

SYKES ENTERPRISES INC

Form 10-Q

May 10, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2012

.. **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)

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 2, 2012, there were 43,937,450 outstanding shares of common stock.

Table of Contents

Sykes Enterprises, Incorporate and Subsidiaries

Form 10-Q

INDEX

	Page No.
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets March 31, 2012 and December 31, 2011 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations Three Months Ended March 31, 2012 and 2011 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income Three Months Ended March 31, 2012 and 2011 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity Three Months Ended March 31, 2011, Nine Months Ended December 31, 2011 and Three Months Ended March 31, 2012 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2012 and 2011 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
<u>Report of Independent Registered Public Accounting Firm</u>	39
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4. <u>Controls and Procedures</u>	50
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	51
Item 1A. <u>Risk Factors</u>	51
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 3. <u>Defaults Upon Senior Securities</u>	51
Item 4. <u>Mine Safety Disclosures</u>	51
Item 5. <u>Other Information</u>	51
Item 6. <u>Exhibits</u>	52
<u>Signature</u>	53

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)	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,037	\$ 211,122
Receivables, net	248,398	229,702
Prepaid expenses	16,417	11,540
Other current assets	21,371	20,120
Assets held for sale, discontinued operations		9,590
Total current assets	482,223	482,074
Property and equipment, net	87,028	91,080
Goodwill	122,803	121,342
Intangibles, net	42,943	44,472
Deferred charges and other assets	32,001	30,162
	\$ 766,998	\$ 769,130
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 21,880	\$ 23,109
Accrued employee compensation and benefits	64,180	62,452
Current deferred income tax liabilities	353	663
Income taxes payable	1,727	423
Deferred revenue	34,116	34,319
Other accrued expenses and current liabilities	22,579	21,191
Liabilities held for sale, discontinued operations		7,128
Total current liabilities	144,835	149,285
Deferred grants	8,313	8,563
Long-term income tax liabilities	27,173	26,475
Other long-term liabilities	11,353	11,241
Total liabilities	191,674	195,564
Commitments and contingency (Note 15)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; no shares issued and outstanding		
Common stock, \$0.01 par value, 200,000 shares authorized; 44,069 and 44,306 shares issued, respectively	441	443
Additional paid-in capital	276,694	281,157
Retained earnings	287,703	291,803
Accumulated other comprehensive income	13,722	4,436

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

Treasury stock at cost: 222 shares and 299 shares, respectively	(3,236)	(4,273)
Total shareholders' equity	575,324	573,566
	\$ 766,998	\$ 769,130

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
Revenues	\$ 278,098	\$ 299,450
Operating expenses:		
Direct salaries and related costs	178,500	194,091
General and administrative	84,759	88,720
Impairment of long-lived assets	149	726
Total operating expenses	263,408	283,537
Income from continuing operations	14,690	15,913
Other income (expense):		
Interest income	364	280
Interest (expense)	(316)	(267)
Other (expense)	(601)	(1,565)
Total other income (expense)	(553)	(1,552)
Income from continuing operations before income taxes	14,137	14,361
Income taxes	3,367	572
Income from continuing operations, net of taxes	10,770	13,789
(Loss) from discontinued operations, net of taxes	(820)	(611)
(Loss) on sale of discontinued operations, net of taxes	(10,707)	
Net income (loss)	\$ (757)	\$ 13,178
Net income (loss) per common share:		
Basic:		
Continuing operations	\$ 0.25	\$ 0.29
Discontinued operations	(0.27)	(0.01)
Net income (loss) per common share	\$ (0.02)	\$ 0.28
Diluted:		
Continuing operations	\$ 0.25	\$ 0.29
Discontinued operations	(0.27)	(0.01)
Net income (loss) per common share	\$ (0.02)	\$ 0.28
Weighted average common shares:		
Basic	43,309	46,409
Diluted	43,409	46,577

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(in thousands)	Three Months Ended March 31,	
	2012	2011
Net income (loss)	\$ (757)	\$ 13,178
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustment, net of taxes	7,129	6,534
Unrealized actuarial gain (loss) related to pension liability, net of taxes	9	85
Unrealized gain (loss) on cash flow hedging instruments, net of taxes	2,133	(626)
Unrealized gain (loss) on postretirement obligation, net of taxes	15	17
Other comprehensive income (loss), net of taxes	9,286	6,010
Comprehensive income	\$ 8,529	\$ 19,188

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Sykes Enterprises, Incorporated and Subsidiaries****Condensed Consolidated Statements of Changes in Shareholders' Equity****Three Months Ended March 31, 2011,****Nine Months Ended December 31, 2011 and****Three Months Ended March 31, 2012**

(Unaudited)

(in thousands)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Issued Shares	Amount					
Balance at January 1, 2011	47,066	\$ 471	\$ 302,911	\$ 265,676	\$ 15,108	\$ (971)	\$ 583,195
Stock-based compensation expense			1,750				1,750
Excess tax benefit from stock-based compensation			32				32
Vesting of common stock and restricted stock under equity award plans	264	3	(1,070)			(123)	(1,190)
Repurchase of common stock						(5,512)	(5,512)
Retirement of treasury stock	(300)	(3)	(2,400)	(3,109)		5,512	
Comprehensive income (loss)				13,178	6,010		19,188
Balance at March 31, 2011	47,030	471	301,223	275,745	21,118	(1,094)	597,463
Issuance of common stock	33		311				311
Stock-based compensation expense			1,832				1,832
Excess tax (deficiency) from stock-based compensation			(40)				(40)
Vesting of common stock and restricted stock under equity award plans	29		91			(91)	
Repurchase of common stock						(44,481)	(44,481)
Retirement of treasury stock	(2,786)	(28)	(22,260)	(19,105)		41,393	
Comprehensive income (loss)				35,163	(16,682)		18,481
Balance at December 31, 2011	44,306	443	281,157	291,803	4,436	(4,273)	573,566
Stock-based compensation expense			1,119				1,119
Excess tax (deficiency) from stock-based compensation			(278)				(278)
Vesting of common stock and restricted stock under equity award plans	263	3	(1,309)			(106)	(1,412)
Repurchase of common stock						(6,200)	(6,200)
Retirement of treasury stock	(500)	(5)	(3,995)	(3,343)		7,343	
Comprehensive income (loss)				(757)	9,286		8,529
Balance at March 31, 2012	44,069	\$ 441	\$ 276,694	\$ 287,703	\$ 13,722	\$ (3,236)	\$ 575,324

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(in thousands)	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ (757)	\$ 13,178
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	12,495	14,232
Impairment losses	149	726
Unrealized foreign currency transaction (gains) losses, net	80	(1,439)
Stock-based compensation expense	1,119	1,750
Excess tax (benefit) from stock-based compensation		(32)
Deferred income tax provision (benefit)	(303)	113
Net (gain) loss on disposal of property and equipment	(51)	150
Bad debt expense	733	51
Unrealized (gains) losses on financial instruments, net	(577)	1,750
Amortization of deferred loan fees	146	146
Loss on sale of discontinued operations	10,707	
Other	(101)	522
Changes in assets and liabilities:		
Receivables	(16,076)	(3,738)
Prepaid expenses	(4,269)	(3,444)
Other current assets	706	(382)
Deferred charges and other assets	(1,929)	(13)
Accounts payable	(1,604)	(5,909)
Income taxes receivable / payable	(21)	(3,437)
Accrued employee compensation and benefits	17	9,728
Other accrued expenses and current liabilities	3,939	(2,609)
Deferred revenue	(143)	(807)
Other long-term liabilities	(142)	(507)
Net cash provided by operating activities	4,118	20,029
Cash flows from investing activities:		
Capital expenditures	(6,818)	(6,175)
Proceeds from sale of property and equipment	100	9
Investment in restricted cash	(63)	(6)
Release of restricted cash	356	
Cash divested on sale of discontinued operations	(9,100)	
Other	227	
Net cash (used for) investing activities	(15,298)	(6,172)

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

(Unaudited)

(Continued)

Condensed Consolidated Statements of Cash Flows

(in thousands)	Three Months Ended March 31,	
	2012	2011
Cash flows from financing activities:		
Excess tax benefit from stock-based compensation		32
Cash paid for repurchase of common stock	(6,200)	(5,512)
Shares repurchased for minimum tax withholding on equity awards	(1,412)	(1,190)
Net cash (used for) financing activities	(7,612)	(6,670)
Effects of exchange rates on cash	3,707	2,885
Net increase (decrease) in cash and cash equivalents	(15,085)	10,072
Cash and cash equivalents beginning	211,122	189,829
Cash and cash equivalents ending	\$ 196,037	\$ 199,901
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	\$ 306	\$ 261
Cash paid during period for income taxes	\$ 5,374	\$ 6,821
Non-cash transactions:		
Property and equipment additions in accounts payable	\$ 1,671	\$ 1,690
Unrealized gain on postretirement obligation in accumulated other comprehensive income (loss)	\$ 15	\$ 17

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

Sykes Enterprises, Incorporated and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2012 and 2011

(Unaudited)

Note 1. Overview and Summary of Significant Accounting Policies

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

Discontinued Operations In November 2011, the Company, authorized by the Finance Committee of the Company's Board of Directors, decided to pursue a buyer for its operations located in Spain (the Spanish operations) as these operations were no longer consistent with the Company's strategic direction. The Company sold its Spanish operations, pursuant to an asset purchase agreement dated March 29, 2012 and a stock purchase agreement dated March 30, 2012. See Note 2, Discontinued Operations, for additional information on the sale of the Spanish operations.

Basis of Presentation The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP) for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2012. 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, 2011, as filed with the Securities and Exchange Commission (SEC).

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

Use of Estimates The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events Subsequent events or transactions have been evaluated through the date and time of issuance of the condensed consolidated financial statements. Other than the credit agreement entered into on May 3, 2012 disclosed in Note 11, Borrowings, there were no material subsequent events that required recognition or disclosure in the accompanying condensed consolidated financial statements.

Table of Contents

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

Revenues from fulfillment services account for 1.2% and 1.5% of total consolidated revenues for the three months ended March 31, 2012 and 2011, respectively, some of which contain multiple-deliverables. The service offerings for these fulfillment service contracts typically include pick-pack-and-ship, warehousing, process management, finished goods assembly and pass-through costs. In accordance with ASC 605-25 (ASC 605-25) *Revenue Recognition Multiple-Element Arrangements* (as amended by Accounting Standards Update ASU 2009-13 *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*), the Company determines if the services provided under these contracts with multiple-deliverables represent separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value, and where return rights exist, delivery or performance of the undelivered items is considered probable and substantially within our control. If those deliverables are determined to be separate units of accounting, revenues from these services are recognized as the services are performed under a fully executed contractual agreement. If those deliverables are not determined to be separate units of accounting, revenue for the delivered services are bundled into a single unit of accounting and recognized on the proportional performance method using the straight-line basis over the contract period, or the actual number of operational seats used to serve the client, as appropriate.

As a result of the adoption of ASU 2009-13, the Company allocates revenue to each of the deliverables based on a selling price hierarchy of vendor specific objective evidence (VSOE), third-party evidence, and then estimated selling price. VSOE is based on the price charged when the deliverable is sold separately. Third-party evidence is based on largely interchangeable competitor services in standalone sales to similarly situated customers. Estimated selling price is based on the Company's best estimate of what the selling prices of deliverables would be if they were sold regularly on a standalone basis. Estimated selling price is established considering multiple factors including, but not limited to, pricing practices in different geographies, service offerings, and customer classifications. Once the Company allocates revenue to each deliverable, the Company recognizes revenue when all revenue recognition criteria are met. As of March 31, 2012, the Company's fulfillment contracts with multiple-deliverables met the separation criteria as outlined in ASC 605-25 and the revenue was accounted for accordingly. The Company has no other contracts that contain multiple-deliverables as of March 31, 2012.

Assets and Liabilities Held for Sale The Company classifies its assets and related liabilities as held for sale when management commits to a plan to sell the assets, the assets are ready for immediate sale in their present condition, an active program to locate buyers and other actions required to complete the plan to sell the assets has been initiated, the sale of the assets is probable and expected to be completed within one year, the assets are marketed at reasonable prices in relation to their fair value and it is unlikely that significant changes will be made to the plan to sell the assets. The Company measures the value of assets held for sale at the lower of the carrying amount or fair value, less costs to sell.

Property and Equipment Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Improvements to leased premises are amortized over the shorter of the related lease term or the estimated useful lives of the improvements. Cost and related accumulated depreciation on assets retired or disposed of are removed from the accounts and any resulting gains or losses are credited or charged to income. The Company capitalizes certain costs incurred, if any, to internally develop software upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility are expensed as incurred.

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

Table of Contents

measured as the amount by which the carrying value of the asset exceeds its estimated fair value, which is generally determined based on appraisals, sales prices of comparable assets or independent third party offers. 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 4, Fair Value, the Company determined that its property and equipment were not impaired as of March 31, 2012.

Goodwill The Company accounts for goodwill and other intangible assets under ASC 350 (*ASC 350*) *Intangibles Goodwill and Other*. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time. For goodwill and other intangible assets with indefinite lives not subject to amortization, the Company reviews goodwill and intangible assets at least annually in the third quarter, and more frequently in the presence of certain circumstances, for impairment by applying a fair value based test. Fair value for goodwill is based on discounted cash flows, market multiples and/or appraised values, as appropriate, and an analysis of our market capitalization. Under ASC 350, the carrying value of assets is calculated at the reporting unit. If the fair value of the reporting unit is less than its carrying value, goodwill is considered impaired and an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

Intangible Assets Intangible assets, primarily customer relationships, trade names, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives which approximate the pattern in which the economic benefits of the assets are consumed. The Company periodically evaluates the recoverability of intangible assets and takes into account events or changes in circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. Fair value for intangible assets is based on discounted cash flows, market multiples and/or appraised values as appropriate.

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

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

Stock-Based Compensation The Company has three stock-based compensation plans: the 2011 Equity Incentive Plan (for employees and certain non-employees), the 2004 Non-Employee Director Fee Plan (for non-employee directors), both approved by the shareholders, and the Deferred Compensation Plan (for certain eligible employees). All of these plans are discussed more fully in Note 17, Stock-Based Compensation. Stock-based awards under these plans may consist of common stock, common stock units, stock options, cash-settled or stock-settled stock appreciation rights, restricted stock and other stock-based awards. The Company issues common stock and treasury stock to satisfy stock option exercises or vesting of stock awards.

In accordance with ASC 718 (*ASC 718*) *Compensation Stock Compensation* , the Company recognizes in its accompanying Condensed Consolidated Statements of Operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Compensation expense for equity-based awards is recognized over the requisite service period, usually the vesting period, while compensation expense for liability-based awards (those usually settled in cash rather than stock) is re-measured to fair value at each balance sheet date until the awards are settled.

Table of Contents

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

Cash, Short-Term and Other Investments, Investments Held in Rabbi Trusts and Accounts Payable The carrying values for cash, short-term and other investments, investments held in rabbi trusts and accounts payable approximate their fair values.

Forward Currency Forward Contracts and Options Forward currency forward contracts and options, including premiums paid on options, are recognized at fair value based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions, including adjustments for credit risk.

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

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

The following section describes the valuation methodologies used by the Company to measure assets and liabilities at fair value on a recurring basis, including an indication of the level in the fair value hierarchy in which each asset or liability is generally classified.

Table of Contents

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

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

Investments Held in Rabbi Trusts The investment assets of the rabbi trusts are valued using quoted market prices in active markets, which are classified in Level 1 of the fair value hierarchy. For additional information about the deferred compensation plan, refer to Note 7, Investments Held in Rabbi Trusts, and Note 17, Stock-Based Compensation.

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

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

Foreign Currency and Derivative Instruments The Company accounts for financial derivative instruments under ASC 815 (ASC 815) *Derivatives and Hedging*. The Company generally utilizes non-deliverable forward contracts and options expiring within one to 24 months to reduce its foreign currency exposure due to exchange rate fluctuations on forecasted cash flows denominated in non-functional foreign currencies and net investments in foreign operations. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

The Company designates derivatives as either (1) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge); (2) a hedge of a net investment in a foreign operation; or (3) a derivative that does not qualify for hedge accounting. To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk of the hedged item. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a derivative qualifies for hedge accounting treatment, there may be an element of ineffectiveness of the hedge.

Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in AOCI, until the forecasted underlying transactions occur. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction within Revenues. Changes in the fair value of derivatives that are highly effective and designated as a net investment hedge are recorded in cumulative translation adjustment in AOCI, offsetting the change in cumulative translation adjustment attributable to the hedged portion of the Company's net investment in the foreign operation. Any 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

Table of Contents

foreign operation are linked to the specific foreign operation. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective on a prospective and retrospective basis. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge or if a forecasted hedge is no longer probable of occurring, the Company discontinues hedge accounting prospectively. At March 31, 2012 and December 31, 2011, 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 Not Yet Adopted

In December 2011, the FASB issued ASU 2011-11 (ASU 2011-11) *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*. The amendments in ASU 2011-11 will enhance disclosures by requiring improved information about financial and derivative instruments that are either 1) offset (netting assets and liabilities) in accordance with Section 210-20-45 or Section 815-10-45 of the FASB Accounting Standards Codification or 2) subject to an enforceable master netting arrangement or similar agreement. The amendments in ASU 2011-11 are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those years. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of ASU 2011-11 to materially impact its financial condition, results of operations and cash flows.

New Accounting Standards Recently Adopted

In May 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2011-04 (ASU 2011-04) *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in ASU 2011-04 are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 as of January 1, 2012 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In June 2011, the FASB issued ASU 2011-05 (ASU 2011-05) *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. The amendments in ASU 2011-05 require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 are to be applied retrospectively and are effective during interim and annual periods beginning after December 15, 2011, and may be early adopted. As this standard impacts presentation only, the adoption of ASU 2011-05 as of January 1, 2012 did not impact the financial condition, results of operations and cash flows of the Company.

In September 2011, the FASB issued ASU 2011-08 (ASU 2011-08) *Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. The amendments in ASU 2011-08 provide entities with the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the

Table of Contents

reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, and may be early adopted. The adoption of ASU 2011-08 as of January 1, 2012 did not have a material impact on the financial condition, results of operations and cash flows of the Company.

In December 2011, the FASB issued ASU 2011-12 (ASU 2011-12) Comprehensive Income (Topic 220) *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* . The amendments in ASU 2011-12 defer the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The amendments in ASU 2011-12 are effective at the same time as ASU 2011-05 so that entities will not be required to comply with the presentation requirements in ASU 2011-05 that ASU 2011-05 is deferring. The amendments in ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU 2011-12 impacts presentation only, the adoption of ASU 2011-12 as of January 1, 2012 did not impact the financial condition, results of operations and cash flows of the Company.

Note 2. Discontinued Operations

In November 2011, the Finance Committee of the Board of Directors of the Company approved a plan to sell its Spanish operations, which are operated through its Spanish subsidiary, Sykes Enterprises, Incorporated S.L. (Sykes Spain). Sykes Spain operates customer contact management centers, with annual revenues of approximately \$39.3 million in 2011, providing contact center services through a total of three customer contact management centers in Spain to clients in Spain. The decision to sell the Spanish operations was made in 2011 after management completed a strategic review of the Spanish market and determined the operations were no longer consistent with the Company's strategic direction.

On March 29, 2012, Sykes Spain entered into the asset purchase agreement, by and between Sykes Spain and Iberphone, S.A.U., and pursuant thereto, on March 29, 2012, Sykes Spain completed the sale of fixed assets located in Ponferrada, Spain, which were previously written down to zero, cash of \$4.1 million, and certain contracts and licenses relating to the business of Sykes Spain, to Iberphone, S.A.U. Under the asset purchase agreement, Ponferrada, Spain employees were transferred to Iberphone S.A.U. who assumed certain payroll liabilities in the approximate amount of \$1.7 million, and paid a nominal purchase price for the assets.

On March 30, 2012, the Company entered into a stock purchase agreement with a former member of Sykes Spain's management, and pursuant thereto, on March 30, 2012, the Company completed the sale of all of the shares of capital stock of Sykes Spain to the purchaser for a nominal price. Pursuant to the stock purchase agreement, immediately prior to closing, the Company made a cash capital contribution of \$8.6 million to Sykes Spain to cover a portion of Sykes Spain's liabilities and to fund the \$4.1 million of cash sold pursuant to the asset purchase agreement with Iberphone, S.A.U. discussed above. As this was a stock transaction, the Company anticipates no future obligation with regard to Sykes Spain and there are no material post closing obligations.

The Spanish operations met the held for sale criteria as of December 31, 2011; therefore, the Company reflected the assets and related liabilities of the Spanish operations as Assets held for sale, discontinued operations and Liabilities held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011. The Company reflected the operating results related to the Spanish operations as discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011. Cash flows from discontinued operations are included in the accompanying Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011. This business was historically reported by the Company as part of the EMEA segment.

Table of Contents

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

	Three Months Ended March 31,	
	2012	2011
Revenues	\$ 10,102	\$ 10,706
(Loss) from discontinued operations before income taxes	\$ (820)	\$ (611)
Income taxes ⁽¹⁾		
(Loss) from discontinued operations, net of taxes	\$ (820)	\$ (611)
(Loss) on sale of discontinued operations before income taxes	\$ (10,707)	\$
Income taxes ⁽¹⁾		
(Loss) on sale of discontinued operations, net of taxes	\$ (10,707)	\$

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

The assets and liabilities of the Spanish operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011 were as follows (in thousands):

Assets	
Current assets:	
Receivables, net	\$ 8,970
Prepaid expenses	23
Total current assets	8,993
Deferred charges and other assets	597
Total assets ⁽¹⁾	9,590
Liabilities	
Current liabilities:	
Accounts payable	1,191
Accrued employee compensation and benefits	4,592
Deferred revenue	335
Other accrued expenses and current liabilities	1,010
Total current liabilities ⁽²⁾	7,128
Total net assets	\$ 2,462

⁽¹⁾ Classified as current and included in Assets held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011.

⁽²⁾ Classified as current and included in Liabilities held for sale, discontinued operations in the accompanying Condensed Consolidated Balance Sheet as of December 31, 2011.

Table of Contents

Note 3. Costs Associated with Exit or Disposal Activities

Fourth Quarter 2011 Exit Plan

During 2011, the Company announced a plan to rationalize seats in certain U.S. sites and close certain locations in EMEA (the Fourth Quarter 2011 Exit Plan). The details are described below, by segment.

Americas

During 2011, as part of an on-going effort to streamline excess capacity related to the integration of the ICT Group, Inc. (ICT) acquisition and align it with the needs of the market, the Company announced a plan to rationalize approximately 1,200 seats in the U.S., some of which are revenue generating, with plans to migrate the associated revenues to other locations within the U.S. Approximately 500 employees are expected to be affected and the Company expects to complete the actions associated with the Americas plan on or before October 31, 2012.

The major costs estimated to be incurred as a result of these actions are program transfer costs, facility-related costs (primarily consisting of those costs associated with the real estate leases), and impairments of long-lived assets (primarily leasehold improvements and equipment) estimated at \$1.0 million. The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$0.5 million represents cash expenditures for program transfer and facility-related costs, including obligations under the leases, the last of which ends in January 2013. There is no accrual as no actions have taken place to transfer programs or close the facilities as of March 31, 2012. No cash has been paid through March 31, 2012 for the program transfer costs or facility-related costs.

EMEA

During 2011, in an effort to improve the Company's overall profitability in the EMEA region, the Company committed to close a customer contact management center in South Africa and a customer contact management center in Ireland, as well as some capacity rationalization in the Netherlands, all components of the EMEA segment. Through these actions, the Company expects to improve its cost structure in the EMEA region by optimizing its capacity utilization. While the Company plans to migrate approximately \$3.2 million of annualized call volumes of the Ireland facility to other facilities within EMEA, the Company does not anticipate the remaining call volume in Ireland or any of the annualized revenue from the Netherlands or South Africa facilities, which was \$18.8 million, will be captured and migrated to other facilities within the region. The number of seats anticipated for rationalization across the EMEA region approximates 900 with an anticipated total of approximately 500 employees affected by the actions. The Company expects to close these facilities by July 2012 and substantially complete the actions associated with the EMEA plan on or before September 30, 2012.

The major costs estimated to be incurred as a result of these actions are facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and anticipated severance-related costs estimated at \$7.6 million. The Company recorded \$0.5 million of the costs associated with these actions as non-cash impairment charges, while approximately \$7.1 million will be cash expenditures for severance-related costs and facility-related costs, primarily rent obligations to be paid through the remainder of the noncancelable term of the leases, the last of which ends in March 2013. The Company has paid \$1.1 million in cash through March 31, 2012 for severance-related and legal-related costs.

Table of Contents

The following tables summarize the accrued liability associated with EMEA's Fourth Quarter 2011 Exit Plan's exit or disposal activities and related charges (none in 2011) (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Three Months Ended March 31, 2012 ⁽¹⁾	Cash Payments	Other Non- Cash Changes ⁽²⁾	Ending Accrual at March 31, 2012	Short-term ⁽³⁾	Long-term
Lease obligations and facility exit costs	\$ 577	\$	\$	\$ 18	\$ 595	\$ 595	\$
Severance and related costs	4,470	948	(367)	168	5,219	5,219	
Legal-related costs	13	51	(51)	1	14	14	
	\$ 5,060	\$ 999	\$ (418)	\$ 187	\$ 5,828	\$ 5,828	\$

⁽¹⁾ During the three months ended March 31, 2012, the Company recorded additional severance and related costs and legal-related costs, which are included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.

⁽²⁾ Effect of foreign currency translation.

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

Fourth Quarter 2010 Exit Plan

During 2010, in furtherance of the Company's long-term goals to manage and optimize capacity utilization, the Company committed to and closed a customer contact management center in the United Kingdom and a customer contact management center in Ireland, both components of the EMEA segment (the Fourth Quarter 2010 Exit Plan). These actions were substantially completed by January 31, 2011.

The major costs incurred as a result of these actions were facility-related costs (primarily consisting of those costs associated with the real estate leases), impairments of long-lived assets (primarily leasehold improvements and equipment) and severance-related costs totaling \$2.2 million as of March 31, 2012 (\$2.2 million as of December 31, 2011). The Company recorded \$0.2 million of the costs associated with the Fourth Quarter 2010 Exit Plan as non-cash impairment charges. Approximately \$1.8 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in March 2014, and \$0.2 million represents cash expenditures for severance-related costs. The Company has paid \$1.2 million in cash through March 31, 2012 for facility-related and severance-related costs.

The following tables summarize the accrued liability associated with the Fourth Quarter 2010 Exit Plan's exit or disposal activities and related charges (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Three Months Ended March 31, 2012	Cash Payments	Other Non- Cash Changes ⁽²⁾	Ending Accrual at March 31, 2012	Short-term ⁽³⁾	Long-term ⁽⁴⁾
Lease obligations and facility exit costs	\$ 835	\$	\$ (96)	\$ 25	\$ 764	\$ 402	\$ 362

	Beginning Accrual at January 1, 2011	Charges (Reversals) for the Three Months Ended March 31, 2011 ⁽¹⁾	Cash Payments	Other Non- Cash Changes ⁽²⁾	Ending Accrual at March 31, 2011	Short-term	Long-term
Lease obligations and facility exit costs	\$ 1,711	\$ 70	\$ (387)	\$ 58	\$ 1,452	\$ 567	\$ 885

- (1) During the three months ended March 31, 2011, the Company recorded additional lease termination costs related to the Ireland customer contact management center, which is included in General and administrative costs in the accompanying Condensed Consolidated Statement of Operations.
- (2) Effect of foreign currency translation.
- (3) Included in Other accrued expenses and current liabilities in the accompanying Condensed Consolidated Balance Sheet.
- (4) Included in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet.

Third Quarter 2010 Exit Plan

During 2010, consistent with the Company's long-term goals to manage and optimize capacity utilization, the Company closed or committed to close four customer contact management centers in The Philippines and consolidated or committed to consolidate leased space in our Wilmington, Delaware and Newtown, Pennsylvania locations (the Third Quarter 2010 Exit Plan). These actions were substantially completed by January 31, 2011.

The major costs incurred as a result of these actions were impairments of long-lived assets (primarily leasehold improvements) and facility-related costs (primarily consisting of those costs associated with the real estate leases) estimated at \$10.5 million as of March 31, 2012 (\$10.5 million as of December 31, 2011), all of which are in the Americas segment. The Company recorded \$3.8 million of the costs associated with the Third Quarter 2010 Exit Plan as non-cash impairment charges, of which \$0.7 million is included in Impairment of long-lived assets in the

Table of Contents

accompanying Condensed Consolidated Statement of Operations for the three months ended March 31, 2011 (see Note 4, Fair Value, for further information). The remaining \$6.7 million represents cash expenditures for facility-related costs, primarily rent obligations to be paid through the remainder of the lease terms, the last of which ends in February 2017. The Company has paid \$3.8 million in cash through March 31, 2012 related to these facility-related costs.

The following tables summarize the accrued liability associated with the Third Quarter 2010 Exit Plan's exit or disposal activities and related charges (in thousands):

	Beginning Accrual at January 1, 2012	Charges (Reversals) for the Three Months Ended March 31, 2012	Cash Payments	Other Non- Cash Changes (2)	Ending Accrual at March 31, 2012	Short-term (3)	Long-term (4)
Lease obligations and facility exit costs	\$ 3,427	\$	\$ (477)	\$	\$ 2,950	\$ 523	\$ 2,427

	Beginning Accrual at January 1, 2011	Charges (Reversals) for the Three Months Ended March 31, 2011 (1)	Cash Payments	Other Non-Cash Changes (2)	Ending Accrual at March 31, 2011	Short-term	Long-term
Lease obligations and facility exit costs	\$ 6,141	\$ 220	\$ (742)	\$	\$ 5,619	\$ 1,953	\$ 3,666

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

(2) Effect of foreign currency translation.

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

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

ICT Restructuring Plan

As of February 2, 2010, the Company assumed the liabilities of ICT, including restructuring accruals in connection with ICT's plans to reduce its overall cost structure and adapt to changing economic conditions by closing various customer contact management centers in Europe and Canada prior to the end of their existing lease terms (the ICT Restructuring Plan). These remaining restructuring accruals, which related to ongoing lease and other contractual obligations, were paid in December 2011. Since acquiring ICT in February 2010, the Company paid \$1.9 million in cash related to the ICT Restructuring Plan through December 31, 2011, the date at which the ICT Restructuring Plan concluded.

The following table summarizes the accrued liability associated with the ICT Restructuring Plan's exit or disposal activities (none in 2012) (in thousands):

	Beginning Accrual at January 1, 2011	Charges (Reversals) for the Three Months Ended March 31, 2011 (1)	Cash Payments	Other Non- Cash Changes (2)	Ending Accrual at March 31, 2011	Short-term	Long-term
Lease obligations and facility exit costs	\$ 1,462	\$ (262)	\$ (426)	\$ 43	\$ 817	\$ 817	

(1)

Edgar Filing: SYKES ENTERPRISES INC - Form 10-Q

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

(2) Effect of foreign currency translation.

Table of Contents**Note 4. Fair Value**

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

	Fair Value Measurements at March 31, 2012 Using:			
	Balance at March 31, 2012	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 included in Cash and cash equivalents ⁽¹⁾	\$ 62,409	\$ 62,409	\$	\$
Money market funds and open-end mutual funds in Deferred charges and other assets ⁽¹⁾	12	12		
Foreign currency forward contracts ⁽²⁾	1,839		1,839	
Foreign currency option contracts ⁽²⁾	779		779	
Equity investments held in a rabbi trust for the Deferred Compensation Plan ⁽³⁾	3,502	3,502		
Debt investments held in a rabbi trust for the Deferred Compensation Plan ⁽³⁾	1,329	1,329		
Guaranteed investment certificates ⁽⁴⁾	65		65	
	\$ 69,935	\$ 67,252	\$ 2,683	\$
Liabilities:				
Foreign currency forward contracts ⁽⁵⁾	\$ 1	\$	\$ 1	\$
Foreign currency option contracts ⁽⁵⁾	6		6	
	\$ 7	\$	\$ 7	\$

⁽¹⁾ 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.

Table of Contents

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

	Fair Value Measurements at December 31, 2011 Using:			
	Balance at December 31, 2011	Quoted Prices in Active Markets For Identical Assets Level (1)	Significant Other Observable Inputs Level (2)	Significant Unobservable Inputs Level (3)
Assets:				
Money market funds and open-end mutual funds included in Cash and cash equivalents ⁽¹⁾	\$ 68,651	\$ 68,651	\$	\$
Money market funds and open-end mutual funds in Deferred charges and other assets ⁽¹⁾	12	12		
Foreign currency forward contracts ⁽²⁾	536		536	
Foreign currency option contracts ⁽²⁾	174		174	
Equity investments held in a rabbi trust for the Deferred Compensation Plan ⁽³⁾	2,817	2,817		
Debt investments held in a rabbi trust for the Deferred Compensation Plan ⁽³⁾	1,365	1,365		
Guaranteed investment certificates ⁽⁴⁾	65		65	
	\$ 73,620	\$ 72,845	\$ 775	\$
Liabilities:				
Foreign currency forward contracts ⁽⁵⁾	\$ 267	\$	\$ 267	\$
Foreign currency option contracts ⁽⁵⁾	485		485	
	\$ 752	\$	\$ 752	\$

(1) 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.

Certain assets, under certain conditions, are measured at fair value on a nonrecurring basis utilizing Level 3 inputs as described in Note 1, Overview and Summary of Significant Accounting Policies, like those associated with acquired businesses, including goodwill, 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 these assets were determined to be impaired. The following table summarizes the adjusted carrying values for assets measured at fair value on a nonrecurring basis (no liabilities) subject to the requirements of ASC 820 (in thousands):

	March 31, 2012	December 31, 2011
Americas:		
Property and equipment, net	\$ 75,930	\$ 79,874

The following table summarizes the total impairment losses related to nonrecurring fair value measurements of certain assets (no liabilities) subject to the requirements of ASC 820 (in thousands):

	Total Impairment (Loss)	
	Three Months Ended March 31,	
	2012	2011
Americas:		
Property and equipment, net ⁽¹⁾	\$ (149)	\$ (726)

⁽¹⁾ See Note 1 for additional information regarding the fair value measurement.

Table of Contents**Impairment of Long-Lived Assets**

During the three months ended March 31, 2012, as part of an on-going effort to streamline excess capacity related to the integration of the ICT acquisition and align it with the needs of the market, the Company closed one of the customer contact management centers in Costa Rica and recorded an impairment charge of \$0.1 million within the Americas segment as these assets were unable to be redeployed. The amount of the impairment charge was measured as the amount by which the carrying value of the assets exceeded the estimated fair value, which was based on an independent third party offer less estimated selling costs.

During the three months ended March 31, 2011, in connection with the Third Quarter 2010 Exit Plan within the Americas segment, as discussed more fully in Note 3, Costs Associated with Exit or Disposal Activities, the Company recorded an impairment charge of \$0.7 million, resulting from a change in assumptions related to the redeployment of property and equipment. The amount of the impairment charge was measured as the amount by which the carrying value of the assets exceeded the estimated fair value, which was based on an independent third party offer less estimated selling costs.

Note 5. Intangible Assets

The following table presents the Company's purchased intangible assets as of March 31, 2012 (in thousands):

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	\$ 58,465	\$ (15,990)	\$ 42,475	8
Trade name	1,000	(639)	361	3
Non-compete agreements	560	(560)		1
Proprietary software	850	(743)	107	2
	\$ 60,875	\$ (17,932)	\$ 42,943	8

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

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	\$ 58,027	\$ (14,056)	\$ 43,971	8
Trade name	1,000	(639)	361	3
Non-compete agreements	560	(560)		1
Proprietary software	850	(710)	140	2
	\$ 60,437	\$ (15,965)	\$ 44,472	8

The following table presents amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended March 31,	
	2012	2011
Amortization expense	\$ 1,861	\$ 2,047

Table of Contents

The Company's estimated future amortization expense for the succeeding years relating to the purchased intangible assets resulting from acquisitions completed prior to March 31, 2012, is as follows (in thousands):

Years Ending December 31,	Amount
2012 (remaining nine months)	\$ 5,877
2013	7,340
2014	7,278
2015	7,275
2016	7,275
2017	7,275
2018 and thereafter	623

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 and Costa Rican Colones contracts. 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 deferred gains and related taxes on the Company's derivative instruments recorded in Accumulated other comprehensive income (loss) in the accompanying Condensed Consolidated Balance Sheets are as follows (in thousands):

	March 31, 2012	December 31, 2011
Deferred gains (losses) in AOCI	\$ 1,740	\$ (670)
Tax on deferred gains (losses) in AOCI	(45)	232
Deferred gains (losses), net of taxes in AOCI	\$ 1,695	\$ (438)
Deferred gains (losses) expected to be reclassified to Revenues from AOCI during the next twelve months	\$ 1,740	

Deferred gains (losses) and other future reclassifications from AOCI will fluctuate with movements in the underlying market price of the forward contracts and options.

Other Hedges The Company also periodically enters into foreign currency hedge contracts that are not designated as hedges as defined under ASC 815. The purpose of these derivative instruments is to protect our interests against adverse foreign currency moves pertaining to intercompany receivables and payables, and other assets and liabilities that are denominated in currencies other than the Company's subsidiaries functional currencies. These contracts generally do not exceed 90 days in duration.

Table of Contents

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

Contract Type	As of March 31, 2012		As of December 31, 2011	
	Notional Amount in USD	Settle Through Date	Notional Amount in USD	Settle Through Date
Cash flow hedges: ⁽¹⁾				
Options:				
Philippine Pesos	\$ 65,500	November 2012	\$ 85,500	September 2012
Forwards:				
Philippine Pesos	\$ 4,500	June 2012	\$ 12,000	March 2012
Costa Rican Colones	\$ 31,500	December 2012	\$ 30,000	September 2012
Non-designated hedges: ⁽²⁾				
Forwards	\$ 26,539	June 2012	\$ 27,192	March 2012

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

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

See Note 1, Overview and Summary of Significant Accounting Policies, for additional information on the Company's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

As of March 31, 2012, 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 \$2.6 million.

Table of Contents

The following tables present the fair value of the Company's derivative instruments included in the accompanying Condensed Consolidated Balance Sheets (in thousands):

	Derivative Assets			
	March 31, 2012		December 31, 2011	
	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	\$ 1,677	Other current assets	\$ 530
Foreign currency options	Other current assets	779	Other current assets	