SYKES ENTERPRISES INC
Form 10-Q
November 02, 2010

Table of Contents

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 September 30, 2010

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, 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 October 22, 2010, there were 46,850,569 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

INDEX

Table of Contents

PART I FINANCIAL INFORMATION
Item 1 Financial Statements

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

(in thousands, except per share data)	September 30, 2010		December 31, 2009	
Assets				
Current assets:				
Cash and cash equivalents	**$**	**202,757**	$	279,853
Restricted cash		**614**		80,342
Receivables, net		**248,393**		167,666
Prepaid expenses		**14,412**		9,419
Other current assets		**16,927**		10,574
Total current assets		**483,103**		547,854
Property and equipment, net		**120,416**		80,264
Goodwill		**114,294**		21,209
Intangibles, net		**56,336**		2,091
Deferred charges and other assets		**42,298**		21,053
	$	**816,447**	$	672,471
Liabilities and Shareholders Equity				
Current liabilities:				
Short-term debt	**$**		$	75,000
Accounts payable		**30,320**		21,725
Accrued employee compensation and benefits		**77,848**		51,127
Current deferred income tax liabilities		**7,968**		6,453
Income taxes payable		**3,765**		3,341
Deferred revenue		**31,237**		30,083
Other accrued expenses and current liabilities		**22,438**		12,689
Total current liabilities		**173,576**		200,418
Deferred grants		**11,073**		11,005
Long-term income tax liabilities		**7,159**		5,376
Other long-term liabilities		**31,512**		4,998
Total liabilities		**223,320**		221,797
Commitments and loss contingency (Note 16)				
Shareholders equity:				
Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued and outstanding				
		471		418

Common stock, $0.01 par value, 200,000 shares authorized; 47,066 and 41,817 shares issued				
Additional paid-in capital		**301,607**		166,514
Retained earnings		**282,628**		280,399
Accumulated other comprehensive income		**9,368**		7,819
Treasury stock at cost: 81 shares and 329 shares		**(947)**		(4,476)
Total shareholders equity		**593,127**		450,674
	$	**816,447**	$	672,471

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders Equity
Nine Months Ended September 30, 2009, Three Months Ended December 31, 2009 and Nine Months Ended September 30, 2010
(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, 2009	41,271	$ 413	$ 158,216	$ 237,188	$ (10,683)	$ (1,104)	$ 384,030
Issuance of common stock	112	1	1,599				1,600
Stock-based compensation expense			3,981				3,981
Excess tax benefit from stock- based compensation			247				247
Issuance of common stock and restricted stock under equity award Plans	252	2	(919)			(163)	(1,080)
Repurchase of common stock						(3,193)	(3,193)
Comprehensive income				47,900	18,050		65,950
Balance at September 30, 2009	41,635	416	163,124	285,088	7,367	(4,460)	451,535
Issuance of common stock	179	1	1,567				1,568
Stock-based compensation expense			1,177				1,177
Excess tax benefit from stock- based compensation			631				631
Issuance of common stock and restricted stock under equity award Plans	3	1	15			(16)	
Comprehensive income (loss)				(4,689)	452		(4,237)

Balance at December 31, 2009	41,817	418	166,514	280,399	7,819	(4,476)	450,674
Issuance of common stock	**2**		**34**				**34**
Stock-based compensation expense			**3,652**				**3,652**
Excess tax benefit from stock- based compensation			**360**				**360**
Issuance of common stock and restricted stock under equity award Plans	**204**	**2**	**(1,107)**			**(177)**	**(1,282)**
Repurchase of common stock						**(5,212)**	**(5,212)**
Retirement of treasury stock	**(558)**	**(6)**	**(4,462)**	**(4,450)**		**8,918**	
Issuance of common stock for business acquisition	**5,601**	**57**	**136,616**				**136,673**
Comprehensive income				**6,679**	**1,549**		**8,228**
Balance at September 30, 2010	**47,066**	**$ 471**	**$ 301,607**	**$ 282,628**	**$ 9,368**	**$ (947)**	**$ 593,127**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2010 and 2009
(Unaudited)

(in thousands)	2010	2009
Cash flows from operating activities:		
Net income	**$ 6,679**	$ 47,900
Depreciation and amortization, net	**43,236**	20,917
Impairment losses	**4,004**	3,997
Unrealized foreign currency transaction (losses), net	**(2,860)**	(2,632)
Stock-based compensation expense	**3,652**	3,981
Excess tax benefit from stock-based compensation	**(360)**	(247)
Deferred income tax (benefit)	**(8,644)**	(2,015)
Net loss on disposal of property and equipment	**63**	129
Bad debt expense	**58**	1,147
Write down of value added tax receivables	**434**	414
Unrealized loss on financial instruments, net	**377**	973
Amortization of actuarial (gains) on pension	**(38)**	(46)
Foreign exchange (gain) loss on liquidation of foreign entities	**6**	(5)
Increase (decrease) in valuation allowance on deferred tax assets	**1,588**	(2,285)
Amortization of unrealized (gain) on post retirement obligation	**(23)**	(28)
Amortization of deferred loan fees	**2,772**	
Changes in assets and liabilities:		
Receivables	**3,301**	(19,488)
Prepaid expenses	**(410)**	(2,582)
Other current assets	**(5,500)**	(1,203)
Deferred charges and other assets	**1,123**	(809)
Accounts payable	**(3,952)**	(3,173)
Income taxes receivable / payable	**(7,542)**	2,993
Accrued employee compensation and benefits	**2,019**	7,564
Other accrued expenses and current liabilities	**(1,247)**	1,711
Deferred revenue	**593**	2,662
Other long-term liabilities	**828**	(41)
Net cash provided by operating activities	**40,157**	59,834
Cash flows from investing activities:		
Capital expenditures	**(21,501)**	(23,207)
Cash paid for business acquisition, net of cash acquired	**(77,174)**	
Proceeds from sale of property and equipment	**23**	170
Investment in restricted cash	**(260)**	
Release of restricted cash	**80,000**	839
Net cash (used for) investing activities	**(18,912)**	(22,198)

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2010 and 2009
(Unaudited)

(continued)

(in thousands)	**2010**	2009
Cash flows from financing activities:		
Payment of long term debt	**(75,000)**	
Proceeds from issuance of long term debt	**75,000**	
Proceeds from issuance of stock	**34**	1,600
Excess tax benefit from stock-based compensation	**360**	247
Cash paid for repurchase of common stock	**(5,212)**	(3,193)
Proceeds from grants	**148**	3,491
Payments on short-term debt	**(85,000)**	
Shares repurchased for minimum tax withholding on equity awards	**(1,282)**	(1,080)
Cash paid for loan fees related to debt	**(3,035)**	
Net cash (used for) provided by financing activities	**(93,987)**	1,065
Effects of exchange rates on cash	**(4,354)**	12,887
Net increase (decrease) in cash and cash equivalents	**(77,096)**	51,588
Cash and cash equivalents beginning	**279,853**	219,050
Cash and cash equivalents ending	**$ 202,757**	$ 270,638
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	**$ 2,431**	$ 752
Cash paid during period for income taxes	**$ 16,811**	$ 11,522
Non-cash transactions:		
Property and equipment additions in accounts payable	**$ 1,331**	$ 2,035
Unrealized gain on post retirement obligation in accumulated other comprehensive income (loss)	**$ 202**	$ 342
Issuance of common stock for business acquisition	**$ 136,673**	$

See accompanying notes to condensed consolidated financial statements.

7

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 1 Significant Accounting Policies

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

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 and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2010. 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, 2009, 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.

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

In accordance with ASC 605-25, *Revenue Recognition- Multiple-Element Arrangements* , revenue from contracts with multiple-deliverables is allocated to separate units of accounting based on their relative fair value, if the deliverables in the contract(s) meet the criteria for such treatment. Certain fulfillment services contracts contain multiple-deliverables. Separation criteria includes whether a delivered item has value to the customer on a standalone basis, whether there is objective and reliable evidence of the fair value of the undelivered items and, if the arrangement includes a general right of return related to a delivered item, whether delivery of the undelivered item is considered probable and in the Company s control. Fair value is the price of a deliverable when it is regularly sold on a standalone basis, which generally consists of vendor-specific objective evidence of fair value. If there is no evidence of the fair value for a delivered product or service, revenue is allocated first to the fair value of the undelivered product or service and then the residual revenue is allocated to the delivered product or service. If there is no evidence of the fair value for an undelivered product or service, the contract(s) is accounted for as a single unit of accounting, resulting in delay of revenue recognition for the delivered

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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

Recognition of Revenue (continued)

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

Property and Equipment - The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with ASC 360 *Property, Plant and Equipment*. For purposes of recognition and measurement of an impairment loss, assets are grouped at the lowest levels for which there are identifiable cash flows (the reporting unit). An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets. Except as discussed in Note 3, the Company determined that its property and equipment were not impaired as of September 30, 2010.

Investments Held in Rabbi Trust for Former ICT Chief Executive Officer Securities held in a rabbi trust for a nonqualified plan trust agreement dated February 1, 2010 (the Trust Agreement) with respect to severance payable to John J. Brennan, the former chief executive officer of ICT Group, Inc. (ICT), include the fair market value of debt securities, primarily U.S. Treasury bills. See Note 7 for further information. The fair market value of these debt securities, classified as trading securities in accordance with ASC 320 (ASC 320) *Investment Debt and Equity Securities* , is determined by quoted market prices and is adjusted to the current market price at the end of each reporting period. The net realized and unrealized gains and losses on trading securities, which are included in Other income and expense in the accompanying Condensed Consolidated Statements of Operations, are not material for the three and nine months ended September 30, 2010. For purposes of determining realized gains and losses, the cost of securities sold is based on specific identification.

The Accrued employee compensation and benefits in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2010 includes a $0.3 million obligation for severance payable to the former executive due in varying installments over the next five months in accordance with the Trust Agreement.

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

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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

Goodwill (continued)

goodwill within the reporting unit is less than its carrying value. The Company completed its annual goodwill impairment test during the third quarter of 2010, which included the consideration of certain economic factors and determined that the carrying amount of goodwill was not impaired as of September 30, 2010, except for $0.1 million related to its United Kingdom operations. See Note 3 for additional information. 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 name, 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. See Note 3 for additional information regarding the impairment of $0.3 million related to the Company s United Kingdom operations, which was recorded in the third quarter of 2010.

Value Added Tax Receivables The Philippine operations are subject to Value Added Tax (VAT), which is usually applied to all goods and services purchased throughout the Philippines. Upon validation and certification of the VAT receivables by the Philippine government, the VAT receivables are held for sale through third-party brokers. The Company sells VAT credits to others due to its current tax holiday status in the Philippines and resulting inability to fully utilize these credits. This process through collection typically takes three to five years. The VAT receivables balance, which is recorded at net realizable value, is approximately $7.4 million and $6.2 million as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010 and December 31, 2009, the VAT receivables of $5.4 million and $5.6 million, respectively, are included in Deferred charges and other assets , $2.0 million and $0.0 million, respectively, are included in Other current assets and $0.0 million and $0.6 million, respectively, are included in Receivables, net in the accompanying Condensed Consolidated Balance Sheets. During the three and nine months ended September 30, 2010 the Company recognized losses on the VAT receivables balance of $0.1 million and $0.4 million, respectively. During the comparable 2009 periods, the Company recognized losses on the VAT receivables balance of $0.1 million and $0.4 million, respectively.

Deferred Grants 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 September 30, 2010 and December 31, 2009, employment deferred grants totaled $12.7 million, of which $1.6 million is included in total current liabilities, and $11.9 million, of which $0.9 million is included in total current liabilities, respectively. Amortization of these grants, recorded as a reduction to General and administrative costs in the accompanying Condensed Consolidated Statements of Operations, was $0.3 million and $0.8 million for the three and nine months ended September 30, 2010, respectively, and $0.3 million and $0.9 million for the comparable 2009 periods, respectively.

Stock-Based Compensation The Company has three stock-based compensation plans: the 2001 Equity Incentive Plan (for employees and certain non-employees), the 2004 Non-Employee Director Fee Plan (for non-employee directors), both approved by the shareholders, and the Deferred Compensation Plan (for certain eligible employees). All of these plans are discussed more fully in Note 14. 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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

Stock-Based Compensation (continued)

In accordance with ASC 718 (ASC 718) *Compensation Stock Compensation* , the Company recognizes in its Condensed Consolidated Statement of Operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Compensation expense for equity-based awards is recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) is 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 Trust, Short-term Debt and Accounts Payable. The carrying values for cash, short-term and other investments, investments held in rabbi trust, short-term debt and accounts payable approximate their fair values.

Forward currency forward contracts and options. Forward currency forward contracts and 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.

Long-Term Debt. The carrying value of long-term debt, including the current portion thereof, approximates its estimated fair value as it reprices at varying interest rates.

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

ASC 825 (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.

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

Fair Value Hierarchy ASC 820 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.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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

Fair Value Measurements (continued)

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 significant inputs that are readily observable.

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

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

Foreign Currency Forward Contracts 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, refer to Notes 7 and 14.

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

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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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

Foreign Currency and Derivative Instruments (continued)

All derivatives, including foreign currency forward contracts and options, are recognized in the balance sheet at fair value. Derivatives are recorded either as assets, within Other current assets, or Deferred charges and other assets, or as liabilities, within Other accrued expenses and current liabilities, or Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets.

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 realized 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 September 30, 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 6 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.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

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 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:

Form	**Amount** *(in thousands)*
Cash	**$ 141,161**
Common stock	**136,673**
Total consideration	**$ 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 $75.0 million short-term loan from Key Bank and a $75 million Term Loan. See Note 9 for further information.

The Company accounted for the acquisition in accordance with ASC 805 (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. Certain amounts are provisional and are subject to change, including the following items:

- Amounts for property and equipment, pending completion of certain physical counts and the confirmation of the condition of certain property and equipment.

- Tax entries required cannot be estimated until the Company completes its tax analysis of the assets acquired and liabilities assumed in connection with the acquisition of ICT. Additionally, as of February 2, 2010, the date of the ICT acquisition, the Company determined that it intended to distribute all of the accumulated and undistributed earnings of the ICT Philippine subsidiary and its direct parent, ICT Group Netherlands B.V., to Sykes Enterprises, Incorporated, its ultimate U.S. parent. Tax adjustments required to reflect this intent, which could be significant, cannot be estimated until the Company completes its tax analysis. The Company asserts its intention that all other ICT past and current earnings are permanently reinvested in foreign business operations in accordance with ASC 740-30 (ASC 740-30) *Income Taxes Other Considerations or Special Areas* .

- The amount and allocation of goodwill among reporting units.

The Company expects to complete its analysis of the purchase price allocation during the fourth quarter of 2010. As of September 30, 2010, there were no changes in the recognized amounts of goodwill resulting from the acquisition of ICT.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 2 Acquisition of ICT (continued)

The following table summarizes the estimated acquisition date fair values of the assets acquired and liabilities assumed (in thousands):

	Amount
Cash and cash equivalents	$ 63,987
Receivables	75,890
Income tax receivable	2,844
Prepaid expenses	4,846
Other current assets	4,950
Total current assets	152,517
Property and equipment	57,910
Goodwill	90,123
Intangibles	60,310
Deferred charges and other assets	7,978
Short-term debt	(10,000)
Accounts payable	(12,412)
Accrued employee compensation and benefits	(23,873)
Income taxes payable	(2,451)
Other accrued expenses and current liabilities	(10,951)
Total current liabilities	(59,687)
Deferred grants	(706)
Long-term income tax liabilities	(5,573)
Other long-term liabilities [1]	(25,038)
Purchase price	$ 277,834

[1] Includes primarily long-term deferred tax liabilities.

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

	Americas	EMEA	Other	Consolidated Total

Net assets	**$ 273,748**	**$ 4,086**	**$**	**$ 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):

Purchased intangible Assets	**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

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 2 Acquisition of ICT (continued)

The $90.1 million of goodwill was assigned to the Company s Americas and EMEA operating segments in the amount of $90.0 million and $0.1 million, respectively. See Note 3 for impairment of EMEA s goodwill recorded during the third quarter of 2010. 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.

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 Statement of Operations for the three and nine months ended September 30, 2010 were not material.

The amount of ICT s revenues and net income (loss) since the February 2, 2010 acquisition date, included in the Company s Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2010, are $101.2 million and $2.1 million and $265.1 million and $(13.7) million, respectively. 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 entire three and nine month periods ended September 30, 2010 and 2009. 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 and 2009 (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
Revenues	**$306,950**	$316,054	**$922,278**	$922,542
Net income	**$ 15,546**	$ 19,295	**$ 28,856**	$ 44,386
Net income per basic share	**$ 0.33**	$ 0.42	**$ 0.62**	$ 0.96
Net income per diluted share	**$ 0.33**	$ 0.41	**$ 0.62**	$ 0.95

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 and January 1, 2009, 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.

Acquisition-related costs of $6.3 million, comprised of $2.7 million in lease termination and other costs ($2.1 million in Corporate and $0.6 million in the Americas), $0.1 million in severance costs (primarily in Corporate), $0.3 million in transaction and integration costs, and $3.2 million in additional depreciation related to the increase in fair values of the acquired property and equipment and amortization of the fair values of the acquired intangibles, are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations for the three months ended September 30, 2010. Acquisition-related costs of $35.6 million, comprised of $15.3 million in severance costs ($14.1 million in Corporate and $1.2 million in the Americas), $2.7 million in lease termination and other costs ($2.1 million in Corporate and $0.6 million in the Americas), $9.0 million in transaction and integration costs, and $8.6 million in additional depreciation related to the increase in fair values of the acquired property and equipment and amortization of the fair values of the acquired intangibles, are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2010.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 3 Fair Value

The Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 subject to the requirements of ASC 820 consist of the following (in thousands):

		Fair Value Measurements at September 30, 2010 Using:		
	Balance at September 30, 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)]	$ 18,212	$ 18,212	$	$
Foreign Currency Forward Contracts [(2)]	1,757		1,757	
Foreign Currency Option Contracts [(3)]	3,982		3,982	
Investments held in a Rabbi Trust for the Deferred Compensation Plan [(4)]	3,074	3,074		
U.S. Treasury Bills held in a Rabbi Trust for the former ICT chief executive officer [(4)]	291	291		
Guaranteed Investment Certificates [(5)]	53		53	
Total Assets	**$ 27,369**	**$ 21,577**	**$ 5,792**	**$**
Liabilities:				
Foreign Currency Forward Contracts [(6)]	$ 2,227	$	$ 2,227	$
Total Liabilities	**$ 2,227**	**$**	**$ 2,227**	**$**

(1) Included $17.5 million in Cash and cash equivalents and $0.7 million in Deferred charges and other assets in the accompanying Condensed

Consolidated Balance Sheet.

(2) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 6.

(3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 6.

(4) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

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

(6) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet. See Note 6.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 3 Fair Value (continued)

The Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 subject to the requirements of ASC 820 consist of the following (in thousands):

	Balance at December 31, 2009	Fair Value Measurements at December 31, 2009 Using: 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]	$ 234,659	$ 234,659	$	$
Foreign Currency Forward Contracts [2]	2,866		2,866	
Investments held in a Rabbi Trust for the Deferred Compensation Plan [3]	2,437	2,437		
Guaranteed Investment Certificates[4]	46		46	
Total Assets	$ 240,008	$ 237,096	$ 2,912	**$**
Liabilities:				
Foreign Currency Forward Contracts [5]	$ 326	$	$ 326	$
Total Liabilities	$ 326	$	$ 326	**$**

(1) Included $80.3 million in Restricted cash , $153.7 million in Cash and cash equivalents and $0.7 million in Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet.

(2) Included in "Other current assets" in the accompanying Condensed Consolidated Balance Sheet. See Note 6.

(3) Included in "Other current assets" in the accompanying Condensed Consolidated Balance Sheet. See Note 7.

(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 6.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 3 Fair Value (continued)

Certain assets, under certain conditions, are measured at fair value on a non-recurring basis utilizing Level 3 inputs as described in Note 1, 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 September 30, 2010 subject to the requirements of ASC 820 consist of the following (in thousands):

	Balance at September 30, 2010	Level (3) Fair Value Measurements at September 30, 2010: Three Months Ended September 30, 2010 Total Gains (Losses)	Nine Months Ended September 30, 2010 Total Gains (Losses)
Assets:			
EMEA United Kingdom:			
Goodwill [1]	$	$ (84)	$ (84)
Intangibles, net [1]		(278)	(278)
		(362)	(362)
Americas:			
Property and equipment, net [1]	105,706	(3,642)	(3,642)
	$ 105,706	**$ (4,004)**	**$ (4,004)**

Based on actual and forecasted operating results and deterioration of the related customer base in the Company s United Kingdom operations during the quarter ended September 30, 2010, the EMEA segment recorded an impairment loss of $0.1 million on goodwill and $0.3 million on intangibles (primarily customer relationships) during the three and nine months ended September 30, 2010.

During the three and nine months ended September 30, 2010, in connection with its periodic review for impairment, the Company determined that the carrying value of certain long-lived assets, primarily leasehold improvements, in one of its underutilized customer contact management centers in Argentina (a component of the Americas segment), were no longer recoverable and recorded an impairment charge of $0.5 million. The impairment charge represented the amount by which the carrying value exceeded the fair value of these assets which cannot be redeployed to other locations.

In addition, during the three and nine months ended September 30, 2010 in connection with a plan to close and consolidate facilities within the Americas segment as discussed more fully in Note 5, the Company recorded an impairment charge of $3.1 million, comprised of a $2.9 million impairment of long-lived assets for leasehold improvements in certain of its underutilized customer contact management centers in the Philippines and a $0.2 million impairment of long-lived assets for leasehold improvements related to a plan to consolidate corporate leased space in the United States.

During the three and nine months ended September 30, 2009, due to the decline in value that is other than temporary, the Company recorded impairment losses of $0.3 million and $1.9 million, respectively, on its investment of goodwill and intangible assets related to the March 2005 acquisition of Kelly, Luttmer & Associates Limited (KLA). Additionally, during the nine months ended September 30, 2009 the Company recorded an impairment loss of $2.1 million on its investment in SHPS (none in the comparable three month period in 2010).

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 4 Goodwill and Intangible Assets

The following table presents the Company s purchased intangible assets (in thousands) as of September 30, 2010 (including the ICT acquisition described in Note 2):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	**$ 62,621**	**$ (7,872)**	**$ 54,749**	8
Trade name	**1,777**	**(883)**	**894**	4
Non-compete agreements	**715**	**(529)**	**186**	1
Proprietary software	**850**	**(343)**	**507**	2
Other	**128**	**(128)**		3
	$ 66,091	**$ (9,755)**	**$ 56,336**	8

The following table presents the Company s purchased intangible assets (in thousands) as of December 31, 2009:

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	$ 4,437	$ (2,588)	$ 1,849	6
Trade name	807	(565)	242	5
Non-compete agreements	161	(161)		2
Other	133	(133)		3
	$ 5,538	$ (3,447)	$ 2,091	6

Amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), of $2.4 million and $6.5 million for the three and nine months ended September 30, 2010, respectively, is included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations. In the comparable 2009 periods, the Company recognized amortization expense of $0.2 million and $0.8 million, respectively.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 4 Goodwill and Intangible Assets (continued)

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

Years Ending December 31,	Amount
2010 (remaining three months)	$ 2,411
2011	$ 8,702
2012	$ 8,082
2013	$ 7,358
2014	$ 7,296
2015	$ 7,293
2016 and thereafter	$15,194

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

	Gross Amount	Accumulated Impairment Losses	Net Amount
Americas:			
Balance at January 1, 2010	$ 21,838	$ (629)	$ 21,209
Acquisition of ICT (See Note 2)	90,036		90,036
Foreign currency translation	3,049		3,049
Balance at September 30, 2010	114,923	(629)	114,294
EMEA:			
Balance at January 1, 2010			
Acquisition of ICT (See Note 2)	87	(87)	
Foreign currency translation	(3)	3	
Balance at September 30, 2010	84	(84)	
	$ 115,007	**$ (713)**	**$ 114,294**

See Note 3 for additional information regarding the impairment of the EMEA goodwill.

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 5 Costs Associated with Exit or Disposal Activities

During the third quarter of 2010, consistent with our 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 its Wilmington, Delaware and Newtown, Pennsylvania locations (the Plan). These actions were in response to the facilities consolidation and capacity rationalization related to the ICT acquisition in February 2010, enabling the Company to reduce operating costs by eliminating redundant space and to optimize capacity utilization rates where overlap exists. The number of seats slated for rationalization approximates 2,000; and the cost savings associated with these actions is anticipated to be approximately $5.8 million annually. There are no employees affected by the Plan, and the Company expects to complete these actions on or before January 31, 2011. In accordance with the Company s previously discussed 12 to 18 month integration timeline, following the ICT acquisition in February 2010, management expects to continue to evaluate opportunities for further such actions around facilities consolidation and capacity optimization.

The major costs expected to be 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 $7.2 million, all of which are in the Americas segment. The Company recorded $3.1 million of the costs associated with this Plan as non-cash impairment charges included in Impairment of long-lived assets in the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2010 (see Note 3 for further information), while approximately $4.1 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 exact timing and actual amounts of the facility-related payments are dependent upon the Company s ability to sublease these facilities. If the events and circumstances regarding the Company s ability to sublease the facilities change, these estimates would change. In the third quarter ended September 30, 2010, since the Company ceased using certain of these facilities during the third quarter, the Company charged $2.4 million to General and administrative costs in the accompanying Condensed Consolidated Statement of Operations related to the facility-related costs, of which $0.5 million was paid in cash.

The following tables summarize the 2010 accrued liability for costs associated with the Plan s exit or disposal activities and related charges for the three and nine months ended September 30, 2010:

	Beginning Accrual at July 1, 2010	2010 Charges	Cash Payments	Ending Accrual at September 30, 2010	Short-term(1)	Long-term(2)	Total
Lease obligations and facility exit costs	$	$ 2,444	$ (504)	**$ 1,940**	$ 929	$ 1,011	**$ 1,940**
	$	**$ 2,444**	**$ (504)**	**$ 1,940**	**$ 929**	**$ 1,011**	**$ 1,940**

	Beginning			Ending

	Accrual at January 1, 2010	2010 Charges	Cash Payments	Accrual at September 30, 2010
Lease obligations and facility exit costs	**$**	$ 2,444	$ (504)	**$ 1,940**
	$	**$ 2,444**	**$ (504)**	**$ 1,940**

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

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

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 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 $89.3 million and $39.4 million as of September 30, 2010 and December 31, 2009, respectively, and Canadian dollar contracts maturing within 15 months with a notional value of $6.1 million and $3.8 million as of September 30, 2010 and December 31, 2009, 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 $2.2 million and $2.0 million of deferred gains, net of taxes of $0.7 million and $0.8 million, on these derivative instruments as of September 30, 2010 and December 31, 2009, 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 $1.6 million. However, this amount and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts.

In October 2010, to hedge intercompany forecasted cash outflows, the Company entered into additional forward contracts to buy $3.7 million Canadian Dollars (CAD) versus the U.S. Dollar for maturities between three and 14 months as well as forward and option contracts to sell 1.2 billion Philippine Peso versus the U.S. Dollar for maturities between three and 14 months.

Net Investment Hedges During the nine months ended September 30, 2010, the Company entered into foreign exchange forward contracts to hedge its net investment in a foreign operation, as defined under ASC 815. The aggregate notional value of these hedges was $26.1 million as of September 30, 2010. The Company recorded deferred (losses) of $(3.1) million and $(2.1) million, net of taxes, for the three and nine months ended September 30, 2010, respectively, as a currency translation adjustment, a component of AOCI, offsetting foreign exchange losses attributable to the translation of the net investment. During the three and nine months ended September 30, 2010, net investment hedges settled at a loss of $1.4 million, net of taxes, included as a component of AOCI, offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company s net investment in the foreign operation. The remaining balance of net investment hedges settled at a loss of $1.2 million, net of taxes, in October, 2010. The Company did not hedge net investments in foreign operations during the comparable 2009 period.

Other Hedges The Company 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 that are denominated in currencies other than our subsidiaries functional currencies. These contracts generally do not exceed 60 days in duration. As of September 30, 2010 and December 31, 2009, these contracts total $69.3 million USD and $11.5 million USD, respectively, against foreign currencies including PHP, CAD, Euro Dollar (EUR), Australian Dollar (AUD), Great British Pound (GBP) and Argentine Peso (ARS). In October 2010, the Company entered into additional contracts that have a total notional amount of $72.8 million USD against the PHP, CAD, Euro Dollar (EUR), Danish Krona (DKK), Australian Dollar (AUD), Great British Pound (GBP), Argentine Peso (ARS) and the Egyptian Pound (EGP). These contracts generally do not exceed 60 days in duration.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 Financial Derivatives (continued)

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

As of September 30, 2010			As of December 31, 2009	
Foreign Currency	**Currency Denomination**	**Settle Through Date**	**Foreign Currency**	**Currency Denomination**
U.S. Dollars 14,300	Philippine Pesos 706,837	September 2011	U.S. Dollars 39,400	Philippine Pesos 1,970,189
U.S. Dollars 75,000	Philippine Pesos 3,476,490	July 2011		
U.S. Dollars 6,124	Canadian Dollars 6,474	December 2011	U.S. Dollars 3,800	Canadian Dollars 4,050
Euros 20,000	U.S. Dollars 26,106	October 2010		
U.S. Dollars 13,120	Euros 10,000	October 2010		
Canadian Dollars 5,161	U.S. Dollars 5,000	October 2010		
Philippine Pesos 632,898	U.S. Dollars 14,400	October 2010		
Argentine Peso 31,996	U.S. Dollars 8,000	October 2010		
British Pound 9,182	U.S. Dollars 14,250	October 2010		
Australian Dollar 15,346	U.S. Dollars 14,500	October 2010		
			Canadian Dollars 12,500	Euros 8,066

See Note 1 for additional information on the Company s purpose for entering into these derivatives and its overall risk management strategies.

As of September 30, 2010, 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 $5.7 million.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 Financial Derivatives (continued)

The following tables present the fair value of the Company s derivative instruments as of September 30, 2010 and December 31, 2009 included in the accompanying Condensed Consolidated Balance Sheets (in thousands):

	Derivative Assets			
	September 30, 2010		December 31, 2009	
	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	**$ 1,731**	Other current assets	$ 2,866
Foreign currency option contracts	Other current assets	**3,982**		
Foreign currency forward contracts	Deferred charges and other assets	**17**		
		5,730		2,866
Derivatives not designated as hedging instruments under ASC 815:				
Foreign currency forward contracts	Other current assets	**9**		
Total derivative assets		**$ 5,739**		$ 2,866

25

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 Financial Derivatives (continued)

	Derivative Liabilities					
	September 30, 2010			December 31, 2009		
	Location		Fair Value	Location		Fair Value
Derivatives designated as a net investment hedge under ASC 815:						
Foreign currency forward contracts	Other accrued expenses and current liabilities	**$**	**1,161**		$	
			1,161			
Derivatives not designated as hedging instruments under ASC 815:						
Foreign currency forward contracts	Other accrued expenses and current liabilities		**1,066**	Other accrued expenses and current liabilities		326
Total derivative liabilities		**$**	**2,227**		$	326

The following tables present the effect of the Company s derivative instruments for the three months ended September 30, 2010 and 2009 in the accompanying Condensed Consolidated Financial Statements (in thousands):

	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)		Statement of Operations Location	Gain (Loss) Reclassified From Accumulated AOCI Into Income (Effective Portion)		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	
	September 30,			September 30,		September 30,	
	2010	2009		2010	2009	2010	2009
Derivatives designated as cash flow hedging							

instruments under ASC 815:							
Foreign currency forward contracts	**$ 1,606**	$ 1,528	Revenues	**$ 1,103**	$ (2,291)	**$**	$
Foreign currency option contracts	**2,771**		Revenues	**(22)**			
Total cash flow hedges	**4,377**	1,528		**1,081**	(2,291)		
Derivatives designated as a net investment hedge under ASC 815 Foreign currency forward contracts	**(4,697)**						
	$ (320)	$ 1,528		**$ 1,081**	$ (2,291)	**$**	$

26

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 Financial Derivatives (continued)

	Statement of Operations Location	Gain (Loss) Recognized in Income on Derivative September 30, 2010	2009
Derivatives not designated as hedging instruments under ASC 815:			
Foreign currency forward contracts	Other income and (expense)	**$ (2,354)**	$ (877)
Foreign currency forward contracts	Revenues		
		$ (2,354)	$ (877)

The following tables present the effect of the Company s derivative instruments for the nine months ended September 30, 2010 and 2009 in the accompanying Condensed Consolidated Financial Statements (in thousands):

	Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) September 30, 2010	2009	Statement of Operations Location	Gain (Loss) Reclassified From Accumulated AOCI Into Income (Effective Portion) September 30, 2010	2009	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) September 30, 2010	2009
Derivatives designated as cash flow hedging instruments under ASC 815:							
Foreign currency forward contracts	**$ 1,917**	$ 2,331	Revenues	**$ 3,102**	$ (7,837)	**$**	$
Foreign currency option contracts	**1,042**		Revenues	**(75)**			
Total cash flow hedges	**2,959**	2,331		**3,027**	(7,837)		
	(3,265)						

Derivatives designated as a net investment hedge under ASC 815						
Foreign currency forward contracts						
	$ (306)	$ 2,331	**$ 3,027**	$ (7,837)	**$**	$

27

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 6 Financial Derivatives (continued)

	Statement of Operations Location	Gain (Loss) Recognized in Income on Derivative September 30, 2010	2009
Derivatives not designated as hedging instruments under ASC 815:			
Foreign currency forward contracts	Other income and (expense)	**$ (3,784)**	$ (1,393)
Foreign currency forward contracts	Revenues		(53)
		$ (3,784)	$ (1,446)

Note 7 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):

	September 30, 2010		December 31, 2009	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	**$ 2,947**	**$ 3,074**	$ 2,454	$ 2,437
U.S. Treasury Bills	**292**	**291**		
	$ 3,239	**$ 3,365**	$ 2,454	$ 2,437

The mutual funds held in the rabbi trust were 76% equity-based and 24% debt-based at September 30, 2010.
Investment income, included in Other income (expense) in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009 consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gross realized gains from sale of trading securities	**$ 2**	$ 38	**$ 12**	$ 40
Gross realized losses from sale of trading securities			**(5)**	(21)
Dividend and interest income	**9**	7	**22**	21
Net unrealized holding gains	**259**	202	**119**	292
Net investment income	**$ 270**	$ 247	**$ 148**	$ 332

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 8 Deferred Revenue

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

	September 30, 2010	December 31, 2009
Future service	**$ 24,649**	$ 25,027
Estimated potential penalties and holdbacks	**6,588**	5,056
	$ 31,237	$ 30,083

Note 9 Borrowings

Borrowings consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Short-term loan due March 31, 2010	**$**	$ 75,000
Term loan due in varying installments through February 1, 2013		
Revolving credit facility matures on February 1, 2013		
Total		75,000
Less current portion		(75,000)
Total long-term debt	**$**	$

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.

On February 2, 2010, the Company entered into a new Credit Agreement (the New Credit Agreement) with a group of lenders. The New 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 9 Borrowings (continued)

The $75 million revolving credit facility provided under the New Credit Agreement replaces the previous senior revolving credit facility under a credit agreement, dated March 30, 2009, which agreement was terminated simultaneous with entering into the New Credit Agreement. The $75 million revolving credit facility, which includes a $40 million multi-currency sub-facility, a $10 million swingline sub-facility and a $5 million letter of credit sub-facility, 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, due to recent economic conditions and the volatile business climate facing financial institutions, 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.

Borrowings under the New 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 the lender, 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%. Swing Line 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 New 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 New Credit Agreement of $1.1 million and $2.9 million are included in Interest expense in the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2010, respectively (none in the comparable period in 2009). The $75.0 million Term Loan had weighted average interest rate of 3.87% and 3.93% for the three and nine months ended September 30, 2010, respectively.

The New 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, which is included in Short-term debt in the accompanying Condensed Consolidated Balance Sheet as of December 31, 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, which amount is included in Restricted Cash in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2009. Interest is 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 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 nine months ended September 30, 2010 (none in the three months ended September 30, 2010 or in the comparable periods in 2009).

Simultaneous with the execution and delivery of the Bermuda Credit Agreement, the Company entered into a Guaranty of Payment agreement with KeyBank, pursuant to which the obligations of Sykes Bermuda under the

Bermuda Credit Agreement were guaranteed by the Company.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 9 Borrowings (continued)

Also, simultaneous with the execution and delivery of the Bermuda Credit Agreement, the Company, KeyBank and the other lenders that are a party thereto entered into a First Amendment Agreement, amending the credit agreement, dated March 30, 2009, between the Company, KeyBank and the other lenders that are a party thereto. The First Amendment Agreement amended the terms of the credit agreement to permit the loan to Sykes Bermuda and the Company s guaranty of that loan. As of December 31, 2009, there were no outstanding balances and no borrowings in 2009 under the credit agreement dated March 30, 2009. As previously mentioned, this credit agreement, dated March 30, 2009, was terminated on February 2, 2010 simultaneous with entering into the New Credit Agreement and unamortized deferred loan fees of $0.2 million were written off during the three months ended March 31, 2010. Interest expense for the three and nine month ended September 30, 2009 include $0.1 million and $0.1 million related to this terminated credit agreement, respectively.

Note 10 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 Gain (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, 2009	$(4,236)	$	$ 1,387	$ (7,834)	$	$(10,683)
Pre tax amount	8,360		(279)	5,082	307	13,470
Tax (provision) benefit			121	(4,255)		(4,134)
Reclassification to net income	3		(63)	9,257	(31)	9,166
Foreign currency translation	190		41	(231)		
Balance at December 31, 2009	4,317		1,207	2,019	276	7,819
Pre tax amount	**3,406**	**(3,265)**		**2,959**	**225**	**3,325**
Tax benefit		**1,143**		**177**		**1,320**
Reclassification to net income	**(6)**		**(40)**	**(3,027)**	**(23)**	**(3,096)**
Foreign currency translation	**(107)**		**64**	**43**		
Balance at September 30, 2010	**$ 7,610**	**$ (2,122)**	**$ 1,231**	**$ 2,171**	**$ 478**	**$ 9,368**

Except as discussed in Note 11, 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 11 Income Taxes

The Company s effective tax rate was (36.0%) and 14.2% for the nine months ended September 30, 2010, and 2009, respectively. The decrease in the effective tax rate was primarily due to a favorable settlement of a tax audit, expiring statutes of limitation, and tax benefits related to the ICT legal entity reorganization, partially offset by the effects of valuation allowances for foreign tax credits, and the recognition of tax expense related to the decision by the Company to repatriate all current year and future years foreign earnings of a non-US subsidiary.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 11 Income Taxes (continued)

The differences in the Company s effective tax rate of (36.0%) as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to the tax impact related to the Company s 2009 decision to repatriate $85 million in foreign earnings, the favorable settlement of a tax audit, the expiration of statutes of limitation, the tax benefits related to the ICT legal entity reorganization, along with the recognition of tax benefits resulting from income earned in certain tax holiday jurisdictions. These items were partially offset by the recording of a valuation allowance on foreign tax credits, losses in jurisdictions for which tax benefits either can or cannot be recognized, foreign withholding and other 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 $4.7 million at September 30, 2010, and $3.8 million at December 31, 2009, excluding penalties and interest. The $0.9 million increase relates primarily to the balances assumed in the ICT acquisition, which amount is provisional as discussed in Note 2, partially offset by the favorable settlement of a tax audit and the expiration of certain statutes of limitations. If the Company recognized its remaining unrecognized tax benefits at September 30, 2010, approximately $4.7 million, excluding related interest and penalties, would favorably impact the effective tax rate.

Generally, earnings associated with the Company s investments in its subsidiaries are considered to be permanently invested and provisions for income taxes on those earnings or translation adjustments are not recorded. The U.S. Department of the Treasury released the General Explanations of the Administration s Fiscal Year 2011 Revenue Proposals in February 2010. 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.

As of February 2, 2010, the date of the ICT acquisition, the Company determined that it intends to distribute all of the accumulated and undistributed earnings, not otherwise determined to be permanently reinvested subject to local funding requirements, of the ICT Philippine subsidiary and its direct parent, ICT Group Netherlands B.V., to its ultimate U.S. parent, Sykes Enterprises, Incorporated. Tax adjustments required to reflect this intent, which could be significant, cannot be estimated until the Company completes its tax analysis of the assets acquired and liabilities assumed in connection with the acquisition of ICT. Except as noted above, the Company asserts its intention that all ICT past and current earnings are permanently reinvested in foreign business operations in accordance with ASC 740-30. See Note 2 for further information.

In addition, as a result of management s evaluation of current and future local funding requirements during the quarter, the Company determined that it intends to distribute all of the current year and future years earnings of a non-US subsidiary to another non-US subsidiary. The tax adjustments required to reflect this change of intent, which are not material, were recorded during the quarter.

The German tax authority is currently auditing tax periods 2005 through 2007. A Philippine subsidiary is being audited by the Philippine tax authorities for tax year 2007. The Company s India subsidiary is currently under examination for fiscal tax years 2004 through 2008. As of September 30, 2010, the Company believes it has adequately accrued for these audits. In addition, the following audits are underway for several ICT acquired subsidiaries: the Canadian tax authority is currently auditing the Canadian subsidiary s tax years 2003 through 2006 and the U.S. Internal Revenue Service is auditing the U.S. entities tax year 2007. The tax accruals for the ongoing audits as of September 30, 2010, reflect the balances as previously recorded by the ICT acquired subsidiaries and may be adjusted to reflect their fair value as of February 2, 2010. See Note 2 for further information.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 12 Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock options, stock appreciation rights, restricted stock, common stock units and shares held in a rabbi trust using the treasury stock method. For the three and nine months ended September 30, 2010, the impact of outstanding options to purchase shares of common stock and stock appreciation rights of 0.8 million shares and 0.3 million shares, respectively, were antidilutive and were excluded from the calculation of diluted earnings per share. The impact of outstanding options to purchase shares of common stock and stock appreciation rights that were antidilutive and excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2009 was $0.1 million (not material in the three months ended September 30, 2009) The numbers of shares used in the earnings per share computations are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Basic:				
Weighted average common shares outstanding	**46,468**	40,743	**45,889**	40,662
Diluted:				
Dilutive effect of stock options, stock appreciation rights, restricted stock, common stock units and shares held in a rabbi trust	**91**	354	**100**	349
Total weighted average diluted shares outstanding	**46,559**	41,097	**45,989**	41,011

On August 5, 2002, the Company s Board of Directors authorized the Company to repurchase up to three million shares of its outstanding common stock. A total of 2.2 million shares have been repurchased under this program since inception. The shares are repurchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the nine months ended September 30, 2010, the Company repurchased 300 thousand common shares under the 2002 repurchase program at prices ranging from $16.92 to $17.60 per share for a total cost of $5.2 million. During the nine months ended September 30, 2009, the Company repurchased 224 thousand 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. During the three months ended September 30, 2010, the Company cancelled 0.6 million shares of its Treasury stock and recorded reductions of $6.0 thousand to Common stock , $4.5 million to Additional paid-in capital , $4.4 million to Retained earnings and $8.9 million to Treasury stock .

Note 13 Segments and Geographic Information

The Company has two reportable segments, the Americas and EMEA which represented 82.7% and 17.3%, respectively, of the Company s consolidated revenues for the three months ended September 30, 2010 and 81.2% and 18.8%, respectively, of the Company s consolidated revenues for the nine months ended September 30, 2010. In the comparable 2009 periods, the Americas and the EMEA region represented 71.6% and 28.4%, respectively, of the Company s consolidated revenues for the three months ended September 30, 2009, and 71.1% and 28.9%, respectively, of the Company s consolidated revenues for the nine months ended September 30, 2009. Each segment is comprised of aggregated regional operating segments. 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.

33

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 13 Segments and Geographic Information (continued)

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.

Information about the Company s reportable segments for the three and nine months ended September 30, 2010 compared to the corresponding prior year period, is as follows (in thousands):

	Americas	EMEA	Other(1)	Consolidated Total
Three Months Ended September 30, 2010				
Revenues	**$ 253,848**	**$ 53,102**		**$ 306,950**
Depreciation and amortization	**$ 13,867**	**$ 1,354**		**$ 15,221**
Income (loss) from operations	**$ 25,017**	**$ (2,547)**	**$ (9,397)**	**$ 13,073**
Other expense, net			**(1,694)**	**(1,694)**
Benefit for income taxes			**2,267**	**2,267**
Net income				**$ 13,646**
Total Assets as of September 30, 2010	**$ 1,413,204**	**$ 1,128,701**	**$ (1,725,458)**	**$ 816,447**

	Americas	EMEA	Other(1)	Consolidated Total
Three Months Ended September 30, 2009				
Revenues	$ 152,940	$ 60,554		$ 213,494
Depreciation and amortization	$ 5,671	$ 1,308		$ 6,979
Income (loss) from operations	$ 27,830	$ 3,899	$ (11,035)	$ 20,694
Other expense, net			476	476
(Provision) for income taxes			(2,388)	(2,388)
Net income				$ 18,782
Total Assets as of September 30, 2009	$ 687,224	$ 854,417	$ (939,192)	$ 602,449

34

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 13 Segments and Geographic Information (continued)

	Americas	EMEA	Other[1]	Consolidated Total
Nine Months Ended September 30, 2010				
Revenues	**$ 715,343**	**$ 166,001**		**$ 881,344**
Depreciation and amortization	**$ 39,246**	**$ 3,990**		**$ 43,236**
Income (loss) from operations	**$ 75,867**	**$ (7,161)**	**$ (53,143)**	**$ 15,563**
Other expense, net			**(10,652)**	**(10,652)**
Benefit for income taxes			**1,768**	**1,768**
Net income				**$ 6,679**

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

(1) Other items (including intercompany eliminations, corporate costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company s consolidated totals as shown

in the table above for the three and nine months ended September 30, 2010 and 2009. 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, 2009. 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.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation

A detailed description of each of the Company s stock-based compensation plans is provided below, including the 2001 Equity Incentive Plan, the 2004 Non-Employee Director Fee Plan and the Deferred Compensation Plan. Stock-based compensation expense related to these plans, which is included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations, was $0.7 million and $3.7 million for the three and nine months ended September 30, 2010, respectively, and $1.2 million and $4.0 million for the comparable 2009 periods, respectively. The Company recognized income tax benefits related to the stock-based compensation of $0.3 million and $1.4 million during the three and nine months ended September 30, 2010 respectively, and $0.5 million and $1.6 million for the comparable 2009 periods, respectively. The Company recognized a $0.4 million benefit of tax deductions in excess of recognized tax benefits from the exercise of stock options for the nine months ended September 30, 2010 and $0.2 million for the nine months ended September 30, 2009 (not material in the three months ended September 30, 2010 and 2009). There were no capitalized stock-based compensation costs at September 30, 2010 or December 31, 2009.

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

Stock Options Options are granted at fair market value on the date of the grant and generally vest over one to four years. All options granted under the Plan expire if not exercised by the tenth anniversary of their grant date. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses various assumptions. The fair value of the stock option awards is expensed on a straight-line basis over the vesting period of the award. Expected volatility is based on historical volatility of the Company s stock. The risk-free rate for periods within the contractual life of the award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Exercises and forfeitures are estimated within the valuation model using employee termination and other historical data. The expected term of the stock option awards granted is derived from historical exercise experience under the Plan and represents the period of time that stock option awards granted are expected to be outstanding. No stock options were granted during the nine months ended September 30, 2010 and 2009.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation (continued)

Stock Options (continued)

The following table summarizes stock option activity under the Plan as of September 30, 2010, and changes during the nine 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, 2010	49	$ 8.05		
Granted				
Exercised	(2)	16.36		
Forfeited or expired				
Outstanding at September 30, 2010	**47**	**$ 8.22**	**1.4**	**$ 249**
Vested or expected to vest at September 30, 2010	**47**	**$ 8.22**	**1.4**	**$ 249**
Exercisable at September 30, 2010	**47**	**$ 8.22**	**1.4**	**$ 249**

The intrinsic value of options exercised during the three and nine months ended September 30, 2010 was not material. Options exercised in the comparable periods of 2009 had an intrinsic value of $0.4 million and $0.6 million, respectively. All options were fully vested as of December 31, 2006 and there is no unrecognized compensation cost as of September 30, 2010 related to these options granted under the Plan (the effect of estimated forfeitures is not material).

Cash received from stock options exercised under this Plan for the nine months ended September 30, 2009, was $1.6 million (not material in the comparable 2010 period).

Stock Appreciation Rights The Company s Board of Directors, at the recommendation of the Compensation and Human Resource Development Committee (the Committee), approves awards of stock-settled stock appreciation rights (SARs) for eligible participants. SARs represent the right to receive, without payment to the Company, a certain number of shares of common stock, as determined by the Committee, equal to the amount by which the fair market value of a share of common stock at the time of exercise exceeds the grant price.

The SARs are granted at fair market value of the Company s common stock on the date of the grant and vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date. The SARs have a term of 10 years from the date of grant. In the event of a change in control, the SARs will vest on the date of the change in control, provided that the participant is employed by the Company on the date of the change in control.

The SARs are exercisable within three months after the death, disability, retirement or termination of the participant s employment with the Company, if and to the extent the SARs were exercisable immediately prior to such termination. If the participant s employment is terminated for cause, or the participant terminates his or her own employment with the Company, any portion of the SARs not yet exercised (whether or not vested) terminates immediately on the date of termination of employment.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation (continued)

Stock Appreciation Rights (continued)

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 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 nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30,	
	2010	**2009**
Expected volatility	45%	47%
Weighted-average volatility	45%	47%
Expected dividends		
Expected term (in years)	4.4	4.0
Risk-free rate	2.4%	1.3%

The following table summarizes SARs activity under the Plan as of September 30, 2010, and changes during the nine 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, 2010	421	$		
Granted	130			
Exercised	(109)			
Forfeited or expired				
Outstanding at September 30, 2010	**442**	**$**	**8.0**	**$**
Vested or expected to vest at September 30, 2010	**442**	**$**	**8.0**	**$**
Exercisable at September 30, 2010	**150**	**$**	**7.0**	**$**

The weighted-average grant-date fair value of the SARs granted during the nine months ended September 30, 2010 and 2009 was $10.21 and $7.42, respectively. Total intrinsic value of SARs exercised during the nine months ended September 30, 2010 and 2009 was $0.6 million and $0.1 million, respectively.

38

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation (continued)

Stock Appreciation Rights (continued)

The following table summarizes the status of nonvested SARs under the Plan as of September 30, 2010, and changes during the nine months then ended:

Nonvested Stock Appreciation Rights	Shares (In thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2010	306	$ 7.40
Granted	130	$ 10.21
Vested	(143)	$ 7.44
Forfeited or expired		$
Nonvested at September 30, 2010	**293**	$ 8.63

As of September 30, 2010, there was $1.7 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock appreciation rights granted under the Plan. This cost is expected to be recognized over a weighted-average period of 2.0 years. SARs that vested during the nine months ended September 30, 2010 had a fair value of $0.6 million (none in the comparable 2009 period).

Restricted Shares The Company s Board of Directors, at the recommendation of the Committee, approves awards of performance and employment-based restricted shares (Restricted Shares) for eligible participants. In some instances, where the issuance of Restricted Shares has adverse tax consequences to the recipient, the Board will instead issue restricted stock units (RSUs). The Restricted Shares are shares of the Company s common stock (or in the case of RSUs, represent an equivalent number of shares of the Company s common stock) which are issued to the participant subject to (a) restrictions on transfer for a period of time and (b) forfeiture under certain conditions. The performance goals, including revenue growth and income from operations targets, provide a range of vesting possibilities from 0% to 100% and will be measured at the end of the performance period. If the performance conditions are met for the performance period, the shares will vest and all restrictions on the transfer of the Restricted Shares will lapse (or in the case of RSUs, an equivalent number of shares of the Company s common stock will be issued to the recipient). The Company recognizes compensation cost, net of estimated forfeitures based on the fair value (which approximates the current market price) of the Restricted Shares (and RSUs) on the date of grant ratably over the requisite service period based on the probability of achieving the performance goals.

Changes in the probability of achieving the performance goals from period to period will result in corresponding changes in compensation expense. The employment-based restricted shares vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date. In the event of a change in control (as defined in the Plan) prior to the date the Restricted Shares vest, all of the Restricted Shares will vest and the restrictions on transfer will lapse with respect to such vested shares on the date of the change in control, provided that participant is employed by the Company on the date of the change in control.

If the participant s employment with the Company is terminated for any reason, either by the Company or participant, prior to the date on which the Restricted Shares have vested and the restrictions have lapsed with respect to such vested shares, any Restricted Shares remaining subject to the restrictions (together with any dividends paid thereon) will be forfeited, unless there has been a change in control prior to such date.

The weighted-average grant-date fair value of the Restricted Shares/Units granted during the nine months ended September 30, 2010 and 2009 was $23.88 and $19.69, respectively.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation (continued)

Restricted Shares (continued)

The following table summarizes the status of nonvested Restricted Shares/Units under the Plan as of September 30, 2010, and changes during the nine months then ended:

Nonvested Restricted Shares / Units	Shares (In thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2010	581	$ 18.36
Granted	184	$ 23.88
Vested	(178)	$ 17.69
Forfeited or expired		$
Nonvested at September 30, 2010	**587**	$ 20.30

As of September 30, 2010, based on the probability of achieving the performance goals, there was $8.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested Restricted Shares/Units granted under the Plan. This cost is expected to be recognized over a weighted-average period of 2.0 years. The Restricted Shares / Units that vested during the nine months ended September 30, 2010 and 2009 had a fair value of $4.3 million and $3.2 million, respectively, as of the vesting date.

Other Awards The Company s Board of Directors, at the recommendation of the Committee, approves awards of Common Stock Units (CSUs) for eligible participants. A CSU is a bookkeeping entry on the Company s books that records the equivalent of one share of common stock. If the performance goals described under Restricted Shares in this Note 14 are met, performance-based CSUs will vest on the third anniversary of the grant date. The Company recognizes compensation cost, net of estimated forfeitures, based on the fair value (which approximates the current market price) of the CSUs on the date of grant ratably over the requisite service period based on the probability of achieving the performance goals. Changes in the probability of achieving the performance goals from period to period will result in corresponding changes in compensation expense. The employment-based CSUs vest one-third on each of the first three anniversaries of the date of grant, provided the participant is employed by the Company on such date. On the date each CSU vests, the participant will become entitled to receive a share of the Company s common stock and the CSU will be canceled.

The following table summarizes CSUs activity under the Plan as of September 30, 2010, and changes during the nine months then ended:

Nonvested Common Stock Units	Shares (In thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2010	68	$ 18.37
Granted	22	$ 23.88

Vested	(24)	$	17.71
Forfeited or expired			
Nonvested at September 30, 2010	**66**	$	20.33

40

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Based Compensation (continued)

Other Awards (continued)

As of September 30, 2010, there was $0.6 million of total unrecognized compensation costs, net of estimated forfeitures, related to nonvested CSUs granted under the Plan. This cost is expected to be recognized over a weighted-average period of 2.0 years. The fair value of the CSU s that vested during the nine months ended September 30, 2010 and 2009 was $0.6 million and $0.4 million, respectively, as of the vesting date. 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.

2004 Non-Employee Director Fee Plan The Company s 2004 Non-Employee Director Fee Plan (the 2004 Fee Plan), which is shareholder-approved, replaced and superseded the 1996 Non-Employee Director Fee Plan (the 1996 Fee Plan) and was used in lieu of the 2004 Nonemployee Director Stock Option Plan (the 2004 Stock Option Plan). Prior to amendments adopted by the Board of Directors in August 2008 which are described below, the 2004 Fee Plan provided that all new non-employee directors joining the Board would receive an initial grant of common stock units (CSUs) on the date the new director is appointed or elected, the number of which will be determined by dividing a dollar amount to be determined from time to time by the Board ($30,000 in 2008) by an amount equal to 110% of the average closing prices of the Company s common stock for the five trading days prior to the date the director is elected. A CSU is a bookkeeping entry on the Company s books that records the equivalent of one share of common stock. Prior to amendments to the 2004 Fee Plan adopted by the Board of Directors in March 2008 which are described below, the initial grant of CSUs vested in three equal installments, one-third on the date of each of the following three annual shareholders meetings, and all unvested and unearned CSUs automatically vested upon the termination of a director s service as a director, whether by reason of death, retirement, resignation, removal or failure to be reelected at the end of his or her term.

In March 2008, the 2004 Fee Plan was amended by the Board, upon the recommendation of the Compensation and Human Resource Development Committee, to provide that, beginning with grants in 2008, instead of an award of CSUs, a new non-employee director would receive an award of shares of common stock. The initial grant of stock to directors joining the Board would vest and be earned in twelve equal quarterly installments over the following three years, and all unvested and unearned stock will lapse in the event the person ceases to serve as a director of the Company. Until a quarterly installment of stock vests and becomes payable, the director has none of the rights of a shareholder with respect to the unearned stock grants. In August 2008, upon the recommendation of the Compensation and Human Resource Development Committee, the Board of Directors amended the 2004 Fee Plan to provide that the initial grant of shares to directors joining the Board will be the number determined by dividing $60,000 by an amount equal to the closing price of the Company s common stock on the day preceding the new director s election. The increase in the amount of the share award was approved by the shareholders at the 2009 Annual Shareholders Meeting.

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 amount of which shall be determined from time to time by the Board. Prior to the August 2008 amendments to the 2004 Fee Plan, the annual retainer was $50,000, which was paid 75% in CSUs ($37,500) and 25% in cash ($12,500). The number of CSUs to be granted was determined by dividing the amount of the annual retainer by an amount equal to 105% of the average of the closing prices for the Company s common stock on the five trading days preceding the award date (the day after the annual meeting). Prior to the March 2008 amendments to the 2004 Fee Plan, the annual retainer grant of CSUs vested in two equal installments, one-half on the date of each of the following two annual shareholders meetings, and all CSUs automatically vested upon the termination of a director s service as a director, whether by reason of death, retirement, resignation, removal or failure to be reelected at the end of his or her term.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2010 and 2009
(Unaudited)

Note 14 Stock-Ba