SYKES ENTERPRISES INC
Form 10-K
March 13, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**
For the fiscal year ended December 31, 2006

Or

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 Number 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 N. Ashley Drive, Tampa, Florida	**33602**
(Address of principal executive offices)	(Zip Code)

(813) 274-1000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock $.01 Par Value	**NASDAQ Stock Market, LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No þ

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 the past 90 days.

Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 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

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant computed by reference to the closing sales price of such shares on the NASDAQ Global Select Market on June 30, 2006, the last business day of the Registrant s most recently completed second fiscal quarter, was $644,605,270.

As of February 23, 2007, there were 40,609,450 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
Portions of the Proxy Statement for the year 2007 Annual Meeting of Shareholders	Part III Items 10 14

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PART I

Item 1. Business

General

Sykes Enterprises, Incorporated and consolidated subsidiaries (SYKES, our, us or we) is a global leader in providing outsourced customer contact management solutions and services in the business process outsourcing (BPO) arena. We provide an array of sophisticated customer contact management solutions to a wide range of clients including Fortune 1000 companies, medium sized businesses, and public institutions around the world, primarily in the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, India and the Asia Pacific Rim) and EMEA (Europe, Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact management services (with an emphasis on inbound technical support and customer service), which includes customer assistance, healthcare and roadside assistance, technical support and product sales to our client s customers. These services are delivered through multiple communications channels including phone, e-mail, Web and chat. We also provide various enterprise support services in the United States that include services for our client s internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, we also provide fulfillment services including multilingual sales order processing via the Internet and phone, inventory control, product delivery and product returns handling. (See Note 21 to the accompanying Consolidated Financial Statements for information on our segments.) Our complete service offering helps our clients acquire, retain and increase the value of their customer relationships. We have developed an extensive global reach with customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia and Africa. SYKES delivers cost-effective solutions that enhance the customer service experience, promote stronger brand loyalty, and bring about high levels of performance and profitability.

SYKES was founded in 1977 in North Carolina and moved its headquarters to Florida in 1993. In March 1996, we changed our state of incorporation from North Carolina to Florida. Our headquarters are located at 400 North Ashley Drive, 28th Floor, Tampa, Florida 33602, and our telephone number is (813) 274-1000.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as our proxy statements and other materials which are filed with or furnished to the Securities and Exchange Commission (SEC) are made available, free of charge, on or through our Internet website at www.sykes.com/investors.asp under the heading Financial Reports SEC Filings, as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

Industry Overview

According to industry analysts at Datamonitor, the outsourced customer contact management solutions market was estimated for the United States, Western Europe and the rest of the world to be approximately $13.8 billion, $6.0 billion and $4.0 billion in 2006, respectively. Also, the five primary verticals in which we participate communications, technology/consumer, financial services, healthcare and transportation and leisure constitute approximately 80% of the total worldwide market. We believe that growth for outsourced customer contact management solutions and services will be fueled by the trend of global Fortune 1000 companies and medium sized businesses turning to outsourcers to provide high quality, cost-effective, value added customer contact management solutions. Increasingly they are moving toward integrated solutions that consist of a combination of support from our onshore markets in the United States, Canada and Europe and offshore markets in the Asia Pacific Rim and Latin America.

In today s ever-changing marketplace, companies require innovative customer contact management solutions that allow them to enhance the end user s experience with their products and services, strengthen and enhance their company brands, maximize the lifetime value of their customers, turn cost centers into profit centers, efficiently and effectively deliver human interaction when customers value it most, and deploy best in-class customer management strategies, processes and technologies.

Global competition, pricing pressures, softness in the global economy and rapid changes in technology are making it increasingly difficult for companies to cost effectively maintain the in-house personnel necessary to handle all their customer contact management needs. As a result, companies are increasingly turning to outsourcers

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to perform specialized functions and services in the customer contact management arena. By working in a partnership with outsourcers, companies can ensure that the crucial task of retaining and growing their customer base is addressed.

Companies outsource customer contact management solutions for various reasons, including the need to focus on core competencies, to drive service excellence and execution, to achieve cost savings, to scale and grow geographies and niche markets and to efficiently allocate capital within their organizations.

To address these needs, SYKES offers full, global customer contact management solutions that focus on proactively identifying and solving our clients business challenges. We provide consistent high-value support for our clients customers across the globe in a multitude of languages, leveraging our dynamic, secure communications infrastructure and our global footprint that reaches across 18 countries. This global footprint includes established operations in both onshore and offshore geographic markets where companies have access to high quality customer contact management solutions at lower costs compared to other markets.

Business Strategy

Our goal is to provide enhanced customer contact management solutions and services in a proactive and responsive manner, acting as a partner in our client s business. We anticipate trends and deliver new ways of growing our clients customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions.

Our business strategy encompasses building long-term client relationships, capitalizing on our expert worldwide response team, leveraging our depth of relevant experience and expanding both organically and through acquisitions. The principles of this strategy include the following:

Build Long-term Client Relationships Through Service Excellence. We believe that providing high-value, high-quality service is critical in our clients decisions to outsource and in building long-term relationships with our clients. To ensure service excellence and consistency across each of our centers globally, we implemented an internally developed quality program titled the SYKES Standard of Excellence (SSE). This quality certification standard is a compilation of more than 25 years of experience and best practices from industry standards such as the Malcolm Baldrige National Quality Award and COPC (Customer Operations Performance Center Inc.) along with our standard operating procedures. Every customer contact management center strives to meet or exceed the criteria set forth by SSE, which address leadership, hiring and training, performance management down to the agent level, forecasting and scheduling, and the client relationship including continuous improvement, disaster recovery plans and feedback.

Capitalize on an Expert Worldwide Response Team. Companies are demanding a customer contact management solution that is global in nature one of our key strengths. In addition to our network of customer contact management centers throughout North America and Europe, we continue to develop our global delivery model with operations in the Philippines, The Peoples Republic of China, Costa Rica, El Salvador and Argentina, offering our clients a secure, high quality solution tailored to the needs of their diverse and global markets. We continue to expand our global footprint, adding centers in Argentina in 2006.

Maintain a Competitive Advantage Through Our Depth of Relevant Experience in Technology Solutions. For more than 25 years, SYKES has been an innovative pioneer in delivering customer contact management solutions. We seek to maintain a competitive advantage and differentiation by utilizing technology in new and creative ways to consistently deliver innovative service solutions, ultimately enhancing the client s relationship with its customers and generating revenue growth. This includes knowledge solutions for agents and end customers, automatic call distributors, intelligent call routing and workforce management capabilities based on agent skill and availability, call tracking software, quality management systems and computer-telephony integration (CTI). CTI enables our customer contact management centers to serve as transparent extensions for our clients, receive telephone calls and data directly from our clients systems, and report detailed information concerning the status and results of our services on a daily basis.

Through strategic technology relationships, we are able to provide fully integrated communication services encompassing e-mail, chat and Web self-service platforms. In addition, the European deployment of Global Direct, our customer relationship management (CRM)/ e-commerce application utilized within the fulfillment operations, establishes a platform whereby our clients can manage all customer profile and contact information from every communication channel, making it a viable customer-facing infrastructure solution to support their CRM initiatives.

We are also continuing to capitalize on sophisticated and specialized technological capabilities, including our current private ATM network that provides us the ability to manage call volumes more efficiently by load balancing calls and data between customer contact management centers over the same network. Our converged voice and data ATM communications network provides a high-quality, fault tolerant global network for the transport of Voice Over Internet Protocol communications and fully integrates with emergent Internet Protocol telephony systems as well as traditional Time Domain Multiplexing telephony systems. Our flexible, secure and scalable network infrastructure allows us to rapidly respond to changes in client voice and data traffic and quickly establish support operations for new and existing clients.

Continue to Grow Our Business Organically and through Acquisitions. We have grown our customer contact management outsourcing operations utilizing a strategy of both internal organic growth and external acquisitions. This strategy has resulted in an increase from three U.S. customer contact management centers in 1994 to 41 customer contact management centers worldwide as of the end of 2006. Given the fragmented nature of the customer contact management industry, there may be other companies that could bring us certain complementary competencies. Acquisition candidates that can, among other competencies, expand our service offerings, broaden our geographic footprint, allow us access to new technology and are synergistic in nature will be given consideration. We have and will continue to explore these options upon identification of strategic opportunities.

Growth Strategy

Applying the key principles of our business strategy, we execute our growth strategy by focusing on increasing seat capacity and utilization rates, increasing share of seats within existing clients, advancing horizontal service offerings and add-on enhancements, diversifying verticals and expanding service lines and continuing to focus on emerging markets.

Increasing Seat Capacity Growth and Utilization. As our business model employs seat capacity to deliver customer contact management support, seat capacity growth is one of the keys drivers of our revenues. Accompanying this growth in seat capacity is the utilization of those seats.

Increasing Share of Seats within Existing Clients. We provide customer contact management support to over 100 multinational companies. With this client list, we have the opportunity to grow our share of SYKES client base. We strive to achieve this by winning a greater share of our clients in-house seats as well as gain share from our competitors by providing consistently high quality of service.

Advancing Horizontal Service Offerings and Add-On Enhancements. To improve both revenue and margin expansion, we will continue to introduce new service offerings and add-on enhancements. Bi-lingual customer support offering and back office services are examples of horizontal service offerings, while data analytics and process improvement products are examples of add-on enhancements. In 2007, we expect to leverage our offshore infrastructure to drive discrete back office services.

Diversifying Verticals and Expanding Service Lines. To mitigate the impact of economic and product cycles on our growth rate, we continue to seek ways to diversify into verticals and service lines that have countercyclical features and healthy growth rates. We are currently targeting three verticals for growth: communications, financial services and healthcare. Our focus in 2007 is on service lines within those verticals such as cable broadband, wireless services, retail banking and credit card/consumer fraud protection. Within the healthcare vertical we are focusing on ways of leveraging our Canadian telemedicine and employee assistance programs within the United States market.

Continuing to Focus on Emerging Markets. As part of our growth strategy, we use SYKES delivery model to service core markets in the United States, Canada and Europe. The United States, for instance, is a core market which is partly served by offshore customer contact management centers across the Asia Pacific Rim and Latin America regions. As countries in these regions experience rising living standards due to globalization, we are poised to leverage our centers to serve the emerging markets in these regions. Given the validation of our emerging markets strategy in China and the recent acquisition in Argentina, which serves as both a delivery platform and a market itself, we expect to transfer that success to four new emerging countries over time and continue to penetrate existing emerging markets.

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Services

We specialize in providing inbound outsourced customer contact management solutions in the BPO arena on a global basis. Our customer contact management services are provided through two operating segments the Americas and EMEA. The Americas region, representing 67.4% of consolidated revenues in 2006, includes the United States, Canada, Latin America and the Asia Pacific Rim. The sites within Latin America and the Asia Pacific Rim are included in the Americas region as they provide a significant service delivery vehicle for U.S. based companies that are utilizing our customer contact management solutions in these locations to support their customer care needs. The EMEA region, representing 32.6 % of consolidated revenues in 2006, includes Europe, the Middle East and Africa. For further information about segments, see Note 21, Segments and Geographic Information, to the Consolidated Financial Statements. The following is a description of our customer contact management solutions:

Outsourced Customer Contact Management Services. Our outsourced customer contact management services represented approximately 95% of total 2006 consolidated revenues. Every year, we handle over 100 million customer contacts including phone, e-mail, Web and chat throughout the Americas and EMEA regions. We provide these services utilizing our advanced technology infrastructure, human resource management skills and industry experience. These services include:

§ Customer care Customer care contacts primarily include product information requests, describing product features, activating customer accounts, resolving complaints, handling billing inquiries, changing addresses, claims handling, ordering/reservations, prequalification and warranty management, providing health information and roadside assistance;

§ Technical support Technical support contacts primarily include handling inquiries regarding hardware, software, communications services, communications equipment, Internet access technology and Internet portal usage; and

§ Acquisition Our acquisition services are primarily focused on inbound up-selling/cross-selling of our client s products and services.

We provide these services, primarily inbound customer calls, through our extensive global network of customer contact management centers, where our customer contact agents provide support in a multitude of languages. Our technology infrastructure and managed service solutions allow for effective distribution of calls to one or more centers. These technology offerings provide our clients and us with the leading edge tools needed to maximize quality and customer satisfaction while controlling and minimizing costs.

Fulfillment Services. In Europe, we offer fulfillment services that are fully integrated with our customer care and technical support services. Our fulfillment solutions include multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery and product returns handling.

Enterprise Support Services. In the United States, we provide a range of enterprise support services including technical staffing services and outsourced corporate help desk solutions.

Operations

Customer Contact Management Centers. We operate across 18 countries and 41 stand-alone customer contact management centers, which breakdown as follows: 18 centers across Europe and South Africa, eight centers in the United States, one center in Canada and 14 centers offshore, including The Peoples Republic of China, the Philippines, Costa Rica, El Salvador and Argentina.

In an effort to stay ahead of industry off-shoring trends, we opened our first customer contact management centers in the Philippines and Costa Rica over eight years ago. By 2006, we expanded to seven centers in the Philippines, two in Costa Rica, two in The People s Republic of China, one in El Salvador and two in Argentina.

We utilize a sophisticated workforce management system to provide efficient scheduling of personnel. Our internally developed digital private communications network complements our workforce by allowing for effective call volume management and disaster recovery backup. Through this network and our dynamic intelligent call routing capabilities, we can rapidly respond to changes in client call volumes and move call volume traffic based on agent availability and skill throughout our network of centers, improving the responsiveness and productivity of our agents. We also can offer cost competitive solutions for taking calls to our offshore locations.

Our sophisticated data warehouse captures and downloads customer contact information for reporting on a daily, real time and historical basis. This data provides our clients with direct visibility into the services that we are providing for them. The data warehouse supplies information for our performance management systems such as our agent scorecarding application, which provides management with the information required for effective management of our operations.

Our customer contact management centers are protected by a fire extinguishing system, backup generators with significant capacity and 24 hour refueling contracts and short-term battery backups in the event of a power outage, reduced voltage or a power surge. Rerouting of call volumes to other customer contact management centers is also available in the event of a telecommunications failure, natural disaster or other emergency. Security measures are imposed to prevent unauthorized physical access. Software and related data files are backed up daily and stored off site at multiple locations. We carry business interruption insurance covering interruptions that might occur as a result of certain types of damage to our business.

Fulfillment Centers. We currently have three fulfillment centers located in Europe. We provide our fulfillment services primarily to certain clients operating in Europe who desire this complementary service in connection with outsourced customer contact management services.

Enterprise Support Services Offices. Our two enterprise support services offices are located in metropolitan areas in the United States to provide a recruiting platform for high-end knowledge workers and to establish a local presence to service major accounts.

Quality Assurance

We believe that providing consistent high quality service is critical in our clients decisions to outsource and in building long-term relationships with our clients. It is also our belief and commitment that quality is the responsibility of each individual at every level of the organization. To ensure service excellence and continuity across our organization, we have developed an integrated Quality Assurance program consisting of three major components:

§ The certification of client accounts and customer contact management centers to the SSE program;

§ The application of continuous improvement through application of our Data Analytics and Six Sigma techniques; and

§ The application of process audits to all work procedures.

The SSE program is a quality certification standard that was developed based on our more than 25 years of experience, and best practices from industry standards such as the Malcolm Baldridge National Quality Award and COPC. It specifies the requirements that must be met in each of our customer contact management centers including measured performance against our standard operating procedures. It has a well-defined auditing process that ensures compliance with the SSE standards. Our focus is on quality, predictability and consistency over time, not just point in time certification.

The application of continuous improvement is established by SSE and is based upon the five-step Six Sigma cycle, which we have tuned to apply specifically to our service industry. All managers are responsible for continuous improvement in their operations.

Process audits are used to verify that processes and procedures are consistently executed as required by established documentation. Process audits are applicable to services being provided for the client and internal procedures.

Sales and Marketing

Our sales and marketing objective is to leverage our expertise and global presence to develop long-term relationships with existing and future clients. Our customer contact management solutions have been developed to help our clients acquire, retain and increase the value of their customer relationships. Our plans for increasing our visibility include market focused advertising, consultative personal visits with existing and potential clients, participation in market specific trade shows and seminars, speaking engagements, articles and white papers, and our website.

Our sales force is composed of business development managers who pursue new business opportunities and strategic account managers who manage and grow relationships with existing accounts. We emphasize account development to strengthen relationships with existing clients. Business development management and strategic account managers are assigned to markets in their area of expertise in order to develop a complete understanding of each client s particular needs, to form strong client relationships and encourage cross-selling of our other service offerings. We have inside customer sales representatives who receive customer inquiries and who provide outbound lead generation for the business development managers. We also have relationships with channel partners including systems integrators, software and hardware vendors and value-added resellers, where we pair our solutions and services with their product offering or focus. We plan to maintain and expand these relationships as part of our sales and marketing strategy.

As part of our marketing efforts, we invite existing and potential clients to visit our customer contact management centers, where we can demonstrate the expertise of our skilled staff in partnering to deliver new ways of growing clients customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions. During these visits, we demonstrate our ability to quickly and effectively support a new client or scale business from an existing client by emphasizing our systematic approach to implementing customer contact solutions throughout the world.

Clients

In 2006, we provided service to hundreds of clients from our locations in the United States, Canada, Latin America, Europe, the Philippines, The Peoples Republic of China, India and South Africa. These clients are Fortune 1000 corporations, medium sized businesses and public institutions, which span the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. Revenue by vertical market for 2006, as a percentage of our consolidated revenues, was 36% for communications, 30% for technology/consumer, 11% for financial services, 7% for healthcare, 6% for transportation and leisure, and 10% for all other vertical markets, including government-related and utilities. We believe our globally recognized client base presents opportunities for further cross marketing of our services.

Although no client represented 10% or more of 2006 consolidated revenues, our top ten clients accounted for approximately 42% of our consolidated revenues in 2006, a decrease from 44% in 2005. The loss of (or the failure to retain a significant amount of business with) any of our key clients could have a material adverse effect on our performance. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short notice. Also, clients may unilaterally reduce their use of our services under our contracts without penalty.

Competition

The industry in which we operate is global, therefore highly fragmented and extremely competitive. While many companies provide customer contact management solutions and services, we believe no one company is dominant in the industry.

In most cases, our principal competition stems from our existing and potential clients in-house customer contact management operations. When it is not the in-house operations of a client, our public and private direct competition includes TeleTech, Sitel (which was acquired by Client Logic in 2007), APAC Customer Services, ICT Group, Client Logic, Convergys, West Corporation, Stream, PeopleSupport, 24/7 Customer, vCustomer, eTelecare, Atento, SR Teleperformance, and NCO Group as well as the customer care arm of such companies as Accenture, Wipro, Infosys EDS and IBM. There are other numerous and varied providers of such services, including firms specializing in various CRM consulting, other customer management solutions providers niche or large market companies, as well as product distribution companies that provide fulfillment services. Some of these companies possess substantially greater resources, greater name recognition and a more established customer base than SYKES.

We believe that the most significant competitive factors in the sale of outsourced customer contact management services include service quality, tailored value added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security and price. As a result of intense competition, outsourced customer contact management solutions and services frequently are subject to pricing pressure. Clients also require outsourcers to be able to provide services in multiple locations. Competition for contracts for many of our services takes the form of competitive bidding in response to requests for proposals.

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Intellectual Property

We rely upon a combination of contract provisions and trade secret laws to protect the proprietary technology we use at our customer contact management centers and facilities. We also rely on a combination of copyright, trademark and trade secret laws to protect our proprietary software. We attempt to further protect our trade secrets and other proprietary information through agreements with employees and consultants. We do not hold any patents and do not have any patent applications pending. There can be no assurance that the steps we have taken to protect our proprietary technology will be adequate to deter misappropriation of our proprietary rights or third-party development of similar proprietary software. Sykes®, REAL PEOPLE. REAL SOLUTIONS.® and Sykes Answerteam ® are our registered service marks. We hold a number of registered trademarks, including ETSC ®, FS PRO ® and FS PRO MARKETPLACE ®.

Employees

At January 31, 2007, we had approximately 26,210 employees worldwide, consisting of 24,270 customer contact agents handling technical and customer support inquiries at our centers, 1,720 in management, administration, finance and sales and marketing, 90 in enterprise support services, and 130 in fulfillment services. Our employees, with the exception of approximately 640 employees in Argentina and various European countries, are not represented by a labor union and we have never suffered an interruption of business as a result of a labor dispute. We consider our relations with our employees to be good.

We employ personnel through a continually updated recruiting network. This network includes a seasoned team of recruiters, competency-based selection standards and a global sourcing library to access qualified candidates through proven recruiting techniques. However, demand for qualified professionals with the required language and technical skills may exceed supply, as new skills are needed to keep pace with the requirements of customer engagements. Competition for such personnel is intense and employee turnover in this industry is high.

Executive Officers

The following table provides the names and ages of our executive officers, and the positions and offices currently held by each of them:

Name	Age	Principal Position
Charles E. Sykes	43	President and Chief Executive Officer
W. Michael Kipphut	53	Senior Vice President and Chief Financial Officer
James C. Hobby	56	Senior Vice President, Global Operations
Jenna R. Nelson	43	Senior Vice President, Human Resources
Daniel L. Hernandez	40	Senior Vice President, Global Strategy
David L. Pearson	48	Senior Vice President and Chief Information Officer
Lawrence R. Zingale	51	Senior Vice President, Global Sales and Client Management
James T. Holder	48	Senior Vice President, General Counsel and Corporate Secretary
William N. Rocktoff	44	Vice President and Corporate Controller

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Charles E. Sykes joined SYKES in 1986 and was named President and Chief Executive Officer in August 2004. From July 2003 to August 2004, Mr. Sykes was the Chief Operating Officer. From March 2000 to June 2001, Mr. Sykes was Senior Vice President, Marketing and in June 2001 he was appointed to the position of General Manager, Senior Vice President the Americas. From December 1996 to March 2000, he served as Vice President, Sales and held the position of Regional Manager of the Midwest Region for Professional Services from 1992 until 1996.

W. Michael Kipphut, C.P.A., joined SYKES in March 2000 as Vice President and Chief Financial Officer and was named Senior Vice President and Chief Financial officer in June 2001. From September 1998 to February 2000, Mr. Kipphut held the position of Vice President and Chief Financial Officer for USA Floral Products, Inc., a publicly held worldwide perishable products distributor. From September 1994 until September 1998, Mr. Kipphut held the position of Vice President and Treasurer for Spalding & Evenflo Companies, Inc., a global manufacturer of consumer products. Previously, Mr. Kipphut held various financial positions including Vice President and Treasurer in his 17 years at Tyler Corporation, a publicly held diversified holding company.

James C. Hobby joined SYKES in August 2003 as Senior Vice President, the Americas, overseeing the daily operations, administration and development of SYKES customer care and enterprise support operations throughout North America, Latin America, the Asia Pacific Rim and India and was named Senior Vice President, Global Operations in January 2005. Prior to joining SYKES, Mr. Hobby held several positions at Gateway, Inc., most recently serving as President of Consumer Customer Care since August 1999. From January 1999 to August 1999, Mr. Hobby served as Vice President of European Customer Care for Gateway, Inc. From January 1996 to January 1999, Mr. Hobby served as the Vice President of European Customer Service Centers at American Express. Prior to January 1996, Mr. Hobby held various senior management positions in customer care at FedEx Corporation since 1983, mostly recently serving as Managing Director, European Customer Service Operations.

Jenna R. Nelson joined SYKES in August 1993 and was named Senior Vice President, Human Resources in July 2001. From January 2001 until July 2001, Ms. Nelson held the position of Vice President, Human Resources. In August 1998, Ms. Nelson was appointed Vice President, Human Resources and held the position of Director, Human Resources and Administration from August 1996 to July 1998. From August 1993 until July 1996, Ms. Nelson served in various management positions within SYKES, including Director of Administration.

Daniel L. Hernandez joined SYKES in October 2003 as Senior Vice President, Global Strategy overseeing marketing, public relations, operational strategy and corporate development efforts worldwide. Prior to joining SYKES, Mr. Hernandez served as President and CEO of SBC Internet Services, a division of SBC Communications Inc., since March 2000. From February 1998 to March 2000, Mr. Hernandez held the position of Vice President/General Manager, Internet and System Operations at Ameritech Interactive Media Services. Prior to February 1998, Mr. Hernandez held various management positions at U S West Communications since joining the telecommunications provider in 1990.

David L. Pearson joined SYKES in February 1997 as Vice President, Engineering and was named Vice President, Technology Systems Management in 2000 and Senior Vice President and Chief Information Officer in August 2004. Prior to SYKES, Mr. Pearson held various engineering and technical management roles over a fifteen year period, including eight years at Compaq Computer Corporation and five years at Texas Instruments.

Lawrence R. Zingale joined SYKES in January 2006 as Senior Vice President, Global Sales and Client Management. Prior to joining SYKES, Mr. Zingale served as Executive Vice President and Chief Operating Officer of Startek, Inc. since 2002. From December 1999 until November 2001, Mr. Zingale served as President of the Americas at Stonehenge Telecom, Inc. From May 1997 until November 1999, Mr. Zingale served as President and COO of International Community Marketing. From February 1980 until May 1997, Mr. Zingale held various senior level positions at AT&T.

James T. Holder, J.D., C.P.A joined SYKES in December 2000 as General Counsel and was named Corporate Secretary in January 2001, Vice President in January 2004 and Senior Vice President in December 2006. From November 1999 until November 2000, Mr. Holder served in a consulting capacity as Special Counsel to Checkers Drive-In Restaurants, Inc., a publicly held restaurant operator and franchisor. From November 1993 until November 1999, Mr. Holder served in various capacities at Checkers including Corporate Secretary, Chief Financial

Officer and Senior Vice President and General Counsel.

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William N. Rocktoff, C.P.A., joined SYKES in August 1997 as Corporate Controller and was named Treasurer and Corporate Controller in December 1999 and Vice President and Corporate Controller in March 2002. From November 1989 to August 1997, Mr. Rocktoff held various financial positions, including Corporate Controller at Kimmins Corporation, a publicly held contracting company.

Item 1A. Risk Factors

Factors Influencing Future Results and Accuracy of Forward Looking Statements

This report contains 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 us, 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 may, expects, projects, anticipates, intends, plans, believes, estimates, 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 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: the marketplace s continued receptivity to our terms and elements of services offered under our standardized contract for future bundled service offerings; our ability to continue the growth of our service revenues through additional customer contact management centers; our ability to further penetrate into vertically integrated markets; our ability to expand revenues within the global markets; our ability to continue to establish a competitive advantage through sophisticated technological capabilities, and the following risk factors:

Dependence on Key Clients

We derive a substantial portion of our revenues from a few key clients. Although no client represented 10% or more of 2006 consolidated revenues, our top ten clients accounted for approximately 42% of our consolidated revenues in 2006. The loss of (or the failure to retain a significant amount of business with) any of our key clients could have a material adverse effect on our business, financial condition and results of operations. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short-term notice. Also, clients may unilaterally reduce their use of our services under these contracts without penalty. Thus, our contracts with our clients do not ensure that we will generate a minimum level of revenues.

Risks Associated With International Operations and Expansion

We intend to continue to pursue growth opportunities in markets outside the United States. At December 31, 2006, our international operations in EMEA and the Asia Pacific Rim were conducted from 27 customer contact management centers located in Sweden, the Netherlands, Finland, Germany, South Africa, Scotland, Ireland, Italy, Hungary, Slovakia, Spain, The Peoples Republic of China and the Philippines. Revenues from these operations for the years ended December 31, 2006, 2005, and 2004, were 52%, 57%, and 59% of consolidated revenues, respectively. We also conduct business from six customer contact management centers located in Argentina, Canada, Costa Rica and El Salvador. International operations are subject to certain risks common to international activities, such as changes in foreign governmental regulations, tariffs and taxes, import/export license requirements, the imposition of trade barriers, difficulties in staffing and managing international operations, political uncertainties, longer payment cycles, foreign exchange restrictions that could limit the repatriation of earnings, possible greater difficulties in accounts receivable collection, economic instability as well as political and country-specific risks. Additionally, we have been granted tax holidays in the Philippines, El Salvador, India and Costa Rica, which expire at varying dates from 2007 through 2018. In some cases, the tax holidays expire without possibility of renewal. In other cases, we expect to renew these tax holidays, but there are no assurances from the respective foreign governments that they will renew them. This could potentially result in adverse tax consequences. In 2006, Costa

Rican tax holiday benefits were extended through the year 2018. Any one or more of these factors could have an adverse effect on our international operations and, consequently, on our business, financial condition and results of operations.

As of December 31, 2006, we had cash balances of approximately $121.9 million held in international operations, which may be subject to additional taxes if repatriated to the United States.

We conduct business in various foreign currencies and are therefore exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact our results of operations and financial condition. We are also subject to certain exposures arising from the translation and consolidation of the financial results of our foreign subsidiaries. We have, from time to time, taken limited actions, such as using foreign currency forward contracts, to attempt to mitigate our currency exchange exposure. However, there can be no assurance that we will take any actions to mitigate such exposure in the future, and if taken, that such actions will be successful or that future changes in currency exchange rates will not have a material impact on our future operating results. A significant change in the value of the dollar against the currency of one or more countries where we operate may have a material adverse effect on our results.

Fundamental Shift Toward Global Service Delivery Markets

Clients are increasingly requiring blended delivery models using a combination of onshore and offshore support. Our offshore delivery locations include The Peoples Republic of China, the Philippines, Costa Rica, El Salvador and Argentina, and while we have operated in global delivery markets since 1996, there can be no assurance that we will be able to successfully conduct and expand such operations, and a failure to do so could have a material adverse effect on our business, financial condition, and results of operations. The success of our offshore operations will be subject to numerous contingencies, some of which are beyond our control, including general and regional economic conditions, prices for our services, competition, changes in regulation and other risks. In addition, as with all of our operations outside of the United States, we are subject to various additional political, economic, and market uncertainties (See Risks Associated with International Operations and Expansion.). Additionally, a change in the political environment in the United States or the adoption and enforcement of legislation and regulations curbing the use of offshore customer contact management solutions and services could effectively have a material adverse effect on our business, financial condition and results of operations.

Improper Disclosure or Control of Personal Information Could Result in Liability and Harm our Reputation

Our business involves the use, storage and transmission of information about our employees, our clients and customers of our clients. While we take measures to protect the security and privacy of this information and to prevent unauthorized access, it is possible that our security controls over personal data and other practices we follow may not prevent the improper access to or disclosure of personally identifiable information. Such disclosure could harm our reputation and subject us to liability under our contracts and laws that protect personal data, resulting in increased costs or loss of revenue. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace.

Existence of Substantial Competition

The markets for many of our services operate on a commoditized basis and are highly competitive and subject to rapid change. While many companies provide outsourced customer contact management services, we believe no one company is dominant in the industry. There are numerous and varied providers of our services, including firms specializing in call center operations, temporary staffing and personnel placement, consulting and integration firms, and niche providers of outsourced customer contact management services, many of whom compete in only certain markets. Our competitors include both companies who possess greater resources and name recognition than we do, as well as small niche providers that have few assets and regionalized (local) name recognition instead of global name recognition. In addition to our competitors, many companies who might utilize our services or the services of one of our competitors may utilize in-house personnel to perform such services. Increased competition, our failure to compete successfully, pricing pressures, loss of market share and loss of clients could have a material adverse effect on our business, financial condition and results of operations.

Many of our large clients purchase outsourced customer contact management services from multiple preferred vendors. We have experienced and continue to anticipate significant pricing pressure from these clients in order to remain a preferred vendor. These companies also require vendors to be able to provide services in multiple locations. Although we believe we can effectively meet our clients demands, there can be no assurance that we will be able to compete effectively with other outsourced customer contact management services companies on price. We believe that the most significant competitive factors in the sale of our core services include the standard requirements of service quality, tailored value added service offerings, industry experience, advanced technological capabilities, global coverage, reliability, scalability, security and price.

Inability to Attract and Retain Experienced Personnel May Adversely Impact Our Business

Our business is labor intensive and places significant importance on our ability to recruit, train, and retain qualified technical and consultative professional personnel. We generally experience high turnover of our personnel and are continuously required to recruit and train replacement personnel as a result of a changing and expanding work force. Additionally, demand for qualified technical professionals conversant in multiple languages, including English, and/or certain technologies may exceed supply, as new and additional skills are required to keep pace with evolving computer technology. Our ability to locate and train employees is critical to achieving our growth objective. Our inability to attract and retain qualified personnel or an increase in wages or other costs of attracting, training, or retaining qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Senior Management

Our success is largely dependent upon the efforts, direction and guidance of our senior management. Our growth and success also depend in part on our ability to attract and retain skilled employees and managers and on the ability of our executive officers and key employees to manage our operations successfully. We have entered into employment and non-competition agreements with our executive officers. The loss of any of our senior management or key personnel, or the inability to attract, retain or replace key management personnel in the future, could have a material adverse effect on our business, financial condition and results of operations.

Dependence on Trend Toward Outsourcing

Our business and growth depend in large part on the industry trend toward outsourced customer contact management services. Outsourcing means that an entity contracts with a third party, such as us, to provide customer contact services rather than perform such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services themselves. A significant change in this trend could have a material adverse effect on our business, financial condition and results of operations. Additionally, there can be no assurance that our cross-selling efforts will cause clients to purchase additional services from us or adopt a single-source outsourcing approach.

Our Strategy of Growing Through Selective Acquisitions and Mergers Involves Potential Risks

We evaluate opportunities to expand the scope of our services through acquisitions and mergers. We may be unable to identify companies that complement our strategies, and even if we identify a company that complements our strategies, we may be unable to acquire or merge with the company. In addition, a decrease in the price of our common stock could hinder our growth strategy by limiting growth through acquisitions funded with SYKES stock.

Our acquisition strategy involves other potential risks. These risks include:

§ The inability to obtain the capital required to finance potential acquisitions on satisfactory terms;
§ The diversion of our attention to the integration of the businesses to be acquired;
§ The risk that the acquired businesses will fail to maintain the quality of services that we have historically provided;
§ The need to implement financial and other systems and add management resources;
§ The risk that key employees of the acquired business will leave after the acquisition;
§ Potential liabilities of the acquired business;
§ Unforeseen difficulties in the acquired operations;
§ Adverse short-term effects on our operating results;
§ Lack of success in assimilating or integrating the operations of acquired businesses within our business;
§ The dilutive effect of the issuance of additional equity securities;

- § The impairment of goodwill and other intangible assets involved in any acquisitions;
- § The businesses we acquire not proving profitable; and
- § Potentially incurring additional indebtedness.

Uncertainties Relating to Future Litigation

We cannot predict whether any material suits, claims, or investigations may arise in the future. Regardless of the outcome of any future actions, claims, or investigations, we may incur substantial defense costs and such actions may cause a diversion of management time and attention. Also, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition and results of operations.

Rapid Technological Change

Rapid technological advances, frequent new product introductions and enhancements, and changes in client requirements characterize the market for outsourced customer contact management services. Technological advancements in voice recognition software, as well as self-provisioning and self-help software, along with call avoidance technologies, have the potential to adversely impact call volume growth and, therefore, revenues. Our future success will depend in large part on our ability to service new products, platforms and rapidly changing technology. These factors will require us to provide adequately trained personnel to address the increasingly sophisticated, complex and evolving needs of our clients. In addition, our ability to capitalize on our acquisitions will depend on our ability to continually enhance software and services and adapt such software to new hardware and operating system requirements. Any failure by us to anticipate or respond rapidly to technological advances, new products and enhancements, or changes in client requirements could have a material adverse effect on our business, financial condition and results of operations.

Reliance on Technology and Computer Systems

We have invested significantly in sophisticated and specialized communications and computer technology and have focused on the application of this technology to meet our clients needs. We anticipate that it will be necessary to continue to invest in and develop new and enhanced technology on a timely basis to maintain our competitiveness. Significant capital expenditures may be required to keep our technology up-to-date. There can be no assurance that any of our information systems will be adequate to meet our future needs or that we will be able to incorporate new technology to enhance and develop our existing services. Moreover, investments in technology, including future investments in upgrades and enhancements to software, may not necessarily maintain our competitiveness. Our future success will also depend in part on our ability to anticipate and develop information technology solutions that keep pace with evolving industry standards and changing client demands.

Risk of Emergency Interruption of Customer Contact Management Center Operations

Our operations are dependent upon our ability to protect our customer contact management centers and our information databases against damage that may be caused by fire, earthquakes, inclement weather and other disasters, power failure, telecommunications failures, unauthorized intrusion, computer viruses and other emergencies. The temporary or permanent loss of such systems could have a material adverse effect on our business, financial condition and results of operations. Notwithstanding precautions taken to protect us and our clients from events that could interrupt delivery of services, there can be no assurance that a fire, natural disaster, human error, equipment malfunction or inadequacy, or other event would not result in a prolonged interruption in our ability to provide services to our clients. Such an event could have a material adverse effect on our business, financial condition and results of operations.

Control By Principal Shareholder and Anti-Takeover Considerations

As of February 23, 2007, John H. Sykes, our founder and former Chairman of the Board and Chief Executive Officer, beneficially owned approximately 19.1% of our outstanding common stock, a decrease from 28.3% a year ago. As a result, Mr. Sykes will have substantial influence in the election of our directors and in determining the outcome of other matters requiring shareholder approval.

Our Board of Directors is divided into three classes serving staggered three-year terms. The staggered Board of Directors and the anti-takeover effects of certain provisions contained in the Florida Business Corporation Act and

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in our Articles of Incorporation and Bylaws, including the ability of the Board of Directors to issue shares of preferred stock and to fix the rights and preferences of those shares without shareholder approval, may have the effect of delaying, deferring or preventing an unsolicited change in control. This may adversely affect the market price of our common stock or the ability of shareholders to participate in a transaction in which they might otherwise receive a premium for their shares.

Volatility of Stock Price May Result in Loss of Investment

The trading price of our common stock has been and may continue to be subject to wide fluctuations over short and long periods of time. We believe that market prices of outsourced customer contact management services stocks in general have experienced volatility, which could affect the market price of our common stock regardless of our financial results or performance. We further believe that various factors such as general economic conditions, changes or volatility in the financial markets, changing market conditions in the outsourced customer contact management services industry, quarterly variations in our financial results, the announcement of acquisitions, strategic partnerships, or new product offerings, and changes in financial estimates and recommendations by securities analysts could cause the market price of our common stock to fluctuate substantially in the future.

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the year ended December 31, 2006 relating to our periodic or current reports under the Securities Exchange Act of 1934.

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Item 2. Properties

Our principal executive offices are located in Tampa, Florida. This facility currently serves as the headquarters for senior management and the financial, information technology and administrative departments. We believe our existing facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any physical expansion. We operate from time to time in temporary facilities to accommodate growth before new customer contact management centers are available. During 2006, our customer contact management centers, taken as a whole, were utilized at average capacities of approximately 84% and were capable of supporting a higher level of market demand. The following table sets forth additional information concerning our facilities:

Properties	General Usage	Square Feet	Lease Expiration
AMERICAS LOCATIONS			
Tampa, Florida	Corporate headquarters	67,600	June 2010
Bismarck, North Dakota	Customer contact management center	42,000	Company owned
Wise, Virginia	Customer contact management center	42,000	Company owned
Milton-Freewater, Oregon	Customer contact management center	42,000	Company owned
Morganfield, Kentucky	Customer contact management center	42,000	Company owned
Perry County, Kentucky	Customer contact management center(1)	42,000	Company owned
Minot, North Dakota	Customer contact management center	42,000	Company owned
Ponca City, Oklahoma	Customer contact management center	42,000	Company owned
Sterling, Colorado	Customer contact management center	34,000	Company owned
London, Ontario, Canada	Customer contact management center/ Headquarters	50,000	Company owned
Cordoba, Argentina	Headquarters	7,900	January 2009
Cordoba, Argentina	Customer contact management center	89,000	July 2007
Rosario, Argentina	Customer contact management center	18,200	September 2009
LaAurora, Heredia, Costa Rica (two)	Customer contact management centers	131,900	September 2023
San Salvador, El Salvador	Customer contact management center	59,400	November 2024
Toronto, Ontario, Canada	Customer contact management center	14,600	June 2011
North Bay, Ontario, Canada	Customer contact management center (2)	5,600	June 2007
Sudbury, Ontario, Canada	Customer contact management center (2)	3,900	December 2007

Moncton, New Brunswick, Canada	Customer contact management center(2)	12,700	January 2009
Bathurst, New Brunswick, Canada	Customer contact management center(2)	1,900	December 2007
Stephenville, New Foundland, Canada	Customer contact management center (2)	2,300	September 2026
Corner Brook, New Foundland, Canada	Customer contact management center(2)	2,900	October 2026
St. Anthony s, New Foundland, Canada	Customer contact management center(2)	4,000	November 2026
Barrie, Ontario, Canada	Customer contact management center(2)	1,000	July 2008
Makati City, The Philippines	Customer contact management center	78,800	September 2008
		136,900	March 2023
Mandaue City, The Philippines	Customer contact management center	149,200	December 2027
Paranaque City, The Philippines	Customer contact management center	183,900	December 2027
Pasig City, The Philippines	Customer contact management center	127,400	December 2023
Quezon City, The Philippines	Customer contact management center	112,300	December 2027
Quezon City, The Philippines	Customer contact management center	84,100	May 2024
Guangzhou, The Peoples Republic of China	Customer contact management center	13,000	March 2009
Shanghai, The Peoples Republic of China	Customer contact management center	103,000	February 2011
Bangalore, India	Technology development services	1,500	January 2014
Cary, North Carolina	Office	1,200	March 2008
Chesterfield, Missouri	Office	3,600	January 2016
Calgary, Alberta, Canada	Office	6,300	July 2007

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Properties	General Usage	Square Feet	Lease Expiration
EMEA LOCATIONS			
Amsterdam, The Netherlands	Customer contact management center	33,000	September 2009
Budapest, Hungary	Customer contact management center	23,000	July 2023
Budapest, Hungary	Customer contact management center	15,700	July 2027
Miskolc, Hungary	Customer contact management center	7,000	August 2016
Miskolc, Hungary	Customer contact management center	2,800	No expiration
Edinburgh, Scotland	Customer contact management center/Office /Headquarters	35,900 17,800	September 2019 March 2008
Turku, Finland	Customer contact management center	12,500	February 2008
Bochum, Germany	Customer contact management center	45,700	July 2007
Pasewalk, Germany	Customer contact management center	46,100	March 2009
Wilhelmshaven, Germany (two)	Customer contact management centers	76,000	March 2009
Johannesburg, South Africa	Customer contact management center	33,000	March 2025
Ed, Sweden	Customer contact management center	44,000	October 2009
Sveg, Sweden	Customer contact management center	35,000	May 2007
Prato, Italy	Customer contact management center	10,000	October 2022
Shannon, Ireland	Customer contact management center	66,000	March 2013
Lugo, Spain	Customer contact management center	21,400	June 2007
La Coruña, Spain	Customer contact management center	32,300	December 2023
Kosice, Slovakia	Customer contact management center	11,400	December 2024
Galashiels, Scotland	Fulfillment center	126,700	Company owned
Galashiels, Scotland	Fulfillment center	6,400	June 2007
Upplands Vasby, Sweden	Fulfillment center and Sales office	23,500	October 2007
Turku, Finland	Fulfillment center	26,000	March 2008
Frankfurt, Germany	Sales office	1,700	September 2007
Madrid, Spain	Office	800	December 2011

(1) *Idle facility.*

(2) *Considered part of the Toronto, Ontario, Canada customer contact management center.*

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Item 3. Legal Proceedings

From time to time we are involved in legal actions arising in the ordinary course of business. With respect to these matters, we believe 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.

One of our 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 us approximating $0.8 million. In order to appeal the sanctions through the court system, we issued a bank guarantee. We believe that the sanctions made in connection with this matter are without merit, and intend to vigorously pursue the reversal of the proposed sanctions. We have recorded these amounts in Deferred Charges and Other Assets in the accompanying Consolidated Balance Sheets as of December 31, 2006. We have not accrued any amounts related to these claims under SFAS No. 5, *Accounting for Contingencies* because we do 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.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the year covered by this report.

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PART II

Item 5. Market for the Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Securities

Our common stock is quoted on the NASDAQ Global Select Market under the symbol SYKE. The following table sets forth, for the periods indicated, certain information as to the high and low sale prices per share of our common stock as quoted on the NASDAQ Global Select Market.

	High	Low
Year ended December 31, 2006:		
Fourth Quarter	**$21.56**	**$16.10**
Third Quarter	**20.67**	**14.70**
Second Quarter	**18.16**	**14.01**
First Quarter	**14.75**	**11.80**
Year ended December 31, 2005:		
Fourth Quarter	$15.41	$11.95
Third Quarter	12.07	9.32
Second Quarter	9.60	6.57
First Quarter	8.50	6.38

Holders of our common stock are entitled to receive dividends out of the funds legally available when and if declared by the Board of Directors. We have not declared or paid any cash dividends on our common stock in the past and do not anticipate paying any cash dividends in the foreseeable future.

As of February 23, 2006, there were 1,207 holders of record of the common stock. We estimate there were approximately 7,668 beneficial owners of our common stock.

Below is a summary of stock repurchases for the quarter ended December 31, 2006 (in thousands, except average price per share.) See Note 17, Earnings Per Share, to the 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 (1)	Maximum Number Of Shares That May Yet Be Purchased Under Plans or Programs
October 1, 2006 October 31, 2006			1,644	1,356
November 1, 2006 November 30, 2006			1,644	1,356
December 1, 2006 December 31, 2006			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.

Five-Year Stock Performance Graph

The following graph presents a comparison of the cumulative shareholder return on the common stock with the cumulative total return on the Nasdaq Computer and Data Processing Services Index, the Nasdaq Telecommunications Index, the Russell 2000 Index, the S&P Small Cap 600 and the SYKES Peer Group (as defined below). The SYKES Peer Group is comprised of publicly traded companies that derive a substantial portion of their revenues from call center, customer care business, have similar business models to SYKES, and are those most commonly compared to SYKES by industry analysts following SYKES. This graph assumes that $100 was invested on December 31, 2001 in SYKES common stock, the Nasdaq Computer and Data Processing Services Index, the Nasdaq Telecommunications Index, the Russell 2000 Index, the S&P Small Cap 600 and SYKES Peer Group, including reinvestment of dividends.

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Comparison of Five-Year Cumulative Total Return

SYKES PEER GROUP

Name	Ticker Symbol
APAC Customer Service, Inc.	APAC
Convergys Corp.	CVG
ICT Group, Inc.	ICTG
Sitel Corp.	SWW
Startek, Inc.	SRT
TeleTech Holdings, Inc.	TTEC

We removed West Corporation (Ticker: WSTC) from the SYKES Peer Group in order to make the price performance comparables relevant, given the completion of WSTC s recapitalization in October 2006. As a result of the recapitalization, WSTC no longer has publicly-traded shares on the NASDAQ Stock Market. Similarly, given Sitel s (Ticker: SWW) sale to ClientLogic in a going-private transaction approved on January 12, 2007, it will be removed from the SYKES Peer Group next year. Conversely, we added S&P Small Cap 600 Index to the performance graph due to SYKES inclusion in the Index on August 2, 2006.

There can be no assurance that SYKES stock performance will continue into the future with the same or similar trends depicted in the graph above. SYKES does not make or endorse any predictions as to the future stock performance.

The information contained in the Stock Performance Graph section shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Exchange Act of 1934.

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Item 6. Selected Financial Data

Selected Financial Data

The following selected financial data has been derived from our consolidated financial statements. The information below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and our Consolidated Financial Statements and related notes.

	Years Ended December 31,				
(In thousands, except per share data)	**2006**	**2005**	**2004**	**2003**	**2002**
INCOME STATEMENT DATA [1] **:**					
Revenues	**$574,223**	$494,918	$466,713	$480,359	$452,737
Income (loss) from operations [1,2,3,4,5,6]	**45,158**	26,331	12,597	11,368	(11,295)
Net income (loss) [1,2,3,4,5,6]	**42,323**	23,408	10,814	9,305	(18,631)
Net income (loss) per basic share [1,2,3,4,5,6]	**1.06**	0.60	0.27	0.23	(0.46)
Net income (loss) per diluted share [1,2,3,4,5,6]	**1.05**	0.59	0.27	0.23	(0.46)
BALANCE SHEET DATA [1,7] :					
Total assets	$**415,573**	$331,185	$312,526	$318,175	$296,841
Shareholders equity	**291,473**	226,090	210,035	200,832	182,345

(1) The amounts for 2006 include the Argentine acquisition on July 3, 2006

(2) The amounts for 2006 include a $13.9 million net gain on the sale of facilities and $0.4 million of charges associated with the impairment of long-lived assets.

(3) The amounts for 2005 include a $1.8 million net gain on the sale of facilities, a $0.3 million reversal of restructuring and other

charges and $0.6 million of charges associated with the impairment of long-lived assets.

(4) *The amounts for 2004 include a $7.1 million net gain on the sale of facilities, a $5.4 million net gain on insurance settlement, a $0.1 million reversal of restructuring and other charges and $0.7 million of charges associated with the impairment of long-lived assets.*

(5) *The amounts for 2003 include a $2.1 million net gain on the sale of facilities and a $0.6 million reversal of restructuring and other charges.*

(6) *The amounts for 2002 include $20.8 million of restructuring and other charges, $1.5 million of charges associated with the impairment of long-lived*

assets and a $1.6 million net gain on the sale of facilities.

(7) *The amounts for 2002 include $13.8 million of charges associated with the litigation settlement.*

(8) *SYKES has not declared cash dividends per common share for any of the five years presented.*

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following should be read in conjunction with the Consolidated Financial Statements and the notes thereto that appear elsewhere in this document. The following discussion and analysis compares the year ended December 31, 2006 (2006) to the year ended December 31, 2005 (2005), and 2005 to the year ended December 31, 2004 (2004).

The following discussion and analysis and other sections of this document contain forward-looking statements that involve risks and uncertainties. Words such as may, expects, projects, anticipates, intends, plans, believes, seeks, estimates, 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. Future events and actual results could differ materially from the results reflected in these forward-looking statements, as a result of certain of the factors set forth below and elsewhere in this analysis and in this Form 10-K for the year ended December 31, 2006 in Item 1.A.-Risk Factors.

Overview

We provide outsourced customer contact management services with an emphasis on inbound technical support and customer service, which represented 95.2% of consolidated revenues in 2006, delivered through multiple communication channels encompassing phone, e-mail, Web and chat. Revenue from technical support and customer service, provided through our customer contact management centers, is recognized as services are rendered. These services are billed on an amount per e-mail, a fee per call, a rate per minute or on a time and material basis. Revenue from fulfillment services is generally billed on a per unit basis.

We also provide a range of enterprise support services for our client s internal support operations, from technical staffing services to outsourced corporate help desk services. Revenues usually are billed on a time and material basis, generally by the minute or hour, and revenues generally are recognized as the services are provided. Revenues from fixed price contracts, generally with terms of less than one year, are recognized using the percentage-of-completion method. We have not experienced material losses due to fixed price contracts, which do not represent a significant majority of our revenue, and do not anticipate a significant increase in revenue derived from such contracts in the future.

Direct salaries and related costs include direct personnel compensation, severance, statutory and other benefits associated with such personnel and other direct costs associated with providing services to customers. General and administrative expenses include administrative, sales and marketing, occupancy, depreciation and amortization, and other costs.

Recognition of income associated with grants from local or state governments of land and the acquisition of property, buildings and equipment is deferred and recognized as a reduction of depreciation expense included within general and administrative costs over the corresponding useful lives of the related assets. Amounts received in excess of the cost of the building are allocated to equipment and, only after the grants are released from escrow, recognized as a reduction of depreciation expense over the weighted average useful life of the related equipment, which approximates five years. Deferred property and equipment grants, net of amortization, totaled $10.8 million and $18.1 million at December 31, 2006 and 2005, respectively, a decrease of $7.3 million. This decrease resulted from the sale of four third party leased U.S. customer contact management centers located in Palatka, Florida, Pikeville, Kentucky, Ada, Oklahoma, and Manhattan, Kansas.

The net (gain) loss on disposal of property and equipment includes the net gain on the sale of the four aforementioned centers in 2006 and various other centers in 2005 in addition to the net (gain) loss on the disposal of property and equipment.

The net gain on insurance settlement includes the insurance proceeds received for damage to our Marianna, Florida customer contact management center in September 2004.

Restructuring and other charges (reversals) consist of reversals of certain accruals related to the 2002, 2001 and 2000 restructuring plans.

Impairment of long-lived assets charges of $0.4 million in 2006 related to $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. Impairment of long-lived assets charges of $0.6 million in 2005 relate to an asset impairment charge of $0.1 million in India related to the plan of migration of call volumes to other facilities and a $0.5 million asset impairment charge related to the impairment and subsequent sale of property and equipment located in the United States. Impairment of long-lived assets charges of $0.7 million in 2004 relate to certain property and equipment in Bangalore, India as a result of the previously mentioned plan of migration.

Interest income primarily relates to interest earned on cash and cash equivalents and interest on foreign tax refunds.

Interest expense primarily includes commitment fees charged on the unused portion of our credit facility and interest costs related to a foreign income tax settlement.

Income from rental operations, net is generated from the leasing of several U.S. facilities.

Foreign currency transaction gains and losses generally result from exchange rate fluctuations on intercompany transactions and the revaluation of cash and other current assets that are settled in a currency other than functional currency.

Our effective tax rate for the periods presented reflects the effects of state income taxes, net of federal tax benefit, tax holidays, valuation allowance changes, foreign rate differentials, foreign withholding and other taxes, and permanent differences.

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Results of Operations

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain items reflected in our Statements of Operations:

	Years Ended December 31,		
	2006	**2005**	**2004**
PERCENTAGES OF REVENUES:			
Revenues	**100.0%**	100.0%	100.0%
Direct salaries and related costs	**63.7**	62.6	64.4
General and administrative	**30.8**	32.4	35.4
Net gain on disposal of property and equipment	**(2.4)**	(0.3)	(1.5)
Net gain on insurance settlement			(1.2)
Reversals of restructuring and other charges		(0.1)	
Impairment of long-lived assets		0.1	0.2
Income from operations	**7.9**	5.3	2.7
Interest income	**1.2**	0.5	0.5
Interest expense	**(0.1)**	(0.1)	(0.1)
Income from rental operations, net	**0.2**	0.2	
Other income (expense)	**(0.2)**		0.3
Income before provision for income taxes	**9.0**	5.9	3.4
Provision for income taxes	**1.6**	1.2	1.1
Net income	**7.4%**	4.7%	2.3%

The following table sets forth, for the periods indicated, certain data derived from our Consolidated Statements of Operations (in thousands):

	Years Ended December 31,		
	2006	**2005**	**2004**
Revenues	**$ 574,223**	$ 494,918	$ 466,713
Direct salaries and related costs	**365,602**	309,604	300,600
General and administrative	**176,701**	160,470	165,232
Net gain on disposal of property and equipment	**(13,683)**	(1,778)	(6,915)
Net gain on insurance settlement			(5,378)
Reversals of restructuring and other charges		(314)	(113)
Impairment of long-lived assets	**445**	605	690
Income from operations	**45,158**	26,331	12,597
Interest income	**6,785**	2,559	2,445
Interest expense	**(674)**	(667)	(773)
Income from rental operations, net	**1,200**	940	151
Other income (expense)	**(1,010)**	(60)	1,441
Income before provision for income taxes	**51,459**	29,103	15,861
Provision for income taxes	**9,136**	5,695	5,047
Net income	**$ 42,323**	$ 23,408	$ 10,814

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

	Years Ended December 31,					
	2006		2005		2004	
Revenues:						
Americas	**$ 387,305**	**67.4%**	$ 318,173	64.3%	$ 283,253	60.7%
EMEA	**186,918**	**32.6%**	176,745	35.7%	183,460	39.3%
Consolidated	**$ 574,223**	**100.0%**	$ 494,918	100.0%	$ 466,713	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):

	Years Ended December 31,					
	2006		2005		2004	
Direct salaries and related costs:						
Americas	**$ 238,290**	**61.5%**	$ 189,598	59.6%	$ 178,720	63.1%
EMEA	**127,312**	**68.1%**	120,006	67.9%	121,880	66.4%
Consolidated	**$ 365,602**		$ 309,604		$ 300,600	
General and administrative:						
Americas	**$ 91,231**	**23.6%**	$ 80,155	25.2%	$ 85,923	30.3%
EMEA	**49,429**	**26.4%**	49,223	27.8%	51,045	27.8%
Corporate	**36,041**		31,092		28,264	
Consolidated	**$ 176,701**		$ 160,470		$ 165,232	

2006 Compared to 2005

Revenues

During 2006, we recognized consolidated revenues of $574.2 million, an increase of $79.3 million or 16.0% from $494.9 million of consolidated revenues for 2005.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 67.4%, or $387.3 million for 2006 compared to 64.3%, or $318.2 million, for 2005. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 32.6%, or $186.9 million for 2006 compared to 35.7% or $176.7 million for 2005.

The increase in Americas revenue of $69.1 million, or 21.7%, for 2006, compared to 2005, reflects a broad-based growth in client call volumes including new and existing client programs, within our offshore operations, Canada and the United States, as well as $15.1 million of revenue generated from our Argentine acquisition on July 3, 2006, and a $2.5 million revenue contribution from the KLA acquisition in Canada on March 1, 2005. Revenues from new and existing client programs in our offshore operations represented 36.9% of consolidated revenues for 2006 compared to 31.7% in 2005. The trend of generating more of our revenues from new and existing client programs in our offshore operations is likely to continue in 2007. While operating margins generated offshore are generally comparable or higher than 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.

The increase in EMEA s revenue of $10.2 million, or 5.7%, for 2006 reflects an increase in call volumes, including new and existing client programs partially offset by certain program expirations. Excluding a foreign currency benefit of $1.8 million, EMEA s revenues would have increased $8.4 million compared to last year.

Direct Salaries and Related Costs

Direct salaries and related costs increased $56.0 million or 18.1% to $365.6 million for 2006, from $309.6 million in 2005.

On a geographic segmentation, direct salaries and related costs from the Americas region increased $48.7 million or 25.7% to $238.3 million for 2006 from $189.6 million in 2005. This increase included $10.2 million of direct salaries and related costs from our newly acquired Argentina operations primarily consisting of compensation costs. Direct salaries and related costs from the EMEA region increased $7.3 million or 6.1% to $127.3 million for 2006 from $120.0 million in 2005. While changes in foreign currency exchange rates positively impacted revenues in EMEA, they negatively impacted direct salaries and related costs in 2006 compared to 2005 by approximately $1.2 million.

In the Americas region, as a percentage of revenues, direct salaries and related costs increased to 61.5% in 2006

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from 59.6% in 2005. This increase was primarily attributable to higher compensation costs, including training costs associated with the ramp up of business in our offshore and U.S. operations, and higher auto tow claims costs in Canada, partially offset by lower telephone costs.

In the EMEA region, as a percentage of revenues, direct salaries and related costs increased to 68.1% in 2006 from 67.9% in 2005. This increase was primarily attributable to higher compensation costs and other billable direct costs.

General and Administrative

General and administrative expenses increased $16.2 million or 10.1% to $176.7 million for 2006, from $160.5 million in 2005.

On a geographic segmentation, general and administrative expenses from the Americas region increased $11.1 million or 13.8% to $91.2 million for 2006 from $80.1 million in 2005. This increase included $4.1 million of general and administrative expenses from our newly acquired Argentina operations primarily consisting of depreciation and amortization and compensation costs. General and administrative expenses from the EMEA region increased $0.2 million or 0.4% to $49.5 million for 2006 from $49.3 million in 2005. While changes in foreign currency exchange rates positively impacted revenues in EMEA, they negatively impacted general and administrative expenses in 2006 compared to 2005 by approximately $0.5 million. Corporate general and administrative expenses increased $4.9 million or 15.9% to $36.0 for 2006 from $31.1 million. This increase was primarily attributable to higher compensation costs, including $2.5 million associated with our stock-based compensation plans, and a $2.0 million charitable contribution partially offset by lower depreciation expense, lease and equipment maintenance and telephone costs.

In the Americas region, as a percentage of revenues, general and administrative expenses decreased to 23.6% in 2006 from 25.2% in 2005. This decrease was primarily attributable to lower depreciation expense, legal and professional fees, and lease and equipment maintenance partially offset by higher compensation and telephone costs.

In the EMEA region, as a percentage of revenues, general and administrative expenses decreased to 26.4% in 2006 from 27.8% in 2005. This decrease was primarily attributable to lower depreciation expense, telephone costs and a recovery of bad debts partially offset by higher compensation costs, lease and equipment maintenance, legal and professional fees and software maintenance.

Net Gain on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $13.7 million for 2006 was primarily a result of sale of four third party leased U.S. customer contact management centers located in Palatka, Florida, Pikeville, Kentucky, Ada, Oklahoma, and Manhattan, Kansas. This compares to a net gain on disposal of property and equipment of $1.8 million for 2005 which includes a $1.7 million net gain on the sale of our Greeley, Colorado facility and a $0.1 million net gain on the sale of a parcel of land in Klamath Falls, Oregon.

Reversal of Restructuring and Other Charges

Restructuring and other charges included a reversal of certain charges totaling $0.3 million in 2005 related to the remaining lease termination and closure costs for two European customer contact management centers and one European fulfillment center. There were no restructuring charges in 2006.

Impairment of Long-Lived Assets

Impairment of long-lived assets charges of $0.4 million in 2006 related 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. Impairment of long-lived assets charges of $0.6 million in 2005 relate to an asset impairment charge of $0.1 million in India related to the plan of migration of call volumes to other facilities and a $0.5 million asset impairment charge related to the impairment and subsequent sale of property and equipment located in the United States.

Interest Income

Interest income increased to $6.8 million in 2006 from $2.6 million in 2005 reflecting interest income of $1.7 million on a foreign tax settlement as well as higher average levels of interest-bearing investments in cash and cash equivalents earning higher rates of interest income.

Interest Expense

Interest expense was unchanged at $0.7 million in 2006 as compared to 2005.

Income from Rental Operations, Net

Income from rental operations, net was $1.2 million in 2006 compared to $0.9 million in 2005. The increase of $0.3 million was primarily related to lower depreciation and maintenance costs of $0.6 million partially offset by lower rental income of $0.3 million as a result of the September 2006 sale of the four third party leased facilities.

Other Income and Expense

Other expense, net increased to $1.0 million in 2006 from $0.1 million in 2005. This increase was primarily attributable to an increase in foreign currency transaction losses, net of gains. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Income (Loss) in shareholders equity in the accompanying Consolidated Balance Sheets.

Provision (Benefit) for Income Taxes

The provision for income taxes of $9.1 million for 2006 was based upon pre-tax book income of $51.5 million, compared to the provision for income taxes of $5.7 million for the comparable 2005 period based upon pre-tax book income of $29.1 million. The effective tax rate was 17.8% for 2006 and 19.6% for the comparable 2005 period. This decrease in the effective tax rate resulted from a shift in our mix of earnings and the effects of permanent differences, valuation allowances, foreign withholding taxes, state income taxes, and foreign income tax rate differentials (including tax holiday jurisdictions). The effective tax rate of 19.6% for 2005 included the reversal of a $0.6 million beginning of the year valuation allowance. This reversal resulted from a favorable change in forecasted 2005 and 2006 book income for one EMEA legal entity, which provided sufficient evidence for current and future sources of taxable income.

Net Income

As a result of the foregoing, we reported income from operations for 2006 of $45.2 million, an increase of $18.8 million from 2005. This increase was principally attributable to a $79.3 million increase in revenues, a $11.9 million increase in net gain on disposal of property and equipment, $0.1 million decrease in asset impairment charges partially offset by a $56.0 million increase in direct salaries and related costs, a $16.2 million increase in general and administrative costs, and a $0.3 million decrease in reversals of restructuring and other charges. The $18.8 million increase in income from operations combined with a net increase in interest income, income from rental operations, net and other income of approximately $3.5 million was partially offset by a $3.4 million higher tax provision, resulting in net income of $42.3 million for 2006, an increase of $18.9 million compared to 2005.

2005 Compared to 2004

Revenues

During 2005, we recognized consolidated revenues of $494.9 million, an increase of $28.2 million or 6.0% from $466.7 million of consolidated revenues for 2004.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 64.3%, or $318.2 million for 2005 compared to 60.7%, or $283.3 million, for 2004. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 35.7%, or $176.7 million for 2005 compared to 39.3% or $183.4 million for 2004.

The increase in Americas revenue of $34.9 million, or 12.3%, for 2005, compared to 2004, reflects a broad-based

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growth in client call volumes within our offshore operations and Canada, including new and existing client programs, a $3.5 million revenue contribution from the KLA acquisition on March 1, 2005 in Canada and a $1.5 million increase relating to a client contract pricing re-negotiation. The increase in the America s revenues was negatively impacted by the client-driven migration of call volumes from the United States to comparable or higher margin offshore operations, including Latin America and the Asia Pacific Rim, and the resulting mix-shift in revenues from the United States to offshore (each offshore seat generates roughly half the revenue dollar equivalence of a U.S. seat). Revenues from our offshore operations represented 31.7% of consolidated revenues in 2005 compared to 27.6% in 2004.

The decrease in EMEA s revenue of $6.7 million, or 3.7%, for 2005 reflects a decrease in call volumes and certain program expirations, partially offset by the benefit of a strengthened Euro of approximately $0.1 million compared to 2004. Excluding this foreign currency benefit, EMEA s revenues would have decreased $6.8 million compared with last year.

Direct Salaries and Related Costs

Direct salaries and related costs increased 9.0 million or 3.0% to $309.6 million for 2005, from $300.6 million in 2004.

On a geographic segmentation, direct salaries and related costs from the Americas region increased $10.9 million or 6.1% to $189.6 million for 2005 from $178.7 million in 2004. Direct salaries and related costs from the EMEA region decreased $1.9 million or 1.5% to $120.0 million for 2005 from $121.9 million in 2004. With the slight strengthening of the Euro in 2005 compared to 2004, there was no significant impact on direct salaries and related costs.

In the Americas region, as a percentage of revenues, direct salaries and related costs decreased to 59.6% in 2005 from 63.1% in 2004. This decrease was primarily attributable to lower compensation costs due to an overall reduction in U.S. customer call volumes from the client-driven migration of call volumes offshore and lower labor costs in offshore operations, as well as lower telephone costs. This decrease was partially offset by higher auto tow claims costs due to a higher membership base in our roadside assistance programs in Canada.

In the EMEA region, as a percentage of revenues, direct salaries and related costs increased to 67.9% in 2005 from 66.4% in 2004. This increase was primarily attributable to higher compensation costs.

General and Administrative

General and administrative expenses decreased $4.7 million or 2.9% to $160.5 million for 2005, from $165.2 million in 2004.

On a geographic segmentation, general and administrative expenses from the Americas region increased $5.8 million or 6.7% to $80.1 million for 2005 from $85.9 million in 2004. General and administrative expenses from the EMEA region decreased $1.8 million or 3.6% to $49.3 million for 2005 from $51.0 million in 2004. With the slight strengthening of the Euro in 2005 compared to 2004, there was no significant impact on general and administrative expenses. Corporate general and administrative expenses increased $2.8 million or 10.0% to $31.1 for 2005 from $28.3 million. This increase was primarily attributable to higher legal and professional fees primarily due to compliance costs related to the Sarbanes-Oxley Act, higher telephone and lease and equipment maintenance costs partially offset by lower compensation costs due to salary costs related to the former chairman s retirement as compared to 2004.

In the Americas region, as a percentage of revenues, general and administrative expenses decreased to 25.2% in 2005 from 30.3% in 2004. This decrease was primarily attributable to lower depreciation and amortization expense, lower compensation costs, lower lease costs and equipment maintenance partially offset by higher legal and professional fees primarily related to settlement of a contract dispute as compared 2004.

In the EMEA region, as a percentage of revenues, general and administrative expenses were unchanged at 27.8% in 2005 from 2004. Higher compensation costs were offset by lower depreciation expense and lease and equipment maintenance.

Net Gain on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $1.8 million for 2005 includes a $1.7 million net gain on the sale of our Greeley, Colorado facility and a $0.1 million net gain on the sale of a parcel of land in Klamath Falls, Oregon. This compares to a $6.9 million net gain on disposal of property and equipment in 2004, which includes a $2.8 million net gain on the sale of our Hays, Kansas facility, a $2.7 million net gain on the sale of our Klamath Falls, Oregon facility, a $0.1 million net gain on the sale of a parcel of land at our Pikeville, Kentucky facility and a $1.5 million net gain on the sale of our Eveleth, Minnesota facility, partially offset by a $0.2 million loss on disposal of property and equipment.

Net Gain on Insurance Settlement

In September 2004, the building and contents of our customer contact management center located in Marianna, Florida was severely damaged by Hurricane Ivan. Upon settlement with the insurer in December 2004, we recognized a net gain of $5.4 million after write-off of the property and equipment, which had a net book value of $3.4 million, net of the related deferred grants of $2.2 million. In December 2004, we donated the underlying land to the city with $0.1 million to assist with the site demolition and clean up of the property.

Reversal of Restructuring and Other Charges

Restructuring and other charges included a reversal of certain charges totaling $0.3 million and $0.1 in 2005 and 2004, respectively, related to the remaining lease termination and closure costs for two European customer contact management centers and one European fulfillment center.

Impairment of Long-Lived Assets

Impairment of long-lived assets charges of $0.6 million in 2005 relate to (1) an asset impairment charge of $0.1 million in India related to the plan of migration of call volumes of the customer contact management services and related operations in India to other more strategically-aligned facilities in the Asia Pacific region and (2) a $0.5 million asset impairment charge related to the impairment and subsequent sale of property and equipment located in the United States. Impairment of long-lived assets charges of $0.7 million in 2004 relate to certain property and equipment in Bangalore, India as a result of the previously mentioned plan of migration.

Interest Income

Interest income increased to $2.5 million in 2005 from $2.4 million in 2004 reflecting higher levels of average interest-bearing balances in cash and cash equivalents. The 2004 interest income included $0.8 million of interest received on a foreign income tax refund.

Interest Expense

Interest expense decreased slightly by $0.1 million to $0.7 million in 2005 as compared to 2004.

Income from Rental Operations, Net

Income from rental operations, net increased to $0.9 million in 2005 from $0.2 million in 2004 as a result of leasing of four customer contact management facilities during 2005 compared to leasing of one facility during 2004.

Other Income and Expense

Other income, net decreased to zero in 2005 from $1.4 million in 2004. This decrease was primarily attributable to a $1.3 million decrease in foreign currency translation gains, net of losses including $0.4 million related to the liquidation of a foreign entity and a $0.1 million decrease in other miscellaneous income. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Income (Loss) in shareholders equity in the accompanying Consolidated Balance Sheets.

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Provision (Benefit) for Income Taxes

The provision for income taxes of $5.7 million for 2005 was based upon pre-tax book income of $29.1 million, compared to the provision for income taxes of $5.1 million for the comparable 2004 period based upon pre-tax book income of $15.9 million. The effective tax rate was 19.6% for 2005 and 31.8% for the comparable 2004 period. This decrease in the effective tax rate resulted from a shift in our mix of earnings and the effects of permanent differences, valuation allowances, foreign withholding taxes, state income taxes, and foreign income tax rate differentials (including tax holiday jurisdictions). The effective tax rate of 19.6% for 2005 included the reversal of a $0.6 million beginning of the year valuation allowance. This reversal resulted from a favorable change in forecasted 2005 and 2006 book income for one EMEA legal entity, which provided sufficient evidence for current and future sources of taxable income.

Net Income

As a result of the foregoing, we reported income from operations for 2005 of $26.3 million, an increase of $13.7 million from 2004. This increase was principally attributable to a $28.2 million increase in revenues, a $4.7 million decrease in general and administrative costs and a $0.2 million increase in reversals of restructuring and other charges partially offset by a $9.0 million increase in direct salaries and related costs, a $5.1 million decrease in net gain on disposal of property and equipment, a $5.4 million decrease in net gain on insurance settlement and a $0.1 million increase in asset impairment charges. The $13.7 million increase in income from operations was partially offset by a net decrease in interest income, interest expense, income from rental operations, net and other income of $0.5 million and a $0.6 million higher tax provision, resulting in net income of $23.4 million for 2005, an increase of $12.6 million compared to 2004.

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Quarterly Results

The following information presents our unaudited quarterly operating results for 2006 and 2005. The data has been prepared on a basis consistent with the Consolidated Financial Statements included elsewhere in this Form 10-K, and include all adjustments, consisting of normal recurring accruals that we consider necessary for a fair presentation thereof.

(In thousands, except per share data)

	12/31/06	**9/30/06**	**6/30/06**	**3/31/06**	12/31/05	9/30/05	6/30/05	3/31/05
Revenues	**$ 158,628**	**$ 149,287**	**$ 135,221**	**$ 131,087**	$ 128,756	$ 122,596	$ 122,194	$ 121,372
Direct salaries and related costs[2]	**102,192**	**94,016**	**86,378**	**83,016**	80,902	75,247	76,026	77,429
General and administrative[3]	**46,092**	**47,281**	**42,333**	**40,995**	38,824	40,387	41,369	39,890
Net (gain) loss on disposal of property and equipment[4]	**173**	**(13,870)**	**5**	**9**	(35)	(47)	(1,627)	(69)
Restructuring and other charges (reversals) [5]							(56)	(258)
Impairment of long-lived assets[6]		**63**		**382**		605		
Income from operations	**10,171**	**21,797**	**6,505**	**6,685**	9,065	6,404	6,482	4,380
Interest income	**1,610**	**1,399**	**2,855**	**921**	894	719	496	450
Interest expense	**(211)**	**(187)**	**(183)**	**(93)**	(95)	(113)	(385)	(74)
Income from rental operations, net	**(20)**	**266**	**444**	**510**	593	337	114	(104)
Other income (expense)	**(655)**	**(147)**	**154**	**(362)**	(781)	335	704	(318)
Income before provision (benefit) for income taxes	**10,895**	**23,128**	**9,775**	**7,661**	9,676	7,682	7,411	4,334
Provision (benefit) for income taxes	**2,756**	**6,614**	**(1,996)**	**1,762**	1,080	812	2,434	1,369
Net income [1]	**$ 8,139**	**$ 16,514**	**$ 11,771**	**$ 5,899**	$ 8,596	$ 6,870	$ 4,977	$ 2,965
Net income per basic share[1,7]	**$ 0.20**	**$ 0.41**	**$ 0.30**	**$ 0.15**	$ 0.22	$ 0.17	$ 0.13	$ 0.08
Total weighted average basic shares	**40,282**	**40,181**	**39,900**	**39,451**	39,282	39,291	39,289	39,195
Net income per diluted share[1,7]	**$ 0.20**	**$ 0.41**	**$ 0.29**	**$ 0.15**	$ 0.22	$ 0.17	$ 0.13	$ 0.08
Total weighted average diluted shares	**40,559**	**40,497**	**40,251**	**39,819**	39,723	39,566	39,445	39,339

(1) *The quarters ended September 30, 2006 and December 31, 2006 include the operating*

results of the Argentina acquisition since July 3, 2006. See Note 2.

(2) *The quarters ended March 31, 2006 and December 31, 2005 include a $0.8 million and a $0.5 million charge for termination costs associated with exit activities in Germany, respectively. The quarter ended December 31, 2005 includes a $0.6 million year-end bonus accrual.*

(3) *The quarters ended December 31, 2006 and 2005 include a $0.9 million and a $0.5 million reversal of bad debt expense. The quarter ended December 31, 2005 includes a $0.4 million reversal of certain bonus accruals.*

(4) *The quarters ended September 30,*

2006, June 30, 2005 and December 31, 2005 include a net gain of $13.9 million related to the sale of four U.S. third party leased facilities, $1.7 million related to the sale of the Greeley, Colorado facility, and $0.1 million related to the sale of a parcel of land in Klamath Falls, Oregon, respectively.

(5) The quarters ended June 30, 2005 and March 31, 2005 include a reversal of restructuring and other charges of $0.1 million and $0.2 million, respectively.

(6) The quarters ended March 31, 2006 and September 30, 2005 include a $0.4 million and $0.6 million, charge associated with the impairment of long-lived assets, respectively.

(7) Net income (loss) per basic and diluted share are computed independently for each of the quarters presented and therefore may not sum to the total for the year.

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 purchase of up to three 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 2006, we did not repurchase common shares under the 2002 repurchase program.

During 2006, we generated $44.8 million in cash from operating activities, received $15.4 million from the sale of four third party leased U.S. customer contact management centers, $4.3 million in cash from issuance of stock, $2.4 million from excess tax benefit from stock-based compensation, $0.5 million from an employment grant and $0.1 million in cash from the sale of property and equipment. Further, we used $19.4 million in funds for capital expenditures, $17.4 million in funds for the purchase of Apex, $4.7 million to purchase investments (primarily restricted cash relating to the Apex acquisition) and $0.4 million to repay long-term debt assumed with the Apex acquisition resulting in a $31.0 million increase in available cash (including the favorable effects of international currency exchange rates on cash of $5.4 million).

Net cash flows provided by operating activities for 2006 were $44.8 million, compared to net cash flows provided by operating activities of $48.2 million for 2005. The $3.4 million decrease in net cash flows from operating activities was due to a $13.3 million net change in assets and liabilities and a $9.0 million decrease in non-cash reconciling items such as deferred income taxes and a net gain on disposal of property and equipment offset by an increase in net income of $18.9 million. This $13.3 million net change in assets and liabilities was principally a result of a $20.0 million increase in receivables, a $1.6 million increase in other assets partially offset by a $5.1 million increase in taxes payable, a $3.0 million increase in deferred revenue, and a $0.2 million increase in other liabilities.

Capital expenditures, which are generally funded by cash generated from operating activities and borrowings available under our credit facilities, were $19.4 million for 2006, compared to $9.9 million for 2005, an increase of $9.5 million. During 2006, approximately 35% of the capital expenditures were the result of investing in new and existing customer contact management centers, primarily offshore, and 65% was expended primarily for maintenance and systems infrastructure. In 2007, we anticipate capital expenditures in the range of $25.0 million to $30.0 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, 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 $50.0 million 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.

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 2.25%. 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 2.25%. In addition, a commitment fee of up to 0.50% 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, 2008, 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 2006 and 2005 and no outstanding balances as of December 31, 2006 and 2005 with $50.0 million availability under the Credit Facility. At December 31, 2006, we were in compliance with all loan requirements of the Credit Facility.

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At December 31, 2006, we had $158.6 million in cash, of which approximately $121.9 million was held in international operations and may be subject to additional taxes if repatriated to the United States.

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, anticipated levels of capital expenditures and contractual obligations for the foreseeable future and stock repurchases.

Off-Balance Sheet Arrangements and Other

At December 31, 2006, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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 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 Consolidated Balance Sheets with respect to any client contracts under which we have or may have unlimited liability.

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Contractual Obligations

The following table summarizes our contractual cash obligations at December 31, 2006, and the effect these obligations are expected to have on liquidity and cash flow in future periods (in thousands):

		Payments Due By Period			
	Total	Less Than 1 Year	1 3 Years	3 5 Years	After 5 Years
Operating leases [1]	$ 38,636	$ 11,475	$ 10,803	$ 5,144	$ 11,214
Purchase obligations [2]	8,715	6,747	1,968		
Other long-term liabilities [3]	3,463			8	3,455
Total contractual cash obligations	$ 50,814	$ 18,222	$ 12,771	$ 5,152	$ 14,669

(1) Amounts represent the expected cash payments of our operating leases as discussed in Note 18 to the Consolidated Financial Statements.

(2) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase

obligations exclude agreements that are cancelable without penalty.

(3) *Other long-term liabilities, which exclude deferred income taxes, represent the expected cash payments due under pension obligations and minority shareholders of certain subsidiaries.*

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.

We recognize revenue from services as the services are performed 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. Up-front fees received in connection with certain constracts are deferred and recognized over the service period of the respective contracts. Royalty revenue is recognized when a contract has been fully executed, the product has been delivered or provided, the license fees or rights are fixed and determinable, the collection of the resulting receivable is probable and there are no other contingencies. Revisions to these estimates, which could result in adjustments to fixed price contracts and estimated losses, are recorded in the period when such adjustments or losses are known or can be reasonably estimated. Product sales are recognized upon shipment to the customer and satisfaction of all obligations.

We recognize revenue from licenses of our software products and rights when the agreement has been executed, the product or right has been delivered or provided, collectibility is probable and the software license fees or rights are fixed and determinable. If any portion of the license fees or rights is subject to forfeiture, refund or other contractual contingencies, we defer revenue recognition until these contingencies have been resolved. Revenue from support and maintenance activities is recognized ratably over the term of the maintenance period and the unrecognized portion is recorded as deferred revenue.

Revenue from contracts with multiple-deliverables to include hardware, software, consulting and other services, or related contracts with the same client, are 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. Such criteria include whether a delivered item has value to the customer on a stand-alone basis, whether there is objective and reliable evidence of the fair value of the undelivered items and, if the arrangement includes a general right of return related to a delivered item, whether delivery of the undelivered item is considered probable and in our control. Fair value is the price of a deliverable when it is regularly sold on a stand-alone basis, which generally consists of vendor-specific objective evidence of fair value. If there is no evidence of the fair value for a delivered product or service, revenue is allocated first to the fair value of the undelivered product or service and then the residual revenue is allocated to the delivered product or service. If there is no evidence of the fair value for an undelivered product or service, the contract(s) is accounted for as a single unit of accounting, resulting in delay of revenue recognition for the delivered product or service until the undelivered product or service portion of the contract is complete. We recognize 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 we determine the allocation of revenue between deliverable elements, there are no further changes in the revenue allocation. In some cases, revenue may be recognized over the contract period in proportion to the level of service provided on a systematic and rational basis, using the proportional performance method. 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.

§ We maintain allowances for doubtful accounts of $2.5 million as of December 31, 2006, or 2.2% of 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 December 31, 2006, 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.

We have a contingent income tax liability of $4.2 million consisting of amounts for subsidiaries located in both the Americas and EMEA segments that is accounted for in Income taxes payable in the accompanying Consolidated Balance Sheets. The amount of the contingent liability is based on an estimate of the probable liability in accordance with SFAS No. 5 (SFAS 5) *Accounting for Contingencies* , using available evidence, including detailed analyses of the potential income tax issues, income tax assessments and notices of disallowance, consultation with independent outside tax and legal advisors and our historical experience in settling similar issues without additional income tax liability. Changes in our assumptions, estimates and judgments could impact our estimate of the probable contingent income tax liability, thus materially impacting our financial position and results of operations.

§ We review long-lived assets, which had a carrying value of $96.7 million as of December 31, 2006, including goodwill, intangibles, 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.

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Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 140 (SFAS 140), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS 155 on January 1, 2007 did not have a material impact on our financial condition, results of operations or cash flows.

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. FIN 48 is effective for fiscal years beginning after December 15, 2006. 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. 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 ending on or 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). The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for fiscal years ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of a company s year-end balance sheet date is effective for fiscal years ending after December 15, 2008. We adopted the recognition provisions of SFAS 158, which were effective on December 31, 2006, resulting 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 19 Pension and Other Post-Retirement Benefits, for further information.

In September 2006, the SEC issued Staff Accounting Bulletin No, 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides interpretive guidance on how the effects of the carryover or a reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors considered, is material. The adoption of SAB 108 on December 31, 2006 did not have a material impact on our financial condition, results of operations or cash flows.

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 a liability and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and the asset in collateral assignment split-dollar life insurance arrangements. 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.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency and Interest Rate 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. The principal foreign currency hedged has been the Euro using foreign currency contracts ranging in periods from one to three months. However, due to the strengthening Philippine peso against the U.S. dollar, in February 2007 the Company entered into a foreign currency contract to purchase Philippine pesos at a fixed price of $8.0 million to settle on March 30, 2007. Foreign currency contracts are accounted for on a mark-to-market basis, with realized and unrealized gains or losses recognized in the current period, as we have not historically designated our foreign currency contracts as accounting hedges. Unrealized and realized gains or losses related to these contracts for the three years ended December 31, 2006 were immaterial.

Our exposure to interest rate risk results from variable debt outstanding under our revolving credit facility. Based on our level of variable rate debt outstanding during the year ended December 31, 2006, a one-point increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would not have had a material impact on our annual interest expense.

At December 31, 2006, we had no debt outstanding at variable interest rates. We have not historically used derivative instruments to manage exposure to changes in interest rates.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are located beginning on page 48 and page 31 of this report, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As of December 31, 2006, 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 December 31, 2006, our disclosure controls and procedures were effective at the reasonable assurance level.

Management s Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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We assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, we used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We excluded Centro Interaccion Multimedia, S.A. (Apex) from our report on Internal Control over financial reporting as it was acquired on July 3, 2006. In relation to the consolidated financial results and position of the Company, Apex represented two percent of total assets, three percent of revenues and one percent of net income of the consolidated financial statements as of the year ended December 31, 2006.

Based on our assessment, management believes that, as of December 31, 2006, our internal control over financial reporting was effective.

Our independent auditors, an independent registered public accounting firm, have issued their attestation report on our assessment of our internal control over financial reporting. This report appears on page 39.

Changes to Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting during the quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Sykes Enterprises, Incorporated
Tampa, Florida

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, as included in Item 9A, *Controls and Procedures*, that Sykes Enterprises, Incorporated and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Centro Interacción Multimedia, S.A. (Apex), which was acquired on July 3, 2006 and whose financial statements constitute two percent of total assets, three percent of revenues, and one percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at Apex. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended

December 31, 2006 of the Company and our report dated March 13, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Certified Public Accountants
Tampa, Florida
March 13, 2007

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Item 9B. Other Information

None.

PART III

Items 10. through 14.

All information required by Items 10 through 14, with the exception of information on Executive Officers which appears in this report in Item 1 under the caption Executive Officers , is incorporated by reference to SYKES Proxy Statement for the 2007 Annual Meeting of Shareholders.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(1) Consolidated Financial Statements

The Index to Consolidated Financial Statements is set forth on page 48 of this report.

(2) Financial Statements Schedule

Schedule II Valuation and Qualifying Accounts is set forth on page 85 of this report.

(3) Exhibits:

Exhibit Number	Exhibit Description
2.1	Articles of Merger between Sykes Enterprises, Incorporated, a North Carolina Corporation, and Sykes Enterprises, Incorporated, a Florida Corporation, dated March 1, 1996. (1)
2.2	Articles of Merger between Sykes Enterprises, Incorporated and Sykes Realty, Inc. (1)
2.3	Shareholder Agreement dated December 11, 1997, by and among Sykes Enterprises, Incorporated and HealthPlan Services Corporation. (2)
2.4	Stock Purchase Agreement, dated September 1, 1998, between Sykes Enterprises, Incorporated and HealthPlan Services Corporation. (4)
2.5	Merger Agreement, dated as of June 9, 2000, among Sykes Enterprises, Incorporated, SHPS, Incorporated, Welsh Carson Anderson and Stowe, VIII, LP (WCAS) and Slugger Acquisition Corp. (9)
2.6	Stock Purchase Agreement, dated as of July 3, 2006, between SEI International Services, S.a.r.l., a Luxembourg corporation, and Sykes Enterprises, Incorporated Holdings B.V., a Netherlands corporation (collectively the Purchasers) and Antonio Marcelo Cid, an individual, Humberto Daniel Sahade, an individual, and AM Transport, LLC, a Delaware limited liability company (collectively the Sellers). (29)
3.1	Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (5)
3.2	Articles of Amendment to Articles of Incorporation of Sykes Enterprises, Incorporated, as amended. (6)
3.3	Bylaws of Sykes Enterprises, Incorporated, as amended. (21)
4.1	Specimen certificate for the Common Stock of Sykes Enterprises, Incorporated. (1)
10.1	1996 Employee Stock Option Plan. (1)*
10.2	Amended and Restated 1996 Non-Employee Director Stock Option Plan. (10)*
10.3	1996 Non-Employee Directors Fee Plan. (1)*
10.4	2004 Non-Employee Directors Fee Plan. (18)*

10.5	Form of Split Dollar Plan Documents. [(1)*]
10.6	Form of Split Dollar Agreement. [(1)*]
10.7	Form of Indemnity Agreement between Sykes Enterprises, Incorporated and directors & executive officers. [(1)]

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Exhibit Number	Exhibit Description
10.8	Tax Indemnification Agreement between Sykes Enterprises, Incorporated and John H. Sykes. (1)*
10.9	1997 Management Stock Incentive Plan. (3)*
10.10	1999 Employees Stock Purchase Plan. (7)*
10.11	2000 Stock Option Plan. (8)*
10.12	2001 Equity Incentive Plan. (11)*
10.13	Deferred Compensation Plan (21)*
10.14	2004 Non-Employee Director Stock Option Plan (17)*
10.15	Form of Restricted Share And Stock Appreciation Right Award Agreement dated as of March 29, 2006 (26)*
10.16	Form of Restricted Share And Bonus Award Agreement dated as of March 29, 2006 (26)*
10.17	Form of Restricted Share Award Agreement dated as of May 24, 2006 (28)*
10.18	Form of Restricted Share And Stock Appreciation Right Award Agreement dated as of January 2, 2007 (31)*
10.19	Form of Restricted Share Award Agreement dated as of January 2, 2007 (31)*
10.20	Amended and Restated Executive Employment Agreement dated as of October 1, 2001 between Sykes Enterprises, Incorporated and John H. Sykes. (13)*
10.21	Founder s Retirement and Consulting Agreement dated December 10, 2004 between Sykes Enterprises, Incorporated and John H. Sykes. (19)*
10.22	Stock Option Agreement dated as of January 8, 2002, between Sykes Enterprises, Incorporated and John H. Sykes. (13)*
10.23	Employment Agreement dated as of August 1, 2004 between Sykes Enterprises, Incorporated and Charles E. Sykes. (21)*
10.24	First Amendment to Employment Agreement dated as of July 28, 2005 between Sykes Enterprises, Incorporated and Charles E. Sykes. (25)*
10.25	Second Amendment to Employment Agreement dated as of January 3, 2006, between Sykes Enterprises, Incorporated and Charles E. Sykes. (24)*
10.26	Stock Option Agreement dated as of March 15, 2002 between Sykes Enterprises, Incorporated and Charles E. Sykes. (14)*

10.27	Stock Option Agreement (Performance Accelerated Option) dated as of March 15, 2002 between Sykes Enterprises, Incorporated and Charles E. Sykes. (14)*
10.28	Employment Agreement dated as of March 6, 2005, between Sykes Enterprises, Incorporated and W. Michael Kipphut. (20)*
10.29	Stock Option Agreement dated as of October 1, 2001, between Sykes Enterprises, Incorporated and W. Michael Kipphut. (13)*
10.30	Employment Agreement dated as of April 4, 2006, between Sykes Enterprises, Incorporated and Jenna R. Nelson. (27)*
10.31	Stock Option Agreement dated as of March 11, 2002 between Sykes Enterprises, Incorporated and Jenna R. Nelson. (14)*

Exhibit Number	Exhibit Description
10.32	Independent Subcontractor Agreement dated as of July 27, 2004 between Sykes Enterprises, Incorporated and Gerry L. Rogers. (21)*
10.33	First Amendment to Independent Subcontractor Agreement dated as of July 27, 2004 between Sykes Enterprises, Incorporated and Gerry L. Rogers. (21)*
10. 34	Stock Option Agreement dated as of March 11, 2002 between Sykes Enterprises, Incorporated and Gerry Rogers. (14)*
10.35	Stock Option Agreement dated as of October 1, 2001, between Sykes Enterprises, Incorporated and James T. Holder. (13)*
10.36	Amendment to Employment Agreement dated as of January 2, 2007, between Sykes Enterprises, Incorporated and James T. Holder. (32)*
10.37	Employment Agreement dated as of January 3, 2006, between Sykes Enterprises, Incorporated and William N. Rocktoff. (24)*
10.38	Stock Option Agreement dated as of March 18, 2002 between Sykes Enterprises, Incorporated and William Rocktoff. (14)*
10.39	Stock Option Agreement dated as of March 18, 2002 between Sykes Enterprises, Incorporated and William Rocktoff. (15)*
10.40	Employment Agreement dated as of January 2, 2007 between Sykes Enterprises, Incorporated and James Hobby, Jr. (32)*
10.41	Employment Agreement dated as of January 3, 2006, between Sykes Enterprises, Incorporated and Daniel L. Hernandez. (24)*
10.42	Employment Agreement dated as of September 13, 2005 between Sykes Enterprises, Incorporated and David L. Pearson. (23)*
10.43	Employment Agreement dated as of January 3, 2006 between Sykes Enterprises, Incorporated and Lawrence R. Zingale. (24)*
10.44	Credit Agreement Among Sykes Enterprises, Incorporated and Keybank National Association and BNP Paribas dated March 15, 2004. (17)
10.45	Amendment No. 1 to Credit Agreement Among Sykes Enterprises, Incorporated and Keybank National Association and BNP Paribas dated October 18, 2004. (21)
10.46	Amendment No. 2 to Credit Agreement Among Sykes Enterprises, Incorporated and Keybank National Association and BNP Paribas dated May 25, 2005. (22)
10.47	

	Real Estate Purchase and Sale Agreement Between Sykes Realty, Inc.(as Seller) and Sage Aggregation, LLC (as Purchaser) Concerning Certain Properties Known as The Sykes Portfolio dated as of September 13, 2006 [30]
14.1	Code of Ethics [16]
21.1	List of subsidiaries of Sykes Enterprises, Incorporated.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney relating to subsequent amendments (included on the signature page of this report).
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).

Exhibit Number	Exhibit Description
32.1	Certification of Chief Executive Officer, pursuant to Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to Section 1350.

*	*Indicates management contract or compensatory plan or arrangement*
(1)	*Filed as an Exhibit to the Registrant s Registration Statement on Form S-1 (Registration No. 333-2324) and incorporated herein by reference.*
(2)	*Filed as Exhibit 2.12 to the Registrant s Form 10-K filed with the Commission on March 16, 1998, and incorporated herein by reference.*
(3)	*Filed as Exhibit 10 to the Registrant s Form 10-Q filed with the Commission on July 28, 1998, and incorporated herein by reference.*
(4)	*Filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the Commission on September 25, 1998, and incorporated herein by reference.*
(5)	*Filed as Exhibit 3.1 to the Registrant s Registration Statement on Form S-3 filed with the Commission on October 23, 1997, and incorporated herein by reference.*
(6)	*Filed as Exhibit 3.2 to the Registrant s Form 10-K filed with the Commission on March 29, 1999, and incorporated herein by reference.*
(7)	*Filed as Exhibit 10.19 to the Registrant s Form 10-K filed with the Commission on March 29, 1999, and incorporated herein by reference.*
(8)	*Filed as Exhibit 10.23 to the Registrant s Form 10-K filed with the Commission on March 29, 2000, and incorporated herein by reference.*
(9)	*Filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the Commission on July 17, 2000, and incorporated herein by reference.*
(10)	*Filed as Exhibit 10.12 to Registrant s Form 10-Q filed with the Commission on May 7, 2001, and incorporated herein by reference.*
(11)	*Filed as Exhibit 10.32 to Registrant s Form 10-Q filed with the Commission on May 7, 2001, and incorporated herein by reference.*
(12)	*Filed as Exhibit 10.33 to Registrant s Form 10-Q filed with the Commission on August 14, 2001, and incorporated herein by reference.*
(13)	*Filed as an Exhibit to Registrant s Form 10-K filed with the Commission on March 15, 2002, and incorporated herein by reference.*

(14) *Filed as an Exhibit to Registrant s Form 10-Q filed with the Commission on May 10, 2002, and incorporated herein by reference.*

(15) *Filed as an Exhibit to Registrant s Form 10-K filed with the Commission on March 10, 2004, and incorporated herein by reference.*

(16) *Filed as an Exhibit to Registrant s Proxy Statement for the 2004 annual meeting of shareholders filed with the Commission April 6, 2004.*

(17) *Filed as an Exhibit to the Registrant s Current Report on Form 8-K filed with the Commission on March 29, 2004, and incorporated herein by reference.*