interbank Offered Rate ("LIBOR") plus 1%) plus an applicable margin up to 2.50%. Eurodollar loans bear interest at the eurodollar rate plus an applicable margin up to 3.50%. Alternate currency loans accrue interest at the alternate currency rate applicable to the alternate currency plus an applicable margin up to 3.50%. In addition, a commitment fee of up to 0.65% is charged on the unused portion of

the Credit Facility on a quarterly basis. The borrowings under the Credit Facility, which will terminate on March 29, 2012, are secured by a pledge of 65% of the stock of each of the Company's active direct foreign subsidiaries. The Credit Facility prohibits the Company from incurring additional indebtedness, subject to certain specific exclusions. There were no borrowings during the nine months ended September 30, 2009 and 2008, and no outstanding balances as of September 30, 2009 and December 31, 2008, with \$50 million availability on the Credit Facility.

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**Note 9 Income Taxes**

The Company's effective tax rate was 14.2% and 16.3% for the nine months ended September 30, 2009 and 2008, respectively. The decrease in the effective tax rate of 2.1% was primarily due to the reduction in foreign withholding taxes, shift in our mix of earnings, partially offset by effects of permanent differences, changes in valuation allowances, state income taxes and foreign income tax rate differentials (inclusive of income tax holiday jurisdictions).

The differences in the Company's effective tax rate of 14.2% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to foreign income tax rate differentials (inclusive of income tax holiday jurisdictions), the recognition of tax benefits from the effects of valuation allowance changes (as discussed below) and a favorable mix of earnings, partially offset by foreign withholding taxes and the effects of permanent differences.

In September, 2009, the Company determined that its profitability and expectations of future profitability of its foreign and domestic operations indicated that it was more likely than not that portions of the deferred tax assets would be realized. Accordingly, in the third quarter of 2009, the Company recognized a net increase in its U. S. deferred tax assets of \$3.6 million through a partial reversal of the valuation allowance related to its anticipated utilization of its domestic net operating loss carry-forward. This tax benefit was partially offset by a decrease of \$1.3 million in deferred tax assets when the Company placed an additional valuation allowance on a foreign subsidiary's deferred tax assets related to the future use of its net operating loss. The net reversal of the valuation allowance of \$2.3 million reduced the provision for income taxes in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009.

The liability for unrecognized tax benefits is recorded as Long-term income tax liabilities in the accompanying Condensed Consolidated Balance Sheets and was \$5.1 million at September 30, 2009 and December 31, 2008. If the Company recognized its remaining unrecognized tax benefits at September 30, 2009, approximately \$5.1 million, including related interest and penalties of \$2.1 million, would favorably impact the effective tax rate.

Generally, earnings associated with the Company's investments in its subsidiaries are considered to be permanently invested. The determination of the amount of unrecognized deferred tax liabilities for temporary differences related to these earnings is not practicable. For 2009, the Company changed its intent with respect to the distribution of current earnings for one lower tier subsidiary. The Company accrued withholding tax of \$1.7 million as of September 30, 2009 with respect to this subsidiary's current earnings. The U.S. Department of the Treasury released the General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals in May 2009. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings, including our position on permanent reinvestment of foreign earnings. We continue to monitor these proposals and are currently evaluating the potential impact on our financial condition, results of operations, and cash flows.

The German tax authority is currently auditing periods 2005 through 2007. A Philippine subsidiary is being audited by the Philippine tax authorities for tax years 2006 and 2007. The Company is currently under examination in India for tax years ended March 31, 2005 through 2008.

**Note 10 Earnings Per Share**

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock options, stock appreciation rights, restricted stock, common stock units and shares held in a rabbi trust using the treasury stock method. The impact of outstanding options to purchase shares of common stock and stock appreciation rights that were antidilutive and excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2009 was 0.1 million (not material in the three months ended September 30, 2009) and 0.1 million and 0.2 million for the three and nine months ended September 30, 2008, respectively.



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**Note 10 Earnings Per Share (continued)**

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

|                                                                                                                                    | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                                                                                                                    | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                                                                                                                                    | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Basic:                                                                                                                             |                           |             |                          |             |
| Weighted average common shares outstanding                                                                                         | <b>40,743</b>             | 40,678      | <b>40,662</b>            | 40,590      |
| Diluted:                                                                                                                           |                           |             |                          |             |
| Dilutive effect of stock options, stock appreciation rights, restricted stock, common stock units and shares held in a rabbi trust | <b>354</b>                | 392         | <b>349</b>               | 338         |
| Total weighted average diluted shares outstanding                                                                                  | <b>41,097</b>             | 41,070      | <b>41,011</b>            | 40,928      |

On August 5, 2002, the Company's Board of Directors authorized the Company to purchase up to three million shares of its outstanding common stock. A total of 1.9 million shares have been repurchased under this 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 and general market conditions. During the nine months ended September 30, 2009, the Company repurchased 224 thousand common shares under the 2002 repurchase program (none in the comparable 2008 period) at prices ranging from \$13.72 to \$14.75 per share for a total cost of \$3.2 million.

During the nine months ended September 30, 2008, the Company cancelled 4.6 million shares of its Treasury stock and recorded reductions of \$0.1 million to Common stock, \$33.3 million to Additional paid-in capital, \$51.5 million to Treasury stock and \$18.1 million to Retained earnings.

**Note 11 Segments and Geographic Information**

The Company operates within two regions, the Americas and EMEA which represented 71.6% and 28.4%, respectively, of the Company's consolidated revenues for the three months ended September 30, 2009, and 71.1% and 28.9%, respectively, of the Company's consolidated revenues for the nine months ended September 30, 2009. In the comparable 2008 periods, the Americas and the EMEA region represented 66.9% and 33.1%, respectively, of the Company's consolidated revenues for the three months ended September 30, 2008, and 66.9% and 33.1%, respectively, of the Company's consolidated revenues for the nine months ended September 30, 2008. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The Company aligns its business into two segments to effectively manage the business and support the customer care needs of every client and to respond to the demands of the Company's global customers.

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



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**Note 11 Segments and Geographic Information (continued)**

Information about the Company's reportable segments for the three and nine months ended September 30, 2009 compared to the corresponding prior year period, is as follows (in thousands):

|                                              | Americas   | EMEA      | Other <sup>(1)</sup> | Consolidated<br>Total |
|----------------------------------------------|------------|-----------|----------------------|-----------------------|
| <b>Three Months Ended September 30, 2009</b> |            |           |                      |                       |
| Revenues                                     | \$ 152,940 | \$ 60,554 |                      | \$ 213,494            |
| Depreciation and amortization                | \$ 5,671   | \$ 1,308  |                      | \$ 6,979              |
| Income (loss) from operations                | \$ 27,830  | \$ 3,899  | \$ (11,035)          | \$ 20,694             |
| Other income, net                            |            |           | 476                  | 476                   |
| Provision for income taxes                   |            |           | (2,388)              | (2,388)               |
| Net income                                   |            |           |                      | \$ 18,782             |

|                                              | Americas   | EMEA      | Other <sup>(1)</sup> | Consolidated<br>Total |
|----------------------------------------------|------------|-----------|----------------------|-----------------------|
| <b>Three Months Ended September 30, 2008</b> |            |           |                      |                       |
| Revenues                                     | \$ 138,573 | \$ 68,493 |                      | \$ 207,066            |
| Depreciation and amortization                | \$ 5,609   | \$ 1,320  |                      | \$ 6,929              |
| Income (loss) from operations                | \$ 22,237  | \$ 7,079  | \$ (10,063)          | \$ 19,253             |
| Other income, net                            |            |           | 3,964                | 3,964                 |
| Provision for income taxes                   |            |           | (3,725)              | (3,725)               |
| Net income                                   |            |           |                      | \$ 19,492             |

|                                             | Americas   | EMEA       | Other <sup>(1)</sup> | Consolidated<br>Total |
|---------------------------------------------|------------|------------|----------------------|-----------------------|
| <b>Nine Months Ended September 30, 2009</b> |            |            |                      |                       |
| Revenues                                    | \$ 444,682 | \$ 180,892 |                      | \$ 625,574            |
| Depreciation and amortization               | \$ 17,135  | \$ 3,782   |                      | \$ 20,917             |
| Income (loss) from operations               | \$ 76,207  | \$ 10,310  | \$ (31,271)          | \$ 55,246             |
| Other income, net                           |            |            | 586                  | 586                   |
| Provision for income taxes                  |            |            | (7,932)              | (7,932)               |
| Net income                                  |            |            |                      | \$ 47,900             |



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**Note 11 Segments and Geographic Information (continued)**

|                                             | Americas   | EMEA       | Other <sup>(1)</sup> | Consolidated<br>Total |
|---------------------------------------------|------------|------------|----------------------|-----------------------|
| <b>Nine Months Ended September 30, 2008</b> |            |            |                      |                       |
| Revenues                                    | \$ 413,469 | \$ 204,947 |                      | \$ 618,416            |
| Depreciation and amortization               | \$ 17,205  | \$ 3,920   |                      | \$ 21,125             |
| Income (loss) from operations               | \$ 66,178  | \$ 15,764  | \$ (29,806)          | \$ 52,136             |
| Other income, net                           |            |            | 11,081               | 11,081                |
| Provision for income taxes                  |            |            | (10,286)             | (10,286)              |
| Net income                                  |            |            |                      | \$ 52,931             |

(1) Other items (including corporate costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company's consolidated totals as shown in the table above for the three and nine months ended September 30, 2009 and 2008. The accounting policies of the reportable segments are the same as those described in Note 1 to the consolidated financial statements in

the Annual  
Report on Form  
10-K for the  
year ended  
December 31,  
2008.

Inter-segment  
revenues are not  
material to the  
Americas and  
EMEA segment  
results. The  
Company  
evaluates the  
performance of  
its geographic  
segments based  
on revenue and  
income  
(loss) from  
operations, and  
does not include  
segment assets  
or other income  
and expense  
items for  
management  
reporting  
purposes.

## **Note 12 Stock-Based Compensation**

A detailed description of each of the Company's stock-based compensation plans is provided below, including the 2001 Equity Incentive Plan, the 2004 Non-Employee Director Fee Plan and the Deferred Compensation Plan. Stock-based compensation expense related to these plans, which is included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations, was \$1.2 million and \$4.0 million for the three and nine months ended September 30, 2009, respectively, and \$1.2 million and \$3.6 million for the comparable 2008 periods, respectively. The Company recognized income tax benefits of \$0.5 million and \$1.6 million in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2009, respectively, and \$0.5 million and \$1.4 million for the comparable 2008 periods, respectively. The Company recognized a \$0.1 million and \$0.2 million benefit of tax deductions in excess of recognized tax benefits from the exercise of stock options for the three and nine months ended September 30, 2009, respectively and \$0.1 million and \$0.7 million for the three and nine months ended September 30, 2008, respectively. There were no capitalized stock-based compensation costs at September 30, 2009 or December 31, 2008.

**2001 Equity Incentive Plan** The Company's 2001 Equity Incentive Plan (the Plan), which is shareholder-approved, permits the grant of stock options, stock appreciation rights, restricted stock and other stock-based awards to certain employees of the Company, and certain non-employees who provide services to the Company, for up to 7.0 million shares of common stock, in order to encourage them to remain in the employment of or to diligently provide services to the Company and to increase their interest in the Company's success.

**Stock Options** Options are granted at fair market value on the date of the grant and generally vest over one to four years. All options granted under the Plan expire if not exercised by the tenth anniversary of their grant date. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions. The fair value of the stock option awards is expensed on a straight-line basis over the vesting

period of the award. Expected volatility is based on historical volatility of the Company's stock. The risk-free rate for periods within the contractual life of the award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Exercises and forfeitures are estimated within the valuation model using employee termination and other historical data. The expected term of the stock option awards granted is derived from historical exercise experience under the Plan and represents the period of time that stock option awards granted are expected to be outstanding. No stock options were granted during the nine months ended September 30, 2009 and 2008.

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**Note 12 Stock-Based Compensation (continued)****Stock Options (continued)**

The following table summarizes stock option activity under the Plan as of September 30, 2009, and changes during the nine months then ended:

| <b>Stock Options</b>                                    | <b>Shares<br/>(000s)</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term (in<br/>years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(000s)</b> |
|---------------------------------------------------------|--------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------|
| Outstanding at January 1, 2009                          | \$ 335                   | \$ 12.94                                            |                                                                                    |                                                     |
| Granted                                                 |                          |                                                     |                                                                                    |                                                     |
| Exercised                                               | (112)                    | 14.34                                               |                                                                                    |                                                     |
| Forfeited or expired                                    | (27)                     | 22.87                                               |                                                                                    |                                                     |
| <b>Outstanding at September 30, 2009</b>                | <b>196</b>               | <b>\$ 10.79</b>                                     | <b>2.04</b>                                                                        | <b>\$ 1,435</b>                                     |
| <b>Vested or expected to vest at September 30, 2009</b> | <b>196</b>               | <b>\$ 10.79</b>                                     | <b>2.04</b>                                                                        | <b>\$ 1,435</b>                                     |
| <b>Exercisable at September 30, 2009</b>                | <b>196</b>               | <b>\$ 10.79</b>                                     |                                                                                    |                                                     |