SYKES ENTERPRISES INC
Form 10-Q
August 09, 2011

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

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 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 x 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 x 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 x	Non-accelerated Filer o	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 x

As of July 29, 2011, there were 47,054,315 outstanding shares of common stock.

Sykes Enterprises, Incorporate 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)	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 211,855**	$ 189,829
Receivables, net	**271,101**	248,842
Prepaid expenses	**13,370**	10,704
Other current assets	**22,758**	22,913
Total current assets	**519,084**	472,288
Property and equipment, net	**102,211**	113,703
Goodwill	**124,596**	122,303
Intangibles, net	**49,337**	52,752
Deferred charges and other assets	**33,757**	33,554
	$ 828,985	$ 794,600
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	**$ 27,220**	$ 30,635
Accrued employee compensation and benefits	**78,945**	65,267
Current deferred income tax liabilities	**99**	3,347
Income taxes payable	**3,289**	2,605
Deferred revenue	**33,830**	31,255
Other accrued expenses and current liabilities	**25,296**	25,621
Total current liabilities	**168,679**	158,730
Deferred grants	**9,780**	10,807
Long-term income tax liabilities	**27,292**	28,876
Other long-term liabilities	**12,167**	12,992
Total liabilities	**217,918**	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; 47,056 and 47,066 shares issued, respectively	**471**	471

Additional paid-in capital		**302,136**		302,911
Retained earnings		**287,716**		265,676
Accumulated other comprehensive income		**21,885**		15,108
Treasury stock at cost: 90 shares and 81 shares, respectively		**(1,141)**		(971)
Total shareholders equity		**611,067**		583,195
	$	**828,985**	$	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)

(in thousands, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues	$ 309,914	$ 288,535	$ 620,070	$ 555,117
Operating expenses:				
Direct salaries and related costs	208,301	188,693	411,989	360,343
General and administrative	90,087	90,075	180,297	190,040
Net (gain) loss on disposal of property and equipment	(3,611)	(20)	(3,443)	38
Impairment of long-lived assets	-	-	726	-
Total operating expenses	294,777	278,748	589,569	550,421
Income from continuing operations	15,137	9,787	30,501	4,696
Other income (expense):				
Interest income	314	268	601	500
Interest (expense)	(457)	(1,520)	(864)	(3,866)
Other (expense)	(340)	(3,590)	(1,833)	(5,019)
Total other income (expense)	(483)	(4,842)	(2,096)	(8,385)
Income (loss) from continuing operations before income taxes	14,654	4,945	28,405	(3,689)
Income taxes	2,683	966	3,256	499
Income (loss) from continuing operations, net of taxes	11,971	3,979	25,149	(4,188)
(Loss) from discontinued operations, net of taxes	-	(1,434)	-	(2,780)
Net income (loss)	$ 11,971	$ 2,545	$ 25,149	$ (6,968)
Net income (loss) per share:				
Basic:				
Continuing operations	$ 0.26	$ 0.09	$ 0.54	$ (0.09)

Discontinued operations	-	(0.04)	-	(0.06)
Net income (loss) per common share	$ 0.26	$ 0.05	$ 0.54	$ (0.15)
Diluted:				
Continuing operations	$ 0.26	$ 0.09	$ 0.54	$ (0.09)
Discontinued operations	-	(0.04)	-	(0.06)
Net income (loss) per common share	$ 0.26	$ 0.05	$ 0.54	$ (0.15)
Weighted average shares:				
Basic	46,241	46,601	46,359	45,604
Diluted	46,293	46,648	46,463	45,712

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
Six Months Ended June 30, 2010,
Six Months Ended December 31, 2010 and
Six Months Ended June 30, 2011
(Unaudited)

(in thousands)	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2010	41,817	$ 418	$ 166,514	$280,399	$ 7,819	$ (4,476)	$450,674
Issuance of common stock	-	-	29	-	-	-	29
Stock-based compensation expense	-	-	2,909	-	-	-	2,909
Excess tax benefit from stock -based compensation	-	-	360	-	-	-	360
Issuance of common stock and restricted stock under equity award plans	203	1	(1,135)	-	-	(148)	(1,282)
Repurchase of common stock	-	-	-	-	-	(5,212)	(5,212)
Issuance of common stock for business acquisition	5,601	57	136,616	-	-	-	136,673
Comprehensive (loss)	-	-	-	(6,968)	(15,734)	-	(22,702)
Balance at June 30, 2010	47,621	476	305,293	273,431	(7,915)	(9,836)	561,449
Issuance of common stock	2	-	8	-	-	-	8
Stock-based compensation expense	-	-	2,026	-	-	-	2,026
Excess tax benefit from stock -based compensation	-	-	(6)	-	-	-	(6)
Issuance of common stock and restricted stock under equity award plans	1	1	52	-	-	(53)	-
	-	-	-	-	-	-	-

Repurchase of common stock							
Retirement of treasury stock	(558)	(6)	(4,462)	(4,450)	-	8,918	-
Comprehensive income (loss)	-	-	-	(3,305)	23,023	-	19,718
Balance at December 31, 2010	47,066	471	302,911	265,676	15,108	(971)	583,195
Stock-based compensation expense	**-**	**-**	**2,613**	**-**	**-**	**-**	**2,613**
Excess tax benefit from stock -based compensation	**-**	**-**	**35**	**-**	**-**	**-**	**35**
Issuance of common stock and restricted stock under equity award plans	**290**	**3**	**(1,023)**	**-**	**-**	**(170)**	**(1,190)**
Repurchase of common stock	**-**	**-**	**-**	**-**	**-**	**(5,512)**	**(5,512)**
Retirement of treasury stock	**(300)**	**(3)**	**(2,400)**	**(3,109)**	**-**	**5,512**	**-**
Comprehensive income	**-**	**-**	**-**	**25,149**	**6,777**	**-**	**31,926**
Balance at June 30, 2011	**47,056**	**$ 471**	**$ 302,136**	**$ 287,716**	**$ 21,885**	**$ (1,141)**	**$ 611,067**

See accompanying Notes to Condensed Consolidated Financial Statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 2011 and 2010
(Unaudited)

(in thousands)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income (loss)	**$ 25,149**	$ (6,968)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	**28,266**	28,015
Impairment losses	**726**	-
Unrealized foreign currency transaction (gains) losses, net	**(2,381)**	19
Stock-based compensation expense	**2,613**	2,909
Excess tax (benefit) from stock-based compensation	**(35)**	(360)
Deferred income tax (benefit)	**(3,563)**	(3,981)
Net (gain) loss on disposal of property and equipment	**(3,443)**	38
Bad debt expense	**244**	36
Unrealized losses on financial instruments, net	**2,000**	2,580
Increase in valuation allowance on deferred tax assets	**-**	1,588
Amortization of deferred loan fees	**292**	1,750
Other	**586**	319
Changes in assets and liabilities, net of acquisition:		
Receivables	**(14,909)**	6,327
Prepaid expenses	**(2,179)**	(1,581)
Other current assets	**(2,360)**	(10,623)
Deferred charges and other assets	**(471)**	(714)
Accounts payable	**(3,986)**	(2,394)
Income taxes receivable / payable	**120**	(5,876)
Accrued employee compensation and benefits	**11,828**	2,870
Other accrued expenses and current liabilities	**(2,576)**	(3,806)
Deferred revenue	**1,685**	314
Other long-term liabilities	**(3,558)**	(142)
Net cash provided by operating activities	**34,048**	10,320
Cash flows from investing activities:		
Capital expenditures	**(13,367)**	(13,470)
Cash paid for business acquisition, net of cash acquired	**-**	(77,174)
Proceeds from sale of property and equipment	**3,923**	41
Investment in restricted cash	**(30)**	(108)
Release of restricted cash	**-**	80,000
Proceeds from insurance settlement	**500**	-
Net cash (used for) investing activities	**(8,974)**	(10,711)

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Six Months Ended June 30, 2011 and 2010
(Unaudited)
(Continued)

(in thousands)	Six Months Ended June 30, 2011		2010	
Cash flows from financing activities:				
Payment of long-term debt		**-**		(22,500)
Proceeds from issuance of long-term debt		**-**		75,000
Proceeds from issuance of stock		**-**		29
Excess tax benefit from stock-based compensation		**35**		360
Cash paid for repurchase of common stock		**(5,512)**		(5,212)
Proceeds from grants		**-**		15
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		**(6,667)**		(41,625)
Effects of exchange rates on cash		**3,619**		(13,058)
Net increase (decrease) in cash and cash equivalents		**22,026**		(55,074)
Cash and cash equivalents beginning		**189,829**		279,853
Cash and cash equivalents ending	**$**	**211,855**	$	224,779
Supplemental disclosures of cash flow information:				
Cash paid during period for interest	**$**	**521**	$	1,968
Cash paid during period for income taxes	**$**	**12,090**	$	13,107
Non-cash transactions:				
Property and equipment additions in accounts payable	**$**	**2,055**	$	1,672
Unrealized gain on postretirement obligation in accumulated other comprehensive income (loss)	**$**	**24**	$	119
Issuance of common stock for business acquisition	**$**	**-**	$	136,673

See accompanying Notes to Condensed Consolidated Financial Statements.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Six Months Ended June 30, 2011 and 2010
(Unaudited)

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

Business 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. (ICT), 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 and six months ended June 30, 2010. Cash flows from discontinued operations are included in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 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 or GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 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

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 are 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 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 June 30, 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 June 30, 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 June 30, 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.

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 June 30, 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.

The Company s self-insurance liabilities included in the accompanying Condensed Consolidated Balance Sheets consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Self-insurance liability short-term[1]	**$ 2,275**	$ 117
Self-insurance liability long-term[2]	**68**	68
	$ 2,343	$ 185

[1] Included in Accrued employee compensation and benefits in the accompanying Condensed Consolidated Balance Sheets.

[2] 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 (together, property grants) 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.

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. 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 s deferred grants included in the accompanying Condensed Consolidated Balance Sheets consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Property grants [1]	**$ 8,678**	$ 9,787
Employee grants short-term [2]	**1,749**	1,652
Employee grants long-term [1]	**1,102**	1,020
	$ 11,529	$ 12,459

[1] Included in Deferred grants in the accompanying Condensed Consolidated Balance Sheets.

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

Amortization of the Company s deferred grants included as a reduction to General and administrative costs in the accompanying Condensed Consolidated Statements of Operations consist of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Amortization of property grants	**$ 235**	$ 262	**$ 488**	$ 523
Amortization of employment grants	**18**	11	**36**	20
	$ 253	$ 273	**$ 524**	$ 543

Stock-Based Compensation The Company has three stock-based compensation plans: the 2011 Equity Incentive Plan (for employees and certain non-employees), the 2004 Non-Employee Director Fee Plan (for non-employee directors), 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.

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***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.

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 8, 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.

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 June 30, 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 7, Financial Derivatives, for further information on financial derivative instruments.

New Accounting Standards Not Yet Adopted

In May 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2011-04 (ASU 2011-04) *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* . The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in ASU 2011-04 are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of this amendment to materially impact its financial condition, results of operations and cash flows.

In June 2011, the FASB issued ASU 2011-05 (ASU 2011-05) *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* . The amendments in ASU 2011-05 require that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 are to be applied retrospectively and are effective during interim and annual periods beginning after December 15, 2011, and may be early adopted. The Company is currently evaluating the impact of ASU 2011-05 on its financial statement presentation of comprehensive income.

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.

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 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.

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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 and six months ended June 30, 2010 was not material.

The Company s Condensed Consolidated Statement of Operations for the three months ended June 30, 2010 includes ICT revenues from continuing operations of $96.5 million and the ICT net loss from continuing operations of $(1.4) million. The Company s Condensed Consolidated Statement of Operations for the six months ended June 30, 2010 includes ICT revenues from continuing operations of $160.2 million and the ICT net loss from continuing operations of $(14.6) million from the February 2, 2010 acquisition date through June 30, 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 and six months ended June 30, 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 June 30, 2010	Six Months Ended June 30, 2010
Revenues	$ 288,535	$ 595,245
Income from continuing operations, net of taxes	$ 5,839	$ 17,642
Income from continuing operations per common share:		
Basic	$ 0.13	$ 0.38
Diluted	$ 0.13	$ 0.38

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.

The following table presents acquisition-related costs included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
Severance costs:				
Americas	**$ -**	$ 411	**$ -**	$ 1,261
Corporate	**-**	1,330	**126**	13,926
	-	1,741	**126**	15,187
Lease termination and other costs: [1]				
Americas	**29**	-	**249**	-
EMEA	**453**	-	**523**	-
	482	-	**772**	-
Transaction and integration costs:				
Corporate	**-**	1,022	**13**	8,676
	-	1,022	**13**	8,676
Depreciation and amortization: [2]				
Americas	**2,994**	3,235	**6,052**	5,388
EMEA	**-**	9	**-**	15
	2,994	3,244	**6,052**	5,403
Total acquisition-related costs	**$ 3,476**	$ 6,007	**$ 6,963**	$ 29,266

(1) Amounts related to the Third Quarter 2010 Exit Plan and the Fourth Quarter 2010 Exit Plan. See Note 4.

(2) Depreciation resulted from the adjustment to 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 and six

months ended June 30, 2010. This business was historically reported by the Company as part of the Americas segment.

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

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Revenues	$ 10,642	$ 19,277
(Loss) from discontinued operations before income taxes	$ (1,434)	$ (2,780)
Income taxes [1]	-	-
(Loss) from discontinued operations, net of taxes	$ (1,434)	$ (2,780)

[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. 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 $11.0 million as of June 30, 2011 ($10.0 million as of December 31, 2010), all of which are in the Americas segment. The increase of $0.1 million and $1.0 million during the three and six months ended June 30, 2011, respectively, is primarily due to the change in assumptions related to the redeployment of property and equipment and a change in estimate of lease termination costs. The Company recorded $3.8 million of the costs associated with the Third Quarter 2010 Exit Plan as non-cash 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 six months ended June 30, 2011 (see Note 5, Fair Value, for further information). The remaining $7.2 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 $2.1 million in cash through June 30, 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 June 30, 2011:

	Beginning Accrual at April 1, 2011	Charges for the three months ended June 30, 2011[1]	Cash Payments	Other Non-Cash Changes[2]	Ending Accrual at June 30, 2011	Short-term[3]	Long-term[4]	Total
Lease obligations and facility exit costs	$ 5,619	$ 29	$ (602)	$ 3	**$ 5,049**	$ 2,043	$ 3,006	$5,049