SYKES ENTERPRISES INC
Form 10-Q
November 06, 2007

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

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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 19, 2007, there were 40,838,107 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries
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PART I FINANCIAL INFORMATION
Item 1 Financial Statements

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

(in thousands, except per share data)	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 167,026	$ 158,580
Receivables, net	136,059	115,016
Prepaid expenses and other current assets	24,120	14,666
Short-term investments	17,535	
Assets held for sale	509	509
Total current assets	345,249	288,771
Property and equipment, net	74,367	66,205
Goodwill, net	22,463	20,422
Intangibles, net	7,000	8,004
Deferred charges and other assets	29,981	32,171
	$ 479,060	$ 415,573
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 20,858	$ 19,270
Accrued employee compensation and benefits	43,855	39,549
Deferred grants related to assets held for sale	332	332
Income taxes payable	3,817	5,445
Deferred revenue	34,168	30,724
Other accrued expenses and current liabilities	9,529	9,555
Total current liabilities	112,559	104,875
Deferred grants	10,097	10,811
Long-term income tax liabilities	5,668	
Other long-term liabilities	9,389	8,414
Total liabilities	137,713	124,100

Commitments and contingencies (Note 13)

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; 45,541 and 45,254 shares issued	455	453
Additional paid-in capital	183,266	179,021
Retained earnings	185,736	158,058
Accumulated other comprehensive income	23,844	5,869
	393,301	343,401
Treasury stock at cost: 4,701 shares and 4,703 shares	(51,954)	(51,928)
Total shareholders equity	341,347	291,473
	$ 479,060	$ 415,573

See accompanying notes to condensed consolidated financial statements.

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

(in thousands, except for per share data)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues	$ 176,122	$ 149,287	$ 512,407	$ 415,595
Operating expenses:				
Direct salaries and related costs	110,774	94,016	327,109	263,410
General and administrative	50,466	47,281	149,403	130,609
Net (gain) on disposal of property and equipment	(3)	(13,870)	(34)	(13,856)
Impairment of long-lived assets		63		445
Total operating expenses	161,237	127,490	476,478	380,608
Income from operations	14,885	21,797	35,929	34,987
Other income (expense):				
Interest income	1,614	1,399	4,408	5,175
Interest (expense)	(230)	(187)	(538)	(463)
Income from rental operations, net		266		1,220
Other income (expense)	(233)	(147)	(1,190)	(355)
Total other income (expense)	1,151	1,331	2,680	5,577
Income before provision for income taxes	16,036	23,128	38,609	40,564
Provision for income taxes	3,780	6,614	8,217	6,380
Net income	$ 12,256	$ 16,514	$ 30,392	$ 34,184
Net income per share:				
Basic	$ 0.30	$ 0.41	$ 0.75	$ 0.86
Diluted	$ 0.30	$ 0.41	$ 0.75	$ 0.85
Weighted average shares:				
Basic	40,432	40,181	40,360	39,744
Diluted	40,697	40,497	40,624	40,113

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders Equity
Nine Months Ended September 30, 2006, Three Months Ended December 31, 2006 and Nine Months Ended September 30, 2007
(Unaudited)

(In thousands)	Common Stock Shares Issued	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Deferred Stock Compensation	Treasury Stock	Total
Balance at January 1, 2006	44,009	$440	$165,674	$115,735	$ (3,435)	$ (355)	$(51,969)	$226,090
Reclassification of deferred stock compensation balance upon adoption of SFAS 123R			(355)			355		
Issuance of common stock	660	8	4,328					4,336
Stock-based compensation expense			1,706					1,706
Excess tax benefit from stock-based compensation			56					56
Issuance of common stock and restricted stock under equity award plans	315	3	114				41	158
Modification of Deferred Compensation Plan			142					142
Issuance of common stock for business acquisition	270	2	4,399					4,401
Comprehensive income				34,184	6,646			40,830
Balance at September 30, 2006	45,254	453	176,064	149,919	3,211		(51,928)	277,719
Issuance of common stock			6					6
Stock-based compensation			754					754

expense								
Excess tax benefit from stock- based compensation			2,299					2,299
Modification of Deferred Compensation Plan			(102)					(102)
Comprehensive income				8,139	3,702			11,841
Adjustment upon adoption of SFAS 158, net of tax					(1,044)			(1,044)
Balance at December 31, 2006	45,254	453	179,021	158,058	5,869		(51,928)	291,473
Adjustment upon adoption of FIN 48				**(2,714)**				**(2,714)**
Issuance of common stock	**67**	**1**	**450**					**451**
Stock-based compensation expense			**3,301**					**3,301**
Issuance of common stock and restricted stock under equity award plans	**195**	**1**	**26**				**(26)**	**1**
Issuance of common stock for business acquisition	**25**		**468**					**468**
Comprehensive income				**30,392**	**17,975**			**48,367**
Balance at September 30, 2007	**45,541**	**$455**	**$183,266**	**$185,736**	**$23,844**	**$**	**$(51,954)**	**$341,347**

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2007 and 2006
(Unaudited)

(in thousands)	**2007**	**2006**
Cash flows from operating activities:		
Net income	$ 30,392	$ 34,184
Depreciation and amortization	18,315	18,200
Stock compensation expense	3,301	1,706
Deferred income tax provision (benefit)	(761)	2,849
Net (gain) on disposal of property and equipment	(34)	(13,856)
(Reversals of) termination costs associated with exit activities	(60)	774
Impairment of long-lived assets		445
Foreign exchange (gain) on liquidation of foreign entities	(10)	(72)
Bad debt expense (reversals)	137	(135)
Unrealized (gain) on financial instruments, net	(48)	(54)
Changes in assets and liabilities:		
Receivables	(12,241)	(16,263)
Prepaid expenses and other current assets	(6,933)	(3,014)
Deferred charges and other assets	982	(2,275)
Accounts payable	508	1,890
Income taxes receivable/payable	710	1,182
Accrued employee compensation and benefits	2,644	1,411
Other accrued expenses and current liabilities	(564)	(1,031)
Deferred revenue	(2,001)	5,722
Other long-term liabilities	876	952
Net cash provided by operating activities	35,213	32,615
Cash flows from investing activities:		
Capital expenditures	(22,761)	(11,249)
Proceeds from sale of facilities		15,375
Proceeds from sale of property and equipment	80	121
Proceeds from release of restricted cash	1,600	
Purchase of short-term investments	(17,535)	
Investment in restricted cash	(393)	(4,776)
Cash paid for business acquisitions, net of cash acquired	(1,600)	(17,364)
Other	(130)	(129)
Net cash used for investing activities	(40,739)	(18,022)
Cash flows from financing activities:		
Proceeds from issuance of stock	451	4,336
Proceeds from short-term debt	242	
Payments on short-term debt	(242)	
Payments of long-term debt		(381)

Excess tax benefit from stock-based compensation		56
Net cash provided by financing activities	451	4,011
Effects of exchange rates on cash	13,521	4,458
Net increase in cash and cash equivalents	8,446	23,062
Cash and cash equivalents beginning	158,580	127,612
Cash and cash equivalents ending	$ 167,026	$ 150,674

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Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2007 and 2006
(Unaudited)

(in thousands)	2007	2006
Supplemental disclosures of cash flow information:		
Cash paid during period for interest	$ 184	$ 257
Cash paid during period for income taxes	$8,909	$7,780

See accompanying notes to condensed consolidated financial statements.

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2007 and 2006
(Unaudited)

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, technology/consumer, financial services, healthcare, 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 client s customers. Utilizing Sykes integrated onshore/offshore global delivery model, Sykes provides its services through multiple communications 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, inventory control, product delivery and product returns handling. The Company has operations in two geographic regions 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.

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

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, 2007 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2007. 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, 2006, as filed with the Securities and Exchange Commission (SEC).

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), which are discussed more fully in Note 11. 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 to satisfy stock option exercises or vesting of stock awards. The Company recognizes in its income statement 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 measured to fair-value at each balance sheet date until the award is settled.

Short-Term Investments Short-term investments are investments that are highly liquid, held to maturity according to the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* , and have terms greater than three months, but less than one year, at the time of acquisition. As of September 30, 2007, the Company had short-term investments of $17.5 million in commercial paper (none as of December 31, 2006) with a remaining maturity of less than one year. Short-term investments are carried at amortized cost which approximates fair value. Therefore, there were no significant unrecognized holding gains or losses.

Investments Held in Rabbi Trust As more fully described under Deferred Compensation Plan in Note 11, securities held in a rabbi trust for a supplemental nonqualified executive retirement program include the fair market value of investments in various mutual funds and shares of the Company s common stock. The fair market value of

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Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2007 and 2006
(Unaudited)

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

Investments Held in Rabbi Trust (continued)

these investments is determined by quoted market prices and is adjusted to the current market price at the end of each reporting period. The investments held in mutual funds, classified as trading securities, had a fair market value of approximately $1.4 million and $1.0 million at September 30, 2007 and December 31, 2006, respectively, and are included in Prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets. Net realized and unrealized gains and losses on these investments of $0.1 million and less than $0.1 million for the nine months ended September 30, 2007 and 2006, respectively, are included in Other income and expense in the accompanying Condensed Consolidated Statements of Operations. For purposes of determining realized gains and losses, the cost of investments sold is based on specific identification. These investments were comprised of 84% equity securities and 16% debt securities at September 30, 2007 and 79% equity securities and 21% debt securities at December 31, 2006.

During the nine months ended September 30, 2007 and 2006, the Company recorded $0.1 million and less than $0.1 million, respectively, in compensation expense associated with these investments, which is included in General and administrative in the accompanying Condensed Consolidated Statements of Operations.

The Company s common stock match associated with the Deferred Compensation Plan had a carrying value of $0.5 million and $0.4 million at September 30, 2007 and December 31, 2006, respectively, and is included in Treasury stock and Additional paid-in capital in the accompanying Condensed Consolidated Balance Sheets.

Goodwill The Company accounts for goodwill and other intangible assets utilizing SFAS No. 142 (SFAS 142), *Goodwill and Other Intangible Assets.* According to SFAS 142, goodwill and other intangible assets with indefinite lives 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 SFAS 142, 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 goodwill within the reporting unit is less than its carrying value. The Company completed its annual goodwill impairment test during the third quarter of 2007 and determined that the carrying amount of goodwill was not impaired. The Company expects to receive future benefits from previously acquired goodwill over an indefinite period of time.

Intangible Assets Intangible assets, primarily customer relationships, existing technologies and covenants not to compete, are amortized using the straight-line method over their estimated useful lives. 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. The Company does not have other intangible assets with indefinite lives.

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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . 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. During the nine months ended September 30, 2006, based on the Company s evaluation for impairment, the Company recorded a $0.4 million impairment charge for property and equipment in one of its underutilized European customer contact management centers. This impairment charge represented the amount by which the carrying value of the assets exceeded the estimated fair value of those assets

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2007 and 2006
(Unaudited)

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

Property and Equipment (continued)

which cannot be redeployed to other locations. Except as noted above, the Company determined that its property and equipment was not impaired as of September 30, 2007.

On September 13, 2006, the Company sold its leased U.S. customer contact management centers located in Palatka, Florida, Pikeville, Kentucky, Ada, Oklahoma, and Manhattan, Kansas to an unrelated third party for cash totaling $14.6 million, net of selling costs, resulting in a net gain of $13.9 million. The net book value of the facilities of $6.3 million and other related assets of $0.5 million were offset by the related deferred grants of $6.1 million. The cost of the neighboring vacant land at these locations of $0.5 million, currently held for sale, is classified as Assets held for sale in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006 and the related deferred grants of $0.3 million are shown in current liabilities.

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) , 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 utilizing SFAS No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities* , as amended. The Company generally utilizes non-deliverable forward contracts 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. Upon proper qualification, these contracts are accounted for as cash-flow hedges, as defined by SFAS 133. 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. In using derivative financial instruments to hedge exposures to changes in exchange rates, the Company exposes itself to counterparty credit risk.

All derivatives, including foreign currency forward contracts, are recognized in the balance sheet at fair value. Fair values for the Company s derivative financial instruments are based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current market and model assumptions. On the date the derivative contract is entered into, the Company determines whether the derivative contract should be designated as a cash flow hedge. Changes in the fair value of derivatives that are highly effective and designated as cash flow hedges are recorded in Accumulated other comprehensive income (loss) , 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 the forward contracts attributable to the difference in the spot and forward exchange rates are excluded from the assessment of hedge effectiveness and recognized within Revenues . Cash flows from the derivative contracts are classified within Cash flows from operating activities . Ineffectiveness is measured based on the change in fair value of the forward contracts due to changes in the spot exchange rate and the present value of expected future cash flows associated with the Company s forecasted revenues due to the change in the Company s average foreign currency translation rates. Hedge ineffectiveness is recognized within Revenues .

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. 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 in offsetting changes in cash flows of hedged items 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

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2007 and 2006
(Unaudited)

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

Foreign Currency and Derivative Instruments (continued)

hedge or if a forecasted hedge is no longer probable of occurring, the Company discontinues hedge accounting prospectively. At September 30, 2007, all hedges were determined to be highly effective.

The Company also periodically enters into forward contracts that are not designated as hedges. The purpose of these derivative instruments is to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange rates. The Company records changes in the fair value of these derivative instruments within Revenues . See Note 3 for further information on financial derivative instruments.

Recent Accounting Pronouncements In July 2006, the FASB issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* , which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109 (SFAS 109), *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $2.7 million liability for unrecognized tax benefits, including interest and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 8 Income Taxes for further information.

In May 2007, the FASB issued FASB Staff Position FIN 48-1 (FSP FIN 48-1), *Definition of Settlement in FASB Interpretation No. 48* . FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on the Company s financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements* , which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this standard on its financial condition, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).* SFAS 158 requires a company to (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year, and (c) recognize changes in the funded status of a defined postretirement plan in the year in which the changes occur (reported in accumulated other comprehensive income). Subsequently, the FASB issued Staff Position No. 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guidance* to amend the illustrations contained in the appendices, of Statements 87, 88, and 106 to require recognition of the funded status of defined benefit postretirement plans in an employer s statement of financial position. The Company adopted SFAS 158 on December 31, 2006, which resulted in a $1.0 million non-cash charge to equity, net of deferred taxes of $0.6 million and a $1.6 million non-cash increase in total liabilities. See Note 12 Pension Plan, for further information.

In November 2006, the EITF reached a tentative conclusion on Issue No. 06-10 (EITF 06-10), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*. EITF 06-10 provides guidance on the employers recognition of assets, liabilities and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods. The effective date of EITF 06-10 is for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of EITF 06-10 on its financial condition, results of operations and cash flows.

Sykes Enterprises, Incorporated and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine months ended September 30, 2007 and 2006
(Unaudited)

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

Recent Accounting Pronouncements (continued)

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115*, which permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS 159, entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this standard on its financial condition, results of operations and cash flows.

Note 2 Acquisitions and Dispositions

On March 1, 2005, the Company purchased the shares of Kelly, Luttmer & Associates Limited (KLA) located in Calgary, Alberta, Canada, which included net assets of approximately $0.2 million. KLA specializes in providing call center services for organizational health, employee assistance, occupational health, and disability management. The Company acquired these operations in an effort to broaden its operations in the healthcare sector, which resulted in the Company paying a premium for KLA resulting in recognition of goodwill. Total cash consideration paid was approximately $3.2 million based on foreign currency rates in effect at the date of the acquisition. The purchase price resulted in a purchase price allocation to net assets of $0.2 million, to purchased intangible assets of $2.3 million (primarily customer relationships) and to goodwill of $0.6 million. Pro-forma results of operations, in respect to this acquisition, have not been presented because the effect of this acquisition was not material.

On July 3, 2006, the Company completed the acquisition of all the outstanding shares of capital stock of Centro Interacción Multimedia, S.A. (Apex), an established customer contact management solutions and services provider headquartered in the City of Cordoba, Argentina. Apex serves clients in Argentina, Mexico and the United States. The results of operations of Apex have been included in the Company s results of operations for its America s segment beginning in the third quarter of 2006. Client programs range from in-bound customer care and help-desk/technical support to out-bound sales and cross selling within the business-to-consumer and certain business-to-business segments for Internet Service Providers, wireless carriers and credit card companies. The Company acquired these operations to broaden its operations in a growing market in the communications and financial services verticals, which resulted in the Company paying a premium for Apex resulting in recognition of goodwill. The purchase price for the shares was $27.4 million less $0.4 million, representing Apex s obligations on certain of its capital leases as of the closing date, for a net purchase price of $27.0 million, eighty percent of which ($21.6 million) was paid in cash from offshore operations and twenty percent of which ($5.4 million) was paid by the delivery of 330,992 shares of the common stock of the Company, valued at $16.324 per share. Of the net purchase price of $27.0 million, $5.0 million was paid to an escrow account (eighty percent in cash and twenty percent in common stock) to secure the sellers indemnification obligations and to provide for a holdback of the purchase price until amounts billed by Apex to a major client reach established targets. At the end of a two-year escrow period, any portion of the cash and stock not retained to satisfy the holdback provisions of the purchase price will be returned to the sellers. We allocated the net purchase price of $27.0 million less the $5.0 million contingent purchase price held in escrow plus direct acquisition costs of $0.6 million, or $22.6 million, to the tangible assets, liabilities and intangible purchased assets based on their estimated fair values in accordance with SFAS No. 141, *Business Combinations*. The excess net purchase price over these fair values is recognized as goodwill, which is not expected to be deductible for tax purposes. These fair values are based on management s estimates and assumptions, including variations of the income approach, the market approach and the cost approach, resulting in a purchase price allocation to net assets of $4.2 million, to goodwill of $14.4 million, to a deferred tax liability of $2.9 million and to purchased intangible assets of $6.9 million as detailed in the following table (in thousands):

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Note 2 Acquisitions and Dispositions (continued)

Purchased Intangible Assets	Amount Assigned	Weighted Average Amortization Period (years)
Customer relationships	$ 5,500	6
Trade Name	1,000	5
Non-compete agreements	200	2
Other	165	3
Total	$ 6,865	6

The purchase price allocation for the Apex acquisition resulted in the following condensed balance sheet as of the acquisition date (in thousands):

	Amount
Cash and cash equivalents	$ 788
Receivables, net and other current assets	3,546
Total current assets	4,334
Property and equipment, net	4,718
Goodwill	14,392
Intangibles	6,865
Other long-term assets	133
	$ 30,442
Current liabilities	$ 4,791
Long-term deferred tax liability	2,903
Other long-term liabilities	140
Total liabilities	7,834
Shareholders equity	22,608
	$ 30,442

In June 2007, the Company settled the contingency related to the holdback of a portion of the purchase price based upon amounts billed to a major client as amounts billed by Apex to the client reached the established targets. This settlement resulted in a payout of $1.6 million in cash and $0.5 million in common stock from the escrow account and an increase in the recorded amount of goodwill of $2.1 million.

The following unaudited pro forma data summarizes the combined results of operations of Sykes and Apex for all periods presented as if the combination had been consummated on January 1, 2006.

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues	$149,287	$429,652
Income before provision for income taxes	$ 23,128	$ 43,249
Net income	$ 16,514	$ 35,925
Net income per diluted share	$ 0.41	$ 0.90

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Note 2 Acquisitions and Dispositions (continued)

Amortization expense, related to the purchased intangible assets resulting from acquisitions (other than goodwill), of $0.4 million and $1.1 million for the three and nine months ended September 30, 2007, respectively, is included in General and administrative costs in the accompanying Condensed Consolidated Statements of Operations. In the comparable periods of 2006, the Company recognized amortization expense of $0.4 million and $0.6 million, respectively. The following table presents the Company s purchased intangible assets (in thousands) as of September 30, 2007:

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	**$ 7,588**	**$ 1,501**	**$ 6,087**	8
Trade Name	**979**	**244**	**735**	5
Non-compete agreements	**724**	**651**	**73**	2
Other	**271**	**166**	**105**	3
	$ 9,562	**$ 2,562**	**$ 7,000**	7

The following table presents the Company s purchased intangible assets (in thousands) as of December 31, 2006:

	Gross Intangibles	Accumulated Amortization	Net Intangibles	Weighted Average Amortization Period (years)
Customer relationships	$ 7,428	$ 692	$ 6,736	8
Trade Name	1,008	101	907	5
Non-compete agreements	653	464	189	2
Other	259	87	172	3
	$ 9,348	$ 1,344	$ 8,004	7

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

Periods Ending December 31,	Amount
2007 (remaining three months)	$ 354
2008	$1,347
2009	$1,267
2010	$1,240
2011	$1,142

Changes in goodwill, within the America s segment, consist of the following (in thousands):

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Note 2 Acquisitions and Dispositions (continued)

	Amount
Balance at December 31, 2005	$ 5,918
Acquisition of Apex	14,392
Foreign currency translation	112
Balance at December 31, 2006	20,422
Contingent payment for Apex acquisition	**2,068**
Foreign currency translation	**(27)**
Balance at September 30, 2007	**$ 22,463**

Note 3 Financial Derivatives

The Company had derivative assets and liabilities related to outstanding forward contracts, designated as cash flow hedges, maturing within 15 months, consisting primarily of Philippine peso contracts with a notional value of $111.0 million at September 30, 2007. As of September 30, 2007, the Company had $1.9 million of these derivative instruments classified as Prepaid and other current assets , $26 thousand as Deferred charges and other assets , $33 thousand as Other accrued expenses and current liabilities and $45 thousand as Other long-term liabilities . A total of $1.9 million of deferred gains on the derivative instruments as of September 30, 2007 were included in Accumulated other comprehensive income (loss) , a component of shareholders equity. Net gains of $0.9 million and $1.6 million from settled derivative instruments for the three and nine months ended September 30, 2007, respectively, were reclassified from Accumulated other comprehensive income (loss) to Revenues . The deferred gain expected to be reclassified to Revenues from Accumulated other comprehensive income (loss) during the next 12 months is $1.7 million. However this amount and other future reclassifications from Accumulated other comprehensive income (loss) will fluctuate with movements in the underlying market price of the forward contracts.

During the three and nine months ended September 30, 2007, the Company recognized in Revenues a loss of $0.5 million and $1.1 million, respectively, related to changes in the fair value of the forward contracts attributable to the difference in the spot and forward exchange rates, which was excluded from the assessment of hedge effectiveness. In addition, during the three and nine months ended September 30, 2007, the Company recognized gains related to hedge ineffectiveness of $1.3 million and $1.2 million, respectively which was reclassified from Accumulated other comprehensive income (loss) to Revenues .

During the nine months ended September 30, 2007, we also entered into and settled forward contracts to purchase PHP 385.3 million and CAD 1.1 million at fixed prices of $8.0 million and $1.0 million, respectively. Since these contracts were not designated as accounting hedges, they were accounted for on a mark-to-market basis, with realized and unrealized gains or losses recognized in the current period. As a result, we recognized immaterial gains and losses related to these contracts, which are included in Revenues in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2007.

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Note 4 Deferred Revenue

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

	September 30, 2007	December 31, 2006
Future service	**$ 30,894**	$ 25,403
Estimated penalties and holdbacks	**3,274**	5,321
	$ 34,168	$ 30,724

Note 5 Accumulated Other Comprehensive Income (Loss)

The Company presents data in the Condensed Consolidated Statements of Changes in Shareholders Equity in accordance with SFAS No. 130, *Reporting Comprehensive Income* (SFAS 130). SFAS 130 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 Actuarial Losses Related to Pension Liability	Unrealized Gain (Loss) on Cash Flow Hedging Instruments	Total
Balance at January 1, 2006	$ (3,435)	$	$	$ (3,435)
Pre tax amount	10,396	(1,607)		8,789
Tax benefit		563		563
Reclassification to net income	(48)			(48)
Balance at December 31, 2006	6,913	(1,044)		5,869
Pre tax amount	**16,180**	**(89)**	**4,629**	**20,720**
Tax benefit				
Reclassification to net income	**(10)**		**(2,735)**	**(2,745)**
Balance at September 30, 2007	**$23,083**	**$ (1,133)**	**$ 1,894**	**$23,844**

Note 6 Termination Costs Associated with Exit Activities

On November 3, 2005, the Company committed to a plan (the Plan) to reduce its workforce by approximately 200 people in one of its European customer contact management centers in Germany in response to the October 2005 contractual expiration of a technology client program, which previously had generated annual revenues of approximately $12.0 million. The Company has substantially completed the Plan as of September 30, 2007. Total charges related to the Plan were $1.4 million. These charges include approximately $1.2 million for severance and related costs and $0.2 million for other exit costs. The Company ceased using certain property and equipment estimated at $0.2 million, and depreciated these assets over a shortened useful life, which approximated eight months.

As a result, the Company recorded additional depreciation of approximately $0.2 million during the nine months ended September 30, 2006. The Company reversed previously accrued termination costs of less than $0.1 million in Direct salaries and related costs in the accompanying Condensed Consolidated Statement of Operations for the nine months ended September 30, 2007 due to a change in estimate. Termination costs of $0.8 million are included in Direct salaries and related costs for the nine months ended September 30, 2006. Cash payments related to termination costs made totaled $0.5 million and $0.6 million for the nine months ended September 30, 2007 and 2006, respectively. Termination costs to date approximate $1.2 million as of September 30, 2007 with cash payments to date of $1.2 million.

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Note 7 Borrowings

The Company s $50.0 million revolving credit facility with a group of lenders (the Credit Facility), which amount is subject to certain borrowing limitations, was executed on March 15, 2004 and amended on May 4, 2007. Pursuant to the amended terms of the Credit Facility, the amount of $50.0 million may be increased up to a maximum of $100.0 million with the prior written consent of the lenders. The Credit Facility includes a $10.0 million swingline subfacility, a $15.0 million letter of credit subfacility and a $40.0 million multi-currency subfacility, not to exceed a total of $50 million availability under the Credit Facility.

The Credit Facility, which includes certain financial covenants, may be used for general corporate purposes including acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Credit Facility, including the multi-currency subfacility, accrues interest, at the Company s option, at (a) the Base Rate (defined as the higher of the lender s prime rate or the Federal Funds rate plus 0.50%) plus an applicable margin up to 0.50%, or (b) the London Interbank Offered Rate (LIBOR) plus an applicable margin up to 1.25%. Borrowings under the swingline subfacility accrue interest at the prime rate plus an applicable margin up to 0.50% and borrowings under the letter of credit subfacility accrue interest at the LIBOR plus an applicable margin up to 1.25%. In addition, a commitment fee of up to 0.25% is charged on the unused portion of the Credit Facility on a quarterly basis. The borrowings under the Credit Facility, which will terminate on March 14, 2010, are secured by a pledge of 65% of the stock of each of the Company s active direct foreign subsidiaries. The Credit Facility prohibits the Company from incurring additional indebtedness, subject to certain specific exclusions. There were no borrowings during the three and nine months ended September 30, 2007, and no outstanding balances as of September 30, 2007 and December 31, 2006, with $50.0 million availability on the Credit Facility.

Note 8 Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007 and recognized a $2.7 million liability for unrecognized tax benefits, including interest and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. This adjustment to the beginning balance of retained earnings includes $1.3 million related to transfer pricing penalties that may be applicable in connection with an income tax audit of our Indian subsidiary.

As of December 31, 2006 prior to the adoption of FIN 48, the Company had a contingent income tax liability of $4.2 million, consisting of amounts for subsidiaries located in both the Americas and EMEA segments that are included in Income taxes payable in the accompanying Condensed Consolidated Balance Sheet.

Upon adoption of FIN 48 as of January 1, 2007, the Company had $9.1 million of unrecognized tax benefits (including $4.6 million benefit of net operating loss carryforwards that were previously recognized as deferred tax assets with a full valuation allowance). If the Company recognized these tax benefits, approximately $4.5 million and related interest and penalties would favorably impact the effective tax rate.

As of September 30, 2007, the Company had $4.5 million of unrecognized tax benefits, a net decrease of $4.6 million from $9.1 million as of January 1, 2007. This decrease relates primarily to the recognition of tax benefits as a result of a favorable lower court ruling. This net decrease of $4.6 million had no impact on the effective tax rate as it was offset by a full valuation allowance. Except for $0.2 million of the unrecognized tax benefits as of September 30, 2007, which is under examination by the tax authorities, the Company does not believe it is reasonably possible that its unrecognized tax benefits will significantly change within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes. The Company had $2.6 million and $2.4 million accrued for interest and penalties as of September 30, 2007 and January 1, 2007, the date of adoption of FIN 48, respectively.

The Company files income tax returns in the U.S. and foreign jurisdictions. The following table presents the major tax jurisdictions and tax years that are open as of January 1, 2007 and subject to examination by the respective tax authorities:

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Note 8 Income Taxes (continued)

Tax Jurisdiction	Tax Year Ended
Canada	2002 to present
Costa Rica	2003 to present
Germany	1996 to present
India	2003 to present
Philippines	2003 to present
Scotland	2001 to present
United States	(1997 to 1999)* and 2002 to present

* These tax years are open to the extent of the Net Operating Loss carryforward amount.

The Company s effective tax rate was 21.3% and 15.7% for the nine months ended September 30, 2007 and 2006, respectively. The higher effective tax rate of 21.3% in 2007 was primarily due to FIN 48 adjustments related to interest and penalties, the effects of permanent differences and losses in jurisdictions for which tax benefits cannot be recognized, accompanied by a shift in the mix of earnings within tax jurisdictions and the effects of valuation allowances, foreign withholding and other taxes, foreign income tax rate differentials, income tax benefits from tax holiday jurisdictions and non-recurring tax benefits resulting from the Canadian tax appeals settlement of $3.0 million received in 2006. The differences in the Company s effective tax rate of 21.3% as compared to the U.S. statutory federal income tax rate of 35.0% was primarily due to tax benefits resulting from additional income earned in tax holiday jurisdictions; accompanied by the effects of valuation allowances, permanent differences, foreign withholding and other taxes, accrued interest and penalties and foreign income tax rate differentials.

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

The Company is currently under examination in the U.S. by the Tennessee Department of Revenue for sales and use taxes and franchise taxes for periods covering 1998 through 2000. This examination is in its final stages with closure anticipated in the fourth quarter. The U.S. Internal Revenue Service completed audits of the Company s U.S. tax returns for tax years through July 31, 1999 and is currently auditing the tax years ended July 31, 2002, July 31, 2003, December 31, 2003 and December 31, 2004. Certain German subsidiaries of the Company are under examination by the German tax authorities for periods covering 1996 through 2004. Additionally, certain Canadian subsidiaries are under examination by Canadian tax authorities for tax years 2002 through 2003, a Philippine subsidiary is being audited by the Philippine tax authorities for tax years 2003 through 2005, a Netherlands subsidiary has received final results relating to the audit for the tax years 1998 through 2003 with no signifcant findings, Indian tax authorities have issued an assessment for the tax year ended March 31, 2004 and are also examining the tax year ended March 31, 2005, a Chinese subsidiary received results on an audit related to tax years 2005 and 2006 with no significant findings and certain subsidiaries in Scotland are responding to audit inquiries for the 2005 tax year. Additionally, the Treasury department in Costa Rica is reviewing tax holiday agreements for the years 2003 -2007.

Note 9 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 month periods ended September 30, 2007, the impact of outstanding options to purchase shares of common stock and stock appreciation rights of 0.1 million and 0.1 million, respectively, and 0.1 million and 0.3 million for the comparable 2006 periods were antidilutive and were excluded from the calculation of diluted earnings per share. The numbers of shares used in the earnings per share computations are as follows (in thousands):

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Note 9 Earnings Per Share-(continued)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Basic:				
Weighted average common shares outstanding	**40,432**	40,181	**40,360**	39,744
Diluted:				
Dilutive effect of stock options, stock appreciation rights and common stock units	**265**	316	**264**	369
Total weighted average diluted shares outstanding	**40,697**	40,497	**40,624**	40,113

On August 5, 2002, the Company s Board of Directors authorized the Company to purchase up to three million shares of its outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the nine months ended September 30, 2007 and 2006, the Company made no purchases under the 2002 repurchase program.

Note 10 Segments and Geographic Information

The Company operates within two regions, the Americas and EMEA which represented 68.5% and 31.5%, respectively, of the Company s consolidated revenues for the three months ended September 30, 2007 and 67.9% and 32.1%, respectively, of the Company s consolidated revenues for the nine months ended September 30, 2007. In the comparable 2006 periods, the Americas and EMEA regions represented 69.1% and 30.9%, respectively, of the Company s consolidated revenues for the three months ended September 30, 2006 and 67.9% and 32.1%, respectively, of the Company s consolidated revenues for the nine months ended September 30, 2006. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The Company aligns its business into two segments to effectively manage the business and support the customer care needs of every client and to respond to the demands of the Company s global customers.

The reportable segments consist of (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and technical staffing and (2) EMEA, which includes Europe, the Middle East and Africa, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and fulfillment services. The sites within Latin America, India and the Asia Pacific Rim are included in the Americas region 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, 2007 compared to the corresponding prior year periods, is as follows (in thousands):

	Americas	EMEA	Other[(1)]	Consolidated Total

Three Months Ended September 30, 2007:				
Revenues	**$ 120,592**	**$ 55,530**		**$ 176,122**
Depreciation and amortization	**$ 5,178**	**$ 1,105**		**$ 6,283**
Income (loss) from operations	**$ 19,369**	**$ 4,671**	**$ (9,155)**	**$ 14,885**
Other income, net			**1,151**	**1,151**
Provision for income taxes			**(3,780)**	**(3,780)**
Net income				**$ 12,256**

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Note 10 Segments and Geographic Information (continued)

	Americas	EMEA	Other [1]	Consolidated Total
Three Months Ended September 30, 2006:				
Revenues	$ 103,184	$ 46,103		$ 149,287
Depreciation and amortization	$ 5,215	$ 1,107		$ 6,322
Income (loss) from operations	$ 29,457	$ 3,217	$ (10,877)	$ 21,797
Other income, net			1,331	1,331
Provision for income taxes			(6,614)	(6,614)
Net income				$ 16,514
Nine Months Ended September 30, 2007:				
Revenues	**$ 347,797**	**$ 164,610**		**$ 512,407**
Depreciation and amortization	**$ 15,019**	**$ 3,296**		**$ 18,315**
Income (loss) from operations	**$ 54,940**	**$ 9,731**	**$ (28,742)**	**$ 35,929**
Other income, net			**2,680**	**2,680**
Provision for income taxes			**(8,217)**	**(8,217)**
Net income				**$ 30,392**
Nine Months Ended September 30, 2006:				
Revenues	$ 282,393	$ 133,202		$ 415,595
Depreciation and amortization	$ 14,740	$ 3,460		$ 18,200
Income (loss)from operations	$ 56,633	$ 5,591	$ (27,237)	$ 34,987
Other income, net			5,577	5,577
Provision for income taxes			(6,380)	(6,380)
Net income				$ 34,184

(1) Other items (including corporate costs, impairment costs, other income and expense, and

income taxes) are shown for purposes of reconciling to the Company s consolidated totals as shown in the table above for the three and nine months ended September 30, 2007 and 2006. 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, 2006. 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.

During the three and nine months ended September 30, 2007 and 2006, the Company had no clients that exceeded ten percent of consolidated revenues.

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Note 11 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 $0.9 million and $3.3 million for the three and nine months ended September 30, 2007 and $0.6 million and $1.7 million for the comparable 2006 periods, respectively. There were no related income tax benefits recognized in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2007 nor for the comparable 2006 periods. In addition, the Company (reversed) realized the benefit of tax deductions in excess of recognized tax benefits of $(0.6) million and $0.1 million, respectively, from the exercise of stock options in the three and nine months ended September 30, 2006 (not material in the 2007 periods). There were no capitalized stock-based compensation costs at September 30, 2007.

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 three and nine months ended September 30, 2007 and 2006.

The following table summarizes stock option activity under the Plan as of September 30, 2007, 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, 2007	583	$ 13.13		
Granted				
Exercised	(66)	6.70		
Forfeited or expired	(28)	22.87		
Outstanding at September 30, 2007	487	$ 13.45	3.21	$ 2,065

Vested or expected to vest at September 30, 2007	487	$	13.45	3.21	$	2,065
Exercisable at September 30, 2007	487	$	13.45	3.21	$	2,065

There is no intrinsic value for options exercised during the three and nine months ended September 30, 2007 and 2006 since the exercise price of the options is the same as the market price of the underlying stock on the date of grant. All options were fully vested as of September 30, 2007 and there is no unrecognized compensation cost related to options granted under the Plan.

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Note 11 Stock-Based Compensation (continued)

Stock Options (continued)

The total fair value of stock options vested during the three and nine months ended September 30, 2006 was $0.3 million and $0.7 million, respectively, (none in the comparable 2007 periods).

Cash received from stock options exercised under this Plan for the nine months ended September 30, 2007 and 2006, was $0.5 million and $4.3 million, respectively. The actual tax benefit realized for the tax deductions from these stock option exercises totaled $0.1 million for the nine months ended September 30, 2006 (not material in the comparable 2007 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.

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, 2007 and 2006:

	Nine Months Ended September 30,	
	2007	**2006**
Expected volatility	53%	61%
Weighted-average volatility	53%	61%
Expected dividends		
Expected term (in years)	3.9	3.8
Risk-free rate	4.5%	4.8%

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Note 11 Stock-Based Compensation (continued)

Stock Appreciation Rights- (continued)

The following table summarizes SARs activity under the Plan as of September 30, 2007, 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, 2007	126	$		
Granted	121			
Exercised				
Forfeited or expired	(4)			
Outstanding at September 30, 2007	243	$	9.0	$ 523
Vested or expected to vest at September 30, 2007	243	$	9.0	$ 523
Exercisable at September 30, 2007	41	$	8.5	$ 150

The weighted-average grant-date fair value of the SARs granted during the nine months ended September 30, 2007 was $7.72. No SARs were exercised during the nine months ended September 30, 2007.

The following table summarizes the status of nonvested SARs under the Plan as of September 30, 2007, 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, 2007	126	$ 7.28
Granted	121	$ 7.72
Vested	(41)	$ 7.28
Forfeited	(4)	$ 7.28
Nonvested at September 30, 2007	**202**	**$ 7.54**

As of September 30, 2007, there was $1.2 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. During the nine months ended September 30, 2007, 41 thousand SARs vested.

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 as of December 31, 2007 for the 2006-2007 performance period, as of December 31, 2008 for the 2006-2008 performance period and as of December 31, 2009 for the 2007-2009 performance period. If the performance conditions are met for the 2006-2007 performance period, for the 2006-2008 performance period and for the 2007-2009 performance period, the shares will vest and all restrictions on

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Note 11 Stock-Based Compensation (continued)

Restricted Shares- (continued)

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) on March 29, 2008, March 29, 2009 and March 16, 2010, respectively. 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 following table summarizes the status of nonvested Restricted Shares under the Plan as of September 30, 2007, and changes during the nine months then ended:

Nonvested Restricted Shares	Shares (In thousands)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2007	308	$14.92
Granted	228	$16.93
Vested		$
Forfeited	(90)	$17.92
Nonvested at September 30, 2007	**446**	**$15.72**

As of September 30, 2007, there was $4.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested restricted shares granted under the Plan. This cost is expected to be recognized over a weighted-average period of 1.9 years. None of the restricted shares vested during the nine months ended September 30, 2007 and 2006.

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 11 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.

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Note 11 Stock-Based Compensation (continued)

Other Awards (continued)

The following table summarizes CSUs activity under the Plan as of September 30, 2007, 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, 2007		$
Granted	67	$16.38
Vested	(1)	$16.50
Forfeited	(8)	$17.64
Nonvested at September 30, 2007	**58**	**$16.21**

As of September 30, 2007, there was $0.3 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 1.2 years. During the nine months ended September 30, 2007 and 2006, no CSUs vested. 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). The 2004 Fee Plan provides that all new non-employee Directors joining the Board receive an initial grant of 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 (currently set at $30,000) 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 new Director is appointed or elected. The initial grant of CSUs will vest in three equal installments, one-third on the date of each of the following three annual shareholders meetings. A CSU is a bookkeeping entry on the Company s books that records the equivalent of one share of common stock. On the date each CSU vests, the Director will become entitled to receive a share of the Company s common stock and the CSU will be canceled. Until a CSU vests, the Director has none of the rights of a shareholder with respect to the CSU or the common stock underlying the CSU. CSUs are not transferable. The number of shares remaining available for issuance under the 2004 Fee Plan cannot exceed 378 thousand. Additionally, the 2004 Fee Plan provides that each non-employee Director receives 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 (currently set at $50,000) to be paid 75% in CSUs and 25% in cash. The number of CSUs to be granted under the 2004 Fee Plan will be 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). The annual grant of CSUs will vest in two equal installments, one-half on the date of each of the following two annual shareholders meetings. There were grants of 18 thousand and 30 thousand CSUs issued under the 2004 Fee Plan during the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007 and 2006, 35 thousand and 46 thousand CSUs vested, respectively.

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Note 11 Stock-Based Compensation (continued)

Non-Employee Director Fee Plan (continued)

The following table summarizes the status of the nonvested CSUs under the 2004 Fee Plan as of September 30, 2007, 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, 2007	48	$12.20
Granted	18	$19.19
Vested	(35)	$10.96
Forfeited		$
Nonvested at September 30, 2007	**31**	**$**17.69

Compensation expense for CSUs granted after the adoption of SFAS No. 123R, (SFAS 123R), *Share-Based Payment* on January 1, 2006, is recognized immediately on the date of grant since these grants automatically vest upon termination of a Director s service, whether by death, retirement, resignation, removal or failure to be reelected at the end of his or her term. However, compensation expense for CSUs granted before adoption of SFAS 123R is recognized over the requisite service period, or nominal vesting period of two to three years, in accordance with APB No. 25, *Accounting for Stock Issued to Employees* . Compensation expense related to CSUs granted before adoption of SFAS 123R was $0.1 million for the nine months ended September 30, 2007 (none for the three month period), and $0.1 million and $0.2 million for the three and nine months ended September 30, 2006. As of September 30, 2007, there was no unrecognized compensation cost, net of estimated forfeitures, which relates to nonvested CSUs granted under the 2004 Fee Plan before adoption of SFAS 123R.

Deferred Compensation Plan The Company s non-qualified Deferred Compensation Plan (the Deferred Compensation Plan), which is not shareholder-approved, was adopted by the Board of Directors effective December 17, 1998 and amended on March 29, 2006 and May 23, 2006. It provides certain eligible employees the ability to defer any portion of their compensation until the participant s retirement, termination, disability or death, or a change in control of the Company. Using the Company s common stock, the Company matches 50% of the amounts deferred by certain senior management participants on a quarterly basis up to a total of $12,000 per year for the president and senior vice presidents and $7,500 per year for vice presidents (participants below the level of vice president are not eligible to receive matching contributions from the Company). Matching contributions and the associated earnings vest over a seven year service period. Deferred compensation amounts used to pay benefits, which are held in a rabbi trust, include investments in various mutual funds and shares of the Company s common stock (See Note 1, Summary of Accounting Policies, under Investments Held in Rabbi Trust.) The Deferred Compensation Plan s assets totaled $1.4 million and $1.0 million at September 30, 2007 and December 31, 2006, respectively, excluding the Company s common stock match, while liabilities totaled $1.4 million and $1.0 million, respectively. The Company s common stock match of $0.5 million and $0.4 million as of September 30, 2007 and December 31, 2006, respectively, was recorded in Treasury stock and Additional paid-in capital , as appropriate, and the liabilities were recorded in Accrued employee compensation and benefits in the accompanying Condensed Consolidated Balance Sheets.

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Note 11 Stock-Based Compensation (continued)

Deferred Compensation Plan (continued)

The following table summarizes the status of the nonvested common stock issued under the Deferred Compensation Plan as of September 30, 2007, and changes during the nine months then ended:

Nonvested Common Stock	Shares (In thousands)	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2007	9	$ 9.15
Granted	5	$18.14
Vested	(8)	$12.98
Forfeited		$
Nonvested at September 30, 2007	**6**	**$11.56**

As of September 30, 2007, there was $0.1 million of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested common stock granted under the Deferred Compensation Plan. This cost is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of the common stock vested during the nine months ended September 30, 2007 was $0.1 million and $0.4 million for the comparable 2006 period.

Cash used to settle the Company s obligation under the Deferred Compensation Plan was less than $0.1 million for both of the nine month periods ended September 30, 2007 and 2006.

Note 12 Pension Plan

The Company sponsors a non-contributory defined benefit pension plan (the Pension Plan) for its employees in the Philippines. The Pension Plan provides defined benefits based on years of service and final salary. All permanent employees meeting the minimum service requirement are eligible to participate in the Pension Plan. As of September 30, 2007, the Pension Plan is unfunded.

The following table provides information about net periodic benefit cost for the Pension Plan for the nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost	$ 124	$ 91	$ 738	$ 409
Interest cost	76	45	223	202
Net periodic benefit cost	$ 200	$ 136	$ 961	$ 611

Note 13 Commitments and Contingencies

In June 2007, the Company entered into an agreement with a telecommunications equipment provider obligating the Company to purchase a minimum of $7.0 million of hardware and software over the next five years, subject to cancellation penalties up to 65% of the unused commitment. The Company expects cash payments to be made ratably over the next five years.

One of the Company s European subsidiaries has received several inquiries from a regulatory agency related to privacy claims associated with the alleged inappropriate acquisition of personal bank account information. Several of the inquiries have resulted in sanctions against the Company approximating $0.9 million. In order to appeal the

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(Unaudited)

Note 13 Commitments and Contingencies (continued)

sanctions through the court system, the Company issued a bank guarantee. Management believes that the sanctions made in connection with this matter are without merit, and intends to vigorously pursue the reversal of the proposed sanctions. The Company has recorded these amounts in Deferred Charges and Other Assets in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006. The Company has not accrued any amounts related to these claims under SFAS No. 5, *Accounting for Contingencies* because it does not believe that a loss is probable, and it is not currently possible to reasonably estimate the amount of any loss related to these claims.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Sykes Enterprises, Incorporated
400 N. Ashley Drive
Tampa, FL 33602

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the Company) as of September 30, 2007, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2007 and 2006, of changes in shareholders equity for the nine-month periods ended September 30, 2007 and 2006 and for the three-month period ended December 31, 2006, and of cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2006, and the related consolidated statements of operations, changes in shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 13, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 8 to the condensed consolidated interim financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* on January 1, 2007.

/s/ Deloitte & Touche LLP
Certified Public Accountants
Tampa, Florida
November 6, 2007

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Sykes Enterprises, Incorporated and Subsidiaries
Management s Discussion and Analysis of Financial
Condition and Results of Operations

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

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated (Sykes, our , we or us) Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (SEC).

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

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

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Sykes Enterprises, Incorporated and Subsidiaries
Management s Discussion and Analysis of Financial
Condition and Results of Operations

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Revenues	$176,122	$149,287	$512,407	$415,595
Percentage of revenues	100.0%	100.0%	100.0%	100.0%
Direct salaries and related costs	$110,774	$ 94,016	$327,109	$263,410
Percentage of revenues	62.9%	63.0%	63.8%	63.4%
General and administrative expenses	$ 50,466	$ 47,281	$149,403	$130,609
Percentage of revenues	28.6%	31.7%	29.2%	31.4%
Net (gain) on disposal of property and equipment	$ (3)	$ (13,870)	$ (34)	$ (13,856)
Percentage of revenues	%	(9.3)%	%	(3.3)%
Impairment of long-lived assets	$	$ 63	$	$ 445
Percentage of revenues	%	%	%	0.1%
Income from operations	$ 14,885	$ 21,797	$ 35,929	$ 34,987
Percentage of revenues	8.5%	14.6%	7.0%	8.4%

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		**2007**		2006	
Americas	**$ 120,592**	**68.5%**	$ 103,184	69.1%	**$ 347,797**	**67.9%**	$ 282,393	67.9%
EMEA	**55,530**	**31.5%**	46,103	30.9%	**164,610**	**32.1%**	133,202	32.1%
Consolidated	**$ 176,122**	**100.0%**	$ 149,287	100.0%	**$ 512,407**	**100.0%**	$ 415,595	100.0%

The following table summarizes the amounts and percentage of revenue for direct salaries and related costs and general and administrative costs for the periods indicated, by geographic region (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	**2007**	2006
Direct salaries and related costs:				

Americas	**$ 73,628**	**61.1%**	$ 63,289	61.3%	**$ 214,233**	**61.6%**	$ 172,723	61.2%
EMEA	**37,146**	**66.9%**	30,727	66.6%	**112,876**	**68.6%**	90,687	68.1%
Consolidated	**$ 110,774**		$ 94,016		**$ 327,109**		$ 263,410	
General and administrative:								
Americas	**$ 27,597**	**22.9%**	$ 24,308	23.6%	**$ 78,658**	**22.6%**	$ 66,893	23.7%
EMEA	**13,714**	**24.7%**	12,159	26.4%	**42,003**	**25.5%**	36,924	27.7%
Corporate	**9,155**		10,814		**28,742**		26,792	
Consolidated	**$ 50,466**		$ 47,281		**$ 149,403**		$ 130,609	

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Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Revenues

For the three months ended September 30, 2007, we recognized consolidated revenues of $176.1 million, an increase of $26.8 million, or 17.9%, from $149.3 million of consolidated revenues for the comparable 2006 period.

On a geographic segmentation basis, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 68.5%, or $120.6 million, for the three months ended September 30, 2007, compared to 69.1%, or $103.2 million, for the comparable 2006 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 31.5%, or $55.5 million, for the three months ended September 30, 2007, compared to 30.9%, or $46.1 million, for the comparable 2006 period.

The increase in the Americas revenue of $17.4 million, or 16.9%, for the three months ended September 30, 2007, compared to the same period in 2006, reflects a broad-based growth in client demand, including new and existing client relationships, primarily within our offshore operations and Canada. New client relationships represented 57.6% of the increase in the Americas revenue over the comparable 2006 period. Revenues from our offshore operations represented 61.0% of Americas revenues on 17,000 seats for the three months ended September 30, 2007, compared to 57.5% on 13,300 seats for the comparable 2006 period. The trend of generating more of our revenues in our offshore operations is likely to continue in 2007. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce and costs of functional currency fluctuations in offshore markets. Americas revenues for the three months ended September 30, 2007 included a $1.7 million net gain on foreign currency hedges. Excluding this gain, the Americas revenue increased $15.7 million compared with the same period last year.

The increase in EMEA revenues of $9.4 million, or 20.4%, for the three months ended September 30, 2007, compared to the same period in 2006, reflects a broad-based growth in client demand, including new and existing client relationships, partially offset by certain program expirations. New client relationships represented 52.3% of the increase in EMEA s revenue over the comparable 2006 period. EMEA revenues for the third quarter of 2007 experienced a $4.1 million increase as a result of the strength in the Euro compared to the same period in 2006. Excluding this foreign currency impact, EMEA revenues increased $5.3 million compared with the same period last year.

Direct Salaries and Related Costs

Direct salaries and related costs increased $16.8 million, or 17.8%, to $110.8 million for the three months ended September 30, 2007, from $94.0 million in the comparable 2006 period.

As a percentage of revenues, direct salaries and related costs decreased to 62.9% for the three months ended September 30, 2007, from 63.0% for the comparable 2006 period. This decrease of 0.1% from the comparable 2006 period was attributable to lower telephone costs of 0.3%, lower auto tow claim costs of 0.1% in Canada and other costs of 0.5% partially offset by higher salary costs of 0.8%, including training costs associated with the ramp up of business in our offshore markets. Although the strengthened Euro positively impacted revenues, it negatively impacted direct salaries and related costs for the three months ended September 30, 2007 by approximately $2.7 million compared to the same period in 2006.

General and Administrative

General and administrative expenses increased $3.1 million, or 6.8%, to $50.4 million for the three months ended September 30, 2007, from $47.3 million in the comparable 2006 period.

As a percentage of revenues, general and administrative expenses decreased to 28.6% for the three months ended September 30, 2007, from 31.7% for the comparable 2006 period. This decrease of 3.1% from the comparable 2006 period was primarily attributable to lower charitable contribution costs of 1.3%, legal and professional fees incurred of 1.0%, depreciation expense of 0.7%, lease costs and equipment maintenance of 0.4%, insurance costs of 0.2% as a percentage of revenues, partially offset by higher compensation costs of 0.4% and other costs of 0.1%. Although the strengthening Euro positively impacted revenues, it negatively

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impacted general and administrative expenses for the three months ended September 30, 2007 by $1.0 million compared to the same period in 2006.

Net Gain on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $3.0 thousand for the three months ended September 30, 2007 compares to a $13.9 million gain on disposal of property and equipment for the three months ended September 30, 2006, which was primarily a result of the sale of four third party leased U.S. customer contact management centers.

Impairment of Long-lived Assets

There was no impairment charge for the three months ended September 30, 2007. In the comparable 2006 period, we recorded an impairment charge of $0.1 million for property and equipment no longer used in our Philippine facilities.

Interest Income

Interest income was $1.6 million for the three months ended September 30, 2007, compared to $1.4 million for the comparable 2006 period reflecting higher levels of average interest-bearing investments in cash and cash equivalents and short-term investments partially offset by lower average rates of interest earned.

Interest Expense

Interest expense was $0.2 million for the three months ended September 30, 2007 compared to $0.2 million for the comparable 2006 period.

Income from Rental Operations, Net

We sold our four U.S. leased facilities in September 2006; therefore, there is no income from rental operations for the three months ended September 30, 2007. For the comparable 2006 period, income from rental operations, net, related to these leased facilities was $0.3 million.

Other Income (Expense)

Other expense, net, was $0.2 million for the three months ended September 30, 2007 compared to other expense, net, of $0.2 million for the comparable 2006 period. Other expense, net primarily consists of foreign currency transaction losses, net of gains. Other income (expense) excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated Other Comprehensive Income in shareholders equity in the accompanying Condensed Consolidated Balance Sheets.

Provision for Income Taxes

The provision for income taxes of $3.8 million for the three months ended September 30, 2007 was based upon pre-tax book income of $16.0 million, compared to $6.6 million for the comparable 2006 period based upon pre-tax book income of $23.1 million. The effective tax rate for the three months ended September 30, 2007 was 23.6% compared to an effective tax rate of 28.6% for the comparable 2006 period. The 5.0% lower effective tax rate of 23.6% in 2007 was primarily due to the effects of permanent differences and losses in jurisdictions for which tax benefits can be recognized, accompanied by a shift in the mix of earnings within tax jurisdictions and the effects of valuation allowances, foreign withholding and other taxes, and foreign income tax rate differentials.

Net Income

As a result of the foregoing, we reported income from operations for the three months ended September 30, 2007 of $14.9 million, compared to $21.8 million in the comparable 2006 period. This decrease was principally attributable to a $16.8 million increase in direct salaries and related costs, a $3.1 million increase in general and administrative expenses and a $13.9 million decrease in net gain on disposal of property and equipment partially offset by a $26.8 million increase in revenues and a $0.1 million decrease in impairment as previously

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discussed. The $6.9 million decrease in income from operations, a $0.2 million increase in interest income, offset by a $0.3 million decrease in income from rental operations, net, a $0.1 million increase in other expense, net, and a $2.8 million lower tax provision resulted in net income of $12.3 million for the three months ended September 30, 2007, a decrease of $4.3 million compared to the same period in 2006.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Revenues

For the nine months ended September 30, 2007, we recognized consolidated revenues of $512.4 million, an increase of $96.8 million, or 23.3%, from $415.6 million of consolidated revenues for the comparable 2006 period.

On a geographic segmentation basis, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 67.9%, or $347.8 million, for the nine months ended September 30, 2007, compared to 67.9%, or $282.4 million, for the comparable 2006 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 32.1%, or $164.6 million, for the nine months ended September 30, 2007, compared to 32.1%, or $133.2 million, for the comparable 2006 period.

The increase in the Americas revenue of $65.4 million, or 23.2%, for the nine months ended September 30, 2007, compared to the same period in 2006, reflects a broad-based growth in client demand, including new and existing client relationships, within our offshore operations and Canada, as well as an increase in revenue generated from our Argentina operations acquired in July 2006 of $17.6 million and an increase in revenue from a performance incentive payment of $1.4 million received by our Canadian operations related to our telemedicine program. New client relationships represented 61.7% of the increase in the Americas revenue over the comparable 2006 period, excluding contributions from our Argentina operations and the telemedicine performance incentive mentioned above. Revenues from offshore operations represented 60.0% of Americas revenues for the nine months ended September 30, 2007, compared to 53.9% for the comparable 2006 period. The trend of generating more of our revenues from our offshore operations is likely to continue in 2007. While operating margins generated offshore are generally comparable to those in the United States, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce and costs of functional currency fluctuations in offshore markets. Americas revenues for the nine months ended September 30, 2007 included a $1.7 million net gain on foreign currency hedges. Excluding this gain, the Americas revenue increased $63.7 million compared with the same period last year.

The increase in EMEA revenues of $31.4 million, or 23.6%, for the nine months ended September 30, 2007, compared to the same period in 2006, reflects growth in client demand, including new and existing client relationships, partially offset by certain program expirations. New client relationships represented 34.3% of the increase in the EMEA s revenue over the comparable 2006 period. EMEA revenues for the nine months ended September 30, 2007 experienced a $12.2 million increase as a result of the strength in the Euro compared to the same period in 2006. Excluding this foreign currency impact, EMEA revenues increased $19.2 million compared with the same period last year.

Direct Salaries and Related Costs

Direct salaries and related costs increased $63.7 million, or 24.2%, to $327.1 million for the nine months ended September 30, 2007, from $263.4 million in the comparable 2006 period. This increase included $13.1 million of direct salaries and related costs from our Argentina operations acquired in July 2006 primarily consisting of compensation costs.

As a percentage of revenues, direct salaries and related costs increased to 63.8% for the nine months ended September 30, 2007, from 63.4% for the comparable 2006 period. Excluding the $1.4 million revenue contribution from Canada mentioned above, as a percentage of revenues, direct salaries and related costs increased to 64.0% for the nine months ended September 30, 2007. This increase of 0.6% from the comparable 2006 period was attributable to higher salary costs of 1.2%, including training costs associated with the ramp up of business in our offshore operations, and other costs of 0.3%, partially offset by lower telephone costs of 0.6% and lower auto tow claim costs in Canada of 0.3%. Although the strengthened Euro positively impacted

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revenues, it negatively impacted direct salaries and related costs for the nine months ended September 30, 2007 by approximately $8.4 million compared to the same period in 2006.

General and Administrative

General and administrative expenses increased $18.8 million, or 14.4%, to $149.4 million for the nine months ended September 30, 2007, from $130.6 million in the comparable 2006 period. This increase included $5.2 million of general and administrative costs from our Argentina operations acquired in July 2006

As a percentage of revenues, general and administrative expenses decreased to 29.2% for the nine months ended September 30, 2007 from 31.4% for the comparable 2006 period. Excluding the $1.4 million revenue contribution from Canada mentioned above, as a percentage of revenues, general and administrative expenses remain unchanged at 29.2% for the nine months ended September 30, 2007. This decrease of 2.2% from the comparable 2006 period was primarily attributable to lower depreciation expense of 0.8%, charitable contribution of 0.5%, legal and professional fees incurred of 0.5%, lease and equipment maintenance of 0.4%, telephone costs of 0.3% and insurance costs of 0.2% as a percentage of revenues, partially offset by higher stock-based compensation costs of 0.2% and other costs of 0.3%. Although the strengthening Euro positively impacted revenues, it negatively impacted general and administrative expenses for the nine months ended September 30, 2007 by $3.1 million compared to the same period in 2006.

Net Gain on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $34.0 thousand for the nine months ended September 30, 2007 compares to a $13.9 million gain on disposal of property and equipment for the nine months ended September 30, 2006, which was primarily a result of the sale of four third party leased U.S. customer contact management centers.

Impairment of Long-lived Assets

There was no impairment charge for the nine months ended September 30, 2007. The $0.4 million impairment of long-lived assets for the comparable period in 2006 relates to a $0.3 million asset impairment charge in one of our underutilized European customer contact management centers and a $0.1 million charge for property and equipment no longer used in one of our Philippine facilities. This impairment charge represented the amount by which the carrying value of the assets exceeded the estimated fair value of those assets which cannot be redeployed to other locations.

Interest Income

Interest income was $4.4 million for the nine months ended September 30, 2007, compared to $5.2 million for the comparable 2006 period. Excluding interest income of $1.7 million on a foreign tax settlement in the 2006 comparable period, interest income increased $0.9 million reflecting higher levels of average interest-bearing investments in cash and cash equivalents and short-term investments.

Interest Expense

Interest expense was $0.5 million for the nine months ended September 30, 2007 compared to $0.4 million for the comparable 2006 period, an increase of $0.1 million due to short-term debt outstanding during 2007.

Income from Rental Operations, Net

We sold our four U.S. leased facilities in September 2006; therefore, there is no income from rental operations for the nine months ended September 30, 2007. For the comparable 2006 period, income from rental operations, net, related to these leased facilities was $1.2 million.

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Other Income (Expense)

Other expense, net, was $1.2 million for the nine months ended September 30, 2007 compared to other expense, net, of $0.4 million for the comparable 2006 period. The net increase in other expense of $0.8 million was primarily attributable to an increase in foreign currency transaction losses, net of gains. Other income (expense) excludes the cumulative translation effects and unrealized gains (losses) on financial derivatives that are included in Accumulated Other Comprehensive Income in shareholders equity in the accompanying Condensed Consolidated Balance Sheets.

Provision for Income Taxes

The provision for income taxes of $8.2 million for the nine months ended September 30, 2007 was based upon pre-tax book income of $38.6 million, compared to $6.4 million for the comparable 2006 period based upon pre-tax book income of $40.6 million. The effective tax rate for the nine months ended September 30, 2007 was 21.3% compared to an effective tax rate of 15.7% for the comparable 2006 period. The higher effective tax rate of 21.3% in 2007 was primarily due to FIN 48 adjustments related to interest and penalties, the effects of permanent differences and losses in jurisdictions for which tax benefits cannot be recognized, accompanied by a shift in the mix of earnings within tax jurisdictions and the effects of valuation allowances, foreign withholding and other taxes, foreign income tax rate differentials, income tax benefits from tax holiday jurisdictions and non-recurring tax benefits resulting from the Canadian tax appeals settlement of $3.0 million received in 2006.

Net Income

As a result of the foregoing, we reported income from operations for the nine months ended September 30, 2007 of $35.9 million, compared to $35.0 million in the comparable 2006 period. This increase was principally attributable to a $96.8 million increase in revenues and a $0.4 million decrease in impairment charges, partially offset by a $63.7 million increase in direct salaries and related costs, an $18.8 million increase in general and administrative expenses and a $13.8 million decrease in net gain on disposal of property and equipment, as previously discussed. The $0.9 million increase in income from operations, a $0.8 million decrease in interest income, a $1.2 million decrease in income from rental operations, net, a $0.8 million increase in other expense, net, a $0.1 million increase in interest expense and a $1.8 million higher tax provision resulted in net income of $30.4 million for the nine months ended September 30, 2007, a decrease of $3.8 million compared to the same period in 2006.

Liquidity and Capital Resources

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

On August 5, 2002, the Board of Directors authorized the Company to purchase up to nine million shares of our outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the nine months ended September 30, 2007, we did not repurchase common shares under the 2002 repurchase program.

During the nine months ended September 30, 2007, we generated $35.2 million in cash from operating activities, $1.6 million from the release of restricted cash, received $0.5 million in cash from issuance of stock and $0.1 million in proceeds on the sale of property and equipment. Further, we used $22.8 million for capital expenditures, purchased $17.5 million in short-term investments, settled contingencies of $1.6 million related to the purchase of Apex, invested $0.4 million in restricted cash and $0.1 million in other investing activities resulting in an $8.5 million increase in available cash (including the favorable effects of international currency exchange rates on cash of $13.5 million).

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Net cash flows provided by operating activities for the nine months ended September 30, 2007 were $35.2 million, compared to $32.6 million for the comparable 2006 period. The $2.6 million increase in net cash flows from operating activities was due to a $11.0 million increase in non-cash reconciling items such as deferred income taxes, stock-based compensation, termination costs associated with exit activities, unrealized gains on financial instruments partially offset by a decrease of $3.8 million in net income and a net decrease of $4.6 million in cash flows from assets and liabilities. The $4.6 million net change was principally a result of a $7.7 million decrease in deferred revenue, a $0.7 million increase in other assets and a $0.4 million decrease in income taxes payable partially offset by a $4.0 million decrease in receivables and a $0.2 million increase in other liabilities.

Capital expenditures, which are generally funded by cash generated from operating activities, available cash balances and borrowings available under our credit facilities, were $22.8 million for the nine months ended September 30, 2007, compared to $11.3 million for the comparable 2006 period, an increase of $11.5 million. During the nine months ended September 30, 2007, approximately 49% of the capital expenditures were the result of investing in new and existing customer contact management centers, primarily offshore, and 51% was expended primarily for maintenance and systems infrastructure. In 2007, we anticipate capital expenditures in the range of $27.0 million to $29.0 million.

An available source of future cash flows from financing activities is from borrowings under our $50.0 million revolving credit facility (the Credit Facility), which amount is subject to certain borrowing limitations. Pursuant to the terms of the Credit Facility which was executed on March 15, 2004 and amended on May 4, 2007, the amount of $50.0 million may be increased up to a maximum of $100.0 million with the prior written consent of the lenders. The Credit Facility includes a $10.0 million swingline subfacility, a $15.0 million letter of credit subfacility and a $40.0 million multi-currency subfacility, not to exceed a total of $50 million availability under the Credit Facility. The Credit Facility, which includes certain financial covenants, may be used for general corporate purposes including acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Credit Facility, including the multi-currency subfacility, accrues interest, at our option, at (a) the Base Rate (defined as the higher of the lender s prime rate or the Federal Funds rate plus 0.50%) plus an applicable margin up to 0.50%, or (b) the London Interbank Offered Rate (LIBOR) plus an applicable margin up to 1.25%. Borrowings under the swingline subfacility accrue interest at the prime rate plus an applicable margin up to 0.50% and borrowings under the letter of credit subfacility accrue interest at the LIBOR plus an applicable margin up to 1.25%. In addition, a commitment fee of up to 0.25% is charged on the unused portion of the Credit Facility on a quarterly basis. The borrowings under the Credit Facility, which will terminate on March 14, 2010, are secured by a pledge of 65% of the stock of each of our active direct foreign subsidiaries. The Credit Facility prohibits us from incurring additional indebtedness, subject to certain specific exclusions. There were no borrowings in the first nine months of 2007 and 2006 and no outstanding balances as of September 30, 2007 and December 31, 2006, with $50.0 million availability on the Credit Facility. At September 30, 2007, we were in compliance with all loan requirements of the Credit Facility.

At September 30, 2007, we had $167.0 million in cash and cash equivalents, of which approximately 96% or $160.0 million, was held in international operations and may be subject to additional taxes if repatriated to the United States. Additionally, we had $17.5 million invested in short-term investments in the United States at September 30, 2007.

We believe that our current cash levels, accessible funds under our credit facilities and cash flows from future operations will be adequate to meet anticipated working capital needs, future debt repayment requirements (if any), continued expansion objectives, funding of potential acquisitions, anticipated levels of capital expenditures and contractual obligations for the foreseeable future and any stock repurchases.

Off-Balance Sheet Arrangements and Other

At September 30, 2007, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include, but are not limited to: (i) indemnities to clients, vendors and service providers pertaining to claims based on negligence or willful misconduct and (ii) indemnities involving breach of contract, the accuracy of representations and warranties, or other liabilities assumed by us in certain contracts. In addition, we have agreements whereby we will indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer s or director s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Condensed Consolidated Balance Sheets. In addition, we have some client contracts that do not contain contractual provisions for the limitation of liability, and other client contracts that contain agreed upon exceptions to limitation of liability. We have not recorded any liability in the accompanying Condensed Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

Contractual Obligations

As of September 30, 2007, we had $4.5 million of unrecognized tax benefits, a net decrease of $4.6 million from $9.1 million as of January 1, 2007. The decrease relates primarily to the recognition of tax benefits as a result of a favorable lower court ruling. Except for $0.2 million of the unrecognized tax benefits as of September 30, 2007, which is under examination by the tax authorities, the Company does not believe it is reasonably possible that its unrecognized tax benefits will significantly change within the next twelve months. In addition, we had a $2.6 million liability for interest and penalties related to unrecognized tax benefits as of September 30, 2007. Due to the nature of these liabilities, we are unable to determine the timing of expected cash payments that we may be required to make, if any. For a presentation of contractual obligations as of December 31, 2006, refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations* in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC.

In June 2007 we entered into an agreement with a telecommunications equipment provider obligating us to purchase a minimum of $7.0 million of hardware and software over the next five years, subject to cancellation penalties up to 65% of the unused commitment. We expect cash payments to be made ratably over the next five years.

Critical Accounting Policies and Estimates

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

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

We recognize revenue pursuant to applicable accounting standards, including SEC Staff Accounting Bulletin (SAB) No. 101 (SAB 101), *Revenue Recognition in Financial Statements,* SAB 104, *Revenue Recognition* and the Emerging Issues Task Force (EITF) No. 00-21, (EITF 00-21) *Revenue Arrangements with Multiple Deliverables.* SAB 101, as amended, and SAB 104 summarize certain of the SEC staff s views in applying generally accepted accounting principles to revenue recognition in financial statements and provide guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. EITF 00-21 provides further guidance on how to account for multiple element contracts.

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We recognize revenues from services as the services are performed, which is based on either a per minute, per call or per transaction basis, under a fully executed contractual agreement and record reductions to 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. Deferred revenue included in current liabilities in the accompanying Condensed Consolidated Balance Sheets includes estimated penalties and holdbacks of approximately $3.3 million and $5.3 million as of September 30, 2007 and December 31, 2006, respectively, for failure to meet specified minimum service levels in certain contracts and other performance based contingencies.

Product sales, accounted for within our fulfillment services, are recognized upon shipment to the customer and satisfaction of all obligations.

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. Additionally, the Company has a contract that contains multiple-deliverables for customer contact management services and fulfillment services. Separation criteria include 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 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.

We maintain allowances for doubtful accounts of $2.6 million as of September 30, 2007, or 1.9% of trade receivables, for estimated losses arising from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in a reduced ability to make payments, additional allowances may be required which would reduce income from operations.

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. The valuation allowance for a particular tax jurisdiction is allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro-rata basis. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies. At December 31, 2006, management determined that a valuation allowance of approximately $35.3 million was necessary to reduce U.S. deferred tax assets by $10.4 million and foreign deferred tax assets by $24.9 million, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. The recoverability of the remaining net deferred tax asset of $17.5 million at December 31, 2006 is dependent upon future profitability within each tax jurisdiction. As of September 30, 2007, based on our estimates of future taxable income and any applicable tax-planning strategies within various tax jurisdictions, we believe that it is more likely than not that the remaining net deferred tax asset will be realized.

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We review long-lived assets, which had a carrying value of $105.9 million as of September 30, 2007, including goodwill, intangibles and property and equipment, and investment in SHPS, Incorporated, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and at least annually for impairment testing of goodwill. An asset is considered to be impaired when the carrying amount exceeds the fair value. Upon determination that the carrying value of the asset is impaired, we would record an impairment charge or loss to reduce the asset to its fair value. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* , which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a $2.7 million liability for unrecognized tax benefits, including interest and penalties, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. See Note 8 Income Taxes for further information.

In May 2007, the FASB issued FASB Staff Position FIN 48-1 (FSP FIN 48-1), *Definition of Settlement in FASB Interpretation No. 48* . FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements* , which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this standard on our financial condition, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).* SFAS 158 requires a company to (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year, and (c) recognize changes in the funded status of a defined postretirement plan in the year in which the changes occur (reported in accumulated other comprehensive income). Subsequently, the FASB issued Staff Position No. 158-1, *Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guidance* to amend the illustrations contained in the appendices, of Statements 87, 88, and 106 to require recognition of the funded status of defined benefit postretirement plans in an employer s statement of financial position. We adopted SFAS 158 on December 31, 2006 which resulted in a $1.0 million non-cash charge to equity, net of deferred taxes and a $1.6 million non-cash increase in total liabilities. See Note 12 Pension Plan, for further information.

In November 2006, the EITF reached a tentative conclusion on Issue No. 06-10 (EITF 06-10), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements.* EITF 06-10 provides guidance on the employers recognition of assets, liabilities and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods. The effective date of EITF 06-10 is for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of EITF 06-10 on our financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment to FASB Statement No. 115*, which permits an entity to measure certain financial assets and financial liabilities at fair value. Under SFAS 159, entities that elect the fair

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value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions, as long as it is applied to the instrument in its entirety. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this standard on our financial condition, results of operations and cash flows.

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Item 3 Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

Our earnings and cash flows are subject to fluctuations due to changes in non-U.S. currency exchange rates. We are exposed to non-U.S. exchange rate fluctuations as the financial results of non-U.S. subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact overall expected profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar are included in Accumulated Other Comprehensive Income (Loss) in shareholders equity. Movements in non-U.S. currency exchange rates may affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors. Periodically, we use foreign currency contracts to hedge intercompany receivables and payables, and transactions initiated in the United States that are denominated in foreign currency.

We serve a number of U.S.-based clients using customer contact management center capacity in the Philippines which is within our Americas segment. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine pesos (PHP), which represent a foreign exchange exposure.

In order to hedge approximately 62.2% of our exposure related to the anticipated cash flow requirements denominated in PHP, we had outstanding forward contracts as of September 30, 2007 with counterparties to acquire a total of PHP 5.1 billion through December 2008 at fixed prices of $111.1 million U.S. dollars. As of September 30, 2007, we had net total derivative assets associated with these contracts of $1.9 million, which settle within the next 15 months. The fair value of these derivative instruments as of September 30, 2007 is presented in Note 3 of the accompanying Condensed Consolidated Financial Statements. If the U.S. dollar/PHP exchange rate were to adversely change by 10% from current period-end levels, we would incur a $17.9 million loss on the underlying exposures of the derivative instruments. However, this loss would be partially offset by a corresponding gain of $12.3 million in our underlying exposures.

We evaluate the credit quality of potential counterparties to derivative transactions and only enter into contracts with those considered to have minimal credit risk. We periodically monitor changes to counterparty credit quality as well as our concentration of credit exposure to individual counterparties. We do not use derivative instruments for trading or speculative purposes.

Interest Rate Risk

Our exposure to interest rate risk results from variable debt outstanding under our $50.0 million revolving credit facility. During the quarter ended September 30, 2007, we had no debt outstanding under this credit facility; therefore, a one-point increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would not have had had a material impact on our financial position or results of operations.

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

Fluctuations in Quarterly Results

For the year ended December 31, 2006, quarterly revenues as a percentage of total consolidated annual revenues were approximately 23%, 23%, 26% and 28%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will continue to experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing and frequency of client spending for customer contact management services, non-U.S. currency fluctuations, and the seasonal pattern of customer contact management support and fulfillment services.

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Item 4 Controls and Procedures

As of September 30, 2007, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a 15(e) under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time period specified by the SEC s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We concluded that, as of September 30, 2007, our disclosure controls and procedures were effective at the reasonable assurance level.

There were no significant changes in our internal controls over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Part II OTHER INFORMATION

Item 1 Legal Proceedings

One of the Company s European subsidiaries has received several inquiries from a regulatory agency related to privacy claims associated with the alleged inappropriate acquisition of personal bank account information. Several of the inquiries have resulted in sanctions against the Company approximating $0.9 million. In order to appeal the sanctions through the court system, the Company issued a bank guarantee. Management believes that the sanctions made in connection with this matter are without merit, and intends to vigorously pursue the reversal of the proposed sanctions. The Company has recorded these amounts in Deferred Charges and Other Assets in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2007. The Company has not accrued any amounts related to these claims under SFAS No. 5, *Accounting for Contingencies* because it does not believe that a loss is probable, and it is not currently possible to reasonably estimate the amount of any loss related to these claims.

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

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary of stock repurchases for the quarter ended September 30, 2007 (in thousands, except average price per share). See Note 9, Earnings Per Share, to the Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number Of Shares That May Yet Be Purchased Under Plans or Programs
July 1, 2007 July 31, 2007			1,644	1,356
August 1, 2007 August 31, 2007			1,644	1,356
September 1, 2007 September 30, 2007			1,644	1,356

(1) All shares purchased as part of a repurchase plan publicly announced on August 5, 2002. Total number of shares approved for repurchase under the plan

was 3 million
with no
expiration date.

Item 6 Exhibits

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

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

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SIGNATURE

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

	SYKES ENTERPRISES, INCORPORATED (Registrant)
Date: November 6, 2007	By: /s/ W. Michael Kipphut
	W. Michael Kipphut Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

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