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	Common Stock 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)

(in thousands)	Three Months Ended March 31, 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)

	Three Months Ended March 31,	
(in thousands)	**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.

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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

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.

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)

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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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.

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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 withholding taxes have been accrued in the Condensed Consolidated Balance Sheets.

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Note 13. Income Taxes (continued)

In addition, the U.S. Department of the Treasury released the General Explanations of the Administration s Fiscal Year 2012 Revenue Proposals in February 2011. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings. The Company continues to monitor these proposals and is currently evaluating their potential impact on its financial condition, results of operations, and cash flows. Determination of any unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in nature is not practicable.

The U.S. Internal Revenue Service is currently conducting a limited audit of the 2007 tax year. The Canadian tax authority is currently auditing tax years 2003 through 2006 and 2008 through 2009. The German tax authority is currently auditing tax periods 2005 through 2007. In the Philippines, the Company is being audited by the Philippine tax authorities for tax years 2007 and 2008. The Company s Indian subsidiary is currently under examination in India for fiscal tax years 2004 through 2007. As of March 31, 2011, the Company believes it has adequately accrued for these audits.

Note 14. 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 trusts using the treasury stock method. For the three months ended March 31, 2011 and 2010, the impact of outstanding options to purchase shares of common stock and stock appreciation rights of 0.5 million shares and 0.2 million shares, respectively, were anti-dilutive and were excluded from the calculation of diluted earnings per share.

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

	Three Months Ended March 31,	
	2011	**2010**
Basic:		
Weighted average common shares outstanding	**46,409**	44,590
Diluted:		
Dilutive effect of stock options, stock appreciation rights, restricted stock, common stock units and shares held in a rabbi trust	**168**	176
Total weighted average diluted shares outstanding	**46,577**	44,766

On August 5, 2002, the Company s Board of Directors authorized the Company to purchase up to 3.0 million shares of its outstanding common stock. A total of 2.5 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 three months ended March 31, 2011, the Company repurchased 0.3 million common shares under the 2002 repurchase program at prices ranging from $18.24 to $18.53 per share for a total cost of $5.5 million; these shares were then immediately retired. During the three months ended March 31, 2010, the Company repurchased 0.2 million common shares under the 2002 repurchase program at prices ranging from $13.72 to $14.75 per share for a total cost of $3.2 million.

Note 15. Commitments and Loss Contingency

Purchase Commitments

During the three months ended March 31, 2011, the Company entered into several agreements with third-party vendors in the ordinary course of business whereby the Company committed to purchase goods and services used in its normal operations. These agreements, which are not cancelable, range from one to four year periods and contain fixed or minimum annual commitments. Certain of these agreements allow for renegotiation of the minimum annual commitments based on certain conditions.

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Note 15. Commitments and Loss Contingency (continued)

Purchase Commitments (continued)

The following is a schedule of future minimum purchase commitments under these agreements as of March 31, 2011 (in thousands):

	Total
2011 (remaining nine months)	$ 2,200
2012	1,856
2013	1,093
2014	64
2015	
2016 and thereafter	
Total minimum payments required	$ 5,213

Except for the contractual obligations mentioned above, there have not been any material changes to the Company s outstanding contractual obligations from the disclosure in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Loss Contingency

The Company has previously disclosed three pending matters involving regulatory sanctions assessed against the Company s Spanish subsidiary. All three matters relate to the alleged inappropriate acquisition of personal information in connection with two outbound client contracts. In connection with the appeal of one of these claims, the Company issued a bank guarantee, which is included as restricted cash of $0.4 million and $0.4 million in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, respectively. Based upon the opinion of legal counsel regarding the likely outcome of these three matters, the Company accrued a liability in the amount of $1.3 million under ASC 450 *Contingencies* because management believed that a loss was probable and the amount of the loss could be reasonably estimated. During the quarter ended December 31, 2010, the Spanish Supreme Court ruled in the Company s favor in one of the three subject claims. Accordingly, the Company has reversed the accrual in the amount of $0.5 million related to that particular claim. The accrued liability included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheets was $0.8 million and $0.8 million as of March 31, 2011 and December 31, 2010, respectively. One of the other two claims has been finally decided against the Company on procedural grounds, and the final claim remains on appeal to the Spanish Supreme Court.

The Company from time to time is involved in other legal actions arising in the ordinary course of business. With respect to these matters, management believes that it has adequate legal defenses and/or when possible and appropriate, provided adequate accruals related to those matters such that the ultimate outcome will not have a material adverse effect on the Company s financial position or results of operations.

Note 16. Defined Benefit Pension Plan and Postretirement Benefits

Defined Benefit Pension Plans

The following table provides information about the net periodic benefit cost for the pension plans for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31,

	2011	2010
Service cost	**$ 19**	$ 10
Interest cost	**25**	10
Recognized actuarial (gains)	**(14)**	(8)
Net periodic benefit cost	**$ 30**	$ 12

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Note 16. Defined Benefit Pension Plan and Postretirement Benefits (continued)

Employee Retirement Savings Plans

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the plan provisions, the Company matches 50% of participant contributions to a maximum matching amount of 2% of participant compensation. The Company contribution was $0.3 million and $0.3 million for the three months ended March 31, 2011 and 2010, respectively.

In connection with the acquisition of ICT in February 2010, the Company assumed ICT s profit sharing plan (Section 401(k)). Under this profit sharing plan, the Company matches 50% of employee contributions for all qualified employees, as defined, up to a maximum of 6% of the employee s compensation; however, it may also make additional contributions to the plan based upon profit levels and other factors. No such additional contributions were made during the three months ended March 31, 2011. Employees are fully vested in their contributions, while full vesting in the Company s contributions occurs upon death, disability, retirement or completion of five years of service.

Split-Dollar Life Insurance Arrangement

In 1996, the Company entered into a split-dollar life insurance arrangement to benefit the former Chairman and Chief Executive Officer of the Company. Under the terms of the arrangement, the Company retained a collateral interest in the policy to the extent of the premiums paid by the Company. Effective January 1, 2008, the Company recorded a $0.5 million liability for a post-retirement benefit obligation related to this arrangement, which was accounted for as a reduction to the January 1, 2008 balance of retained earnings in accordance with ASC 715-60 *Defined Benefit Plans Other Postretirement* . The postretirement benefit obligation of $0.1 million and $0.2 million was included in Other long-term liabilities as of March 31, 2011 and December 31, 2010, respectively, in the accompanying Condensed Consolidated Balance Sheets. The Company has an unrealized gain of $0.4 million and $0.3 million as of March 31, 2011 and December 31, 2010, respectively, due to changes in discount rates related to the postretirement obligation, which was recorded in Accumulated other comprehensive income in the accompanying Condensed Consolidated Balance Sheets.

Note 17. Stock-Based Compensation

The Company s stock-based compensation plans include the 2001 Equity Incentive Plan, the 2011 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 primarily in the Americas in the accompanying Condensed Consolidated Statements of Operations, was $1.7 million and $1.8 million for the three months ended March 31, 2011 and 2010, respectively. The Company recognized income tax benefits in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 of $0.7 million and $0.7 million, respectively. In addition, the Company recognized benefits of tax deductions in excess of recognized tax benefits of $0.4 million from the exercise of stock options in the three months ended March 31, 2010 (not material for 2011). There were no capitalized stock-based compensation costs at March 31, 2011 and December 31, 2010.

2001 Equity Incentive Plan The Company s 2001 Equity Incentive Plan (the 2001 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. The 2001 Plan expired on March 14, 2011. The outstanding awards granted under the 2001 Plan will remain in effect until their exercise, expiration, or termination. The 2001 Plan will be replaced by the 2011 Equity Incentive Plan, as discussed below.

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Note 17. Stock-Based Compensation (continued)

Stock Options The following table summarizes stock option activity under the 2001 Plan as of March 31, 2011 and for the three months then ended:

Stock Options	Shares (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at January 1, 2011	43	$ 8.54		
Granted				
Exercised				
Forfeited or expired				
Outstanding at March 31, 2011	**43**	**$ 8.54**	**1.2**	**$ 856**
Vested or expected to vest at March 31, 2011	**43**	**$ 8.54**	**1.2**	**$ 856**
Exercisable at March 31, 2011	**43**	**$ 8.54**	**1.2**	**$ 856**

No stock options were granted during the three months ended March 31, 2011 and 2010.

No options were exercised during the three months ended March 31, 2011 and 2010. There is no unrecognized compensation cost as of March 31, 2011 and December 31, 2010 related to these options granted under the 2001 Plan (the effect of estimated forfeitures is not material.)

Stock Appreciation Rights The fair value of each SAR is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions. The fair value of the SARs is expensed on a straight-line basis over the requisite service period. Expected volatility is based on the 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 SARs granted represents the period of time the SARs are expected to be outstanding.

The following table summarizes the assumptions used to estimate the fair value of SARs granted during the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	**2010**
Expected volatility	44.3%	45.0%
Weighted-average volatility	44.3%	45.0%
Expected dividends		
Expected term (in years)	4.6	4.4
Risk-free rate	2.0%	2.4%

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Note 17. Stock-Based Compensation (continued)

Stock Appreciation Rights (continued)

The following table summarizes SARs activity under the 2001 Plan as of March 31, 2011 and for the three months then ended:

Stock Appreciation Rights	Shares (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at January 1, 2011	442	$		
Granted	215			
Exercised				
Forfeited or expired				
Outstanding at March 31, 2011	**657**	**$**	**7.5**	**$ 394**
Vested or expected to vest at March 31, 2011	**296**	**$**	**7.5**	**$ 394**
Exercisable at March 31, 2011	**296**	**$**	**7.1**	**$ 389**

The weighted average grant-date fair value of the SARs granted during the three months ended March 31, 2011 and 2010 was $7.10 and $10.21, respectively. The total intrinsic value of SARs exercised during the three months ended March 31, 2010 $0.6 million (none in the three months ended March 31, 2011).

The following table summarizes the status of nonvested SARs under the 2001 Plan as of March 31, 2011 and for the three months then ended:

Nonvested Stock Appreciation Rights	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	293	$ 8.63
Granted	215	$ 7.10
Vested	(146)	$ 8.18
Forfeited or expired		$
Nonvested at March 31, 2011	**362**	$ 7.90

As of March 31, 2011, there was $2.6 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested SARs granted under the 2001 Plan. This cost is expected to be recognized over a weighted

average period of 2.3 years. SARs that vested during the three months ended March 31, 2010 had a fair value of $0.6 million as of the vesting date (none in the three months ended March 31, 2011).

Restricted Shares The following table summarizes the status of nonvested Restricted Shares/RSUs under the 2001 Plan as of March 31, 2011 and for the three months then ended:

Nonvested Restricted Shares / RSUs	**Shares (000s)**	**Weighted Average Grant-Date Fair Value**
Nonvested at January 1, 2011	587	$ 20.30
Granted	284	$ 18.67
Vested	(187)	$ 18.01
Forfeited or expired		$
Nonvested at March 31, 2011	**684**	$ 20.25

The weighted average grant-date fair value of the Restricted Shares/RSUs granted during the three months ended March 31, 2011 and 2010 was $18.67 and $23.88, respectively.

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Note 17. Stock-Based Compensation (continued)

Restricted Shares (continued)

As of March 31, 2011, based on the probability of achieving the performance goals, there was $11.9 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested Restricted Shares/RSUs granted under the 2001 Plan. This cost is expected to be recognized over a weighted average period of 2.3 years. The Restricted Shares/RSUs that vested during the three months ended March 31, 2011 and 2010 had a fair value of $3.9 million and $4.3 million, respectively, as of the vesting date.

Other Awards The following table summarizes CSUs activity under the 2001 Plan as of March 31, 2011, and changes during the three months then ended:

Nonvested Common Stock Units	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	66	$ 20.33
Granted	44	$ 18.67
Vested	(26)	$ 18.11
Forfeited or expired		$
Nonvested at March 31, 2011	**84**	$ 20.15

The weighted average grant-date fair value of the CSUs granted during the three months ended March 31, 2011 and 2010 was $18.67 and $23.88, respectively.

As of March 31, 2011, there was $1.2 million of total unrecognized compensation costs, net of estimated forfeitures, related to nonvested CSUs granted under the 2001 Plan. This cost is expected to be recognized over a weighted average period of 2.3 years. The fair value of the CSUs that vested during the three months ended March 31, 2011 and 2010 were $0.5 million and $0.6 million, respectively, as of the vesting dates. Until a CSU vests, the participant has none of the rights of a shareholder with respect to the CSU or the common stock underlying the CSU. CSUs are not transferable.

2011 Equity Incentive Plan The Board of Directors adopted the Sykes Enterprises, Incorporated 2011 Equity Incentive Plan (the 2011 Plan) on March 23, 2011, subject to shareholder approval at the Annual Meeting, and the 2011 Plan will become effective when shareholder approval is obtained. The 2011 Plan has the same material terms and conditions as the 2001 Plan. The 2011 Plan permits the grant of stock options, stock appreciation rights and other stock-based awards to certain employees of the Company, and certain non-employees who provide services to the Company, for up to 5.7 million shares of common stock in order to encourage them to remain in the employment of or to faithfully provide services to the Company and to increase their interest in the Company s success. This constitutes the number of shares that were available under the 2001 Plan at the time of expiration.

2004 Non-Employee Director Fee Plan The Company s 2004 Non-Employee Director Fee Plan (the 2004 Fee Plan) provides that all new non-employee directors joining the Board of Directors (the Board) will receive an initial grant of shares of common stock on the date the new director is elected or appointed, the number of which will be determined by dividing $60,000 by the closing price of the Company s common stock on the trading day immediately preceding the date a new director is elected or appointed, rounded to the nearest whole number of shares. The initial grant of shares vests in twelve equal quarterly installments, one-twelfth on the date of grant and an additional one-twelfth on

each successive third monthly anniversary of the date of grant. The award lapses with respect to all unvested shares in the event the non-employee director ceases to be a director of the Company, and any unvested shares are forfeited.
The 2004 Fee Plan also provides that each non-employee director will receive, on the day after the annual shareholders meeting, an annual retainer for service as a non-employee director (the Annual Retainer). The Annual Retainer consists of shares of the Company s common stock and cash. The total value of the Annual Retainer is $77,500, payable $32,500 in cash and the remainder paid in stock, the amount of which is determined by dividing $45,000 by the closing price of the Company s common stock on the date of the annual meeting of shareholders, rounded to the nearest whole number of shares.

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Note 17. Stock-Based Compensation (continued)

2004 Non-Employee Director Fee Plan (continued)

In addition to the Annual Retainer award, the 2004 Fee Plan also provides for any non-employee Chairman of the Board to receive an additional annual cash award of $100,000, and each non-employee director serving on a committee of the Board to receive an additional annual cash award. The additional annual cash award for the Chairperson of the Audit Committee is $20,000 and Audit Committee members are entitled to an annual cash award of $10,000. The annual cash awards for the Chairpersons of the Compensation and Human Resource Development Committee, Finance Committee and Nominating and Corporate Governance Committee are $12,500 and the members of such committees are entitled to an annual cash award of $7,500.

The annual grant of cash and shares, including all amounts paid to a non-employee Chairman of the Board and all amounts paid to non-employee directors serving on committees of the Board, vests in eight equal quarterly installments, one-eighth on the day following the annual meeting of shareholders, and an additional one-eighth on each successive third monthly anniversary of the date of grant. The award lapses with respect to all unpaid cash and unvested shares in the event the non-employee director ceases to be a director of the company, and any unvested shares and unpaid cash are forfeited.

The Board may pay additional cash compensation to any non-employee director for services on behalf of the Board over and above those typically expected of directors, including but not limited to service on a special committee of the Board.

Prior to 2008, the grants were comprised of common stock units (CSUs) rather than shares of common stock. A CSU is a bookkeeping entry on the Company s books that records the equivalent of one share of common stock.

The following table summarizes the status of the nonvested CSUs and share awards under the 2004 Fee Plan as of March 31, 2011 and for the three months then ended:

Nonvested Common Stock Units and Share Awards	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	18	$ 18.67
Granted		$
Vested	(6)	$ 17.86
Forfeited or expired		$
Nonvested at March 31, 2011	**12**	$ 19.11

No CSUs or share awards were granted during the three months ended March 31, 2011 and 2010.

As of March 31, 2011, there was $0.2 million of total unrecognized compensation costs, net of estimated forfeitures, related to nonvested CSUs granted since March 2008 under the Plan. This cost is expected to be recognized over a weighted average period of 0.9 year. CSUs and share awards that vested during the three months ended March 31, 2011 and 2010 had a fair value of $0.1 million and $0.1 million, respectively.

Deferred Compensation Plan The Company s non-qualified Deferred Compensation Plan (the Deferred Compensation Plan), which is not shareholder-approved, provides certain eligible employees the ability to defer any portion of their compensation until the participant s retirement, termination, disability or death, or a change in control of the Company. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include

investments in various mutual funds and shares of the Company s common stock (See Note 9, Investments Held in Rabbi Trusts.) As of March 31, 2011 and December 31, 2010, respectively, liabilities of $3.9 million and $3.4 million, respectively, of the Deferred Compensation Plan were recorded in Accrued employee compensation and benefits in the accompanying Condensed Consolidated Balance Sheets.

Additionally, the Company s common stock match associated with the Deferred Compensation Plan, with a carrying value of approximately $1.1 million and $1.0 million at March 31, 2011 and December 31, 2010, respectively, is included in Treasury stock in the accompanying Condensed Consolidated Balance Sheets.

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Note 17. Stock-Based Compensation (continued)

Deferred Compensation Plan (continued)

The following table summarizes the status of the nonvested common stock issued under the Deferred Compensation Plan as of March 31, 2011 and for the three months then ended:

Nonvested Common Stock	Shares (000s)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	8	$ 18.00
Granted	6	$ 19.77
Vested	(5)	$ 19.08
Forfeited or expired		$
Nonvested at March 31, 2011	**9**	$ 18.36

The weighted average grant-date fair value of common stock awarded during the three months ended March 31, 2011 and 2010 was $19.77 and $22.84, respectively.

As of March 31, 2011, there was $0.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted average period of 3.9 years. The total fair value of the common stock vested during the three months ended March 31, 2011 and 2010 was $0.1 million and $0.1 million, respectively.

No cash was used to settle the Company s obligation under the Deferred Compensation Plan for the three months ended March 31, 2011 and 2010.

Note 18. Segments and Geographic Information

The Company operates within two regions, the Americas and EMEA, which represent 79.5% and 20.5%, respectively, of consolidated revenues for the three months ended March 31, 2011. The Americas and EMEA regions represented 77.6% and 22.4%, respectively, of consolidated revenues for the three months ended March 31, 2010. 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 segment given the nature of the business and client profile, which is primarily made up of U.S.-based companies that are using the Company s services in these locations to support their customer contact management needs.

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Note 18. Segments and Geographic Information (continued)

Information about the Company s reportable segments for the three months ended March 31, 2011 and 2010 is as follows (in thousands):

	Americas	EMEA	Other[1]	Consolidated
Three Months Ended March 31, 2011:				
Revenues [2]	**$ 246,535**	**$ 63,621**		**$ 310,156**
Depreciation and amortization [2]	**$ 12,817**	**$ 1,415**		**$ 14,232**
Income (loss) from continuing operations	**$ 27,027**	**$ 519**	**$ (12,180)**	**$ 15,366**
Other (expense), net			**(1,615)**	**(1,615)**
Income taxes			**(573)**	**(573)**
Income from continuing operations, net of taxes				**13,178**
(Loss) from discontinued operations, net of taxes				
Net income				**$ 13,178**
Total assets as of March 31, 2011	**$ 1,207,912**	**$ 1,228,809**	**$ (1,625,037)**	**$ 811,684**

	Americas	EMEA	Other[1]	Consolidated
Three Months Ended March 31, 2010:				
Revenues [2]	$ 206,902	$ 59,680		$ 266,582
Depreciation and amortization [2]	$ 10,719	$ 1,319		$ 12,038
Income (loss) from continuing operations	$ 27,311	$ (705)	$ (31,697)	$ (5,091)
Other (expense), net			(3,543)	(3,543)
Income taxes			467	467
(Loss) from continuing operations, net of taxes				(8,167)
(Loss) from discontinued operations, net of taxes	(1,346)			(1,346)
Net (loss)				$ (9,513)
Total assets as of March 31, 2010	$ 1,642,103	$ 890,055	$ (1,651,068)	$ 881,090

(1) Other items (including corporate costs, provision for regulatory penalties, impairment 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 months ended March 31, 2011 and 2010. 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, 2010. 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.

(2) Revenues and depreciation and amortization include results from continuing operations only.

Note 19. Related Party Transactions

The Company paid John H. Sykes, the founder, former Chairman and Chief Executive Officer of the Company and the father of Charles Sykes, President and Chief Executive Officer of the Company, less than $0.1 million, for the use of his private jet during the three months ended March 31, 2010, which is based on two times fuel costs and other actual costs incurred for each trip (none in the comparable 2011 period).

In January 2008, the Company entered into a lease for a customer contact management center located in Kingstree, South Carolina. The landlord, Kingstree Office One, LLC, is an entity controlled by John H. Sykes. The lease payments on the 20 year lease were negotiated at or below market rates, and the lease is cancellable at the option of the Company. There are significant penalties for early cancellation which decrease over time. The Company paid $0.1 million and $0.1 million to the landlord during the three months ended March 31, 2011 and 2010, respectively, under the terms of the lease.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sykes Enterprises, Incorporated
400 North Ashley Drive
Tampa, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the Company) as of March 31, 2011, and the related condensed consolidated statements of operations for the three-month periods ended March 31, 2011 and 2010, of changes in shareholders equity for the three-month periods ended March 31, 2011 and 2010 and the nine-month period ended December 31, 2010, and of cash flows for the three-month periods ended March 31, 2011 and 2010. These interim financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2010, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 8, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Certified Public Accountants
Tampa, Florida
May 5, 2011

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated (SYKES, our, we or us) Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (SEC).

Our discussion and analysis may contain forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about SYKES, our beliefs, and assumptions made by us. In addition, we may make other written or oral statements, which constitute forward-looking statements, from time to time. Words such as believe, estimate, project, expect, intend, may, anticipate, plan, seek, variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives, or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including those discussed below and elsewhere in this report. Our actual results may differ materially from what is expressed or forecasted in such forward-looking statements, and undue reliance should not be placed on such statements. All forward-looking statements are made as of the date hereof, and we undertake no obligation to update any such forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) the impact of economic recessions in the U.S. and other parts of the world, (ii) fluctuations in global business conditions and the global economy, (iii) currency fluctuations, (iv) the timing of significant orders for our products and services, (v) variations in the terms and the elements of services offered under our standardized contract including those for future bundled service offerings, (vi) changes in applicable accounting principles or interpretations of such principles, (vii) difficulties or delays in implementing our bundled service offerings, (viii) failure to achieve sales, marketing and other objectives, (ix) construction delays of new or expansion of existing customer contact management centers, (x) delays in our ability to develop new products and services and market acceptance of new products and services, (xi) rapid technological change, (xii) loss or addition of significant clients, (xiii) political and country-specific risks inherent in conducting business abroad, (xiv) our ability to attract and retain key management personnel, (xv) our ability to continue the growth of our support service revenues through additional technical and customer contact management centers, (xvi) our ability to further penetrate into vertically integrated markets, (xvii) our ability to expand our global presence through strategic alliances and selective acquisitions, (xviii) our ability to continue to establish a competitive advantage through sophisticated technological capabilities, (xix) the ultimate outcome of any lawsuits, (xx) our ability to recognize deferred revenue through delivery of products or satisfactory performance of services, (xxi) our dependence on trend toward outsourcing, (xxii) risk of interruption of technical and customer contact management center operations due to such factors as fire, earthquakes, inclement weather and other disasters, power failures, telecommunication failures, unauthorized intrusions, computer viruses and other emergencies, (xxiii) the existence of substantial competition, (xxiv) the early termination of contracts by clients, (xxv) the ability to obtain and maintain grants and other incentives (tax or otherwise), (xxvi) the potential of cost savings/synergies associated with the ICT acquisition not being realized, or not being realized within the anticipated time period, (xxvii) risks related to the integration of the businesses of SYKES and ICT and (xxviii) other risk factors which are identified in our most recent Annual Report on Form 10-K, including factors identified under the headings Business, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We provide an array of sophisticated customer contact management solutions to a wide range of clients including Fortune 1000 companies, medium-sized businesses, and public institutions around the world, primarily in the communications, financial services, technology/consumer, transportation and leisure, healthcare and other industries.

We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, India and the Asia Pacific Rim) and EMEA (Europe, the Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact management services (with an emphasis on inbound technical support and customer service), which include customer assistance, healthcare and roadside assistance, technical support and product sales to our client s customers. These services, which represented 98% of consolidated revenues during the three months ended March 31, 2011, are delivered through multiple communication channels encompassing phone, e-mail, Internet, text messaging and chat. We also provide various enterprise support services in the United States (U.S.) that include services for our client s internal support operations, from technical staffing

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services to outsourced corporate help desk services. In Europe, we also provide fulfillment services including multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery, and product returns handling. Our complete service offering helps our clients acquire, retain and increase the lifetime value of their customer relationships. We have developed an extensive global reach with customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia, India and Africa.

Acquisition of ICT

On February 2, 2010, we completed the acquisition of ICT Group Inc. (ICT), a Pennsylvania corporation and a leading global provider of outsourced customer management and BPO solutions. We refer to such acquisition herein as the ICT acquisition.

As a result of the ICT acquisition on February 2, 2010,

- each outstanding share of ICT s common stock, par value $0.01 per share, was converted into the right to receive $7.69 in cash, without interest, and 0.3423 of a share of SYKES common stock, par value $0.01 per share;

- each outstanding ICT stock option, whether or not then vested and exercisable, became fully vested and exercisable immediately prior to, and then was canceled at, the effective time of the acquisition, and the holder of such option became entitled to receive an amount in cash, without interest and less any applicable taxes to be withheld, equal to (i) the excess, if any, of (1) $15.38 over (2) the exercise price per share of ICT common stock subject to such ICT stock option, multiplied by (ii) the total number of shares of ICT common stock underlying such ICT stock option, with the aggregate amount of such payment rounded up to the nearest cent. If the exercise price was equal to or greater than $15.38, then the stock option was canceled without any payment to the stock option holder; and

- each outstanding ICT restricted stock unit (RSU) became fully vested and then was canceled and the holder of such vested awards became entitled to receive $15.38 in cash, without interest and less any applicable taxes to be withheld, in respect of each share of ICT common stock into which the RSU would otherwise have been convertible.

The total aggregate purchase price of the transaction of $277.8 million was comprised of $141.1 million in cash and 5.6 million shares of SYKES common stock valued at $136.7 million. The transaction was funded through borrowings consisting of a $75 million short-term loan from KeyBank National Association (KeyBank) in December, 2009, due and paid on March 31, 2010, and a $75 million term loan from a syndicate of banks due in varying installments through February 1, 2013 (the Term Loan). The outstanding balance due under the $75 million Term Loan was repaid during the quarter ended September 30, 2010 the Term Loan and is no longer available for borrowings. See Liquidity & Capital Resources later in this Item 2 and Note 11, Borrowings, of Notes to Condensed Consolidated Financial Statements for further information.

The results of operations of ICT have been reflected in our Condensed Consolidated Statement of Operations since February 2, 2010.

Discontinued Operations

In December 2010, we sold our Argentine operations, pursuant to stock purchase agreements, dated December 16, 2010 and December 29, 2010. We reflected the operating results related to the Argentine operations as discontinued operations in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2010. This business was historically reported as part of the Americas segment. See Note 3, Discontinued Operations, of Notes to Condensed Consolidated Financial Statements for additional information on the sale of the Argentine operations.

See Results of Operations (Loss) from Discontinued Operations in this Item 2 for more information. Unless otherwise noted, discussions below pertain only to our continuing operations.

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Results of Operations

The following table sets forth, for the periods indicated, certain data derived from our Condensed Consolidated Statements of Operations and certain of such data expressed as a percentage of revenues (in thousands, except percentage amounts):

	Three Months Ended March 31,	
	2011	**2010**
Revenues	**$310,156**	$266,582
Percentage of revenues	**100.0%**	100.0%
Direct salaries and related costs	**$203,689**	$171,650
Percentage of revenues	**65.7%**	64.4%
General and administrative	**$ 90,375**	$100,023
Percentage of revenues	**29.1%**	37.5%
Impairment of long-lived assets	**$ 726**	$
Percentage of revenues	**0.2%**	0.0%
Income (loss) from continuing operations	**$ 15,366**	$ (5,091)
Percentage of revenues	**5.0%**	(1.9)%

The following table summarizes our revenues for the periods indicated, by reporting segment (in thousands):

	Three Months Ended March 31,			
	2011		**2010**	
Americas	**$246,535**	**79.5%**	$206,902	77.6%
EMEA	**63,621**	**20.5%**	59,680	22.4%
Consolidated	**$310,156**	**100.0%**	$266,582	100.0%

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The following table summarizes the amounts and percentage of revenues for direct salaries and related costs, general and administrative costs and impairment of long-lived assets for the periods indicated, by reporting segment (in thousands):

	Three Months Ended March 31,			
	2011		2010	
Direct salaries and related costs:				
Americas	**$156,276**	**63.4%**	$126,822	61.3%
EMEA	**47,413**	**74.5%**	44,828	75.1%
Consolidated	**$203,689**	**65.7%**	$171,650	64.4%
General and administrative:				
Americas	**$ 62,506**	**25.4%**	$ 52,769	25.5%
EMEA	**15,689**	**24.7%**	15,557	26.1%
Corporate	**12,180**		31,697	
Consolidated	**$ 90,375**	**29.1%**	$100,023	37.5%
Impairment of long-lived assets:				
Americas	**$ 726**	**0.3%**	$	0.0%
EMEA		**0.0%**		0.0%
Consolidated	**$ 726**	**0.2%**	$	0.0%

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenues

For the three months ended March 31, 2011, we recognized consolidated revenues of $310.2 million, an increase of $43.6 million or 16.3%, from $266.6 million of consolidated revenues for the comparable period in 2010. Excluding the ICT revenues of $100.3 million for the three months ended March 31, 2011 and $63.7 million for the period beginning February 2, 2010 (the acquisition date) through March 31, 2010, revenues increased $7.0 million for the three months ended March 31, 2011 compared to the same period in 2010.

On a geographic segment basis, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 79.5%, or $246.5 million, for the three months ended March 31, 2011 compared to 77.6%, or $206.9 million, for the comparable period in 2010. Revenues from the EMEA region, including Europe, the Middle East and Africa represented 20.5%, or $63.7 million, for the three months ended March 31, 2011 compared to 22.4%, or $59.7 million, for the comparable period in 2010.

The increase in the Americas revenues was $39.6 million, or 19.2%, for the three month ended March 31, 2011, compared to the same period in 2010. Excluding the ICT revenues of $100.3 million for the three months ended March 31, 2011 and $63.4 million for the period beginning February 2, 2010 (the acquisition date) through March 31, 2010, the Americas revenues for the three months ended March 31, 2011, compared to the same period in 2010 increased $2.8 million. The $2.8 million increase consists of a positive foreign currency translation impact, net of an unfavorable foreign currency hedging fluctuation, of $3.2 million, partially offset by a $0.4 million decrease in revenues principally due to expiration of certain client programs and lower than forecasted demand within certain

clients. Revenues from our offshore operations represented 46.4%, or 51.8% excluding ICT revenues, of Americas revenues, compared to 49.4%, or 54.9% excluding ICT revenues, for the same period in 2010. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce, the trend of higher occupancy costs and costs of functional currency fluctuations in offshore markets. We weight these factors in our focus to re-price or replace certain sub-profitable target client programs.

The increase in EMEA revenues of $4.0 million, or 6.6%, for the three months ended March 31, 2011, compared to

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the same period in 2010, reflects an increase of $3.4 million due largely to existing and new client programs and an $0.8 million positive foreign currency translation impact, partially offset by a $0.3 million decrease in revenues due to the closure of certain sites in connection with the Fourth Quarter 2010 Exit Plan. Excluding the $0.8 million positive foreign currency translation impact, EMEA s revenues increased 5.2% for the three months ended March 31, 2011 from the comparable period in 2010.

Direct Salaries and Related Costs

Direct salaries and related costs increased $32.0 million, or 18.6%, to $203.7 million for the three months ended March 31, 2011 from $171.7 million in the comparable period in 2010. This increase includes a $21.8 million increase in ICT direct salaries and related costs to $62.5 million for the three months ended March 31, 2011 from $40.7 million for the period beginning February 2, 2010 (the acquisition date) through March 31, 2010.

On a reporting segment basis, direct salaries and related costs from the Americas segment increased $29.5 million, or 23.2%, to $156.3 million for the three months ended March 31, 2011 from $126.8 million in the comparable period in 2010. Direct salaries and related costs from the EMEA segment increased $2.5 million, or 5.8%, to $47.4 million for the three months ended March 31, 2011 from $44.9 million in the comparable period in 2010. While changes in foreign currency exchange rates positively impacted revenues in the Americas and EMEA, they negatively impacted direct salaries and related costs in the three months ended March 31, 2011, compared to the same period in 2010 by $5.7 million and $0.4 million, respectively.

In the Americas segment, as a percentage of revenues, direct salaries and related costs increased to 63.4% for the three months ended March 31, 2011 from 61.3% in same period in 2010. This increase of 2.1%, as a percentage of revenues, was primarily attributable to higher compensation costs of 2.4% (primarily related to lower than forecasted demand within certain clients without a commensurate reduction in labor costs) and higher other costs of 0.1%, partially offset by lower communication costs of 0.4%.

In the EMEA segment, as a percentage of revenues, direct salaries and related costs decreased to 74.5% for the three months ended March 31, 2011 from 75.1% in the same period of 2010. This decrease of 0.6%, as a percentage of revenues, was primarily attributable to lower compensation costs of 1.5% (primarily related to near-shore migration to new facilities in Egypt, Romania and Germany) and lower billable supply costs of 0.4%, partially offset by higher communication costs of 0.4%, higher fulfillment material costs of 0.3%, higher auto and parking costs of 0.2%, higher postage costs of 0.2% and higher other costs of 0.2%.

General and Administrative

General and administrative expenses decreased $9.6 million, or 18.2%, to $90.4 million for the three months ended March 31, 2011 from $100.0 million for the same period in 2010. This decrease includes a $5.1 million decrease in ICT general and administrative costs to $30.9 million for the three months ended March 31, 2011 from $36.0 million for the period beginning February 2, 2010 (the acquisition date) through March 31, 2010.

On a reporting segment basis, general and administrative expenses from the Americas segment increased $9.7 million, or 18.5%, to $62.5 million for the three months ended March 31, 2011 from $52.8 million in the comparable period in 2010. General and administrative expenses from the EMEA segment increased $0.1 million, or 0.8%, to $15.7 million for the three months ended March 31, 2011 from $15.6 million for the comparable period in 2010. While changes in foreign currency exchange rates positively impacted revenues in the Americas and EMEA, they negatively impacted general and administrative expenses for the three months ended March 31, 2011 compared to the same period in 2010 by $1.8 million and $0.1 million, respectively. Corporate general and administrative expenses decreased $19.4 million, or 61.6%, to $12.2 million for the three months ended March 31, 2011 from $31.6 million in the same period in 2010. This decrease of $19.4 million was primarily attributable to ICT acquisition-related costs (comprised of $12.5 million in severance costs and other costs and $7.6 million in transaction and integration costs), partially offset by higher compensation costs of $0.3 million, higher software maintenance of $0.2 million and higher other costs of $0.2 million.

In the Americas segment, as a percentage of revenues, general and administrative expenses decreased to 25.4% for the three months ended March 31, 2011 from 25.5% in the comparable period in 2010. This decrease of 0.1%, as a percentage of revenues, was primarily attributable to lower ICT acquisition-related costs of 0.3% (severance costs) and lower compensation costs of 0.3%, partially offset by higher facility-related costs of 0.3% and higher other costs of 0.2%.

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In the EMEA segment, as a percentage of revenues, general and administrative expenses decreased to 24.7% for the three months ended March 31, 2011 from 26.1% in the comparable period in 2010. This decrease of 1.4%, as a percentage of revenues, was primarily attributable to lower compensation costs of 1.1% (primarily related to near-shore migration to new facilities in Egypt, Romania and Germany), lower facility-related costs of 0.7% and lower communications costs of 0.2%, partially offset by higher travel costs of 0.2%, higher equipment and maintenance costs of 0.2% and higher training costs of 0.2%.

Impairment of Long-Lived Assets

During the three months ended March 31, 2011 in connection with the Third Quarter 2010 Exit Plan within the Americas segment, we recorded an impairment charge of $0.7 million, resulting from a change in assumptions related to the redeployment of property and equipment (none in the comparable 2010 period). The impairment charge represented the amount by which the carrying value of the assets exceeded the estimated fair value of those assets which cannot be redeployed to other locations.

Interest Income

Interest income was $0.3 million for the three months ended March 31, 2011, compared to $0.2 million in the same period in 2010, reflecting lower average rates earned on higher average balances of interest bearing investments in cash and cash equivalents.

Interest (Expense)

Interest expense was $0.4 million for the three months ended March 31, 2011, compared to $2.4 million in the same period in 2010, a decrease of $2.0 million reflecting interest and fees on higher average levels of borrowings related to the acquisition of ICT in the comparable 2010 period and the subsequent payoff of the $75 million Bermuda Credit Agreement and the $75 million Term Loan in 2010.

Other Income (Expense)

Other income (expense), net, was $1.5 million for the three months ended March 31, 2011, compared to $1.4 million in the same period in 2010. The net increase in other income (expense), net, of $0.1 million was primarily attributable to an increase of $1.2 million in forward currency contract losses (which were not designated as hedging instruments) and an increase of $0.1 million in other miscellaneous expenses, net, partially offset by $1.2 million in realized and unrealized foreign currency transaction gains, net of losses. Other income (expense) excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated other comprehensive income in shareholders equity in the accompanying Condensed Consolidated Balance Sheets.

Income Taxes

Income tax expense of $0.6 million for the three months ended March 31, 2011 reflects the recognition of a net $2.6 million tax benefit primarily related to a favorable resolution of a tax audit, and was based upon pre-tax book income of $13.7 million. The income tax benefit of $0.5 million for the three months ended March 31, 2010 includes tax benefits recognized on losses related to ICT acquisition-related costs, and was based upon pre-tax book loss of $8.6 million. The effective tax rate for the three months ended March 31, 2011 was 4.2% compared to an effective tax rate of 5.4% for the comparable 2010 period.

(Loss) from Discontinued Operations

During December 2010, we sold our Argentine operations. We accounted for this transaction in accordance with ASC 205-20 (ASC 205-20) *Discontinued Operations* , and, accordingly, we reclassified the results of operations for the three months ended March 31, 2010. The loss from discontinued operations, net of taxes, totaled $1.3 million for the three months ended March 31, 2010.

Net Income (Loss)

As a result of the foregoing, we reported income from continuing operations for the three months ended March 31, 2011 of $13.2 million, an increase of $21.3 million from the comparable period in 2010. This increase was

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principally attributable to a $43.6 million increase in revenues, a $9.6 million decrease in general and administrative costs, partially offset by a $32.0 million increase in direct salaries and related costs and a $0.7 million impairment of long-lived assets. In addition to the $20.5 million increase in income from continuing operations, we experienced a $0.1 million increase in interest income, a decrease in interest expense of $2.0 million and a decrease of $1.3 million of loss from discontinued operations, partially offset by $0.1 million increase in other expense, net, and an increase of $1.1 million in income taxes, resulting in net income of $13.2 million for the three months ended March 31, 2011, an increase of $22.7 million compared to the same period in 2010.

Client Concentration

Total consolidated revenues included $34.6 million, or 11.1%, of consolidated revenues, for the three months ended March 31, 2011 from AT&T Corporation, a major provider of communication services for which we provide various customer support services over several distinct lines of AT&T business. This included $33.6 million in revenue from the Americas and $1.0 million in revenue from EMEA for the three months ended March 31, 2011.

The consolidated revenues for the comparable period as it relates to this relationship were $39.7 million, or 14.9%, of consolidated revenues, for the three months ended March 31, 2010. This included $37.3 million in revenues from the Americas and $2.4 million in revenues from EMEA for the three months ended March 31, 2010.

Liquidity and Capital Resources

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facilities. We utilize these capital resources to make capital expenditures associated primarily with our customer contact management services, invest in technology applications and tools to further develop our service offerings and for working capital and other general corporate purposes, including repurchase of our common stock in the open market and to fund possible acquisitions. In future periods, we intend similar uses of these funds.

On August 5, 2002, the Board of Directors authorized the Company to purchase up to 3.0 million shares of our outstanding common stock. A total of 2.5 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 three months ended March 31, 2011, we repurchased 0.3 million common shares under the 2002 repurchase program at prices ranging between $18.24 and $18.53 per share for a total cost of $5.5 million. We may make additional discretionary stock repurchases under this program in 2011 depending upon economic and market conditions.

During the three months ended March 31, 2011, cash increased $20.0 million from operating activities and $0.1 million increase in excess tax benefits from stock-based compensation. Further, we used $6.2 million for capital expenditures, $5.5 million on the repurchase of the Company s stock and $1.2 million to repurchase stock for minimum tax withholding on equity awards resulting in a $10.1 million increase in available cash (including the favorable effects of international currency exchange rates on cash of $2.9 million).

Net cash flows provided by operating activities for the three months ended March 31, 2011 were $20.0 million, compared to $(16.8) million used for operating activities for the comparable 2010 period. The $36.8 increase in net cash flows from operating activities was due to a $22.7 million increase in net income, $7.4 million increase in non-cash reconciling items such as impairment losses, depreciation and amortization, deferred income taxes, stock-based compensation, unrealized gains on financial instruments and a net increase of $6.7 million in cash flows from assets and liabilities. The $6.7 million increase in cash flows from assets and liabilities was principally a result of a $7.7 million decrease in other assets, a $3.4 million increase in other liabilities and a $0.1 million increase in deferred revenue, partially offset by a $3.2 million decrease in income taxes payable and a $1.3 million increase in receivables. The increase in cash flows from assets and liabilities primarily relates to the timing of cash receipts and payments over the comparable period in 2010.

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During 2010, we sold our Argentine operations. Cash flows from discontinued operations were as follows (in thousands):

	For the Three Months Ended March 31, 2010
Cash (used for) operating activities of discontinued operations	$ (683)
Cash provided by investing activities of discontinued operations	$ 1,010

Cash (used for) operating activities of discontinued operations represents the cash (used for) the Argentine operations for the three months ended March 31, 2010. Cash provided by investing activities of discontinued operations in the three months ended March 31, 2010 primarily represents the cash on the balance sheet of the Argentine operations at the time of the ICT acquisition. We do not expect the sale of our Argentine operations to negatively affect our future liquidity and capital resources.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were $6.2 million for the three months ended March 31, 2011, compared to $6.1 million for the comparable period of 2010, an increase of $0.1 million. In 2011, we anticipate capital expenditures in the range of $38.0 million to $42.0 million, primarily for maintenance and systems infrastructure.

On February 2, 2010, we entered into a Credit Agreement (the Credit Agreement) with a group of lenders and KeyBank, as Lead Arranger, Sole Book Runner and Administrative Agent. The Credit Agreement provides for a $75 million Term Loan and a $75 million revolving credit facility, which is subject to certain borrowing limitations and includes certain customary financial and restrictive covenants. We drew down the full $75 million Term Loan on February 2, 2010 in connection with the acquisition of ICT on such date. As of December 31, 2010, the entire $75 million Term Loan has been repaid and is no longer available for borrowings. See Note 2, Acquisition of ICT, and Note 11, Borrowings, of Notes to Condensed Consolidated Financial Statements for further information. At March 31, 2011, we were in compliance with all loan requirements of the Credit Agreement.

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. We are not currently aware of any inability of our 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 us, even though it is a binding commitment. 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 our leverage ratio. The applicable interest rate is determined quarterly based on our 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, we are 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.

We 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

Statement 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 our existing and future direct and indirect material U.S. subsidiaries and secured by a pledge of 100% of the non-voting and 65% of the voting capital stock of all of our direct foreign

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subsidiaries and those of the guarantors. As of March 31, 2011, we were in compliance with all loan requirements of the Credit Agreement dated February 2, 2010.

In December 2009, Sykes (Bermuda) Holdings Limited, a Bermuda exempted company (Sykes Bermuda) which is an indirect wholly-owned subsidiary of SYKES, 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 in December 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 the 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 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 Statements of Operations for the three months ended March 31, 2010 (none in the three months ended March 31, 2011).

At March 31, 2011, we had $199.9 million in cash and cash equivalents (excluding restricted cash of $0.5 million), of which approximately 76.0% or $152.0 million was held in international operations, of which $127.0 million may be subject to additional taxes if repatriated to the United States, including withholding tax applied by the country of origin and repatriation tax on the foreign-source income. Of the remaining $25.0 million in cash and cash equivalents held in international operations, we expect to repatriate $25.0 million (the remaining balance of the $50.0 million 2010 determination of intent to distribute the majority of the accumulated and undistributed earnings of an ICT foreign subsidiary). There are circumstances where we may be unable to repatriate some of the cash and cash equivalents held by our international operations due to country restrictions.

We believe that our current cash levels, accessible funds under our credit facilities and cash flows generated from future operations will be adequate to meet anticipated working capital needs, future debt repayment requirements, continued expansion objectives, funding of potential acquisitions, anticipated levels of capital expenditures and contractual obligations for the next twelve months and any stock repurchases. Our cash resources could be affected by various risks and uncertainties, including but not limited to the risks described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Off-Balance Sheet Arrangements and Other

At March 31, 2011, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations

The following table summarizes the material changes to our contractual cash obligations as of March 31, 2011 and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

		Payments Due By Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	Other
Purchase obligations and other [1]	$ 5,213	$ 2,200	$ 2,949	$ 64	$	$

(1) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty.

Except for the contractual obligations mentioned above, there have not been any material changes to the outstanding contractual obligations from the disclosure in our Annual Report on Form 10-K for the year ended December 31, 2010.

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Critical Accounting Policies and Estimates

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

We believe the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of our financial condition and operating results:

Recognition of Revenue

We recognize revenue in accordance with ASC 605 *Revenue Recognition* .

We primarily recognize revenues from services as the services are performed, which is based on either a per minute, per call or per transaction basis, under a fully executed contractual agreement and record 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 our 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 included 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 our 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. We recognize revenues 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 we determine 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, our fulfillment contracts with multiple-deliverables met the separation criteria as outlined in ASC 605-25 and the revenue was accounted for accordingly. We have 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. We 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 our financial

condition, results of operations and cash flows. The amended standard:

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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.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts, $4.0 million as of March 31, 2011 or 1.6% of trade account receivables, for estimated losses arising from the inability of our customers to make required payments. Our estimate is based on factors surrounding the credit risk of certain clients, historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that our estimate of the allowance for doubtful accounts will change if the financial condition of our customers were to deteriorate, resulting in a reduced ability to make payments.

Income Taxes

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, both positive and negative, for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. The valuation allowance for a particular tax jurisdiction is allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies.

At December 31, 2010, we determined that a total valuation allowance of $60.1 million was necessary to reduce U.S. deferred tax assets by $6.2 million and foreign deferred tax assets by $53.9 million, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. The recoverability of the remaining net deferred tax asset of $18.3 million at December 31, 2010 is dependent upon future profitability within each tax jurisdiction. As of March 31, 2011, based on our estimates of future taxable income and any applicable tax-planning strategies within various tax jurisdictions, we believe that it is more likely than not that the remaining net deferred tax assets will be realized.

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, we changed our 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 withholding taxes have been accrued in the Condensed Consolidated Balance Sheets.

In addition, the U.S. Department of the Treasury released the General Explanations of the Administration s Fiscal Year 2012 Revenue Proposals in February 2011. These proposals represent a significant shift in international tax policy, which may materially impact U.S. taxation of international earnings. We continue to monitor these proposals and are currently evaluating their potential impact on our financial condition, results of operations, and cash flows.

Determination of any unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are essentially permanent in nature is not practicable.

We evaluate tax positions that have been taken or are expected to be taken in our tax returns, and record a liability for uncertain tax positions in accordance with ASC 740 (ASC 740) *Income Taxes* . The calculation of our tax liabilities

involves dealing with uncertainties in the application of complex tax regulations. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to,

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changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision. We had $18.6 million and $21.0 million of unrecognized tax benefits as of March 31, 2011 and December 31, 2010, respectively.

Our provision for income taxes is subject to volatility and is impacted by the distribution of earnings in the various domestic and international jurisdictions in which we operate. Our effective tax rate could be impacted by earnings being either proportionally lower or higher in foreign countries where we have tax rates lower than the U.S. tax rates. In addition, we have been granted tax holidays in several foreign tax jurisdictions, which have various expiration dates ranging from 2011 through 2018. If we are unable to renew a tax holiday in any of these jurisdictions, our effective tax rate could be adversely impacted. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will permit a renewal. Our effective tax rate could also be affected by several additional factors, including changes in the valuation of our deferred tax assets or liabilities, changing legislation, regulations, and court interpretations that impact tax law in multiple tax jurisdictions in which we operate, as well as new requirements, pronouncements and rulings of certain tax, regulatory and accounting organizations.

Impairment of Goodwill, Intangibles and Other Long-Lived Assets

We review long-lived assets, which had a carrying value of $281.7 million as of March 31, 2011, including goodwill, intangibles and property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and at least annually for impairment testing of goodwill. An asset is considered to be impaired when the carrying amount exceeds the fair value. Upon determination that the carrying value of the asset is impaired, we would record an impairment charge, or loss, to reduce the asset to its fair value. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future.

New Accounting Standards

Unless we need to clarify a point to readers, we will refrain from citing specific section references when discussing the application of accounting principles or addressing new or pending accounting rule changes. There are no recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

U.S. Healthcare Reform Acts

In March 2010, the President of the United States signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (the Acts). The Acts contain provisions that could materially impact the Company s healthcare costs in the future, thus adversely affecting the Company s profitability. We are currently evaluating the potential impact of the Acts, if any, on our financial condition, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

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

We employ a foreign currency risk management program that periodically utilizes derivative instruments to protect against unanticipated fluctuations in earnings and cash flows caused by volatility in foreign currency exchange (FX) rates. Option and forward hedge contracts are used to hedge intercompany receivables and payables, and other transactions initiated in the United States, that are denominated in a foreign currency. Additionally, we may employ FX contracts to hedge net investments in foreign operations.

We serve a number of U.S.-based clients using customer contact management center capacity in the Philippines, Canada and Costa Rica, which are within our Americas segment. Although the contracts with these clients are priced in U.S. Dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine Pesos (PHP), the Canadian Dollar (CAD) and the Costa Rican Colones, which represent FX exposures. In order to hedge a portion of our anticipated cash flow requirements denominated in PHP and CAD, we had outstanding forward contracts and options as of March 31, 2011 with counterparties through December 2011 at fixed prices of $102.1 million U.S. dollars. As of March 31, 2011, we had net total derivative assets associated with these

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contracts of $5.0 million, which will settle within the next 12 months. The fair value of these derivative instruments as of March 31, 2011 is presented in Note 8, Financial Derivatives, of Notes to Condensed Consolidated Financial Statements . If the U.S. dollar was to weaken against the PHP and CAD by 10% from current period-end levels, we would incur a loss of approximately $5.8 million on the underlying exposures of the derivative instruments. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We also entered into forward exchange contracts that are not designated as hedges. The purpose of these derivative instruments is to protect against FX volatility pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than our subsidiaries functional currencies. As of March 31, 2011, the fair value of these derivatives was a net payable of $1.7 million. The potential loss in fair value at March 31, 2011, for these contracts resulting from a hypothetical 10% adverse change in the foreign currency exchange rates is approximately $4.3 million. However, this loss would be mitigated by corresponding gains on the underlying exposures.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into contracts with those considered to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties.

We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates.

As a general rule, we do not use financial instruments to hedge local currency denominated operating expenses in countries where a natural hedge exists. For example, in many countries, revenue from the local currency services substantially offsets the local currency denominated operating expenses.

Interest Rate Risk

Our exposure to interest rate risk results from variable debt outstanding under the revolving credit facility under our Credit Agreement. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. During the three months ended March 31, 2011, we had no debt outstanding under the revolving credit facility.

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

Fluctuations in Quarterly Results

For the year ended December 31, 2010, quarterly revenues as a percentage of total consolidated annual revenues were approximately 23%, 25%, 25% and 27%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing and frequency of client spending for customer contact management services, non-U.S. currency fluctuations, and the seasonal pattern of customer contact management support and fulfillment services.

Item 4. Controls and Procedures

As of March 31, 2011, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a 15(e) under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time period specified by the SEC s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We concluded that, as of March 31, 2011, our disclosure controls and procedures were effective at the reasonable assurance level.

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We have previously disclosed three pending matters involving regulatory sanctions assessed against our Spanish subsidiary. All three matters relate to the alleged inappropriate acquisition of personal information in connection with two outbound client contracts. In connection with the appeal of one of these claims, we issued a bank guarantee, which is included as restricted cash of $0.4 million and $0.4 million in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010, respectively. Based upon the opinion of legal counsel regarding the likely outcome of these three matters, we accrued a liability in the amount of $1.3 million in accordance with the Financial Accounting Standards Board s Accounting Standards Codification 450 *Contingencies* because we believed that a loss was probable and the amount of the loss could be reasonably estimated. In the quarter ended December 31, 2010, the Spanish Supreme Court ruled in our favor in one of the three subject claims. Accordingly, we reversed the accrual in the amount of $0.5 million related to that particular claim. The accrued liability included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheets was $0.8 million and $0.8 million as of March 31, 2011 and December 31, 2010, respectively. One of the other two claims has been finally decided against the Company on procedural grounds, and the final claim remains on appeal to the Spanish Supreme Court.

From time to time, we are involved in legal actions arising in the ordinary course of business. With respect to these matters, we believe that we have adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

Item 1A. Risk Factors

For risk factors, see Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2010 filed on March 8, 2011. Our risk factors have not changed materially since December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary of stock repurchases for the three months ended March 31, 2011 (in thousands, except average price per share). See Note 14, Earnings Per Share, of Notes to Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under Plans or Programs
January 1, 2011 - January 31, 2011				798
February 1, 2011 - February 28, 2011				798
March 1, 2011 - March 31, 2011	300	$18.37	300	498
Total	**300**		**300**	**498**

[1] All shares purchased as part of a repurchase plan publicly announced on August 5, 2002. Total number of shares approved for repurchase under the plan was 3.0 million with no expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

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Item 6. Exhibits

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

15	Awareness letter.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SYKES ENTERPRISES, INCORPORATED (Registrant)
Date: May 5, 2011	By: /s/ W. Michael Kipphut W. Michael Kipphut Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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