SYKES ENTERPRISES INC
Form 10-Q
May 05, 2011

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

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

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

Commission File No. 0-28274

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

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

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

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

Yes þ No o

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

Yes o No o

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

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

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

Yes o No þ

As of April 29, 2011, there were 47,027,866 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except per share data)		**March 31, 2011**		**December 31, 2010**
Assets				
Current assets:				
Cash and cash equivalents	**$**	**199,901**	$	189,829
Receivables, net		**258,122**		248,842
Prepaid expenses		**14,495**		10,704
Other current assets		**21,923**		22,913
Total current assets		**494,441**		472,288
Property and equipment, net		**106,386**		113,703
Goodwill		**124,190**		122,303
Intangibles, net		**51,161**		52,752
Deferred charges and other assets		**35,506**		33,554
	$	**811,684**	$	794,600
Liabilities and Shareholders Equity				
Current liabilities:				
Accounts payable	**$**	**24,690**	$	30,635
Accrued employee compensation and benefits		**76,312**		65,267
Current deferred income tax liabilities		**3,339**		3,347
Income taxes payable		**2,387**		2,605
Deferred revenue		**31,235**		31,255
Other accrued expenses and current liabilities		**25,560**		25,621
Total current liabilities		**163,523**		158,730
Deferred grants		**9,935**		10,807
Long-term income tax liabilities		**27,736**		28,876
Other long-term liabilities		**13,027**		12,992
Total liabilities		**214,221**		211,405
Commitments and loss contingency (Note 15)				
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; 47,030 and 47,066 shares issued, respectively		**471**		471
Additional paid-in capital		**301,223**		302,911

Retained earnings		**275,745**		265,676
Accumulated other comprehensive income		**21,118**		15,108
Treasury stock at cost: 88 shares and 81 shares, respectively		**(1,094)**		(971)
Total shareholders equity		**597,463**		583,195
	$	**811,684**	$	794,600

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
(in thousands, except per share data)	**2011**	**2010**
Revenues	**$ 310,156**	$ 266,582
Operating expenses:		
Direct salaries and related costs	**203,689**	171,650
General and administrative	**90,375**	100,023
Impairment of long-lived assets	**726**	
Total operating expenses	**294,790**	271,673
Income (loss) from continuing operations	**15,366**	(5,091)
Other income (expense):		
Interest income	**287**	232
Interest (expense)	**(407)**	(2,346)
Other (expense)	**(1,495)**	(1,429)
Total other income (expense)	**(1,615)**	(3,543)
Income (loss) from continuing operations before income taxes	**13,751**	(8,634)
Income taxes	**573**	(467)
Income (loss) from continuing operations, net of taxes	**13,178**	(8,167)
Loss from discontinued operations, net of taxes		(1,346)
Net income (loss)	**$ 13,178**	$ (9,513)
Net income (loss) per share:		
Basic:		
Continuing operations	**$ 0.28**	$ (0.18)
Discontinued operations		(0.03)
Net income (loss) per common share	**$ 0.28**	$ (0.21)
Diluted:		
Continuing operations	**$ 0.28**	$ (0.18)
Discontinued operations		(0.03)

Net income (loss) per common share	**$**	**0.28**	$	(0.21)
Weighted average shares:				
Basic		**46,409**		44,590
Diluted		**46,577**		44,766

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders Equity
Three Months Ended March 31, 2010,
Nine Months Ended December 31, 2010 and
Three Months Ended March 31, 2011
(Unaudited)

(in thousands)	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2010	41,817	$ 418	$ 166,514	$ 280,399	$ 7,819	$ (4,476)	$ 450,674
Stock-based compensation expense			1,793				1,793
Excess tax benefit from stock- based compensation			354				354
Issuance of common stock and restricted stock under equity award plans	176	1	(1,152)			(105)	(1,256)
Issuance of common stock for business acquisition	5,601	57	136,616				136,673
Comprehensive (loss)				(9,513)	(1,144)		(10,657)
Balance at March 31, 2010	47,594	476	304,125	270,886	6,675	(4,581)	577,581
Issuance of common stock	2		37				37
Stock-based compensation expense			3,142				3,142
Issuance of common stock and restricted stock under equity award plans	28	1	69			(96)	(26)
Repurchase of common stock						(5,212)	(5,212)
Retirement of treasury stock	(558)	(6)	(4,462)	(4,450)		8,918	
Comprehensive income (loss)				(760)	8,433		7,673

Balance at December 31, 2010	47,066	471	302,911	265,676	15,108	(971)	583,195
Stock-based compensation expense			**1,750**				**1,750**
Excess tax benefit from stock- based compensation			**32**				**32**
Issuance of common stock and restricted stock under equity award plans	**264**	**3**	**(1,070)**			**(123)**	**(1,190)**
Repurchase of common stock						**(5,512)**	**(5,512)**
Retirement of treasury stock	**(300)**	**(3)**	**(2,400)**	**(3,109)**		**5,512**	
Comprehensive income				**13,178**	**6,010**		**19,188**
Balance at March 31, 2011	**47,030**	**$ 471**	**$ 301,223**	**$ 275,745**	**$ 21,118**	**$ (1,094)**	**$ 597,463**

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2011 and 2010
(Unaudited)

	Three Months Ended March 31,	
(in thousands)	2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 13,178	$ (9,513)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization, net	14,232	12,763
Impairment losses	726	
Unrealized foreign currency transaction (gains), net	(1,439)	(904)
Stock-based compensation expense	1,750	1,793
Excess tax benefit from stock-based compensation	(32)	(354)
Deferred income tax provision (benefit)	113	(4,864)
Net loss on disposal of property and equipment	150	59
Bad debt expense	51	12
Unrealized losses on financial instruments, net	1,750	922
Amortization of deferred loan fees	146	955
Other	522	168
Changes in assets and liabilities, net of acquisition:		
Receivables	(3,738)	(2,472)
Prepaid expenses	(3,444)	(3,693)
Other current assets	(382)	(7,809)
Deferred charges and other assets	(13)	(2)
Accounts payable	(5,909)	(2,845)
Income taxes receivable / payable	(3,437)	(233)
Accrued employee compensation and benefits	9,728	(1,668)
Other accrued expenses and current liabilities	(2,609)	272
Deferred revenue	(807)	(924)
Other long-term liabilities	(507)	1,537
Net cash provided by (used for) operating activities	20,029	(16,800)
Cash flows from investing activities:		
Capital expenditures	(6,175)	(6,128)
Cash paid for business acquisition, net of cash acquired		(77,174)
Proceeds from sale of property and equipment	9	41
Investment in restricted cash	(6)	(107)
Release of restricted cash		80,000
Net cash (used for) investing activities	(6,172)	(3,368)

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2011 and 2010
(Unaudited)

(continued)

(in thousands)	**Three Months Ended March 31, 2011**	**2010**
Cash flows from financing activities:		
Proceeds from issuance of long term debt		75,000
Proceeds from issuance of stock		26
Excess tax benefit from stock-based compensation	**32**	354
Cash paid for repurchase of common stock	**(5,512)**	
Proceeds from grants		12
Payments on short-term debt		(85,000)
Shares repurchased for minimum tax withholding on equity awards	**(1,190)**	(1,282)
Cash paid for loan fees related to debt		(3,035)
Net cash (used for) financing activities	**(6,670)**	(13,925)
Effects of exchange rates on cash	**2,885**	(3,075)
Net increase (decrease) in cash and cash equivalents	**10,072**	(37,168)
Cash and cash equivalents beginning	**189,829**	279,853
Cash and cash equivalents ending	**$ 199,901**	$ 242,685
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	**$ 261**	$ 1,092
Cash paid during period for income taxes	**$ 6,821**	$ 6,745
Non-cash transactions:		
Property and equipment additions in accounts payable	**$ 1,690**	$ 690
Unrealized gain on postretirement obligation in accumulated other comprehensive income (loss)	**$ 17**	$ 298
Issuance of common stock for business acquisition	**$**	$ 136,673

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
(Unaudited)

Note 1. Business, Basis of Presentation and Summary of Significant Accounting Policies

Business The 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, technology/consumer, transportation and leisure, healthcare and other 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 communication channels encompassing phone, e-mail, Internet, text messaging 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 reportable segments 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.

On February 2, 2010, the Company completed the acquisition of ICT Group, Inc., pursuant to the Agreement and Plan of Merger, dated October 5, 2009. The Company has reflected the operating results in the Condensed Consolidated Statements of Operations since February 2, 2010. See Note 2, Acquisition of ICT, for additional information on the acquisition of this business.

In December 2010, the Company sold its Argentine operations, pursuant to stock purchase agreements, dated December 16, 2010 and December 29, 2010. The Company reflected the operating results related to the Argentine operations as discontinued operations in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2010. Cash flows from discontinued operations are included in the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2010. See Note 3, Discontinued Operations, for additional information on the sale of the Argentine operations.

Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2011. 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, 2010, as filed with the Securities and Exchange Commission (SEC). Subsequent events or transactions have been evaluated through the date and time of issuance of the condensed consolidated financial statements. There were no material subsequent events that required recognition or disclosure in the Condensed Consolidated Financial Statements.

Principles of Consolidation The condensed consolidated financial statements include the accounts of SYKES and its wholly-owned subsidiaries and controlled majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Recognition of Revenue Revenue is recognized in accordance with the Financial Accounting Standards Board s Accounting Standards Codification (ASC) 605 *Revenue Recognition.* The Company primarily recognizes its revenues from services as those services are performed, which is based on either a per minute, per hour, per call or

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
(Unaudited)

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

Recognition of Revenue (continued)

per transaction basis, under a fully executed contractual agreement and records reductions to revenues 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 (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. Separation criteria includes whether a delivered item has value to the customer on a stand-alone 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 stand-alone 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 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 revenues between deliverable elements, there are no further changes in the revenue allocation. If the separation criteria are met, revenues 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. As of March 31, 2011, the Company s fulfillment contracts with multiple-deliverables met the separation criteria as outlined in ASC 605-25 and the revenue was accounted for accordingly. The Company has no other contracts that contain multiple-deliverables as of March 31, 2011.

In October 2009, the Financial Accounting Standards Board amended the accounting standards for certain multiple-deliverable revenue arrangements. The Company adopted this guidance on a prospective basis for applicable transactions originated or materially modified since January 1, 2011, the adoption date. Since there were no such transactions executed or materially modified since adoption on January 1, 2011, there was no impact on the Company s financial condition, results of operations and cash flows. The amended standard:

- updates guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;

- requires an entity to allocate revenue in an arrangement using the best estimated selling price of deliverables if a vendor does not have vendor-specific objective evidence of selling price or third-party evidence of selling price; and

- eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method.

Goodwill The Company accounts for goodwill and other intangible assets under ASC 350 (ASC 350) *Intangibles Goodwill and Other.* The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. 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, and an analysis of our market capitalization. Under ASC 350, the carrying value of assets is calculated at the reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value. As of March 31, 2011, there were no indications of impairment, as outlined in ASC 350. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
(Unaudited)

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

Intangible Assets Intangible assets, primarily customer relationships, trade names, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives which approximate 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 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. As of March 31, 2011, there were no indications of impairment, as outlined by ASC 350.

Income Taxes The Company accounts for income taxes under ASC 740 (ASC 740) *Income Taxes* which requires recognition of deferred tax assets and liabilities to reflect tax consequences of differences between the tax bases of assets and liabilities and their reported amounts in the accompanying Consolidated Financial Statements. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that the deferred tax assets will not be realized in accordance with the criteria of ASC 740. Valuation allowances are established against deferred tax assets due to an uncertainty of realization. Valuation allowances are reviewed each period on a tax jurisdiction by tax jurisdiction basis to analyze whether there is sufficient positive or negative evidence, in accordance with criteria of ASC 740, to support a change in judgment about the realizability of the related deferred tax assets. Uncertainties regarding expected future income in certain jurisdictions could affect the realization of deferred tax assets in those jurisdictions.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions in accordance with ASC 740. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying Condensed Consolidated Financial Statements.

Self-Insurance Programs The Company self-insures for certain levels of workers compensation and as of January 1, 2011, began self-funding the medical, prescription drug and dental benefit plans in the United States. Estimated costs of this self-insurance program are accrued at the projected settlements for known and anticipated claims. As of March 31, 2011 and December 31, 2010, self-insurance liabilities of $1.6 million and $0.1 million, respectively, are included in Accrued employee compensation and benefits , and $0.1 million and $0.1 million, respectively, are included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.

Deferred Grants Recognition of income associated with grants for land and the acquisition of property, buildings and equipment is deferred until after the completion and occupancy of the building and title has passed to the Company, and the funds have been released from escrow. The deferred amounts for both land and building are amortized and recognized as a reduction of depreciation expense included within general and administrative costs over the corresponding useful lives of the related assets. Amounts received in excess of the cost of the building are allocated to the cost of equipment and, only after the grants are released from escrow, recognized as a reduction of depreciation expense over the weighted average useful life of the related equipment, which approximates five years. As of March 31, 2011 and December 31, 2010, property deferred grants totaled $8.9 million and $9.8 million, respectively. Amortization of the deferred grants that is included as a reduction to General and administrative costs in the accompanying Condensed Consolidated Statements of Operations was approximately $0.3 million and $0.3 million for the three months ended March 31, 2011 and 2010, respectively. Upon sale of the related facilities, any deferred grant balance is recognized in full and is included in the gain on sale of property and equipment.

The Company receives government employment grants, primarily in the U.S., Ireland and Canada, as an incentive to create and maintain permanent employment positions for a specified time period. The grants are repayable, under certain terms and conditions, if the Company s relevant employment levels do not meet or exceed the employment levels set forth in the grant agreements. Accordingly, grant monies received are deferred and amortized using the proportionate performance model over the required employment period. As of March 31, 2011 and December 31, 2010, deferred employment grants totaled $2.7 million, of which $1.7 million is included in total current liabilities, and $2.7 million, of which $1.7 million is included in total current liabilities, respectively. Amortization of these

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
(Unaudited)

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

Deferred Grants (continued)

grants, recorded as a reduction to General and administrative costs in the accompanying Condensed Consolidated Statements of Operations, was not material for the three months ended March 31, 2011 and 2010.

Stock-Based Compensation The Company has four stock-based compensation plans: the 2001 Equity Incentive Plan (for employees and certain non-employees), the 2011 Equity Incentive Plan (for employees and certain non-employees) which is subject to approval by the shareholders at the Company s 2011 Annual Meeting of Shareholders (Annual Meeting), 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). All of these plans are discussed more fully in Note 17, Stock-Based Compensation. 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.

In accordance with ASC 718 (ASC 718) *Compensation Stock Compensation* , the Company recognizes in its Consolidated Statements 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 re-measured to fair value at each balance sheet date until the awards are 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, Short-Term and Other Investments, Investments Held in Rabbi Trusts and Accounts Payable. The carrying values for cash, short-term and other investments, investments held in rabbi trusts and accounts payable approximate their fair values.

Forward Currency Forward Contracts and Options. Forward currency forward contracts and options, including premiums paid on options, are recognized 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, including adjustments for credit risk.

Fair Value Measurements A description of the Company s policies regarding fair value measurement, in accordance with the provisions of ASC 820 (ASC 820) *Fair Value Measurements and Disclosures,* 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:

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.

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
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Note 1. Business, Basis of Presentation and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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

Foreign Currency Forward Contracts and Options The Company enters into foreign currency forward contracts and options over the counter and values such contracts using quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk. The key inputs include forward or option foreign currency exchange rates and interest rates. These items are classified in Level 2 of the fair value hierarchy.

Investments Held in Rabbi Trusts The investment assets of the rabbi trusts are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 9, Investments Held in Rabbi Trusts, and Note 17, Stock-Based Compensation.

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

ASC 825 (ASC 825) *Financial Instruments* permits an entity to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. 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.

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) (AOCI), 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 and options 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 and net investments in foreign operations. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

The Company designates derivatives as either (1) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (2) a hedge of a net investment in a foreign operation; or (3) a derivative that does not qualify for hedge accounting. To qualify for hedge accounting

treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge.

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

Foreign Currency and Derivative Instruments (continued)

Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in AOCI, 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 . Changes in the fair value of derivatives that are highly effective and designated as a net investment hedge are recorded in cumulative translation adjustment in AOCI, offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company s net investment in the foreign operation. Any unrealized gains and losses from settlements of the net investment hedge remain in AOCI until partial or complete liquidation of the net investment. Ineffectiveness is measured based on the change in fair value of the forward contracts and options 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 for cash flow hedges and within Other income (expense) for net investment hedges. Cash flows from the derivative contracts are classified within the operating section in the accompanying Condensed Consolidated Statements of Cash Flows.

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. Hedges of a net investment in a foreign operation are linked to the specific foreign operation. 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 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 March 31, 2011 and December 31, 2010, 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 from fluctuations caused by volatility in currency exchange rates on the Company s operating results and cash flows. All changes in the fair value of the derivative instruments are included in Other income (expense) . See Note 8, Financial Derivatives, for further information on financial derivative instruments.

New Accounting Standards There are no recently issued accounting standards that are expected to have a material effect on the Company s financial condition, results of operations or cash flows.

Note 2. Acquisition of ICT

On February 2, 2010, the Company acquired 100% of the outstanding common shares and voting interest of ICT through a merger of ICT with and into a subsidiary of the Company. ICT provides outsourced customer management and business process outsourcing solutions with its operations located in the United States, Canada, Europe, Latin America, India, Australia and the Philippines. The results of ICT s operations have been included in the Company s Condensed Consolidated Financial Statements since its acquisition on February 2, 2010. The Company acquired ICT to expand and complement its global footprint, provide entry into additional vertical markets, and increase revenues to enhance its ability to leverage the Company s infrastructure to produce improved sustainable operating margins. This resulted in the Company paying a substantial premium for ICT resulting in recognition of goodwill.

The acquisition date fair value of the consideration transferred totaled $277.8 million, which consisted of the following (in thousands):

	Total
Cash	$ 141,161
Common stock	136,673

$ 277,834

The fair value of the 5.6 million common shares issued was determined based on the Company s closing share price of $24.40 on the acquisition date.

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Sykes Enterprises, Incorporated and Subsidiaries
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Note 2. Acquisition of ICT (continued)

The cash portion of the acquisition was funded through borrowings consisting of a $75 million short-term loan from KeyBank and a $75 million Term Loan, which were paid off in March 2010 and July 2010, respectively. See Note 11, Borrowings, for further information.

The Company accounted for the acquisition in accordance with ASC 805 *Business Combinations*, whereby the purchase price paid was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed from ICT based on their estimated fair values as of the closing date. The Company finalized its purchase price allocation during the quarter ended December 31, 2010. The following table summarizes the estimated acquisition date fair values of the assets acquired and liabilities assumed, the measurement period adjustments that occurred during the quarter ended December 31, 2010 and the final purchase price allocation as of February 2, 2010 (in thousands):

	February 2, 2010 (As initially reported)	Measurement Period Adjustments	February 2, 2010 (As adjusted)
Cash and cash equivalents	$ 63,987	$	$ 63,987
Receivables	75,890		75,890
Income tax receivable	2,844	(1,941)	903
Prepaid expenses	4,846		4,846
Other current assets	4,950	149	5,099
Total current assets	152,517	(1,792)	150,725
Property and equipment	57,910		57,910
Goodwill	90,123	7,647	97,770
Intangibles	60,310		60,310
Deferred charges and other assets	7,978	(3,965)	4,013
Short-term debt	(10,000)		(10,000)
Accounts payable	(12,412)	(168)	(12,580)
Accrued employee compensation and benefits	(23,873)	(1,309)	(25,182)
Income taxes payable	(2,451)	2,013	(438)
Other accrued expenses and current liabilities	(10,951)	(464)	(11,415)
Total current liabilities	(59,687)	72	(59,615)
Deferred grants	(706)		(706)
Long-term income tax liabilities	(5,573)	(19,924)	(25,497)
Other long-term liabilities [1]	(25,038)	17,962	(7,076)
	$ 277,834	$	$ 277,834

(1) Includes primarily long-term deferred tax liabilities.

The above fair values of assets acquired and liabilities assumed were based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The measurement period adjustments relate primarily to unrecognized tax benefits and related offsets, tax liabilities relating to the determination as of the date of the ICT acquisition that the Company intended to distribute a majority of the accumulated and undistributed earnings of the ICT Philippine subsidiary and its direct parent, ICT Group Netherlands B.V. to SYKES, its ultimate U.S. parent, and certain accrual adjustments related to labor and benefit costs in Argentina. The measurement period adjustments were completed as of December 31, 2010.

The $97.8 million of goodwill was assigned to the Company s Americas and EMEA operating segments in the amount of $97.7 million and $0.1 million, respectively. The goodwill recognized is attributable primarily to synergies the Company expects to achieve as the acquisition increases the opportunity for sustained long-term operating margin expansion by leveraging general and administrative expenses over a larger revenue base. Pursuant to federal income tax regulations, the ICT acquisition was considered to be a non-taxable transaction; therefore, no amount of intangibles or goodwill from this acquisition will be deductible for tax purposes. The fair value of

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Note 2. Acquisition of ICT (continued)

receivables acquired is $75.9 million, with the gross contractual amount being $76.4 million, of which $0.5 million was not expected to be collected.

Total net assets acquired (liabilities assumed) by operating segment as of February 2, 2010, the acquisition date, were as follows (in thousands):

	Americas	EMEA	Other	Consolidated
Net assets (liabilities)	$ 278,703	$ (869)	$	$ 277,834

Fair values are based on management s estimates and assumptions including variations of the income approach, the cost approach and the market approach. The following table presents the Company s purchased intangibles assets as of February 2, 2010, the acquisition date (in thousands):

	Amount Assigned	Weighted Average Amortization Period (years)
Customer relationships	$ 57,900	8
Trade name	1,000	3
Proprietary software	850	2
Non-compete agreements	560	1
	$ 60,310	8

After the ICT acquisition in February, 2010, the Company paid off the $10.0 million outstanding balance plus accrued interest of the ICT short-term debt assumed upon acquisition. The related interest expense included in Interest expense in the accompanying Condensed Consolidated Statement of Operations for the three months ended March 31, 2010 was not material.

The Company s Condensed Consolidated Statement of Operations for the three months ended March 31, 2010 includes ICT revenues of $63.7 million and the ICT net loss of $(13.4) million from the February 2, 2010 acquisition date through March 31, 2010.

The following table presents the unaudited pro forma combined revenues and net earnings as if ICT had been included in the consolidated results of the Company for the three months ended March 31, 2010. The pro forma financial information is not indicative of the results of operations that would have been achieved if the acquisition and related borrowings had taken place on January 1, 2010 (in thousands):

	Three Months Ended March 31, 2010
Revenues	$ 306,710
Income from continuing operations, net of taxes	$ 11,803
Income from continuing operations per common share:	
Basic	$ 0.25

Diluted	$	0.25

These amounts have been calculated to reflect the additional depreciation, amortization, and interest expense that would have been incurred assuming the fair value adjustments and borrowings occurred on January 1, 2010, together with the consequential tax effects. In addition, these amounts exclude costs incurred which are directly attributable to the acquisition, and which do not have a continuing impact on the combined companies operating results. Included in these costs are severance, advisory and legal costs, net of the consequential tax effects.

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Note 2. Acquisition of ICT (continued)

The following table presents acquisition-related costs included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Severance costs:		
Americas	**$**	$ 850
Corporate	**126**	12,596
	126	13,446
Lease termination and other costs: (1)		
Americas	**220**	
	220	
Transaction and integration costs:		
Corporate	**13**	7,654
	13	7,654
Depreciation and amortization: (2)		
Americas	**3,058**	2,153
EMEA		6
	3,058	2,159
Total acquisition-related costs	**$ 3,417**	$ 23,259

(1) Amounts related to the Third Quarter 2010 Exit Plan. See Note 5.

(2) Additional depreciation resulted from the increase in fair values of the acquired property and equipment and amortization of the fair values of the acquired intangibles.

Note 3. Discontinued Operations

In December 2010, the Board of Directors of SYKES, upon the recommendation of its Finance Committee, sold its Argentine operations, which were operated through two Argentine subsidiaries: Centro Interaccion Multimedia S.A. (CIMSA) and ICT Services of Argentina, S.A. (ICT Argentina), together the Argentine operations. CIMSA and ICT Argentina were offshore contact centers providing contact center services through a total of three centers in Argentina to clients in the United States and in the Republic of Argentina. The decision to exit Argentina was made due to surging costs, primarily chronic wage increases, which dramatically reduced the appeal of the Argentina footprint among the Company s existing and new global clients and thus the overall future profitability of the Argentine

operations. As these were stock transactions, the Company has no future obligation with regard to the Argentine operations and there are no material post closing obligations.

As a result of the sale of the Argentine operations, the operating results related to the Argentine operations have been reflected as discontinued operations in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2010. This business was historically reported by the Company as part of the Americas segment.

Sykes Enterprises, Incorporated and Subsidiaries
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Note 3. Discontinued Operations (continued)

The results of the Argentine operations included in discontinued operations were as follows (in thousands):

		Three Months Ended March 31, 2010
Revenues	$	8,635
(Loss) from discontinued operations before income taxes	$	(1,346)
Income taxes [(1)]		
(Loss) from discontinued operations, net of taxes	$	(1,346)

(1) There were no income taxes on the loss from discontinued operations as any tax benefit from the losses would be offset by a valuation allowance.

Note 4. Assets Held for Sale

In March 2011, the Company classified long-lived assets, consisting of land and a building located in Minot, North Dakota, as held for sale. These assets were classified as held for sale based on the following: management committed to a plan to sell the assets, the assets are available for immediate sale in their present condition, an active program to locate a buyer and other actions required to complete the plan to sell the assets has been initiated, the assets are being actively marketed for sale at a price that is reasonable in relation to their current fair value, it is probable that the assets will be sold in a reasonable period of time, and it is unlikely that significant changes to the plan to sell the assets will be made or that the plan will be withdrawn.

As of March 31, 2011, the assets held for sale have a carrying value of $0.8 million, which are included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. The estimated fair value of these assets is in excess of their carrying value based on recent sales prices of comparable properties. Related to these assets are deferred grants of $0.6 million as of March 31, 2011, which are included in Other accrued expenses and deferred liabilities in the accompanying Condensed Consolidated Balance Sheet. Upon reclassification as held for sale, the Company discontinued depreciating these assets and amortizing the related deferred grants. As of December 31, 2010, these assets, classified as held and used with a carrying value of $0.9 million, are included in Property and equipment in the accompanying Condensed Consolidated Balance Sheet. Related to these assets are deferred grants of $0.6 million as of December 31, 2010, which are included in Deferred grants in the accompanying Condensed Consolidated Balance Sheet.

In February 2011, the Company received an offer to purchase the Minot assets for $4.1 million in cash. The sale is expected to close in June 2011.

Note 5. Costs Associated with Exit or Disposal Activities

Third Quarter 2010 Exit Plan

During the quarter ended September 30, 2010, consistent with the Company s long-term goals to manage and optimize capacity utilization, the Company closed or committed to close four customer contact management centers in the Philippines and consolidated or committed to consolidate leased space in our Wilmington, Delaware and Newtown, Pennsylvania locations (the Third Quarter 2010 Exit Plan). These actions were in response to the facilities consolidation and capacity rationalization related to the ICT acquisition, enabling the Company to reduce operating costs by eliminating redundant space and to optimize capacity utilization rates where overlap exists. There are no

employees affected by the Third Quarter 2010 Exit Plan. These actions were substantially completed by January 31, 2011.

The major costs incurred as a result of these actions are impairments of long-lived assets (primarily leasehold improvements) and facility-related costs (primarily consisting of those costs associated with the real estate leases) estimated at $10.9 million as of March 31, 2011 ($10.0 million as of December 31, 2010), all of which are in the Americas segment. This increase of $0.9 million during the quarter ended March 31, 2011 is primarily due to the change in assumptions related to the redeployment of property and equipment and a lease early termination penalty. The Company recorded $3.8 million of the costs associated with the Third Quarter 2010 Exit Plan as non-cash

Sykes Enterprises, Incorporated and Subsidiaries
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Note 5. Costs Associated with Exit or Disposal Activities (continued)

impairment charges, of which $0.7 million is included in Impairment of long-lived assets in the accompanying Condensed Consolidated Statement of Operations for the three months ended March 31, 2011 (see Note 6, Fair Value, for further information). The remaining $7.1 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in February 2017. The Company has paid $1.5 million in cash through March 31, 2011 related to these facility-related costs.

The following table summarizes the 2011 accrued liability associated with the Third Quarter 2010 Exit Plan s exit or disposal activities and related charges for the three months ended March 31, 2011:

	Beginning Accrual at January 1, 2011	2011 Charges[1]	Cash Payments	Other Non-Cash Changes	Ending Accrual at March 31, 2011	Short-term[2]	Long-term[3]	Total
Lease obligations and facility exit costs	$ 6,141	$ 220	$ (742)	$	**$ 5,619**	$ 1,953	$ 3,666	**$ 5,619**

[1] During the three months ended March 31, 2011, the Company recorded $0.2 million in additional lease termination costs related to one of the Philippine customer contact management centers, which is included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

[2] Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

[3] Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

Fourth Quarter 2010 Exit Plan

During the quarter ended December 31, 2010, in furtherance of the Company s long-term goals to manage and optimize capacity utilization, the Company committed to and closed a customer contact management center in the United Kingdom and a customer contact management center in Ireland, both components of the EMEA segment (the Fourth Quarter 2010 Exit Plan). These actions further enable the Company to reduce operating costs by eliminating additional redundant space and to optimize capacity utilization rates where overlap exists. These actions were substantially completed by January 31, 2011. None of the revenues from the United Kingdom or Ireland facilities, which were approximately $1.3 million on an annualized basis, were captured and migrated to other facilities within the region. Loss from operations of the United Kingdom and Ireland are not material to the consolidated income (loss) from continuing operations; therefore, their results of operations have not been presented as discontinued operations in the accompanying Condensed Consolidated Statements of Operations.

The major costs incurred as a result of these actions are facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and severance-related costs totaling $2.2 million as of March 31, 2011 ($2.1 million as of December 31, 2010). This increase of $0.1 million included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations during the three months ended March 31, 2011 is primarily due to the change in

the estimate of facility-related costs. The Company recorded $0.2 million of the costs associated with the Fourth Quarter 2010 Exit Plan as non-cash impairment charges. Approximately $1.8 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in March 2014, and $0.2 million represents cash expenditures for severance related costs. The Company has paid $0.6 million in cash through March 31, 2011 of the facility-related and severance-related costs.

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Note 5. Costs Associated with Exit or Disposal Activities (continued)

The following table summarizes the 2011 accrued liability associated with the Fourth Quarter 2010 Exit Plan s exit or disposal activities and related charges for the three months ended March 31, 2011:

	Beginning Accrual at January 1, 2011	2011 Charges[1]	Cash Payments	Other Non-Cash Changes[2]	Ending Accrual at March 31, 2011	Short-term[3]	Long-term[4]	Total
Lease obligations and facility exit costs	$ 1,711	$ 70	$ (387)	$ 58	**$ 1,452**	$ 567	$ 885	**$ 1,452**

(1) During the three months ended March 31, 2011, the Company recorded $0.1 million in additional lease termination costs related to the Ireland customer contact management center, which is included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

(2) Effect of foreign currency translation.

(3) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

(4) Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

In accordance with the Company s 12 to 18 month integration timeline following the ICT acquisition, the Company expects to continue to evaluate opportunities for further such actions around facilities consolidation and capacity optimization.

ICT Restructuring Plan

As of February 2, 2010, the Company assumed the liabilities of ICT, including restructuring accruals in connection with ICT s plans to reduce its overall cost structure and adapt to changing economic conditions by closing various customer contact management centers in Europe and Canada prior to the end of their existing lease terms (the ICT Restructuring Plan). These restructuring accruals, which related to ongoing lease and other contractual obligations, are expected to be paid by the end of December 2011.

The following table summarizes the 2011 accrued liability associated with the ICT Restructuring Plan s exit or disposal activities for the three months ended March 31, 2011:

	Beginning Accrual at January 1, 2011	2011 Charges[1]	Cash Payments	Other Non-Cash Changes[2]	Ending Accrual at March 31, 2011	Short-term[3]	Long-term	Total

Lease obligations and facility exit costs	$ 1,462	$ (262)	$ (426)	$ 43	**$ 817**	$ 817	$	**$ 817**

(1) During the three months ended March 31, 2011, the Company reversed accruals related to the final settlement of termination costs, which reduced General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

(2) Effect of foreign currency translation.

(3) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.

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Note 6. Fair Value

The Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 subject to the requirements of ASC 820 consist of the following (in thousands):

		Fair Value Measurements at March 31, 2011 Using:		
	Balance at March 31, 2011	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Assets:				
Money market funds and open-end mutual funds [1]	$ 41,867	$ 41,867	$	$
Foreign currency forward contracts [2]	1,342		1,342	
Foreign currency option contracts [2]	3,682		3,682	
Equity investments held in a rabbi trust for the Deferred Compensation Plan [3]	3,021	3,021		
Debt investments held in a rabbi trust for the Deferred Compensation Plan [3]	889	889		
Guaranteed investment certificates [4]	58		58	
	$ 50,859	**$ 45,777**	**$ 5,082**	**$**
Liabilities:				
Foreign currency forward contracts [5]	$ 1,742	$	$ 1,742	$
	$ 1,742	**$**	**$ 1,742**	**$**

(1) Included $41.2 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 8.

(3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 9.

(4) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

(5) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 8.

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Note 6. Fair Value (continued)

The Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 subject to the requirements of ASC 820 consist of the following (in thousands):

		Fair Value Measurements at December 31, 2010 Using:		
	Balance at December 31, 2010	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Assets:				
Money market funds and open-end mutual funds [1]	$ 6,640	$ 6,640	$	$
Foreign currency forward contracts [2]	1,283		1,283	
Foreign currency option contracts [2]	4,951		4,951	
Equity investments held in a rabbi trust for the Deferred Compensation Plan [3]	2,647	2,647		
Debt investments held in a rabbi trust for the Deferred Compensation Plan [3]	789	789		
U.S. Treasury Bills held in a rabbi trust for the former ICT chief executive officer [3]	118	118		
Guaranteed investment certificates [4]	53		53	
	$ 16,481	$ 10,194	$ 6,287	$
Liabilities:				
Foreign currency forward contracts [5]	$ 735	$	$ 735	$
	$ 735	$	$ 735	$

(1) Included $5.9 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 8.

(3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 9.

(4) Included in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

(5) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 8.

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Note 6. 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, Business, Basis of Presentation and Summary of Significant Accounting Policies, like those associated with acquired businesses, including goodwill and other intangible assets and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition would be applicable if one or more of these assets was determined to be impaired. The Company s assets measured at fair value on a nonrecurring basis (no liabilities) as of March 31, 2011 subject to the requirements of ASC 820 consist of the following (in thousands):

	Balance at March 31, 2011	Three Months Ended March 31, 2011 Total Impairment (Losses)	Balance at December 31, 2010	Three Months Ended March 31, 2010 Total Impairment (Losses)
Assets:				
EMEA:				
Property and equipment, net [1]	**$ 14,939**	**$**	$ 14,614	**$**
Americas:				
Property and equipment, net [1]	**91,447**	**(726)**	99,089	
	$ 106,386	**$ (726)**	**$** 113,703	$

[1] See Note 1 for additional information regarding the fair value measurement.

During the three months ended March 31, 2011 in connection with the Third Quarter 2010 Exit Plan within the Americas segment, as discussed more fully in Note 5, Costs Associated with Exit or Disposal Activities, the Company recorded an impairment charge of $0.7 million, resulting from a change in assumptions related to the redeployment of property and equipment.

Note 7. Goodwill and Intangible Assets

The following table presents the Company s purchased intangible assets (in thousands) as of March 31, 2011:

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	**$ 58,999**	**$ (8,749)**	**$ 50,250**	8
Trade name	**1,000**	**(389)**	**611**	3

Non-compete agreements	**560**	**(560)**		1
Proprietary software	**850**	**(550)**	**300**	2
	$ 61,409	**$ (10,248)**	**$ 51,161**	8

The following table presents the Company s purchased intangible assets (in thousands) as of December 31, 2010:

	Gross Intangibles	**Accumulated Amortization**	**Net Intangibles**	**Weighted Average Amortization Period (years)**
Customer relationships	$ 58,471	$ (6,839)	$ 51,632	8
Trade name	1,000	(306)	694	3
Non-compete agreements	560	(513)	47	1
Proprietary software	850	(471)	379	2
	$ 60,881	$ (8,129)	$ 52,752	8

Amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), of

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Note 7. Goodwill and Intangible Assets (continued)

$2.0 million and $1.4 million for the three months ended March 31, 2011 and 2010, respectively, is included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations.

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

Years Ending December 31,	Amount
2011 (remaining nine months)	$5,947
2012	7,805
2013	7,407
2014	7,344
2015	7,342
2016	7,342
2017 and thereafter	7,974

Changes in goodwill consist of the following (in thousands):

	Gross Amount	Accumulated Impairment Losses	Net Amount
Americas:			
Balance at January 1, 2011	$ 122,932	$ (629)	$ 122,303
Foreign currency translation	1,887		1,887
Balance at March 31, 2011	124,819	(629)	124,190
EMEA:			
Balance at January 1, 2011	84	(84)	
Foreign currency translation			
Balance at March 31, 2011	84	(84)	
	$ 124,903	**$ (713)**	**$ 124,190**

Note 8. Financial Derivatives

Cash Flow Hedges The Company had derivative assets and liabilities relating to outstanding forward contracts and options, designated as cash flow hedges, as defined under ASC 815, consisting of Philippine peso (PHP) contracts, maturing within 12 months with a notional value of $96.7 million and $109.1 million as of March 31, 2011 and December 31, 2010, respectively, and Canadian Dollar contracts maturing within 12 months with a notional value of $5.4 million and $7.2 million as of March 31, 2011 and December 31, 2010, 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 $1.5 million and $2.1 million of deferred gains, net of taxes of ($0.4) million and $(0.5) million, on these derivative instruments as of March 31, 2011 and December 31, 2010, respectively, recorded in AOCI in the accompanying Condensed Consolidated Balance Sheets. The deferred gains expected to be reclassified to Revenues from AOCI during the next twelve months is $5.0 million. However, this amount and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts.

Net Investment Hedges During 2010, the Company entered into foreign exchange forward contracts to hedge its net investment in a foreign operation, as defined under ASC 815, with an aggregate notional value of $26.1 million. These hedges settled in 2010 and the Company recorded deferred (losses) of $(2.6) million, net of taxes, for 2010 as a currency translation adjustment, a component of AOCI, offsetting foreign exchange losses attributable to the translation of the net investment. The Company did not hedge net investments in foreign operations during the three months ended March 31, 2011.

Other Hedges The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect our interests against adverse foreign currency moves pertaining to intercompany receivables and payables, and other assets and liabilities

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Note 8. Financial Derivatives (continued)

Other Hedges (continued)

that are denominated in currencies other than our subsidiaries functional currencies. These contracts generally do not exceed 90 days in duration.

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

	As of March 31, 2011		As of December 31, 2010	
Contract Type	**Notional Amount in USD**	**Settle Through Date**	**Notional Amount in USD**	**Settle Through Date**
Cash flow hedge: [1]				
Options	$ 75,700	December 2011	$ 81,100	December 2011
Forwards	$ 26,400	December 2011	$ 35,200	December 2011
Not designated as hedge: [2]				
Forwards	$ 52,334	June 2011	$ 57,791	February 2011

(1) Cash flow hedge as defined under ASC 815. Purpose is to protect against the risk that eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates.

(2) Foreign currency hedge contract not designated as a hedge as defined under ASC 815. Purpose is to reduce the effects on the Company s operating results and cash flows from fluctuations caused by volatility in currency exchange rates, primarily related to intercompany loan payments and cash held in non-functional currencies.

As of March 31, 2011, 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 $5.0 million.

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Note 8. Financial Derivatives (continued)

Other Hedges (continued)

The following tables present the fair value of the Company s derivative instruments as of March 31, 2011 and December 31, 2010 included in the accompanying Condensed Consolidated Balance Sheets (in thousands):

	Derivative Assets					
	March 31, 2011			December 31, 2010		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Derivatives designated as cash flow hedging instruments under ASC 815:						
Foreign currency forward contracts	Other current assets	**$**	**1,341**	Other current assets	$	1,009
Foreign currency options	Other current assets		**3,682**	Other current assets		4,951
			5,023			5,960
Derivatives not designated as hedging instruments under ASC 815:						
Foreign currency forward contracts	Other current assets		**1**	Other current assets		274
Total derivative assets		**$**	**5,024**		$	6,234

	Derivative Liabilities					
	March 31, 2011			December 31, 2010		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Derivatives designated as cash flow hedging instruments under ASC 815:						
Foreign currency forward contracts	Other accrued expenses and current liabilities	**$**		Other accrued expenses and current liabilities	$	27
						27
Derivatives not designated as hedging instruments under ASC 815:						

Foreign currency forward contracts	Other accrued expenses and current liabilities		**1,742**	Other accrued expenses and current liabilities	708
Total derivative liabilities		**$**	**1,742**	$	735

(1) 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.

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Note 8. Financial Derivatives (continued)

Other Hedges (continued)

The following tables present the effect of the Company s derivative instruments for the three months ended March 31, 2011 and 2010 in the accompanying Condensed Consolidated Financial Statements (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) March 31,		Statement of Operations Location	Gain (Loss) Reclassified From Accumulated AOCI Into Income March 31,		Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) March 31,	
	2011	**2010**		**2011**	**2010**	**2011**	**2010**
Derivatives designated as cash flow hedging instruments under ASC 815:							
Foreign currency forward contracts	**$ 378**	$ 1,195	Revenues	**$ 34**	$ 892	$	$
Foreign currency option contracts	**(650)**	150	Revenues	**498**	89		
	$ (272)	$ 1,345		**$ 532**	$ 981	$	$

	Statement of Operations Location	Gain (Loss) Recognized in Income on Derivatives March 31,	
		2011	**2010**
Derivatives not designated as hedging instruments under ASC 815:			
Foreign currency forward contracts	Other income and (expense)	**$ (2,289)**	$ (1,074)

Note 9. Investments Held in Rabbi Trusts

The Company s investments held in rabbi trusts, classified as trading securities and included in Other current assets in the accompanying Condensed Consolidated Balance Sheets, at fair value, consist of the following (in thousands):

	March 31, 2011	December 31, 2010

	Cost	Fair Value	Cost	Fair Value
Mutual funds	**$ 3,371**	**$ 3,910**	$ 3,058	$ 3,436
U.S. Treasury Bills [1]			118	118
	$ 3,371	**$ 3,910**	$ 3,176	$ 3,554

[1] Matured in January 2011.

The mutual funds held in the rabbi trusts were 77% equity-based and 23% debt-based at March 31, 2011. Investment income, included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 consists of the following (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Gross realized gains from sale of trading securities	**$ 2**	$ 10
Gross realized losses from sale of trading securities		(5)
Dividend and interest income	**5**	6
Net unrealized holding gains	**154**	113
Net investment income	**$ 161**	$ 124

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Note 10. Deferred Revenue

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

	March 31, 2011	December 31, 2010
Future service	**$ 23,578**	$ 23,919
Estimated potential penalties and holdbacks	**7,657**	7,336
	$ 31,235	$ 31,255

Note 11. Borrowings

The Company had no outstanding borrowings as of March 31, 2011 and December 31, 2010.

On February 2, 2010, the Company entered into a Credit Agreement (the Credit Agreement) with a group of lenders and KeyBank National Association, as Lead Arranger, Sole Book Runner and Administrative Agent (KeyBank). The Credit Agreement provides for a $75 million term loan (the Term Loan) and a $75 million revolving credit facility, the amount which is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. The Company drew down the full $75 million Term Loan on February 2, 2010 in connection with the acquisition of ICT on such date. See Note 2, Acquisition of ICT, for further information. During the three months ended September 30, 2010, the Company paid off the remaining outstanding Term Loan balance, earlier than the scheduled maturity, in the amount of $52.5 million, plus accrued interest. The Term Loan is no longer available for borrowings.

The $75 million revolving credit facility provided under the Credit Agreement includes a $40 million multi-currency sub-facility, a $10 million swingline sub-facility and a $5 million letter of credit sub-facility, which may be used for general corporate purposes including strategic acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Company is not currently aware of any inability of its lenders to provide access to the full commitment of funds that exist under the revolving credit facility, if necessary. However, there can be no assurance that such facility will be available to the Company, even though it is a binding commitment of the financial institutions. The revolving credit facility will mature on February 1, 2013.

Borrowings under the Credit Agreement bear interest at either LIBOR or the base rate plus, in each case, an applicable margin based on the Company s leverage ratio. The applicable interest rate is determined quarterly based on the Company s leverage ratio at such time. The base rate is a rate per annum equal to the greatest of (i) the rate of interest established by KeyBank, from time to time, as its prime rate ; (ii) the Federal Funds effective rate in effect from time to time, plus 1/2 of 1% per annum; and (iii) the then-applicable LIBOR rate for one month interest periods, plus 1.00%. Swingline loans bear interest only at the base rate plus the base rate margin. In addition, the Company is required to pay certain customary fees, including a commitment fee of up to 0.75%, which is due quarterly in arrears and calculated on the average unused amount of the revolving credit facility.

The Company paid an underwriting fee of $3.0 million for the Credit Agreement, which is deferred and amortized over the term of the loan. The related interest expense and amortization of deferred loan fees on the Credit Agreement of $0.3 million and $0.8 million are included in Interest expense in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, respectively. The $75 million Term Loan had a weighted average interest rate of 3.95% for the three months ended March 31, 2010.

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

In December, 2009, Sykes (Bermuda) Holdings Limited, a Bermuda exempted company (Sykes Bermuda) which is an indirect wholly-owned subsidiary of the Company, entered into a credit agreement with KeyBank (the Bermuda Credit Agreement). The Bermuda Credit Agreement provided for a $75 million short-term loan to Sykes Bermuda with a maturity date of March 31, 2010. Sykes Bermuda drew down the full $75 million on December 11, 2009. The Bermuda Credit Agreement required that Sykes Bermuda and its direct subsidiaries maintain cash and cash equivalents of at least $80 million at all times. Interest was charged on outstanding amounts, at the option of Sykes Bermuda, at either a Eurodollar Rate (as defined in the Bermuda Credit Agreement) or a Base Rate (as

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Note 11. Borrowings (continued)

defined in the Bermuda Credit Agreement) plus, in each case, an applicable margin specified in the Bermuda Credit Agreement. The underwriting fee paid of $0.8 million was deferred and amortized over the term of the loan. Sykes Bermuda repaid the entire outstanding amount plus accrued interest on March 31, 2010. The related interest expense and amortization of deferred loan fees of $1.4 million are included in Interest expense in the accompanying Condensed Consolidated Statement of Operations for the three months ended March 31, 2010 (none for the three months ended March 31, 2011).

Note 12. 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):

	Foreign Currency Translation Adjustment	Unrealized (Loss) on Net Investment Hedge	Unrealized Actuarial Gain (Loss) Related to Pension Liability	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Unrealized Gain (Loss) on Post Retirement Obligation	Total
Balance at January 1, 2010	$ 4,317	$	$ 1,207	$ 2,019	$ 276	$ 7,819
Pre-tax amount	9,790	(3,955)	(31)	4,936	104	10,844
Tax benefit		1,390		321		1,711
Reclassification to net loss	(7)		(52)	(5,173)	(34)	(5,266)
Foreign currency translation	(108)		65	43		
Balance at December 31, 2010	13,992	(2,565)	1,189	2,146	346	15,108
Pre-tax amount	**6,874**		**87**	**(272)**	**26**	**6,715**
Tax benefit				**152**		**152**
Reclassification to net income	**(302)**		**(14)**	**(532)**	**(9)**	**(857)**
Foreign currency translation	**(38)**		**12**	**26**		
Balance at March 31, 2011	**$20,526**	**$(2,565)**	**$ 1,274**	**$ 1,520**	**$ 363**	**$21,118**

Except as discussed in Note 13, Income Taxes, 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 13. Income Taxes

The Company s effective tax rate was 4.2% and 5.4% for the three months ended March 31, 2011, and 2010, respectively. The differences in the Company s effective tax rate of 4.2% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions, losses in jurisdictions for which tax benefits either can or cannot be recognized, adjustments of valuation allowances, changes in unrecognized tax positions, foreign withholding taxes and permanent differences.

The liability for unrecognized tax benefits is recorded as Long-term income tax liabilities in the accompanying Condensed Consolidated Balance Sheets. The Company has accrued $18.6 million at March 31, 2011, and $21.0 million at December 31, 2010, excluding penalties and interest. The $2.4 million decrease relates primarily to a favorable resolution of a tax audit.

Generally, earnings associated with the investments in our subsidiaries are considered to be permanently invested and provisions for income taxes on those earnings or translation adjustments are not recorded. However in 2010, the Company changed its intent to distribute current earnings from various foreign operations to their foreign parents to take advantage of the December 2010 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the Tax Relief Act), which includes the extension until December 31, 2011 of Internal Revenue Code Section 954(c)(6). The Tax Relief Act permits continued tax deferral on such distributions that would otherwise be taxable immediately in the United States. While the distributions are not taxable in the United States, related foreign withho