# SYKES ENTERPRISES INC

## FORM 10-Q
(Quarterly Report)

Filed 08/09/04 for the Period Ending 06/30/04

| | |
|---|---|
| Address | 400 NORTH ASHLEY DRIVE<br>TAMPA, FL 33602 |
| Telephone | 8132741000 |
| CIK | 0001010612 |
| Symbol | SYKE |
| SIC Code | 7373 - Computer Integrated Systems Design |
| Industry | Computer Networks |
| Sector | Technology |
| Fiscal Year | 12/31 |

**Table of Contents**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2004.

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from

_______________________________to_______________________________

Commission File No. 0-28274

# Sykes Enterprises, Incorporated

(Exact name of Registrant as specified in its charter)

| **Florida** | **56-1383460** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**400 North Ashley Drive, Tampa, FL 33602**

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [X] No [ ]

As of August 2, 2004, there were 39,220,471 outstanding shares of common stock.

**Sykes Enterprises, Incorporated and Subsidiaries**

**INDEX**

**PART I – FINANCIAL INFORMATION**

**Item 1 – Financial Statements and Independent Accountants' Report.**

**Sykes Enterprises, Incorporated and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**
(in thousands, except per share data)

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 70,598 | $ 92,085 |
| Receivables, net | 88,094 | 82,415 |
| Prepaid expenses and other current assets | 13,722 | 11,813 |
| Total current assets | 172,414 | 186,313 |
| Property and equipment, net | 102,552 | 107,194 |
| Goodwill, net | 5,035 | 5,085 |
| Deferred charges and other assets | 19,775 | 19,583 |
| | $299,776 | $318,175 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Current installments of long-term debt | $ 44 | $ 87 |
| Accounts payable | 11,742 | 17,706 |
| Accrued employee compensation and benefits | 29,720 | 30,869 |
| Income taxes payable | 1,668 | 4,921 |
| Other accrued expenses and current liabilities | 13,825 | 14,226 |
| Total current liabilities | 56,999 | 67,809 |
| Deferred grants | 24,850 | 27,369 |
| Deferred revenue | 24,322 | 19,835 |
| Other long-term liabilities | 2,193 | 2,330 |
| Total liabilities | 108,364 | 117,343 |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, $0.01 par value, 200,000 shares authorized; 43,818 and 43,771 shares issued | 438 | 438 |
| Additional paid-in capital | 163,840 | 163,511 |
| Retained earnings | 82,831 | 81,513 |
| Accumulated other comprehensive loss | (4,573) | (208) |
| | 242,536 | 245,254 |
| Treasury stock at cost; 4,596 shares and 3,557 shares | (51,124) | (44,422) |
| Total shareholders' equity | 191,412 | 200,832 |
| | $299,776 | $318,175 |

See accompanying notes to condensed consolidated financial statements.

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

| (in thousands, except for per share data) | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|---|---|---|---|---|
| Revenues | $113,450 | $118,949 | $234,493 | $236,235 |
| Operating expenses: | | | | |
| Direct salaries and related costs | 73,867 | 76,508 | 157,256 | 153,864 |
| General and administrative | 41,315 | 38,875 | 82,591 | 78,782 |
| Net (gain) loss on disposal of property and equipment | (1,394) | 107 | (4,135) | 175 |
| Total operating expenses | 113,788 | 115,490 | 235,712 | 232,821 |
| Income (loss) from operations | (338) | 3,459 | (1,219) | 3,414 |
| Other income: | | | | |
| Interest, net | 863 | 352 | 1,259 | 637 |
| Other | 1,030 | 56 | 1,843 | 101 |
| Total other income | 1,893 | 408 | 3,102 | 738 |
| Income before provision for income taxes | 1,555 | 3,867 | 1,883 | 4,152 |
| Provision for income taxes | 481 | 1,314 | 565 | 1,411 |
| Net income | $ 1,074 | $ 2,553 | $ 1,318 | $ 2,741 |
| Net income per share: | | | | |
| Basic | $ 0.03 | $ 0.06 | $ 0.03 | $ 0.07 |
| Diluted | $ 0.03 | $ 0.06 | $ 0.03 | $ 0.07 |
| Weighted average shares: | | | | |
| Basic | 39,882 | 40,350 | 40,045 | 40,365 |
| Diluted | 39,998 | 40,424 | 40,194 | 40,397 |

See accompanying notes to condensed consolidated financial statements.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Condensed Consolidated Statements of Changes in Shareholders' Equity**
**Six Months Ended June 30, 2003, Six Months Ended December 31, 2003 and**
**Six Months Ended June 30, 2004**
(Unaudited)

| (in thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2003 | 43,491 | $435 | $162,117 | $72,208 | $(11,101) | $(41,314) | $182,345 |
| Issuance of common stock | 59 | 1 | 162 | — | — | — | 163 |
| Purchase of treasury stock | — | — | — | — | — | (317) | (317) |
| Comprehensive income | — | — | — | 2,741 | 5,736 | — | 8,477 |
| Balance at June 30, 2003 | 43,550 | 436 | 162,279 | 74,949 | (5,365) | (41,631) | 190,668 |
| Issuance of common stock | 221 | 2 | 1,004 | — | — | — | 1,006 |
| Purchase of treasury stock | — | — | — | — | — | (2,791) | (2,791) |
| Tax benefit from exercise of stock options | — | — | 228 | — | — | — | 228 |
| Comprehensive income | — | — | — | 6,564 | 5,157 | — | 11,721 |
| Balance at December 31, 2003 | 43,771 | 438 | 163,511 | 81,513 | (208) | (44,422) | 200,832 |
| Issuance of common stock | 47 | — | 329 | — | — | — | 329 |
| Purchase of treasury stock | — | — | — | — | — | (6,702) | (6,702) |
| Comprehensive income (loss): | | | | | | | |
| Net income for the six months ended June 30, 2004 | — | — | — | 1,318 | — | — | 1,318 |
| Foreign currency translation adjustment | — | — | — | — | (3,731) | — | (3,731) |
| Less: reclassification adjustment for gain included in net income (net of tax of zero) | — | — | — | — | (634) | — | (634) |
| Total | | | | | | | (3,047) |
| **Balance at June 30, 2004** | **43,818** | **$438** | **$163,840** | **$82,831** | **$ (4,573)** | **$(51,124)** | **$191,412** |

See accompanying notes to condensed consolidated financial statements.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Condensed Consolidated Statements of Cash Flows**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

| **(in thousands)** | **2004** | **2003** |
|---|---|---|
| **Cash flows from operating activities** : | | |
| Net income | $ 1,318 | $ 2,741 |
| Depreciation and amortization | 15,807 | 16,246 |
| Deferred income tax provision | — | 462 |
| Net (gain) loss on disposal of property and equipment | (4,135) | 175 |
| Termination costs associated with exit activities | 1,684 | — |
| Foreign exchange gain on liquidation of a foreign entity | (680) | — |
| Bad debt expense | 50 | 289 |
| Changes in assets and liabilities: | | |
| Receivables | (11,220) | (11,401) |
| Prepaid expenses and other current assets | (2,047) | (3,606) |
| Deferred charges and other assets | (164) | (416) |
| Accounts payable | (5,850) | 131 |
| Income taxes receivable/ payable | 912 | 6,614 |
| Accrued employee compensation and benefits | (843) | (4,016) |
| Other accrued expenses and current liabilities | (553) | (1,751) |
| Deferred revenue | 4,606 | (1,233) |
| Other long-term liabilities | (349) | 7 |
| Net cash (used for) provided by operating activities | (1,464) | 4,242 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (16,861) | (12,445) |
| Proceeds from sale of facilities | 6,334 | — |
| Proceeds from sale of property and equipment | 56 | 29 |
| Net cash used for investing activities | (10,471) | (12,416) |
| **Cash flows from financing activities:** | | |
| Paydowns under revolving line of credit agreements | — | (1,600) |
| Borrowings under revolving line of credit agreements | — | 1,600 |
| Payments of long-term debt | (42) | (21) |
| Proceeds from issuance of stock | 329 | 163 |
| Purchase of treasury stock | (6,702) | (317) |
| Net cash used for financing activities | (6,415) | (175) |
| **Effects of exchange rates on cash** | (3,137) | 4,251 |
| **Net decrease in cash and cash equivalents** | (21,487) | (4,098) |
| Cash and cash equivalents – beginning | 92,085 | 79,480 |
| Cash and cash equivalents – ending | $ 70,598 | $ 75,382 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during period for: | | |
| Interest | $ 91 | $ 291 |
| Income taxes | $ 5,027 | $ 5,975 |

See accompanying notes to condensed consolidated financial statements.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

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

**Note 1 – Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In addition, certain reclassifications have been made for consistent presentation. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2004. For further information, refer to the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission ("SEC").

**Stock-Based Compensation** - The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, " *Accounting for Stock-Based Compensation* ." Under SFAS No. 123, companies have the option to measure compensation costs for stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, " *Accounting for Stock Issued to Employees* " ("APB No. 25"). Under APB No. 25, compensation expense is generally not recognized when both the exercise price is the same as the market price and the number of shares to be issued is set on the date the employee stock option is granted. Since employee stock options are granted on this basis and the Company has chosen to use the intrinsic value method, no compensation expense is recognized for stock option grants.

As discussed in Note 10, Non-Employee Director Fee Plan, the Company applies variable plan accounting, in accordance with APB No. 25, for grants of common stock units issued under the 2004 Non-Employee Director Fee Plan and recognizes compensation cost over the vesting period.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

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

**Stock-Based Compensation** (continued)

If the Company had elected to recognize compensation expense for the issuance of options to employees of the Company based on the fair value method of accounting prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts as follows (in thousands except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Net Income:** | | | | |
| Net income as reported | $1,074 | $2,553 | $1,318 | $ 2,741 |
| Pro forma compensation expense, net of tax | (246) | (483) | (498) | (1,141) |
| Pro forma net income | $ 828 | $2,070 | $ 820 | $ 1,600 |
| **Net Income Per Share:** | | | | |
| Basic, as reported | $ 0.03 | $ 0.06 | $ 0.03 | $ 0.07 |
| Basic, pro forma | $ 0.02 | $ 0.05 | $ 0.02 | $ 0.04 |
| Diluted, as reported | $ 0.03 | $ 0.06 | $ 0.03 | $ 0.07 |
| Diluted, pro forma | $ 0.02 | $ 0.05 | $ 0.02 | $ 0.04 |

The pro forma amounts were determined using the Black-Scholes valuation model with the following key assumptions: (i) a discount rate of 2.0% for 2003 (no options were issued in 2004); (ii) a volatility factor of 83.91% for 2003 based upon the average trading price of the Company's common stock since it began trading on the NASDAQ National Market; (iii) no dividend yield; and (iv) an average expected option life of three years in 2003.

**Property and Equipment -** The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with SFAS No. 144, " *Accounting for the Impairment or Disposal of Long-Lived Assets* ". An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets.

Currently, the Company has closed several customer contact management centers, which are held for sale, and expects it may close additional centers in 2004 as a result of the client migration of call volumes from the U.S. to the Company's offshore operations (Latin America, India and the Asia Pacific Rim) and the overall reduction in customer call volumes in the United States and Europe. As of June 30, 2004, the Company determined that its property and equipment, including those at the previously referenced customer contact management centers, were not impaired. As of June 30, 2004, certain assets of these closed centers, with a carrying value of $10.3 million and included in "Property and equipment, net" in the accompanying Condensed Consolidated Balance Sheet, are held for sale (including the Hays, Kansas facility sold on July 9, 2004). The carrying value of these assets is offset by the related "Deferred grants" of $7.6 million. These assets, net of the related grants, are no longer depreciated or amortized as of June 30, 2004. Property and equipment is classified as held for sale in the period in which management commits to a plan to sell the asset, the asset is available for immediate sale in its present condition, an active program to locate a buyer and other

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

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

**Property and Equipment** (continued)

actions required to complete the plan to sell the asset have been initiated, the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, it is probable that the asset will be sold in a reasonable period of time, and it is unlikely that significant changes to the plan to sell the asset will be made or that the plan will be withdrawn.

On December 31, 2003, the Company sold the land and building related to its Eveleth, Minnesota facility for $2.3 million, for which the Company received $0.3 million cash and a $2.0 million note receivable, resulting in a net pre-tax gain of $1.7 million to be recognized over the term of the note using the installment sales method of accounting. During the six months ended June 30, 2004, the Company received the remaining balance of the $2.0 million note receivable. Accordingly, the Company recognized the remaining $1.5 million of the $1.7 million net pre-tax gain on the sale of the Eveleth facility, which is included in “Net (gain) loss on disposal of property and equipment” in the accompanying 2004 Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2004, respectively. The remaining $0.2 million of the net pre-tax gain was recognized in 2003.

On January 15, 2004, the Company sold the land, building and its contents related to its Klamath Falls, Oregon facility for $4.0 million in cash, resulting in a net pre-tax gain of $2.7 million in the first quarter of 2004. The net book value of the facilities of $2.3 million was offset by the related deferred grants of $1.0 million. On March 31, 2004, the Company sold a parcel of land at its Pikeville, Kentucky facility for $0.2 million in cash, resulting in a net pre-tax gain of $0.1 million in the first quarter of 2004. The net pre-tax gain on the sale of the Klamath facility of $2.7 million and the net pre-tax gain on the sale of the land at the Pikeville facility of $0.1 million are included in “Net gain (loss) on disposal of property and equipment” in the accompanying Condensed Consolidated Statement of Operations for the six months ended June 30, 2004.

On July 9, 2004, the Company sold the land, building and its contents related to its Hays, Kansas facility for $3.0 million cash, resulting in a net pre-tax gain of $2.8 million in the third quarter of 2004. The net book value of the facilities of $1.5 million was offset by the related deferred grants of $1.3 million.

On June 8, 2004, the Company leased the land, building and its contents related to its Manhattan, Kansas facility to an unrelated third party effective August 1, 2004 for a period of 5 years, cancelable by the lessee at the end of each year for varying penalties not exceeding one year’s rent. As of June 30, 2004, the leased property consists of the following (in thousands):

| | Amount |
|---|---|
| Buildings | $ 78 |
| Equipment, furniture and fixtures | 3,839 |
| | 3,917 |
| Less accumulated depreciation | (3,664) |
| | $ 253 |

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

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

**Property and Equipment** (continued)

Future minimum rental payments, including penalties for failure to renew, to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2004 (in thousands):

| Year Ending December 31, | Amount |
|---|---|
| 2004 | $ 219 |
| 2005 | 831 |
| | $1,050 |

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

**Foreign Currency and Derivative Instruments** - Periodically, the Company enters into foreign currency forward exchange contracts with financial institutions to protect against currency exchange risks associated with existing assets and liabilities denominated in a foreign currency. These contracts require the Company to exchange currencies in the future at rates agreed upon at the contract's inception. The forward exchange contracts entered into by the Company have been primarily related to the Euro. A foreign currency forward exchange contract acts as an economic hedge as the gains and losses on these contracts typically offset or partially offset gains and losses on the assets, liabilities, and transactions being hedged. The Company does not designate its foreign exchange forward contracts as accounting hedges and does not hold or issue financial instruments for speculative or trading purposes. Foreign exchange forward contracts are accounted for on a mark-to-market basis, with unrealized gains or losses recognized as a component of income in the current period.

Unrealized gains or losses related to foreign exchange forward contracts for the three and six months ended June 30, 2004 were immaterial.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

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

**Recent Accounting Pronouncements –** In March 2004, the Financial Accounting Standards Board ("FASB") issued an exposure draft proposing to amend SFAS No. 123 and SFAS No. 95, " *Statement of Cash Flows* " which provide the current guidance on accounting for stock options and related items. The proposed standard would eliminate the choice of accounting for such transactions under APB No. 25 and instead generally require that share-based payments be accounted for using a fair-value based method beginning in 2005. The Company is currently evaluating the impact of this proposed standard on its financial condition, results of operations, and cash flows.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ." EITF 03-1 provides guidance on other-than-temporary impairment evaluations for securities accounted for under SFAS No. 115, " *Accounting for Certain Investments in Debt and Equity Securities* ," and SFAS No. 124, " *Accounting for Certain Investments Held by Not-for-Profit Organizations* ," and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step test to evaluate whether an investment is other-than-temporarily impaired. The recognition and measurement guidance is effective for reporting periods beginning after June 15, 2004. Certain quantitative and qualitative disclosures for SFAS No. 115 securities were effective for fiscal years ending after December 15, 2003. Disclosures for cost method investments are effective for fiscal years ending after June 15, 2004. The adoption of EITF No. 03-1 is not expected to have a material impact on the financial condition, results of operations or cash flows of the Company.

**Reclassifications —** Certain amounts from prior years have been reclassified to conform to the current year's presentation.

**Note 2 – Liquidation of a Foreign Subsidiary**

In April 2004, related to the Company's efforts to realign the EMEA cost structure with current business levels, the Company proposed a liquidation plan to close its operations in Turkey. Accordingly, the Company transferred one remaining contract to other Sykes' subsidiaries and shutdown the operations. In May 2004, the Company substantially completed the liquidation of its net investment in Turkey. As a result, the net effect of the translation gains and losses of $0.7 million was recognized as a gain on liquidation of a foreign entity and included in "Other income" in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2004. Due to the immaterial amounts, the financial data related to the Company's net investment in Turkey has not been classified as discontinued operations.

The Company's net losses from Turkey's operations, excluding the $0.7 million previously mentioned foreign exchange gain, were $0.1 million and $0.3 million for the three and six months ended June 30, 2004, respectively, and breakeven for the comparable 2003 periods. Turkey's net assets included in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003, were $0.2 million and $0.8 million, respectively.

**Note 3 – Accumulated Other Comprehensive Income (Loss)**

The Company presents data in the Condensed Consolidated Statements of Changes in Shareholders' Equity in accordance with SFAS No. 130, " *Reporting Comprehensive Income* ." SFAS No. 130 establishes rules for the reporting of comprehensive income and its components. Total comprehensive (loss) income was $(1.1) million and $6.9 million for the three months ended June 30, 2004 and 2003, respectively, and $(3.0) million and $8.5 million for the six months ended June 30, 2004 and 2003, respectively.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 4 – Termination Costs Associated with Exit Activities**

During the first quarter of 2004, the Company determined to reduce costs by consolidating and closing two European customer contact management centers in Germany. The plan was substantially completed by the end of the second quarter of 2004. In connection with these closures, the Company terminated 240 employees and accrued over their remaining service period, based on the fair value as of the termination date, an estimated liability for termination costs of $1.7 million. Termination costs of $0.9 million and $1.7 million are included in “Direct salaries and related costs” in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2004, respectively. As of June 30, 2004, the remaining liability of $0.1 million is included in “Accrued employee compensation and benefits” in the accompanying Condensed Consolidated Balance Sheet. Cash payments totaled $1.6 million during the three and six month periods ended June 30, 2004.

**Note 5 – Restructuring and Other Charges**

***2002 Charges***

In October 2002, the Company approved a restructuring plan to close and consolidate two U.S. and three European customer contact management centers, to reduce capacity within the European fulfillment operations and to write-off certain specialized e-commerce assets primarily in response to the October 2002 notification of the contractual expiration of two technology client programs in March 2003 with approximate annual revenues of $25.0 million. The restructuring plan was designed to reduce costs and bring the Company’s infrastructure in-line with the current business environment. Related to these actions, the Company recorded restructuring and other charges in the fourth quarter of 2002 of $20.8 million primarily for the write-off of certain assets, lease termination and severance costs. In connection with the 2002 restructuring, the Company reduced the number of employees by 470 during 2002 and by 330 during 2003. The plan was substantially completed by the end of 2003.

In connection with the contractual expiration of the two technology client contracts previously reported, the Company also recorded additional depreciation expense of $1.2 million in the fourth quarter of 2002 and $1.3 million in the first quarter of 2003 primarily related to a specialized technology platform which is no longer utilized upon the expiration of the contracts in March 2003.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 5 – Restructuring and Other Charges** (continued)

***2002 Charges*** (continued)

The following tables summarize the 2002 plan accrued liability for restructuring and other charges and related activity in 2004 and 2003 (in thousands):

| **Three Months ended June 30, 2004:** | **Balance at April 1, 2004** | **Cash Outlays** | **Other Non-Cash Changes (2)** | **Balance at June 30, 2004 (1)** |
|---|---|---|---|---|
| Severance and related costs | $ 106 | $ — | $ — | $ 106 |
| Lease termination costs | 243 | (99) | — | 144 |
| Other restructuring costs | 425 | — | 9 | 434 |
| Total | $ 774 | $ (99) | $ 9 | $ 684 |

| **Three Months ended June 30, 2003:** | **Balance at April 1, 2003** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2003** |
|---|---|---|---|---|
| Severance and related costs | $3,426 | $(1,954) | $ — | $1,472 |
| Lease termination costs | 1,660 | (611) | — | 1,049 |
| Other restructuring costs | 1,122 | (194) | — | 928 |
| Total | $6,208 | $(2,759) | $ — | $3,449 |

| **Six Months ended June 30, 2004:** | **Balance at January 1, 2004** | **Cash Outlays** | **Other Non-Cash Changes (2)** | **Balance at June 30, 2004 (1)** |
|---|---|---|---|---|
| Severance and related costs | $ 106 | $ — | $ — | $ 106 |
| Lease termination costs | 342 | (198) | — | 144 |
| Other restructuring costs | 545 | (120) | 9 | 434 |
| Total | $ 993 | $ (318) | $ 9 | $ 684 |

| **Six Months ended June 30, 2003:** | **Balance at January 1, 2003** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2003** |
|---|---|---|---|---|
| Severance and related costs | $4,696 | $(3,224) | $ — | $1,472 |
| Lease termination costs | 1,827 | (778) | — | 1,049 |
| Other restructuring costs | 1,852 | (924) | — | 928 |
| Total | $8,375 | $(4,926) | $ — | $3,449 |

(1) Included in “Other accrued expenses and current liabilities” in the accompanying Condensed Consolidated Balance Sheet, except $0.1 million of severance and related costs which is included in “Accrued employee compensation and benefits”.

(2) During 2004, the Company recorded additional severance and related costs associated with the closure of one of the European customer contact management centers.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 5 – Restructuring and Other Charges** (continued)

***2001 Charges***

In December 2001, in response to the economic slowdown and increasing demand for the Company’s offshore capabilities, the Company approved a cost reduction plan designed to improve efficiencies in its core business. As a result of the Company’s cost reduction plan, the Company recorded $16.1 million in restructuring, other and impairment charges during the fourth quarter of 2001. This included $14.6 million in charges related to the closure and consolidation of two U.S. customer contact management centers, two U.S. technical staffing offices, one European fulfillment center; the elimination of redundant property, leasehold improvements and equipment; lease termination costs associated with vacated properties and equipment; and severance and related costs. In connection with the fourth quarter 2001 restructuring, the Company reduced the number of employees by 230 during the first quarter of 2002. The restructuring charge also included $1.4 million for future lease obligations related to closed facilities. In connection with this restructuring, the Company also recorded a $1.5 million impairment charge related to the write-off of certain non-performing assets, including software and equipment no longer used by the Company. The plan was completed by the end of 2003.

The following table summarizes the 2001 plan accrued liability for restructuring and other charges and related activity in 2003 (none in the comparable 2004 period) (in thousands):

| Three Months ended June 30, 2003: | Balance at April 1, 2003 | Cash Outlays | Other Non-Cash Changes | Balance at June 30, 2003 |
|---|---|---|---|---|
| Severance and related costs | $103 | $ — | $— | $103 |
| Lease termination costs | 140 | (100) | — | 40 |
| Other restructuring costs | 32 | — | — | 32 |
| Total | $275 | $(100) | $— | $175 |

| Six Months ended June 30, 2003: | Balance at January 1, 2003 | Cash Outlays | Other Non-Cash Changes | Balance at June 30, 2003 |
|---|---|---|---|---|
| Severance and related costs | $153 | $ (50) | $— | $103 |
| Lease termination costs | 161 | (121) | — | 40 |
| Other restructuring costs | 32 | — | — | 32 |
| Total | $346 | $(171) | $— | $175 |

***2000 Charges***

The Company recorded restructuring and other charges during the second and fourth quarters of 2000 approximating $30.5 million. The second quarter 2000 restructuring and other charges approximating $9.6 million resulted from the Company’s consolidation of several European and one U.S. fulfillment center and the closing or consolidation of six technical staffing offices. Included in the second quarter 2000 restructuring and other charges was a $3.5 million lease termination payment to the Company’s former chairman (and majority shareholder) related to the termination of a ten-year operating lease agreement for the use of his private jet. As a result of the second quarter 2000 restructuring, the Company reduced the number of employees by 157 during 2000 and satisfied the remaining lease obligations related to the closed facilities during 2001.

The Company also announced, after a comprehensive review of operations, its decision to exit certain non-core, lower margin businesses to reduce costs, improve operating efficiencies and focus on its core competencies of technical support, customer service and consulting solutions. As a result, the Company recorded $20.9 million in restructuring and other charges during the fourth quarter of 2000 related to the closure of its U.S. fulfillment

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 5 – Restructuring and Other Charges** (continued)

***2000 Charges*** (continued)

operations, the consolidation of its Tampa, Florida technical support center and the exit of its worldwide localization operations. Included in the fourth quarter 2000 restructuring and other charges is a $2.4 million severance payment related to the employment contract of the Company's former President. In connection with the fourth quarter 2000 restructuring, the Company reduced the number of employees by 245 during the first half of 2001 and satisfied a significant portion of the remaining lease obligations related to the closed facilities during 2001.

The following tables summarize the 2000 plan accrued liability for restructuring and other charges and related activity in 2004 and 2003 (in thousands):

| **Three Months Ended June 30, 2004:** | **Balance at April 1, 2004** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2004** |
|---|---|---|---|---|
| Severance and related costs | $477 | $(134) | $ — | $343 (1) |
| Lease termination costs | — | — | — | — |
| Total | $477 | $(134) | $ — | $343 |

| **Three Months ended June 30, 2003:** | **Balance at April 1, 2003** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2003** |
|---|---|---|---|---|
| Severance and related costs | $ 950 | $(125) | $ — | $825 |
| Lease termination costs | 120 | — | — | 120 |
| Total | $1,070 | $(125) | $ — | $945 |

| **Six Months Ended June 30, 2004:** | **Balance at January 1, 2004** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2004** |
|---|---|---|---|---|
| Severance and related costs | $588 | $(245) | $ — | $343 (1) |
| Lease termination costs | — | — | — | — |
| Total | $588 | $(245) | $ — | $343 |

| **Six Months ended June 30, 2003:** | **Balance at January 1, 2003** | **Cash Outlays** | **Other Non-Cash Changes** | **Balance at June 30, 2003** |
|---|---|---|---|---|
| Severance and related costs | $1,053 | $(228) | $ — | $825 |
| Lease termination costs | 120 | — | — | 120 |
| Total | $1,173 | $(228) | $ — | $945 |

(1) Included in "Accrued employee compensation and benefits" in the accompanying Condensed Consolidated Balance Sheet.

**Note 6 – Borrowings**

On March 15, 2004, the Company entered into a $50.0 million revolving credit facility with a group of lenders (the "Credit Facility"), 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.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 6 – Borrowings** (continued)

The Credit Facility, which includes certain financial covenants, may be used for general corporate purposes including strategic acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Credit Facility, including the multi-currency subfacility, accrues interest, at the Company's option, at (a) the Base Rate (defined as the higher of the lender's prime rate or the Federal Funds rate plus 0.50%) plus an applicable margin up to 0.50%, or (b) the London Interbank Offered Rate ("LIBOR") plus an applicable margin up to 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, 2007, are secured by a pledge of 65% of the stock of each of the Company's active direct foreign subsidiaries, or alternatively for any such subsidiary, a pledge of all indebtedness of such subsidiary (and its subsidiaries) to the Company. The Credit Facility prohibits the Company from incurring additional indebtedness, subject to certain specific exclusions. There were no outstanding balances on the Credit Facility as of June 30, 2004.

**Note 7 – Income Taxes**

The Company's effective tax rate was 30.0% and 34.0% for the six months ended June 30, 2004 and 2003, respectively. The Company's effective tax rate differs from the statutory federal income tax rate of 35.0% primarily due to the effects of permanent differences, state income taxes, foreign income tax rate differentials (including tax holiday jurisdictions) and requisite valuation allowances.

As of June 30, 2004, the Company determined a valuation allowance was necessary to reduce the deferred tax asset for the 2004 U.S. net operating loss based on the weight of available evidence, both positive and negative. While this increased the Company's effective tax rate, the effect of the valuation allowance was partially offset by the reversal of certain specific tax reserves no longer considered necessary based on the expiration of certain statutes of limitation and revision of certain tax planning strategies.

Earnings associated with the Company's investments in its foreign subsidiaries are considered to be permanently invested and no provision for United States federal and state income taxes on those earnings or translation adjustments has been provided.

The U.S. Internal Revenue Service has completed audits of the Company's U.S. tax returns through July 31, 1999. Certain German subsidiaries of the Company are under examination by the German tax authorities for periods covering 1997 through 2000. In addition, the Company is currently under examination by several states for sales and use taxes and franchise taxes for various periods. In the opinion of management, any liability that may arise from the prior periods as a result of these examinations is not expected to have a material effect on the Company's financial condition, results of operations or cash flows.

During the six months ended June 30, 2004, the Company received a foreign income tax refund of $4.0 million and the related interest income of $0.8 million. The interest income is included in "Other income" in the accompanying Condensed Consolidated Statements of Operations for the six months ended June 30, 2004.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 8 – Earnings Per Share**

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the shares further dilutive effect, if any, from stock options using the treasury stock method. Options to purchase 2.5 million shares of common stock at various prices for the three and six month periods ended June 30, 2004, respectively, and 3.0 million shares and 3.4 million shares for the three and six months ended June 30, 2003, respectively, were antidilutive and were excluded from the calculation of diluted earnings per share.

The numbers of shares used in the earnings per share computation are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Basic: | | | | |
| Weighted average common shares outstanding | 39,882 | 40,350 | 40,045 | 40,365 |
| Diluted: | | | | |
| Dilutive effect of stock options | 116 | 74 | 149 | 32 |
| Total weighted average diluted shares outstanding | 39,998 | 40,424 | 40,194 | 40,397 |

On August 5, 2002, the Company's Board of Directors authorized the purchase of up to three million shares of its outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the six months ended June 30, 2004, the Company had repurchased approximately 1.0 million common shares under the 2002 repurchase program at prices ranging between $5.55 and $7.26 per share for a total cost of $6.7 million.

**Note 9 – Segment Reporting and Major Clients**

The Company operates within two regions, the "Americas" and "EMEA" which represented 60.1% and 39.9%, respectively, of the Company's consolidated revenues for the three months ended June 30, 2004 and 61.2% and 38.8%, respectively, of the Company's consolidated revenues for the six months ended June 30, 2004. In the comparable 2003 periods, the Americas and EMEA regions represented 67.2% and 32.8%, respectively, of the Company's consolidated revenues for the three months ended June 30, 2003 and 66.4% and 33.6%, respectively, of the Company's consolidated revenues for the six months ended June 30, 2003. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The reportable segments consist of (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and technical staffing and (2) EMEA, which includes Europe, the Middle East and Africa, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and fulfillment services. The sites within Latin America, India and the Asia Pacific Rim are included in the Americas region given the nature of the business and client profile, which is primarily made up of U.S. based companies that are using the Company's services in these locations to support their customer contact management needs.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 9 – Segment Reporting and Major Clients** (continued)

Information about the Company's reportable segments for the three and six months ended June 30, 2004 compared to the corresponding prior year periods, is as follows (in thousands):

| **Three Months Ended June 30, 2004:** | **Americas** | **EMEA** | **Other [1]** | **Consolidated Total** |
|---|---|---|---|---|
| Revenues | $68,235 | $45,215 | | $113,450 |
| Depreciation and amortization | 5,875 | 2,031 | | 7,906 |
| Income (loss) from operations | $ 4,739 | $ 1,539 | $(6,616) | $ (338) |
| Other income | | | 1,893 | 1,893 |
| Provision for income taxes | | | 481 | 481 |
| Net income | | | | $ 1,074 |
| **Three Months Ended June 30, 2003:** | | | | |
| Revenues | $79,922 | $39,027 | | $118,949 |
| Depreciation and amortization | 4,809 | 2,575 | | 7,384 |
| Income (loss) from operations | $ 9,007 | $ 6 | $(5,554) | $ 3,459 |
| Other income | | | 408 | 408 |
| Provision for income taxes | | | 1,314 | 1,314 |
| Net income | | | | $ 2,553 |

| **Six Months Ended June 30, 2004:** | **Americas** | **EMEA** | **Other [1]** | **Consolidated Total** |
|---|---|---|---|---|
| Revenues | $143,496 | $90,997 | | $234,493 |
| Depreciation and amortization | 11,544 | 4,263 | | 15,807 |
| Income (loss) from operations | $ 8,112 | $ 2,693 | $(12,024) | $ (1,219) |
| Other income | | | 3,102 | 3,102 |
| Provision for income taxes | | | 565 | 565 |
| Net income | | | | $ 1,318 |
| **Six Months Ended June 30, 2003:** | | | | |
| Revenues | $156,758 | $79,477 | | $236,235 |
| Depreciation and amortization | 11,133 | 5,113 | | 16,246 |
| Income (loss) from operations | $ 14,408 | $ 424 | $(11,418) | $ 3,414 |
| Other income | | | 738 | 738 |
| Provision for income taxes | | | 1,411 | 1,411 |
| Net income | | | | $ 2,741 |

[1] Other items (including corporate costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company's consolidated totals as shown in the table above for the three and six months ended June 30, 2004 and 2003. The accounting policies of the reportable segments are the same as those described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2003. Inter-segment revenues are not material to the Americas and EMEA segment results. The Company evaluates the performance of its geographic segments based on revenue and income (loss) from operations, and does not include segment assets or other income and expense items for management reporting purposes.

**Note 9 – Segment Reporting and Major Clients** (continued)

The Americas' revenues included $7.5 million, or 6.6% of consolidated revenues, and $22.3 million, or 9.5% of consolidated revenues, for the three and six months ended June 30, 2004, respectively, from a leading systems integrator ("Systems Integrator") that represents a major provider of communication services to whom the Company provides various outsourced customer contact management services. Effective May 1, 2003, the Company entered into a subcontractor services agreement (the "Agreement") with the Systems Integrator following the execution of a primary services agreement between the major provider of communication services and the Systems Integrator. Under the terms of the three-year Agreement signed in 2003, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, the Company will continue to provide the products and services necessary to support and assist the Systems Integrator in the management and performance of its primary services agreement. The revenues for the three and six months ended June 30, 2003, as it relates to this relationship, were $19.7 million, or 16.6% of consolidated revenues and $39.6 million, or 16.8% of consolidated revenues, respectively.

In addition, the Americas' revenues included $7.7 million, or 6.8% of consolidated revenues and $19.2 million, or 8.2% of consolidated revenues, for the three and six months ended June 30, 2004, respectively, from a leading software and services provider. In the comparable 2003 periods, this provider represented $14.8 million, or 12.5% of consolidated revenues, and $30.5 million, or 12.9% of consolidated revenues, for the three and six months ended June 30, 2003, respectively. This includes $14.7 million in revenue from the Americas and $0.1 million in revenue from EMEA for the three months ended June 30, 2003 and $30.0 million in revenue from the Americas and $0.5 million in revenue from EMEA for the six months ended June 30, 2003.

**Note 10 – Non-Employee Director Fee Plan**

In May 2004, the Board of Directors approved a new Non-Employee Director Fee Plan (the "Plan"), subject to shareholder approval at the 2005 Annual Shareholders' Meeting. The Board of Directors determined that this Plan would replace and supercede the 1996 Non-Employee Director Fee Plan and would be used in lieu of the 2004 Nonemployee Director Stock Option Plan (the "Stock Option Plan"). Therefore, no options have been awarded under the Stock Option Plan, and none will be awarded if the new Plan is approved by the shareholders at the 2005 annual meeting. The new Plan provides that all new non-employee directors joining the Board will receive a grant of common stock units ("CSUs"), the number of which will be determined by dividing the cash equivalent of $30.0 thousand by an amount equal to 110% of the average closing prices of the Company's common stock for the five days prior to the date of grant. The initial grant of CSUs will generally vest equally over a three-year period. Additionally, the new Plan provides for an annual retainer (initially set at $50.0 thousand) payable to non-employee board members, 25% in cash and 75% to be made in the form of CSUs. The number of CSUs to be granted on an annual basis will be determined by dividing 75% of the cash value of the annual retainer by an amount equal to 105% of the average closing prices of the Company's common stock for the five days prior to the date of grant. The annual grant CSUs will generally vest equally over a two-year period. The vesting day of all CSUs under the new Plan will be the date of the annual shareholders' meeting. Each year on that day, each director will receive a number of shares of the Company's common stock equal to the number of CSUs vesting on that date.

The Company applies variable plan accounting, in accordance with APB No. 25, for grants of CSUs issued under the Plan and recognizes compensation cost over the vesting period. During the three months ended June 30, 2004, the Board awarded an aggregate of 55.6 thousand CSUs to the non-employee directors at a total cost of $0.3 million with a weighted average fair value of $5.94. Since the Plan is subject to shareholder approval, the CSUs are not considered to be granted and therefore no compensation cost will be recognized until the shareholders approve the Plan at the 2005 Annual Shareholders' Meeting. At that time, the Company will recognize compensation cost for the CSUs over the vesting periods at the then current market price.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Notes To Condensed Consolidated Financial Statements**
**Six months ended June 30, 2004 and June 30, 2003**
(Unaudited)

**Note 11 – Retirement of Chairman and Majority Shareholder**

On August 2, 2004, the Company announced the retirement of its Chairman of the Board of Directors, Chief Executive Officer and majority shareholder, John H. Sykes, the election of Paul L. Whiting as non-executive Chairman of the Board of Directors and the appointment of Charles E. Sykes as Chief Executive Officer of the Company, effective immediately.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders
Sykes Enterprises, Incorporated
Tampa, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of June 30, 2004, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2004 and 2003, of changes in shareholders' equity for the six-month periods ended June 30, 2004, December 31, 2003, and June 30, 2003, and of cash flows for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2003, and the related condensed consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 10, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Certified Public Accountants

Tampa, Florida
August 6, 2004

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

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

*This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated ("Sykes," "our", "we" or "us") Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission.*

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

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

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

### Results of Operations

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues | $113,450 | $118,949 | $234,493 | $236,235 |
| Percentage of revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Direct salaries and related costs | $ 73,867 | $ 76,508 | $157,256 | $153,864 |
| Percentage of revenues | 65.1% | 64.3% | 67.1% | 65.1% |
| General and administrative expenses | $ 41,315 | $ 38,875 | $ 82,591 | $ 78,782 |
| Percentage of revenues | 36.4% | 32.7% | 35.2% | 33.4% |
| Net (gain) loss on disposal of property and equipment | $ (1,394) | $ 107 | $ (4,135) | $ 175 |
| Percentage of revenues | (1.2)% | 0.1% | (1.8)% | 0.1% |
| Income (loss) from operations | $ (338) | $ 3,459 | $ (1,219) | $ 3,414 |
| Percentage of revenues | (0.3)% | 2.9% | (0.5)% | 1.4% |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues: | | | | |
| Americas | $ 68,235 | $ 79,922 | $143,496 | $156,758 |
| EMEA | 45,215 | 39,027 | 90,997 | 79,477 |
| Consolidated | $113,450 | $118,949 | $234,493 | $236,235 |

### Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

### Revenues

For the three months ended June 30, 2004, we recognized consolidated revenues of $113.4 million, a decrease of $5.5 million, or 4.6%, from $118.9 million of consolidated revenues for the comparable 2003 period.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 60.1%, or $68.2 million, for the three months ended June 30, 2004, compared to 67.2%, or $79.9 million, for the comparable 2003 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 39.9%, or $45.2 million, for the three months ended June 30, 2004, compared to 32.8%, or $39.0 million, for the comparable 2003 period.

The decrease in the Americas' revenue of $11.7 million, or 14.6%, for the three months ended June 30, 2004, compared to the same period in 2003, reflected the continued client-driven migration of call volumes from the United States to our offshore operations including Latin America, India and the Asia Pacific Rim and the overall reduction in U.S. customer call volumes primarily attributable to two major U.S.-based clients exiting certain

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

**Results of Operations** (continued)

**Revenues** (continued)

customer support programs in 2004. This decrease was partially offset by an increase in revenues from our offshore operations, which represented 27.6% of consolidated revenues for the three months ended June 30, 2004, compared to 16.1% for the comparable 2003 period. We expect this trend of generating more of our revenues from offshore operations to continue in 2004. We anticipate that as our offshore operations grow and become a larger percentage of revenues, the total revenue and revenue growth rate may decline since each offshore seat generates roughly half the revenue dollar equivalence of a seat in North America and Europe. While the average offshore revenue per seat is less, the operating margins generated offshore are generally comparable or higher than those in North America and Europe. However, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce in offshore markets.

EMEA revenues increased $6.2 million, or 15.9%, for the three months ended June 30, 2004, compared to the same period in 2003. Similar to recent quarters, EMEA revenues for the second quarter of 2004 experienced a $2.6 million benefit from the stronger Euro compared to the same period in 2003. Excluding this foreign currency benefit, EMEA revenues would have increased $3.6 million compared with last year reflecting an improvement in call volumes. This increase also included the recognition of deferred revenues of $0.8 million related to a former client.

**Direct Salaries and Related Costs**

Direct salaries and related costs decreased $2.6 million, or 3.5%, to $73.9 million for the three months ended June 30, 2004, from $76.5 million in the comparable 2003 period. As a percentage of revenues, direct salaries and related costs increased to 65.1% for the three months ended June 30, 2004, from 64.3% for the comparable 2003 period. This increase was primarily attributable to higher staffing and training costs associated with the build-out offshore related to the migration of call volumes and certain duplicative costs as we simultaneously ramp-down U.S. customer contact management centers and termination costs related to the consolidation of two European customer contact management centers. We expect that we will continue to experience an increase in staffing and training costs in 2004 associated with this migration offshore. Although the strengthening Euro positively impacted revenues, it negatively impacted direct salaries and related costs for the three months ended June 30, 2004 by approximately $1.7 million compared to the same period in 2003.

**General and Administrative**

General and administrative expenses increased $2.4 million, or 6.3%, to $41.3 million for the three months ended June 30, 2004, from $38.9 million in the comparable 2003 period. As a percentage of revenues, general and administrative expenses increased to 36.4% for the three months ended June 30, 2004, from 32.7% for the comparable 2003 period. This increase was primarily attributable to higher lease costs, utilities, maintenance costs associated with expansion of offshore facilities, depreciation, telephone, higher compliance costs related to the Sarbanes-Oxley Act partially due to strengthening of the management team partially offset by lower bad debts, insurance costs and technology related costs. We expect that we will continue to experience higher operating costs in 2004 associated with this migration offshore. Although the strengthening Euro positively impacted revenues, it negatively impacted general and administrative expenses for the three months ended June 30, 2004 by approximately $0.7 million compared to the same period in 2003.

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

**Results of Operations** (continued)

**Net (Gain) Loss on Disposal of Property and Equipment**

The net gain on disposal of property and equipment of $1.4 million for the three months ended June 30, 2004 included a $1.5 million net gain on the sale of our Eveleth, Minnesota facility, offset by a $0.1 million loss on disposal of property and equipment. This compares to a $0.1 million loss on disposal of property and equipment for the comparable 2003 period.

**Other Income**

Other income was $1.9 million for the three months ended June 30, 2004, compared to $0.4 million for the comparable 2003 period. The increase of $1.5 million was primarily attributable to a $0.5 million increase in interest earned on cash and cash equivalents net of interest expense including $0.8 million of interest received on a foreign income tax refund and a $1.0 million increase in foreign currency translation gains net of losses including $0.7 million related to the liquidation of a foreign entity. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Loss in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

**Provision for Income Taxes**

The provision for income taxes of $0.5 million for the three months ended June 30, 2004 was based upon pre-tax book income of $1.6 million, compared to $1.3 million for the comparable 2003 period based upon pre-tax book income of $3.9 million. The effective tax rate was 30.9% for the three months ended June 30, 2004 and 34.0% for the comparable 2003 period. This decrease in the effective tax rate resulted from a shift in our mix of earnings within tax jurisdictions and the related effects of permanent differences, state income taxes, foreign income tax rate differentials (including tax holiday jurisdictions), requisite valuation allowances and the reversal of certain specific tax contingency reserves.

**Net Income**

As a result of the foregoing, we experienced a loss from operations for the three months ended June 30, 2004 of $0.3 million, an increase of $3.8 million from the comparable 2003 period. This increase in the loss from operations was principally attributable to a $5.5 million decrease in revenues and a $2.4 million increase in general and administrative costs offset by a $2.6 million decrease in direct salaries and related costs and a $1.5 million increase in net gain on disposal of property and equipment, as previously discussed. The $3.8 million increase in loss from operations was offset by a $1.5 million increase in other income and a $0.8 million lower tax provision, resulting in net income of $1.1 million for the three months ended June 30, 2004, a decline of $1.5 million, compared to the same period in 2003.

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

**Results of Operations** (continued)

### Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

### Revenues

For the six months ended June 30, 2004, we recognized consolidated revenues of $234.5 million, a decrease of $1.7 million, or 0.7%, from $236.2 million of consolidated revenues for the comparable 2003 period.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 61.2%, or $143.5 million, for the six months ended June 30, 2004, compared to 66.4%, or $156.8 million, for the comparable 2003 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 38.8%, or $91.0 million, for the six months ended June 30, 2004, compared to 33.6%, or $79.4 million, for the comparable 2003 period.

The decrease in the Americas' revenue of $13.3 million, or 8.5%, for the six months ended June 30, 2004, compared to the same period in 2003, reflected the continued client-driven migration of call volumes from the United States to our offshore operations including Latin America, India and the Asia Pacific Rim, the ramp down of a technology client late in the first quarter of 2003 and the overall reduction in U.S. customer call volumes primarily attributable to two major U.S.-based clients exiting certain customer support programs in 2004. This decrease was partially offset by an increase in revenues from our offshore operations, which represented 27.6% of consolidated revenues for the three months ended June 30, 2004, compared to 14.7% for the comparable 2003 period. We expect this trend of generating more of our revenues from offshore operations to continue in 2004. We anticipate that as our offshore operations grow and become a larger percentage of revenues, the total revenue and revenue growth rate may decline since each offshore seat generates roughly half the revenue dollar equivalence of a seat in North America and Europe. While the average offshore revenue per seat is less, the operating margins generated offshore are generally comparable or higher than those in North America and Europe. However, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce in offshore markets.

EMEA revenues increased $11.6 million, or 14.6%, for the six months ended June 30, 2004, compared to the same period in 2003. Similar to recent quarters, EMEA revenues for 2004 experienced a $9.1 million benefit from the stronger Euro compared to the same period in 2003. Excluding this foreign currency benefit, EMEA revenues would have increased $2.5 million compared with last year reflecting an improvement in call volumes. This increase also included the recognition of deferred revenues of $0.8 million related to a former client.

### Direct Salaries and Related Costs

Direct salaries and related costs increased $3.4 million, or 2.2%, to $157.3 million for the six months ended June 30, 2004, from $153.9 million in the comparable 2003 period. As a percentage of revenues, direct salaries and related costs increased to 67.1% for the six months ended June 30, 2004, from 65.1% for the comparable 2003 period. This increase was primarily attributable to higher staffing and training costs associated with the build-out offshore related to the migration of call volumes and certain duplicative costs as we simultaneously ramp-down U.S. customer contact management centers, termination costs related to the consolidation of two European customer contact management centers and higher auto tow claim costs due to the severe Canada winter associated with our automotive program in Canada. We expect that we will continue to experience an increase in staffing and training costs in 2004 associated with this migration offshore. Although the strengthening Euro positively impacted revenues, it negatively impacted direct salaries and related costs for the six months ended June 30, 2004 by approximately $6.1 million compared to the same period in 2003.

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

**Results of Operations** (continued)

### General and Administrative

General and administrative expenses increased $3.8 million, or 4.8%, to $82.6 million for the six months ended June 30, 2004, from $78.8 million in the comparable 2003 period. As a percentage of revenues, general and administrative expenses increased to 35.2% for the six months ended June 30, 2004, from 33.4% for the comparable 2003 period. This increase was primarily attributable to higher lease costs, utilities, maintenance costs associated with expansion of offshore facilities, telephone, higher compliance costs related to the Sarbanes-Oxley Act partially due to strengthening of the management team partially offset by lower insurance costs, additional depreciation expense of $1.0 million recognized in the first quarter of 2003 related to the expiration of two technology client contracts, bad debts and technology related costs. We expect that we will continue to experience higher operating costs in 2004 associated with this migration offshore. Although the strengthening Euro positively impacted revenues, it negatively impacted general and administrative expenses for the six months ended June 30, 2004 by approximately $2.6 million compared to the same period in 2003.

### Net (Gain) Loss on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $4.1 million for the six months ended June 30, 2004 included 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, offset by a $0.2 million loss on disposal of property and equipment. This compares to a $0.2 million loss on disposal of property and equipment for the comparable 2003 period.

### Other Income

Other income was $3.1 million for the six months ended June 30, 2004, compared to $0.7 million for the comparable 2003 period. The increase of $2.4 million was primarily attributable to a $0.6 million increase in interest earned on cash and cash equivalents net of interest expense including $0.8 million of interest received on a foreign income tax refund and a $1.8 million increase in foreign currency translation gains net of losses including $0.7 million related to the liquidation of a foreign entity. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Loss in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

### Provision for Income Taxes

The provision for income taxes of $0.6 million for the six months ended June 30, 2004 was based upon pre-tax book income of $1.9 million, compared to $1.4 million for the comparable 2003 period based upon pre-tax book income of $4.2 million. The effective tax rate was 30.0% for the six months ended June 30, 2004 and 34.0% for the comparable 2003 period. This decrease in the effective tax rate resulted from a shift in our mix of earnings within tax jurisdictions and the related effects of permanent differences, state income taxes, foreign income tax rate differentials (including tax holiday jurisdictions), requisite valuation allowances and the reversal of certain specific tax contingency reserves.

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

**Results of Operations** (continued)

### Net Income

As a result of the foregoing, we experienced a loss from operations for the six months ended June 30, 2004 of $1.2 million, an increase of $4.6 million from the comparable 2003 period. This increase in the loss from operations was principally attributable to a $1.7 million decrease in revenues, a $3.4 million increase in direct salaries and related costs and a $3.8 million increase in general and administrative costs offset by a $4.3 million increase in net gain on disposal of property and equipment, as previously discussed. The $4.6 million increase in loss from operations was offset by a $2.4 million increase in other income and a $0.8 million lower tax provision, resulting in net income of $1.3 million for the six months ended June 30, 2004, a decline of $1.4 million, compared to the same period in 2003.

### 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 have utilized 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 Company's Board of Directors authorized the purchase of up to three million shares of its outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the six months ended June 30, 2004, the Company had repurchased approximately 1.0 million common shares under the 2002 repurchase program at prices ranging between $5.55 and $7.26 per share for a total cost of $6.7 million.

During the six months ended June 30, 2004, we used $1.5 million in cash for operating activities and received $0.3 million in cash from issuance of stock and $6.3 million in cash from the sale of facilities, property and equipment. Further, we used $16.8 million in funds for capital expenditures and $6.7 million to repurchase stock in the open market resulting in a $21.5 million decrease in available cash (including the effects of international currency exchange rates on cash of $3.1 million).

Net cash flows used for operating activities for the six months ended June 30, 2004 were $1.5 million, compared to net cash flows provided by operating activities of $4.2 million for the comparable 2003 period. The $5.7 million decrease in net cash flows from operating activities was due to a decrease in net income of $1.4 million, a net decrease in non-cash reconciling items of $4.2 million such as depreciation and amortization, deferred income taxes, net gain or loss on disposal of property and equipment, termination costs and foreign exchange gain and a net change in assets and liabilities of $0.1 million. This $0.1 million net change was principally a result of a $5.7 million decrease in income taxes payable offset by a $5.6 million increase in deferred revenue, other payables and accrued liabilities.

Capital expenditures, which are generally funded by cash generated from operating activities and borrowings available under our credit facilities, were $16.8 million for the six months ended June 30, 2004, compared to $12.4 million for the comparable 2003 period, an increase of $4.4 million, which was driven primarily by offshore expansion. During the six months ended June 30, 2004, approximately 95% of the capital expenditures were the result of investing in new and existing customer contact management centers, primarily offshore, and 5% was expended primarily for maintenance and systems infrastructure. In 2004, we anticipate capital expenditures in the range of $20.0 million to $25.0 million.

One primary source of future cash flows from financing activities is from borrowings under our $50.0 million revolving credit facility (the "Credit Facility"), subject to certain borrowing limitations. Pursuant to the terms of the

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

**Results of Operations** (continued)

**Liquidity and Capital Resources** (continued)

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 strategic 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, 2007, are secured by a pledge of 65% of the stock of each of our active direct foreign subsidiaries, or alternatively for any such subsidiary, a pledge of all indebtedness of such subsidiary (and its subsidiaries) to us. The Credit Facility prohibits us from incurring additional indebtedness, subject to certain specific exclusions. There were no outstanding balances on the Credit Facility as of June 30, 2004. At June 30, 2004, we were in compliance with all loan requirements of the Credit Facility. At June 30, 2004, we had $70.6 million in cash, of which approximately $61.0 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 for the foreseeable future and stock repurchases.

**Off-Balance Sheet Arrangements and Other**

At June 30, 2004, 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: (i) indemnities to vendors and service providers pertaining to claims based on our negligence or willful misconduct and (ii) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, we have agreements whereby we indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Condensed Consolidated Balance Sheets.

**Results of Operations** (continued)

**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, "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 provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. EITF No. 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 estimated reductions to revenue for penalties and holdbacks for failure to meet specified minimum service levels and other performance based contingencies. Royalty revenue is recognized at the time royalties are earned and the remaining revenue is recognized on fixed price contracts using the percentage-of-completion method of accounting, which relies on estimates of total expected revenue and related costs. 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. 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 postpone revenue recognition until these contingencies have been removed. 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.

  Certain contracts to sell our products and services contain multiple elements or non-standard terms and conditions. As a result, we evaluate each contract and a thorough contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements and the timing of revenue recognition for each element. 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. Changes in the allocation of the sales price between deliverable elements might impact the timing of revenue recognition, but would not change the total revenue recognized on the contract.

- We recognize revenue associated with the grants of land and the cash grants for the acquisition of property, buildings and equipment for customer contact management centers over the corresponding useful lives of the related assets. Should the useful lives of these assets change for reasons such as the sale or disposal of the

**Results of Operations** (continued)

**Critical Accounting Policies and Estimates** (continued)

property, the amount of revenue recognized would be adjusted accordingly. Deferred grants totaled $24.8 million as of June 30, 2004. Income from operations includes amortization of the deferred grants of $0.5 million and $1.4 million for the three and six months ended June 30, 2004, respectively, and $0.7 million and $1.5 million for the three and six months ended June 30, 2003, respectively.

- We maintain allowances for doubtful accounts of $4.2 million as of June 30, 2004, or 4.8% of trade receivables, for estimated losses arising from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in a reduced ability to make payments, additional allowances may be required which would reduce income from operations.

- We maintain a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Deferred tax assets are reduced 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. 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. As of June 30, 2004, we maintained a valuation allowance in the amount necessary to reduce primarily foreign deferred tax assets, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. In addition, as of June 30, 2004, we determined a valuation allowance was necessary to reduce the tax benefit of the 2004 U.S. net operating loss. The recoverability of the remaining net deferred tax assets is dependent upon future profitability within each tax jurisdiction. As of June 30, 2004, based on our estimates of future taxable income and any applicable tax-planning strategies within these tax jurisdictions, we believe that it is more likely than not that all of these deferred tax assets will be realized.

- We hold a minority interest in SHPS, Incorporated as a result of the sale of a 93.5% ownership interest in June 2000. We account for the remaining interest at cost, which was $2.1 million as of June 30, 2004. We will record an impairment charge or loss if we believe the investment has experienced a decline in value that is other than temporary. 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.

- We review long-lived assets, which had a carrying value of $107.6 million as of June 30, 2004, including goodwill and property and equipment, 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.

- Self-insurance related liabilities of $0.9 million as of June 30, 2004 include estimates for, among other things, projected settlements for known and anticipated claims for worker's compensation and employee health insurance. Key variables in determining such estimates include past claims history, number of covered employees and projected future claims. We periodically evaluate and, if necessary, adjust the estimates based on information currently available. Revisions to these estimates, which could result in adjustments to the liability and additional charges, would be recorded in the period when such adjustments or charges are known.

**Results of Operations** (continued)

**Recent Accounting Pronouncements**

In March 2004, the Financial Accounting Standards Board ("FASB") issued an exposure draft proposing to amend Statement of Financial Accounting Standards ("SFAS") No. 123, " *Accounting for Stock-Based Compensation* " and SFAS No. 95, " *Statement of Cash Flows* " which provide the current guidance on accounting for stock options and related items. The proposed standard would eliminate the choice of accounting for such transactions under Accounting Principles Board Opinion ("APB") No. 25, " *Accounting for Stock Issued to Employees* ", and instead generally require that share-based payments be accounted for using a fair-value based method beginning in 2005. We are currently evaluating the impact of this proposed standard on our financial condition, results of operations, and cash flows.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ." EITF 03-1 provides guidance on other-than-temporary impairment evaluations for securities accounted for under SFAS No. 115, " *Accounting for Certain Investments in Debt and Equity Securities* ," and SFAS No. 124, " *Accounting for Certain Investments Held by Not-for-Profit Organizations* ," and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step test to evaluate whether an investment is other-than-temporarily impaired. The recognition and measurement guidance is effective for reporting periods beginning after June 15, 2004. Certain quantitative and qualitative disclosures for SFAS No. 115 securities were effective for fiscal years ending after December 15, 2003. Disclosures for cost method investments are effective for fiscal years ending after June 15, 2004. The adoption of EITF No. 03-1 is not expected to have a material impact on our financial condition, results of operations or cash flows.

**Item 3 - 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 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 forward 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 is the Euro using foreign currency forward contracts ranging in periods from one to three months. Foreign exchange forward contracts are accounted for on a mark-to-market basis, with realized and unrealized gains or losses recognized in the current period, as we do not designate our foreign exchange forward contracts as accounting hedges.

As of June 30, 2004 we had one outstanding forward Euro contract with a notional amount of $2.7 million and a contract exchange rate of 1.208. The unrealized loss related to this hedge for the three months ended June 30, 2004 was 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 six months ended June 30, 2004, 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 June 30, 2004, we had no debt outstanding at variable interest rates. We have not historically used derivative instruments to manage exposure to changes in interest rates.

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

**Result of Operations** (continued)

**Item 3 - Quantitative and Qualitative Disclosures About Market Risk** (continued)

## Fluctuations in Quarterly Results

For the year ended December 31, 2003, quarterly revenues as a percentage of total consolidated annual revenues were approximately 26%, 25%, 25% and 24%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will continue to experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing of the expenses incurred to support new business, the timing and frequency of client spending for customer contact management services, non-U.S. currency fluctuations, and the seasonal pattern of customer contact management support and fulfillment services.

## Item 4 - Controls and Procedures

As of June 30, 2004, 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 Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended. We concluded that our disclosure controls and procedures were generally effective as of June 30, 2004, except as noted below, such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods 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.

During the three months ended June 30, 2004, we inadvertently failed to file in a timely manner a current report on Form 8-K for a press release, dated May 3, 2004, disclosing our financial results for the three-month period ended March 31, 2004. The Form 8-K was subsequently filed with the SEC on August 3, 2004. Based upon a review of the effectiveness of the design and operation of the disclosure controls and procedures that monitor the timely filing of information required by the SEC, we have made certain modifications to ensure that such controls and procedures are now effective.

There were no significant changes in our internal controls over financial reporting during the quarter ended June 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Form 10-Q**
**For the Quarter Ended June 30, 2004**

## Part II – OTHER INFORMATION

### Item 1 – 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 that we have adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

### Item 2 – Changes in Securities, Use of Proceeds and Issuer Repurchases of Equity Securities

Below is a summary of stock repurchases for the quarter ended June 30, 2004 (in thousands, except average price per share). See Note 8, Earnings Per Share, to the Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number Of Shares That May Yet Be Purchased Under Plans or Programs |
|---|---|---|---|---|
| April 1, 2004 – April 30, 2004 | — | — | — | 2,363 |
| May 1, 2004 – May 31, 2004 | 476 | $6.02 | 1,113 | 1,887 |
| June 1, 2004 – June 30, 2004 | 483 | $6.34 | 1,596 | 1,404 |

**(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.

In May 2004, the Board of Directors approved a new 2004 Non-Employee Director Fee Plan (the “2004 Fee Plan”), subject to shareholder approval at the 2005 Annual Shareholders’ Meeting. The Board determined that the 2004 Fee Plan would replace and supercede the 1996 Non-Employee Director Fee Plan, and would be used in lieu of the 2004 Nonemployee Director Stock Option Plan (the “2004 Option Plan”), which was discussed in the Company’s proxy materials for the 2004 annual shareholders’ meeting and approved by the shareholders at the 2004 annual meeting. Therefore, no options have been awarded under the 2004 Option Plan, and none will be awarded under that plan if the 2004 Fee Plan is approved by the shareholders at the 2005 annual meeting.

If the 2004 Fee Plan is not approved by the shareholders at the 2005 annual meeting, the nonemployee Directors will receive the stock options provided for in the 2004 Option Plan, beginning with the award each would receive under that plan on the day following the 2005 annual meeting. In such event, the Board also has indicated that it would grant to each of the nine nonemployee Directors who had been serving on the board prior to the 2004 annual meeting an additional award of stock options to make up for the options that otherwise would have been granted under the 2004 Option Plan on the day after the 2004 annual meeting. Such additional option awards would vest on the later of the date of grant or May 8, 2005, as the award of stock options that would have been granted under the 2004 Option Plan on the day after the 2004 annual meeting would have vested on May 8, 2005. Also, in such event, the Board has indicated that it would grant to Mr. Iain Macdonald, who was first elected to the Board at the 2004 annual meeting, an additional award of stock options to make up for the options that otherwise would have been granted to him under the 2004 Option Plan on the day of the 2004 annual meeting. Such options would vest one-third on the later of the date of grant or May 8, 2005, one-third on May 7, 2005 and one-third on May 7, 2006, as the award of stock options that would have been granted to him the 2004 Option Plan on the day of the 2004 annual meeting would have become exercisable in equal thirds on the first three anniversaries of the date of the 2004 annual meeting.

**Part II – OTHER INFORMATION** (continued)

**Item 2 – Changes in Securities, Use of Proceeds and Issuer Repurchases of Equity Securities** (continued)

The 2004 Fee Plan provides that all new non-employee Directors joining the Board will receive an initial grant of common stock units (“CSUs”) on the date the new Director is appointed or elected, the number of which will be determined by dividing a dollar amount to be determined from time to time by the Board (initially set at $30,000) by an amount equal to 110% of the average closing prices of the Company’s common stock for the five trading days prior to the date the new Director is appointed or elected. The initial grant of CSUs will vest in three equal installments, one-third on the date of each of the following three annual shareholders’ meetings.

Additionally, the new Plan provides that each nonemployee Director who was serving as a Director immediately prior to each annual shareholders’ meeting will receive, on the day after the annual meeting, an annual retainer for service as a nonemployee Director, the amount of which shall be determined from time to time by the Board. The Board increased the amount of the annual retainer from $25,000 to $50,000. Under the 2004 Fee Plan, the annual retainer will be paid 75% in CSUs and $25% in cash. Previously, the annual retainer was payable one-half in cash and one-half in CSUs. The number of CSUs to be granted under the 2004 Fee Plan will be determined by dividing the amount of the annual retainer by an amount equal to 105% of the average of the closing prices for the Company’s common stock on the five trading days preceding the award date (the day after the annual meeting). The annual grant of CSUs will vest in two equal installments, one-half on the date of each of the following two annual shareholders’ meetings.

With respect to all CSUs awarded under the 2004 Fee Plan, on the date each CSU vests the Director will become entitled to receive a share of the Company’s common stock. All CSUs will automatically vest upon the termination of a Director’s service as a Director, whether by reason of death, retirement, resignation, removal or failure to be reelected at the end of his or her term.

On May 8, 2004, Iain Macdonald, who was newly elected to the Board at the 2004 annual meeting, received an award of 4,822 CSUs under the 2004 Fee Plan for his initial grant of $30,000 worth of CSUs upon joining the Board, as well as an award of 6,315 CSUs for the $37,500 worth of CSUs payable as part of his annual retainer of $50,000 for the coming year. Mr. Macdonald’s 4,822 CSUs relating to his initial award will vest in three equal installments on the dates of the 2005, 2006 and 2007 annual meetings. His 6,315 CSUs relating to his annual retainer award will vest in two equal installments on the dates of the 2005 and 2006 annual meetings.

Also on May 8, 2004, each of the nine nonemployee Directors who had been serving on the board prior to the 2004 annual meeting received an award of 4,942 CSUs for $29,349 of their annual retainer of $50,000 for the coming year. This amount is net of the portion of the $25,000 annual retainer paid to these nonemployee Directors in CSUs in January 2004 under the 1996 Nonemployee Director Fee Plan, which was in effect until the adoption of the 2004 Fee Plan. Under the 1996 Plan, the annual retainer was paid in advance at the beginning of each calendar year; therefore, a portion of the $12,500 paid to these Directors in January in CSUs, equal to the number of days from May 8, 2004 to December 31, 2004, was applied against the $37,500 worth of CSUs payable under the 2004 Fee Plan on May 8, 2004. These additional CSUs will vest in two equal installments on the dates of the 2005 and 2006 annual meetings.

In all, an aggregate of 55,615 CSUs were awarded to the non-employee Directors on May 8, 2004, under the 2004 Fee Plan. The CSUs were issued pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Form 10-Q**
**For the Quarter Ended June 30, 2004**

**Item 4 – Submission of Matters to a Vote of Security Holders**

a. The Annual Meeting of Shareholders was held on May 7, 2004.

b. The following members of the Board of Directors were re-elected to fill a vacancy in Class I and to serve until the 2005 Annual Meeting and until their successors are elected and qualified:

| | For | Against | Abstain |
|---|---|---|---|
| H. Parks Helms | 37,476,841 | — | 1,764,558 |
| Linda McClintock-Greco, M.D. | 38,685,317 | — | 556,082 |

The following members of the Board of Directors were re-elected to fill a vacancy in Class II and to serve until the 2007 Annual Meeting and until their successors are elected and qualified:

| | For | Against | Abstain |
|---|---|---|---|
| Mark C. Bozek | 38,687,305 | — | 554,094 |
| Lt. Gen. Michael DeLong, (Retired) | 39,042,797 | — | 198,602 |
| Paul L. Whiting | 38,937,649 | — | 303,750 |
| Iain A. Macdonald | 39,043,972 | — | 197,427 |

The following are the members of the Board of Directors whose term of office as a director continued after the meeting:

| | |
|---|---|
| John H. Sykes | Furman P. Bodenheimer, Jr. |
| Ernest J. Milani | William J. Meurer |
| Gordon H. Loetz | |

c. The following additional matters were voted upon at the Annual Meeting of Shareholders:

The proposal to approve the 2004 Non-Employee Director Stock Option Plan was approved as follows:

| For | Against | Abstain | Broker Non-Votes |
|---|---|---|---|
| 19,028,367 | 11,707,907 | 27,537 | 8,477,588 |

The proposal to ratify Deloitte & Touche as the principal independent public accountants for the year 2004 was approved as follows:

| For | Against | Abstain |
|---|---|---|
| 38,897,179 | 327,107 | 17,113 |

Table of Contents



**Item 6 – Exhibits and Reports on Form 8-K**

(a) Exhibits

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

| | |
|---|---|
| 10.1 | 2004 Non-Employee Director Fee Plan. * |
| 10.2 | Employment Agreement, dated as of March 6, 2004, between Sykes Enterprises, Incorporated and W. Michael Kipphut. * |
| 10.3 | Amendment Number 1, dated as of May 7, 2004, to Exhibit "A" to the Employment Agreement between Sykes Enterprises, Incorporated and Charles E. Sykes, dated as of January 1, 2004. * |
| 10.4 | Employment Agreement, dated as of June 15, 2004, between Sykes Enterprises, Incorporated and David L. Pearson. * |
| 15 | Letter regarding unaudited interim financial information. |
| 31.1 | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a). |
| 31.2 | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a). |
| 32.1 | Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350. |
| 32.2 | Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350. |

* Indicates management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

We filed the following report on Form 8-K during the quarter ended June 30, 2004:

We filed a current report on Form 8-K, dated May 10, 2004, with the Securities and Exchange Commission on May 10, 2004, reporting under Item 5, the filing of a press release announcing the appointment of Charles E. Sykes as President of the Company, in addition to his position as Chief Operating Officer, and the election of Iain Macdonald to the Company's Board of Directors.

**Sykes Enterprises, Incorporated and Subsidiaries**
**Form 10-Q**
**For the Quarter Ended June 30, 2004**

## SIGNATURE

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

SYKES ENTERPRISES, INCORPORATED
(Registrant)

August 6, 2004

By: Date:/s/ W. Michael Kipphut
W. Michael Kipphut
Group Executive, Senior Vice President – Finance
(Principal Financial and Accounting Officer)

**Sykes Enterprises, Incorporated and Subsidiaries**
**Form 10-Q**
**For the Quarter Ended June 30, 2004**

## EXHIBIT INDEX

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**EXHIBIT 10.1**

# SYKES ENTERPRISES, INCORPORATED
# 2004 NONEMPLOYEE DIRECTOR FEE PLAN

## ARTICLE I. DEFINITIONS

1.1 DEFINITIONS. Whenever the following terms are used in this Plan they shall have the meanings specified below unless the context clearly indicates to the contrary:

(a) "Board": The Board of Directors of the Company.

(b) "Common Stock": The Company's Common Stock, par value $.01 per share.

(c) "Common Stock Unit": A bookkeeping entry that records the equivalent of one Share.

(d) "Company": Sykes Enterprises, Incorporated or any successor or successors thereto.

(e) "Nonemployee Director": An individual duly elected or chosen as a Director of the Company who is not also an employee of the Company or its subsidiaries.

(f) "Plan": The Plan set forth in this instrument as it may, from time to time, be amended.

(g) "Share": A fully paid, non-assessable share of Common Stock.

## ARTICLE II. PURPOSE

The purpose of this Plan is to secure for the Company and its shareholders the benefits of the incentive inherent in increased ownership of Common Stock of the Company by members of the Board of Directors of the Company who are not employees of the Company or any of its Subsidiaries, by providing for the payment of a portion of each Nonemployee Director's compensation in Common Stock. It is expected that such ownership will further align the interests of such Nonemployee Directors with the shareholders of the Company, thereby promoting the long-term profits and growth of the Company, and will encourage such Nonemployee Directors to remain directors of the Company and provide them with the benefits of deferring the receipt of some of such compensation. It is also expected that the Plan will encourage qualified persons to become directors of the Company.

## ARTICLE III. INITIAL GRANT OF COMMON STOCK UNITS

In consideration of joining the Board, upon the initial election of a Nonemployee Director to the Board, such Nonemployee Director shall receive an award of Common Stock Units. The number of Common Stock Units shall be determined by dividing a dollar amount to be determined from time to time by the Board (initially set at $30,000) by an amount equal to 110% of the average closing prices of the Company's common stock for the five trading days prior to the date the Nonemployee Director is elected, rounded to the nearest whole number of Common Stock Units. The initial grant of Common Stock Units will vest in three equal installments, one-third on the date of each of the following three annual shareholders' meetings.

## ARTICLE IV. ANNUAL RETAINER FEE

In consideration of their services as members of the Board, each Nonemployee Director shall be entitled to receive an annual retainer fee in such amount as shall be determined from time to time by the Board (initially set at $50,000). The annual retainer fee shall be payable in advance on the day after the annual shareholders' meeting in such year and shall be paid 25% in cash and 75% in Common Stock Units. The number of Common Stock Units shall be determined by dividing 75% of the amount of the annual retainer fee by an amount equal to 105% of the average of the closing prices for the Company's common stock on the five trading days preceding the award date (the day after the annual meeting), rounded to the nearest whole number of Common Stock Units. The annual grant of Common Stock Units will vest in two equal installments, one-half on the date of each of the following two annual shareholders' meetings. The provision in this Article IV for the payment of an annual retainer fee to Nonemployee Directors shall not limit the ability of the Board to provide for additional compensation payable to Nonemployee Directors for services on behalf of the Board over and above those typically expected of Directors, including serving as Chair of a Board committee.

## ARTICLE V. ACCELERATION OF VESTING OF COMMON STOCK UNITS

Notwithstanding any provision hereof to the contrary, all Common Stock Units shall automatically vest upon the termination of a Director's service as a Director, whether by reason of death, retirement, resignation, removal or failure to be reelected at the end of his or her term.

## ARTICLE VI. ISSUANCE OF SHARES OF COMMON STOCK FOR COMMON STOCK UNITS.

Upon the vesting of Common Stock Units, the Nonemployee Director shall be entitled to receive for each vested Common Stock Unit one Share, and the vested Common Stock Units shall be canceled. The Company shall cause a certificate representing such Shares to be issued to the Nonemployee Director promptly following the vesting of the Common Stock Units.

## ARTICLE VII. ADMINISTRATION, AMENDMENT AND TERMINATION

7.1 ADMINISTRATION. The Plan shall be administered by the Board. The Board shall have such powers as may be necessary to discharge its duties hereunder. The Board may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who may be counsel to the Company. All decisions and determinations by the Board shall be final and binding on all parties.

7.2 AMENDMENT AND TERMINATION. The Board may alter or amend this Plan from time to time or may terminate it in its entirety; provided, however, that no such action shall, without the consent of a Nonemployee Director, affect the rights in any Common Stock Units issued to such Nonemployee Director; and further provided, that, any amendment which must be approved by the shareholders of the Company in order to comply with applicable law or the rules of any national securities exchange or securities listing service upon which the Shares are traded or quoted shall not be effective unless and until such approval is obtained. Presentation of the Plan or any amendment thereof for shareholder approval shall not be construed to limit the Company's authority to offer similar or dissimilar benefits in plans that do not require shareholder approval.

7.3 ADJUSTMENTS. In the event of any change in the outstanding Common Stock by reason of (a) any stock dividend, stock split, combination of shares, recapitalization or any other change in the capital structure of the Company, (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing, the number or kind of Shares that may be issued under the Plan and the number of Common Stock Units credited to a Nonemployee Director automatically shall be adjusted so that the proportionate interest of the Nonemployee Directors shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes with respect to the Plan.

7.4 SUCCESSORS. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and to agree to perform this Plan in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Plan shall be binding upon and inure to the benefit of the Company and any successor of or to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by sale, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purpose of this Plan), and the heirs, beneficiaries, executors and administrators of each Nonemployee Director.

## ARTICLE VIII. SHARES SUBJECT TO PLAN

Subject to adjustment as provided in this Plan, the total number of Shares of Common Stock which may be issued under this Plan shall be Four Hundred Fifty Thousand (450,000). Shares may be shares of original issuance or treasury shares or a combination of the foregoing.

## ARTICLE IX. EFFECTIVE DATE; APPROVAL BY SHAREHOLDERS

The Plan shall be effective as of May 6, 2004, and shall be submitted for approval by the shareholders of the Company at the 2005 annual shareholders' meeting. If such approval is not obtained at such meeting, this Plan shall be nullified and all Common Stock Units issued prior to such annual meeting shall be canceled automatically.

## ARTICLE X. GENERAL PROVISIONS

10.1 NO CONTINUING RIGHT TO SERVE AS A DIRECTOR. Neither the adoption or of this Plan, nor any document describing or referring to this Plan, or any part thereof, shall confer upon any Nonemployee Director any right to continue as a director of the Company or any subsidiary of the Company.

10.2 RIGHTS AS A SHAREHOLDER. Until the vesting of a Common Stock Unit, a Nonemployee Director shall have none of the rights of a shareholder with respect to his or her Common Stock Units. Upon the vesting of a Common Stock Unit, the Nonemployee Director shall have the right to receive a Share for such Common Stock Unit, shall be deemed to be the owner of such Share which shall be deemed to be issued and outstanding, and shall have all of the rights of a shareholder with respect to such Share.

10.3 GOVERNING LAW. The provisions of this Plan shall be governed by construed in accordance with the laws of the State of Florida.

10.4 WITHHOLDING TAXES. To the extent that the Company is required to withhold Federal, state or local taxes in connection with any component of a Nonemployee Director's compensation in cash or Shares, and the amounts available to Company for such withholding are insufficient, it shall be a condition the receipt of any Shares that the Nonemployee Director make arrangements satisfactory to the Company for the payment of the balance of such taxes required to be withheld, which arrangement may include relinquishment of the Shares. The Company and a Nonemployee Director may also make similar arrangements with respect to payment of any other taxes derived from or related to the payment of Shares with respect to which withholding is not required.

10.5 MISCELLANEOUS. Headings are given to the sections of this Plan as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of this Plan or any provisions thereof. The use of the singular shall also include within its meaning the plural, and vice versa.

**EXHIBIT 10.2**

# EMPLOYMENT AGREEMENT

PLEASE READ THIS AGREEMENT CAREFULLY. THIS AGREEMENT DESCRIBES THE BASIC LEGAL AND ETHICAL RESPONSIBILITIES THAT YOU ARE REQUIRED TO OBSERVE AS AN EXECUTIVE EXPOSED TO HIGHLY SENSITIVE TECHNOLOGY AND STRATEGIC INFORMATION. CONSULT WITH YOUR LEGAL COUNSEL IF ALL THE TERM OR RENEWAL PERIOD AND PROVISIONS OF THIS AGREEMENT ARE NOT FULLY UNDERSTOOD BY YOU.

THIS AGREEMENT is made as of the 6th day of March, 2004, by and between SYKES ENTERPRISES, INCORPORATED, a Florida corporation (the "Company"), and W. MICHAEL KIPPHUT (the "Executive").

**W I T N E S S E T H :**

WHEREAS, the Company desires to assure itself of the Executive's continued employment in an executive capacity as the Company's Group Executive and Senior Vice President, Finance; and

WHEREAS, the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree as follows:

1. EMPLOYMENT AND DUTIES. Subject to the terms and conditions of this Agreement, the Company shall employ the Executive during the Term (as hereinafter defined) as its Group Executive and Senior Vice President, Finance. The Executive shall report to the Office of the Chairman, which will comprise the Chairman of the Board of Directors, the Chief Executive Officer, and the President of the Company. The Executive accepts such employment and agrees to devote his/her best efforts and entire business time, skill, labor, and attention to the performance of such duties. During the Term, the Executive agrees to promptly provide a description of any other commercial duties or pursuits engaged in by the Executive to the Company's Board of Directors. If the Board of Directors determines in good faith that such activities conflict with the Executive's performance of his/her duties hereunder, the Executive shall promptly cease such activities to the extent as directed by the Board of Directors. It is acknowledged and agreed that such description shall be made regarding any such activities in which the Executive owns more than 5% of the ownership of the organization or which may be in violation of Section 5 hereof, and that the failure of the Executive to provide any such description shall enable the Company to terminate the Executive for Cause (as provided in Section 6(c) hereof). The Company agrees to hold any such information provided by the Executive confidential and not disclose the same to any person other than a person to whom disclosure is reasonably necessary or appropriate in light of the circumstances. In addition, the Executive agrees to serve without additional compensation if elected or appointed to any office or position, including as a director, of the Company or any subsidiary or affiliate of the Company; provided, however, that the Executive shall be entitled to receive such benefits and additional compensation, if any, that is paid to executive officers of the Company in connection with such service.

2. TERM. Subject to the terms and conditions of this Agreement, including, but not limited to, the provisions for termination set forth in Section 6 hereof, the employment of the Executive under this Agreement shall commence on the effective date hereof and shall continue through and including the close of business on the date set forth on Exhibit A attached hereto and incorporated herein (such Term shall herein be defined as the "Term"). Provided, however, that the Term shall renew automatically for successive two (2) year periods ("Renewal Periods") unless either party gives written notice of termination at least that number of days set forth on Exhibit A before the end of the Term or

Renewal Period, as applicable ("Renewal Notice Period"). The Executive agrees that some portions of this Agreement, including Sections 4, 5, AND 6 hereof, will remain in force after the termination of this Agreement.

3. COMPENSATION.

(a) Base Salary and Bonus. As compensation for the Executive's services under this Agreement, the Executive shall receive and the Company shall pay a weekly base salary set forth on Exhibit A. Such base salary may be increased but not decreased during the Term in the Company's discretion based upon the Executive's performance and any other factors the Company deems relevant. Such base salary shall be payable in accordance with the policy then prevailing for the Company's executives. In addition to such base salary, the Executive shall be entitled during the Term to a performance bonus set forth on Exhibit A and to participate in and receive payments from, at the Company's election, other bonus and other incentive compensation plans, if any, as may be adopted by the Company and made available to other similarly-situated executive officers of the Company.

(b) Payments. All amounts paid pursuant to this Agreement shall be subject to withholding or deduction by reason of the Federal Insurance Contribution Act, federal income tax, state and local income tax, if any, and comparable laws and regulations.

(c) Other Benefits. The Executive shall be reimbursed by the Company for all reasonable and customary travel and other business expenses incurred by the Executive in the performance of the Executive's duties hereunder in accordance with the Company's standard policy regarding expense verification practices. The Executive shall be entitled to that number of weeks paid vacation per year that is available to other executive officers of the Company in accordance with the Company's standard policy regarding vacations and such other fringe benefits as may be set forth on Exhibit A and shall be eligible to participate in such pension, life insurance, health insurance, disability insurance, and other executive benefits plans, if any, which the Company may from time to time make available to its similarly-situated executive officers generally.

4. CONFIDENTIAL INFORMATION.

(a) The Executive has acquired and will acquire information and knowledge respecting the intimate and confidential affairs of the Company, including, without limitation, confidential information with respect to the Company's technical data, research and development projects, methods, products, software, financial data, business plans, financial plans, customer lists, business methodology, processes, production methods and techniques, promotional materials and information, and other similar matters treated by the Company as confidential (the "Confidential Information"). Accordingly, the Executive covenants and agrees that during the Executive's employment by the Company (whether during the Term or Renewal Period hereof or otherwise) and thereafter, the Executive shall not, without the prior written consent of the Company, disclose to any person, other than a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Executive of the Executive's duties hereunder, any Confidential Information obtained by the Executive while in the employ of the Company.

(b) The Executive agrees that all memoranda; notes; records; papers or other documents; computer disks; computer, video or audio tapes; CD-ROMs; all other media and all copies thereof relating to the Company's operations or business, some of which may be prepared by the Executive; and all objects associated therewith in any way obtained by the Executive shall be the Company's property. This shall include, but is not limited to, documents; computer disks; computer, video and audio tapes; CD-ROMs; all other media and objects concerning any technical data, methods, products, software, research and development projects, financial data, financial plans, business plans, customer lists, contracts, price lists, manuals, mailing lists, advertising materials; and all other materials and records of any kind that may be in the Executive's possession or under the Executive's control. The Executive shall not, except for the Company's use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during the Executive's employment or thereafter. The Executive covenants and agrees that the Executive will deliver all of the aforementioned documents and objects, if any, that may be in the Executive's possession to the Company upon termination of the Executive's employment, or at any other time at the Company's request.

(c) In any action to enforce or challenge these Confidential Information provisions, the prevailing party is entitled to recover its attorney's fees and costs.

5. COVENANT NOT-TO-COMPETE AND NO SOLICITATION. Executive recognizes that the Company is in the business of employing individuals to provide specialized and technical services to the Company's Clients. The purpose of these Covenant Not-to-Compete and No Solicitation provisions are to protect the relationship which exists between the Company and its Client while Executive is employed and after Executive leaves the employ of the Company. The consideration for these Covenant Not-to-Compete and No Solicitation provisions is the Executive's employment with the Company.

(a) Executive acknowledges the following:

(1) The Company expended considerable resources in obtaining contracts with its Clients;

(2) The Company expended considerable resources to recruit and hire employees who could perform services for its Clients;

(3) Through his/her employ with the Company, Executive will develop a substantial relationship with the Company's existing or potential Clients;

(4) Executive will be exposed to valuable confidential business information about the Company, its Clients, and the Company's relationship with its Client;

(5) By providing services on behalf of the Company, Executive will develop and enhance the valuable business relationship between the Company and its Client;

(6) The relationship between the Company and its Client depends on the quality and quantity of the services Executive performs;

(7) Through employment with the Company, Executive will increase his/her opportunity to work directly for the Client or for a competitor of the Company; and

(8) The Company will suffer irreparable harm if Executive breaches these Covenant Not-to-Compete and No Solicitation provisions of this Agreement.

(b) Executive agrees that:

(1) The relationship between the Company and its Client (developed and enhanced when the Executive performs services on behalf of the Company) is a legitimate business interest for the Company to protect;

(2) The Company's legitimate business interest is protected by the existence and enforcement of these Covenant Not-to-Compete and No Solicitation provisions;

(3) The business relationship which is created or exists between the Company and its Client, or the goodwill resulting from it, is a business asset of the Company and not the Executive; and

(4) Executive will not seek to take advantage of opportunities which result from his/her employment with the Company and that entering into the Agreement containing Covenant Not-to-Compete and No Solicitation provisions is reasonable to protect the Company's business relationship with its Clients.

(c) Restrictions on Executive. During the term of this Agreement and for a period of time set forth on Exhibit A after the termination of this Agreement, for whatever reason, whether such termination was by the Company or the Executive, voluntarily or involuntarily, and whether with or without cause, Executive agrees that he/she shall not, as a principal, employer, stockholder, partner, agent, consultant, independent contractor, employee, or in any other individual or representative capacity:

(1) Directly or indirectly engage in, continue in, or carry on the business of the Company or any business substantially similar thereto, including owning or controlling any financial interest in any corporation, partnership, firm, or other form of business organization which competes with or is engaged in or carries on any aspect of such business or any business substantially similar thereto;

(2) Consult with, advise, or assist in any way, whether or not for consideration of any kind, any corporation, partnership, firm, or other business organization which is now, becomes, or may become a competitor of the Company in any aspect of the Company's business during the Executive's employment with the Company, including, but not limited to, advertising or otherwise endorsing the products of any such competitor or loaning money or rendering any other form of financial assistance to or engaging in any form of transaction whether or not on an arm's length basis with any such competitor;

(3) Provide or attempt to provide or solicit the opportunity to provide or advise others of the opportunity to provide any services of the type Executive performed for the Company or the Company's Clients (regardless of whether and how such services are to be compensated, whether on a salaried, time and materials, contingent compensation, or other basis) to or for the benefit of any Client (i) to which Executive has provided services in any capacity on behalf of the Company, or (ii) to which Executive has been introduced to or about which the Executive has received information through the Company or through any Client from which Executive has performed services in any capacity on behalf of the Company;

(4) Retain or attempt to retain, directly or indirectly, for itself or any other party, the services of any person, including any of the Company's employees, who were providing services to or on behalf of the Company while Executive was employed by the Company and to whom Executive has been introduced or about whom Executive has received information through the Company or through any Client for which Executive has performed services in any capacity on behalf of the Company;

(5) Engage in any practice, the purpose of which is to evade the provisions of this Agreement or to commit any act which is detrimental to the successful continuation of or which adversely affects the business or the Company; provided, however, that the foregoing shall not preclude the Executive's ownership of not more than 2% of the equity securities of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934, as amended; or

(6) For purpose of these Covenant Not-to-Compete and No Solicitation provisions, Client includes any subsidiaries, affiliates, customers, and clients of the Company's Clients. The Executive agrees that, for the purpose of Sections 5(c)(1), 5(c)(2), and 5(c)(4), the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area that is within 50 miles of any of the Company's business locations. For purposes of Section
5(c)(3), the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area where the Company's Clients conduct business at any time during the Term of this Agreement. For purposes, this Agreement, "Clients" means any person or entity to which the Company provides or has provided within a period of one
(1) year prior to the Executive's termination of employment, labor, materials or services for the furtherance of such entity's or person's business or any person or entity that within such period of one (1) year the Company has pursued or communicated with for the purpose of obtaining business for the Company.

(d) Enforcement. These Covenant Not-to-Compete and No Solicitation provisions shall be construed and enforced under the laws of the State of Florida. In the event of any breach of this Covenant Not-to-Compete, the Executive recognizes that the remedies at law will be inadequate, and that in addition to any relief at law which may be available to the Company for such violation or breach and regardless of any other provision contained in this Agreement, the Company shall be entitled to equitable remedies (including an injunction) and such other relief as a court may grant after considering the intent of this Section 5. It is further acknowledged and agreed that the existence of any claim or cause of action on the part of the Executive against the Company, whether arising from this Agreement or otherwise, shall in no way constitute a defense to the enforcement of this Covenant Not-to-Compete, and the duration of this Covenant Not-to-Compete shall be extended in an amount which equals the time period during which the Executive is or has been in violation of this Covenant Not-to-Compete. In the event a court of competent jurisdiction determines that the provisions of this Covenant Not-to-Compete are excessively broad as to duration, geographic scope, prohibited activities or otherwise, the parties agree that this covenant shall be reduced or curtailed only to the extent necessary to render it enforceable.

e) In an action to enforce or challenge these Covenant Not-to-Compete and No Solicitation provisions, the prevailing party is entitled to recover its attorney's fees and costs.

f) By signing this Agreement, the Executive acknowledges that he/she understands the effects of these Covenant Not-to-Compete and No Solicitation provisions and agrees to abide by them.

6. TERMINATION

(a) Death. The Executive's employment hereunder shall terminate upon his/her death. The Company shall pay Executive's estate all accrued but unpaid base salary and bonus and all accrued but unused vacation time through the date of death.

(b) Disability. If during the Term the Executive becomes physically or mentally disabled in accordance with the terms and conditions of any disability insurance policy covering the Executive, or, if due to such physical or mental disability the Executive becomes unable for a period of more than six (6) consecutive months to perform his/her duties hereunder on substantially a full-time basis as determined by the Company in its reasonable discretion, the Company may, at its option, terminate the Executive's employment hereunder upon not less than thirty (30) days' written notice.

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause effective immediately upon notice. For purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder:
(i) if the Executive engages in conduct which has caused or is reasonably likely to cause demonstrable and serious injury to Company; (ii) if the Executive is convicted of a felony as evidenced by a binding and final judgment, order, or decree of a court of competent jurisdiction; (iii) for the Executive's neglect of his/her duties hereunder or the Executive's refusal to perform his/her duties or responsibilities hereunder as determined by the Company's Board of Directors in good faith; (iv) consistent failure to achieve goals established by the Board of Directors or their designee(s), provided that such goals are presented in writing or otherwise communicated to Executive; (v) gross incompetence; (vi) for the Executive's violation of this Agreement, including, without limitation,
Section 5 hereof; (vii) chronic absenteeism; (viii) for use of illegal drugs;
(ix) insobriety by the Executive while performing his or her duties hereunder; and (x) for any act of dishonesty or falsification of reports, records, or information submitted by the Executive to the Company.

(d) Non-Compete Payment. In the event of a termination of the Executive's employment pursuant to Section 6 or by the Executive, all payments and Company benefits to the Executive hereunder, except the payments (if any) specified in
Section 6(a) above or provided below, shall immediately cease and terminate. In the event of termination by the Company of the Executive's employment with the Company for any reason other than pursuant to Section 6(c), the Covenant Not-to-Compete set forth in Section 5 hereof shall remain in full force and effect through the full stated Term of this Agreement; and additionally, from the end of the Term of this Agreement through the non-

compete period stated on Exhibit "A", the Company shall pay the Executive Not-to-Compete pay in equal biweekly installments ("Non-Compete Payment Installments") in the amount set forth on Exhibit A ("Non-Compete Payment"). Such Non-Compete Payment, however, shall not be required to be paid by the Company if the Company elects, in its sole discretion, to release the Executive from the Covenant Not-to-Compete set forth in Section 5 hereof. Additionally, if the Company commences paying Executive Non-Compete Payment Installments and subsequently elects in the future, in its sole discretion, to release Executive from the Covenant Not-to-Compete and gives notice to Executive, then, at the effective date of such notice, Executive shall no longer be subject to the Covenant Not-to-Compete, and no further Non-Compete Payment Installment shall be due or payable to Executive. If the Company terminates the Executive's employment pursuant to Section 6(c) or the Executive terminates such employment, the Executive shall not be entitled to the Non-Compete Payment, and the Covenant Not-to-Compete set forth in Section 5 hereof shall remain in full force and effect. Notwithstanding anything to the contrary herein contained, the Executive shall receive all compensation and other benefits to which he or she was entitled under this Agreement or otherwise as an executive of the Company through the termination date.

7. NOTICE. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when hand-delivered, sent by telecopier, facsimile transmission, or other electronic means of transmitting written documents (as long as receipt is acknowledged) or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive, to the address set forth on the signature page.

If to the Company:

Sykes Enterprises, Incorporated
400 North Ashley Drive, Suite 2800
Tampa, Florida 33602
Attention: Group Executive and Sr. VP Human Resources

with a copy to:

Sykes Enterprises, Incorporated
400 North Ashley Drive, Suite 2800
Tampa, Florida 33602
Attention: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that a notice of change of address shall be effective only upon receipt.

8. ENFORCEMENT AND GOVERNING LAW. It is stipulated that a breach by Executive of the restrictive covenants set forth in Sections 4 and 5 of this Agreement will cause irreparable damage to Company or its Clients, and that in the event of any breach of those provisions, Company is entitled to injunctive relief restraining Executive from violating or continuing a violation of the restrictive covenants as well as other remedies it may have. Additionally, such covenants shall be enforceable against the Executive's successors or assigns or by successor assigns.

The validity, interpretation, construction, and performance of this Agreement shall be governed by the internal laws of the State of Florida. Any litigation to enforce this Agreement shall be brought in the state or federal courts of Hillsborough County, Florida, which is the principal place of business for Company and which is considered to be the place where this Agreement is made. Both parties hereby consent to such courts' exercise of personal jurisdiction over them.

In the event action is brought by either party to enforce any of the terms and conditions set forth herein, the prevailing party is entitled to recover its reasonable attorneys' fees and costs.

9. MISCELLANEOUS. No provision of this Agreement may be modified or waived unless such waiver or modification is agreed to in writing signed by the parties hereto. No waiver by any party hereto of any breach by any other party hereto shall be deemed a waiver of any similar or dissimilar term or condition at the same or at any prior or subsequent time. This Agreement is the entire agreement between the parties hereto with respect to the Executive's employment by the Company and there are no agreements or representations, oral or otherwise, expressed or implied, with respect to or related to the employment of the Executive which are not set forth in this Agreement. Any prior agreement relating to the Executive's employment with the Company is hereby superseded and void, and is no longer in effect. This Agreement shall be binding upon and inure to the benefit of the Company, its respective successors and assigns, and the Executive and his/her heirs, executors, administrators and legal representatives. Except as expressly set forth herein, no party shall assign any of his/her or its rights under this Agreement without the prior written consent of the other party and any attempted assignment without such prior written consent shall be null and void and without legal effect. The parties agree that if any provision of this Agreement shall under any circumstances be deemed invalid or inoperative, the Agreement shall be construed with the invalid or inoperative provision deleted and the rights and obligations of the parties shall be construed and enforced accordingly. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute but one and the same instrument. This Agreement has been negotiated and no party shall be considered as being responsible for such drafting for the purpose of applying any rule construing ambiguities against the drafter or otherwise.

10. PLACE OF PERFORMANCE. During the Term, Executive's principal place of business shall be located in Tampa, Florida.

11. TERMINATION AFTER CHANGE OF CONTROL. In the event Executive's employment hereunder is terminated by the Company for any reasons set forth in
Section 6(a), (b), or (c), or by the Executive (other than for Good Reason, defined herein below), then this Section 11, dealing with Change of Control, shall have no effect, and Executive shall not be entitled to any Change of Control Termination Payment in such event. If, however, Executive's employment hereunder is terminated after a Change of Control (i) by the Executive for Good Reason; or (ii) by the Company (or any successor thereto or assignee thereof) other than pursuant to Section 6(a), (b), or (c), then, in that event, Executive shall receive (in equal installments over two years and in accordance with Company policy immediately prior to such termination) an amount to be determined by multiplying by two (2) Executive's base salary and earned bonus (regardless of whether such bonus is paid by the Company) for the calendar year immediately prior to such termination ("Change of Control Termination Payment"). A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, immediately after the annual meeting of shareholders of the Company held in 2003, constituted the Board of Directors and any new directors (other than directors whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved by a vote or at least two-thirds (2/3) of the directors then still in office who either were directors immediately after the annual meeting of shareholders of the Company held in 2003 or whose appointment, election or nomination for election was previously so approved; or

(ii) the stockholders of the Company approve a merger, consolidation or share exchange of the Company with any other corporation or approve the issuance of voting securities of the Company in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company outstanding immediately prior to such merger, consolidation or share continuing to represent (either by remaining outstanding or by being converted into the right to receive voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than John H. Sykes) is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after the annual meeting of shareholders of the Company held in 2003 pursuant to express authorization by the Board that refers to this exception) representing 45% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

(iii) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity at least 75% of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity that owns all or substantially all of the assets the Company immediately following such transaction or series of transactions.

The Executive may terminate his own employment pursuant to and only after the condition of this Section 11 has occurred for Good Reason; and the Company expressly acknowledges and agrees that, upon such termination, the Executive shall be entitled to the Change of Control Termination Payment, as hereinafter defined, to which the Executive, but for such termination, would otherwise be entitled. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following events subsequent to a Change of Control:
(i) any reduction of the Base Salary or any other compensation or benefits (other that the Performance Bonus); or (ii) any other material adverse change to the terms and conditions of the Executive's employment, including but not limited to any diminution of the Customary Duties (as herebelow defined).

Subsequent to a Change of Control, the Executive shall continue to hold such office and such level of authority and responsibility within the Company either (a) as was held immediately prior to such Change of Control or
(b) of such scope, importance and influence as is customarily associated with the office held by him at the time of such Change of Control (hereinafter collectively referred to as the "Customary Duties").

12. ARBITRATION OF DISPUTES.

(a) Duty to Arbitrate. Except for any claim by the Company to enforce the restrictive covenants set forth in Sections 4 and 5 above, Company and Executive agree to resolve by binding arbitration any claim or controversy arising out of or related to Executive's employment by Company or this Agreement, to include all matters directly or indirectly related to your recruitment, employment or termination of employment by the Company including, but not limited to claims involving laws against discrimination whether brought under federal and /or state law, and/or claims involving co-employees but excluding workers compensation claims, whether such claim is based in contract, tort, statute, or any other legal theory, including any claim for damages, equitable relief, or both. The duty to arbitrate under this Section extends to any claim by or against any officer, director, shareholder, employee, agent, representative, parent, subsidiary, affiliate, heir, trustee, legal representative, successor, or assign of either party making or defending any claim that would otherwise be arbitrable under this Section. However, this Section shall not be interpreted to preclude either party from petitioning a court of competent jurisdiction for temporary injunctive relief, solely to preserve the status quo pending arbitration of the claim or controversy, upon a proper showing of the need for such relief.

(b) The Arbitrator. A single arbitrator will conduct the arbitration in Tampa, Florida, U.S.A., in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "Rules"), and judgment upon the written award rendered by the arbitrator may be entered in any court of competent jurisdiction. Notwithstanding the application of the Rules, however, discovery in the arbitration, including interrogatories, requests for production, requests for admission, and depositions, will be fully available and

governed by the Federal Rules of

Civil Procedure and Local Rules of the United States District Court for the Middle District of Florida. The parties may agree upon a person to act as sole arbitrator within thirty (30) days after submission of any claim or controversy to arbitration pursuant to this Section. If the parties are unable to agree upon such a person within such time period, an arbitrator shall be selected in accordance with the Rules. The arbitrator will not have the power to award punitive or exemplary damages.

(c) Limitations Period. The parties agree that any claim or controversy that would be arbitrable under this Section must be submitted to arbitration within one (1) year after the claim or controversy arises and that a failure to institute arbitration proceedings within such time period shall constitute an absolute bar to the institution of any proceedings, in arbitration or in any court, and a waiver of all such claims. This Section will survive the expiration or early termination of this Agreement.

(d) Governing Law. This Agreement shall be governed in its construction, interpretation, and performance by the laws of the State of Florida, without reference to law pertaining to conflict of laws. However, the Federal Arbitration Act, as amended, will govern the interpretation and enforcement of this Section.

(e) Attorneys' Fees. The prevailing party in any arbitration or dispute, or in any litigation, arising out of or related to Executive's employment by Company or this Agreement, shall be entitled to recover all costs and reasonable attorneys' fees incurred on all levels and in all proceedings, including, but not limited to, arbitration, filing, hearing, processing, and witness fees, and any other costs and fees incurred, in any investigations, arbitrations, trials, bankruptcies, and appeals.

(f) Severability. Each part of this Section is severable. A holding that any part of this Section is unenforceable will not affect the duty to arbitrate under this Section.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

| SYKES ENTERPRISES, INCORPORATED | EXECUTIVE |
|---|---|
| By: /s/ Jenna R. Nelson | /s/ W. Michael Kipphut |
| | Address: ______________________________ |
| | ______________________________ |

# EXHIBIT A TO EMPLOYMENT AGREEMENT

| | |
|---|---|
| Term: | Through March 5, 2006 |
| Base Salary: | $7,086.54 per week |
| Performance Bonus: | 0% - 75% of annual base salary and based on the following components:<br><br>75% Consolidated EBIT<br>25% Key Performance Indicators ("KPI")<br><br>Performance bonus payments will be made in accordance with the Company's standard policy for the payment of performance bonuses. |
| Fringe Benefits: | Standard executive fringe benefits |
| Renewal Notice Period | Three hundred and sixty five (365) days |

**THE COMPANY RESERVES THE RIGHT, AT ITS SOLE DISCRETION, AT SUCH TIME OR TIMES AS IT ELECTS, TO CHANGE OR ELIMINATE BONUSES OR OTHER BENEFITS.**

IN WITNESS WHEREOF, the parties have executed this Exhibit A to the Employment Agreement as of the 6th day of March, 2004.

| | |
|---|---|
| *SYKES ENTERPRISES, INCORPORATED* | *EXECUTIVE* |
| *By: /s/ Jenna R. Nelson* | */s/ W. Michael Kipphut* |
| -------------------- | ------------------------ |

**Exhibit 10.3**

**AMENDMENT NUMBER 1 TO EXHIBIT "A" TO THAT CERTAIN EMPLOYMENT AGREEMENT BETWEEN SYKES ENTERPRISES, INCORPORATED AND CHARLES E. SYKES DATED AS OF JANUARY 1, 2004**

WHEREAS, Sykes Enterprises, Incorporated and Charles E. Sykes, entered into that certain Employment Agreement dated January 1, 2004 (the "Employment Agreement"); and

WHEREAS the parties desire to amend Exhibit "A" to the Employment Agreement (Exhibit A);

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree that such Exhibit "A" is hereby amended as set forth below.

1. The following section of Exhibit "A" shall be amended as follows:

Base Salary: Effective May 7, 2004 and continuing through the end of the Term, (subject to termination or amendment as may be provided for in the Employment Agreement) the base salary will increase from $5,769.23 per week to $6,730.76 per week, payable bi-weekly.

2. The following section shall be added to Exhibit A:

Title: Effective May 7, 2004, and continuing through the end of the Term, (subject to termination or amendment as may be provided for in the Employment Agreement) the Employee shall serve in the positions of President and Chief Operating Officer.

IN WITNESS WHEREOF, the parties have executed this "Amendment Number 1 to Exhibit A" effective as of the 7th day of May 2004.

**SYKES ENTERPRISES, INCORPORATED**

*By: /s/ Jenna R. Nelson*
---------------------------------------------------
*Jenna R. Nelson, Sr. Vice President, Human Resources*

*Date: 6/9/04*
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**Employee Acknowledged:**

*/s/ Charles E. Sykes*
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*Charles E. Sykes*

*Date: 6/9/04*
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**EXHIBIT 10.4**

**[SYKES LOGO]**

# EMPLOYMENT AGREEMENT

PLEASE READ THIS AGREEMENT CAREFULLY. THIS AGREEMENT DESCRIBES THE BASIC LEGAL AND ETHICAL RESPONSIBILITIES THAT YOU ARE REQUIRED TO OBSERVE AS AN EXECUTIVE EXPOSED TO HIGHLY SENSITIVE TECHNOLOGY AND STRATEGIC INFORMATION. CONSULT WITH YOUR LEGAL COUNSEL IF ALL THE TERM OR RENEWAL PERIOD AND PROVISIONS OF THIS AGREEMENT ARE NOT FULLY UNDERSTOOD BY YOU.

THIS AGREEMENT is made as of the 15th day of June 2004, by and between SYKES ENTERPRISES, INCORPORATED, a Florida corporation (the "Company"), and DAVID L. PEARSON (the "Executive").

**W I T N E S S E T H :**

WHEREAS, the Company desires to assure itself of the Executive's continued employment in an executive capacity; and

WHEREAS, the Executive desires to be employed by the Company on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto covenant and agree as follows:

1. EMPLOYMENT AND DUTIES. Subject to the terms and conditions of this Agreement, the Company shall employ the Executive during the Term or Renewal Period(s) (as hereinafter defined) in such management capacities as may be assigned from time to time by the Company. The Executive accepts such employment and agrees to devote his/her best efforts and entire business time, skill, labor, and attention to the performance of such duties. The Executive agrees to promptly provide a description of any other commercial duties or pursuits engaged in by the Executive to the Company's Board of Directors. If the Board of Directors determines in good faith that such activities conflict with the Executive's performance of his/her duties hereunder, the Executive shall promptly cease such activities to the extent as directed by the Board of Directors. It is acknowledged and agreed that such description shall be made regarding any such activities in which the Executive owns more than 5% of the ownership of the organization or which may be in violation of Section 5 hereof, and that the failure of the Executive to provide any such description shall enable the Company to terminate the Executive for Cause (as provided in Section 6(c) hereof). The Company agrees to hold any such information provided by the Executive confidential and not disclose the same to any person other than a person to whom disclosure is reasonably necessary or appropriate in light of the circumstances. In addition, the Executive agrees to serve without additional compensation if elected or appointed to any office or position, including as a director, of the Company or any subsidiary or affiliate of the Company; provided, however, that the Executive shall be entitled to receive such benefits and additional compensation, if any, that is paid to executive officers of the Company in connection with such service.

2. TERM OR RENEWAL PERIOD. Subject to the Term or Renewal Period(s) and conditions of this Agreement, including, but not limited to, the provisions for termination set forth in Section 6 hereof, the employment of the Executive under this Agreement shall commence on the effective date hereof and shall continue for the term of employment stated in Exhibit A attached hereto and incorporated herein (such Term shall herein be defined as the "Term"). Provided, however, that this Agreement shall renew automatically for successive one (1) year periods ("Renewal Periods") unless either party gives written notice of termination at least that number of days set forth on Exhibit A before the end of the Term or Renewal Period, as applicable (the "Renewal Notice Period"). The Executive agrees that some portions of this Agreement, including Sections 4, 5, 6 and 10 hereof, will remain in force after the termination of this Agreement.

**Senior Vice President & Chief Information Officer**

3. COMPENSATION.

(a) Base Salary and Bonus. As compensation for the Executive's services under this Agreement, the Executive shall receive and the Company shall pay a weekly base salary set forth on Exhibit A. Such base salary may be increased but not decreased during the Term or Renewal Period in the Company's discretion based upon the Executive's performance and any other factors the Company deems relevant. Such base salary shall be payable in accordance with the policy then prevailing for the Company's executives. In addition to such base salary, the Executive shall be entitled during the Term or Renewal Period to a performance bonus set forth on Exhibit A and to participate in and receive payments from, at the Company's election, other bonus and other incentive compensation plans, if any, as may be adopted by the Company.

(b) Payments. All amounts paid pursuant to this Agreement shall be subject to withholding or deduction by reason of the Federal Insurance Contribution Act, federal income tax, state and local income tax, if any, and comparable laws and regulations.

(c) Other Benefits. The Executive shall be reimbursed by the Company for all reasonable and customary travel and other business expenses incurred by the Executive in the performance of the Executive's duties hereunder in accordance with the Company's standard policy regarding expense verification practices. The Executive shall be entitled to that number of weeks paid vacation per year that is available to other executive officers of the Company in accordance with the Company's standard policy regarding vacations and such other fringe benefits as may be set forth on Exhibit A and shall be eligible to participate in such pension, life insurance, health insurance, disability insurance, and other executive benefits plans, if any, which the Company may from time to time make available to its executive officers generally.

4. CONFIDENTIAL INFORMATION.

(a) The Executive has acquired and will acquire information and knowledge respecting the intimate and confidential affairs of the Company, including, without limitation, confidential information with respect to the Company's technical data, research and development projects, methods, products, software, financial data, business plans, financial plans, customer lists, business methodology, processes, production methods and techniques, promotional materials and information, and other similar matters treated by the Company as confidential (the "Confidential Information"). Accordingly, the Executive covenants and agrees that during the Executive's employment by the Company (whether during the Term or Renewal Period hereof or otherwise) and thereafter, the Executive shall not, without the prior written consent of the Company, disclose to any person, other than a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Executive of the Executive's duties hereunder, any Confidential Information obtained by the Executive while in the employ of the Company.

(b) The Executive agrees that all memoranda; notes; records; papers or other documents; computer disks; computer, video or audio tapes; CD-ROMs; all other media and all copies thereof relating to the Company's operations or business, some of which may be prepared by the Executive; and all objects associated therewith in any way obtained by the Executive shall be the Company's property. This shall include, but is not limited to, documents; computer disks; computer, video and audio tapes; CD-ROMs; all other media and objects concerning any technical data, methods, products, software, research and development projects, financial data, financial plans, business plans, customer lists, contracts, price lists, manuals, mailing lists, advertising materials; and all other materials and records of any kind that may be in the Executive's possession or under the Executive's control. The Executive shall not, except for the Company's use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during the Executive's employment or thereafter. The Executive covenants and agrees that the Executive will deliver all of the aforementioned documents and objects, if any, that may be in the Executive's possession to the Company upon termination of the Executive's employment, or at any other time at the Company's request.

(c) In any action to enforce or challenge these Confidential Information provisions, the prevailing party is entitled to recover its attorney's fees and costs.

5. COVENANT NOT-TO-COMPETE AND NO SOLICITATION. Executive recognizes that the Company is in the business of employing individuals to provide specialized and technical services to the Company's Clients. The purpose of these Covenant Not-to-Compete and No Solicitation provisions are to protect the relationship which exists between the Company and its Client while Executive is employed and after Executive leaves the employ of the Company. The consideration for these Covenant Not-to-Compete and No Solicitation provisions is the Executive's employment with the Company.

(a) Executive acknowledges the following:

(1) The Company expended considerable resources in obtaining contracts with its Clients;

(2) The Company expended considerable resources to recruit and hire employees who could perform services for its Clients;

(3) Through his/her employ with the Company, Executive will develop a substantial relationship with the Company's existing or potential Clients, including, but not limited to, being the sole or primary contact between the Client and the Company;

(4) Executive will be exposed to valuable confidential business information about the Company, its Clients, and the Company's relationship with its Client;

(5) By providing services on behalf of the Company, Executive will develop and enhance the valuable business relationship between the Company and its Client;

(6) The relationship between the Company and its Client depends on the quality and quantity of the services Executive performs;

(7) Through employment with the Company, Executive will increase his/her opportunity to work directly for the Client or for a competitor of the Company; and

(8) The Company will suffer irreparable harm if Executive breaches these Covenant Not-to-Compete and No Solicitation provisions of this Agreement.

(b) Executive agrees that:

(1) The relationship between the Company and its Client (developed and enhanced when the Executive performs services on behalf of the Company) is a legitimate business interest for the Company to protect;

(2) The Company's legitimate business interest is protected by the existence and enforcement of these Covenant Not-to-Compete and No Solicitation provisions;

(3) The business relationship which is created or exists between the Company and its Client, or the goodwill resulting from it, is a business asset of the Company and not the Executive; and

(4) Executive will not seek to take advantage of opportunities which result from his/her employment with the Company and that entering into the Agreement containing Covenant Not-to-Compete and No Solicitation provisions is reasonable to protect the Company's business relationship with its Clients.

**Senior Vice President & Chief Information Officer**

(c) Restrictions on Executive. During the Term or Renewal Period(s) of this Agreement and for a period of time set forth on herein after the termination of this Agreement, for whatever reason, whether such termination was by the Company or the Executive, voluntarily or involuntarily, and whether with or without cause, Executive agrees that he/she shall not, as a principal, employer, stockholder, partner, agent, consultant, independent contractor, employee, or in any other individual or representative capacity:

(1) Directly or indirectly engage in, continue in, or carry on the business of the Company or any business substantially similar thereto, including owning or controlling any financial interest in any corporation, partnership, firm, or other form of business organization which competes with or is engaged in or carries on any aspect of such business or any business substantially similar thereto;

(2) Consult with, advise, or assist in any way, whether or not for consideration of any kind, any corporation, partnership, firm, or other business organization which is now, becomes, or may become a competitor of the Company in any aspect of the Company's business during the Executive's employment with the Company, including, but not limited to, advertising or otherwise endorsing the products of any such competitor or loaning money or rendering any other form of financial assistance to or engaging in any form of transaction whether or not on an arm's length basis with any such competitor;

(3) Provide or attempt to provide or solicit the opportunity to provide or advise others of the opportunity to provide any services of the type Executive performed for the Company or the Company's Clients (regardless of whether and how such services are to be compensated, whether on a salaried, time and materials, contingent compensation, or other basis) to or for the benefit of any Client (i) to which Executive has provided services in any capacity on behalf of the Company, or (ii) to which Executive has been introduced to or about which the Executive has received information through the Company or through any Client from which Executive has performed services in any capacity on behalf of the Company;

(4) Retain or attempt to retain, directly or indirectly, for itself or any other party, the services of any person, including any of the Company's employees, who were providing services to or on behalf of the Company while Executive was employed by the Company and to whom Executive has been introduced or about whom Executive has received information through the Company or through any Client for which Executive has performed services in any capacity on behalf of the Company;

(5) Engage in any practice, the purpose of which is to evade the provisions of this Agreement or to commit any act which is detrimental to the successful continuation of or which adversely affects the business or the Company; provided, however, that the foregoing shall not preclude the Executive's ownership of not more than 2% of the equity securities of a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934, as amended;

(6) For purpose of these Covenant Not-to-Compete and No Solicitation provisions, Client includes any subsidiaries, affiliates, customers, and clients of the Company's Clients. The Executive agrees that the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area where the Company's Clients conduct business at any time during the Term or Renewal Period(s) of this Agreement. For purposes of this Agreement, "Clients" means any person or entity to which the Company provides or has provided within a period of one (1) year prior to the Executive's termination of employment, labor, materials or services for the furtherance of such entity's or person's business or any person or entity that within such period of one (1) year the Company has pursued or communicated with for the purpose of obtaining business for the Company.

(d) Enforcement. These Covenant Not-to-Compete and No Solicitation provisions shall be construed and enforced under the laws of the State of Florida. In the event of any breach of this Covenant Not-to-Compete, the Executive recognizes that the remedies at law will be inadequate, and that

in addition to any

relief at law which may be available to the Company for such violation or breach and regardless of any other provision contained in this Agreement, the Company shall be entitled to equitable remedies (including an injunction) and such other relief as a court may grant after considering the intent of this Section 5. It is further acknowledged and agreed that the existence of any claim or cause of action on the part of the Executive against the Company, whether arising from this Agreement or otherwise, shall in no way constitute a defense to the enforcement of this Covenant Not-to-Compete, and the duration of this Covenant Not-to-Compete shall be extended in an amount which equals the time period during which the Executive is or has been in violation of this Covenant Not-to-Compete. In the event a court of competent jurisdiction determines that the provisions of this Covenant Not-to-Compete are excessively broad as to duration, geographic scope, prohibited activities or otherwise, the parties agree that this covenant shall be reduced or curtailed only to the extent necessary to render it enforceable.

e) In an action to enforce or challenge these Covenant Not-to-Compete and No Solicitation provisions, the prevailing party is entitled to recover its attorney's fees and costs.

f) By signing this Agreement, the Executive acknowledges that he/she understands the effects of these Covenant Not-to-Compete and No Solicitation provisions and agrees to abide by them.

6. TERMINATION

(a) Death. The Executive's employment hereunder shall terminate upon his/her death.

(b) Disability. If during the Term or Renewal Period(s) the Executive becomes physically or mentally disabled in accordance with the terms and conditions of any disability insurance policy covering the Executive, or, if due to such physical or mental disability the Executive becomes unable for a period of more than six (6) consecutive months to perform his/her duties hereunder on substantially a full-time basis as determined by the Company in its sole reasonable discretion, the Company may, at its option, terminate the Executive's employment hereunder upon not less than thirty (30) days' written notice.

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause effective immediately upon notice. For purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder:
(i) if the Executive engages in conduct which has caused or is reasonably likely to cause demonstrable and serious injury to Company; (ii) if the Executive is convicted of a felony as evidenced by a binding and final judgment, order, or decree of a court of competent jurisdiction; (iii) for the Executive's neglect of his/her duties hereunder or the Executive's refusal to perform his/her duties or responsibilities hereunder as determined by the Company's Board of Directors in good faith; (iv) consistent failure to achieve goals established by the Board of Directors or their designee(s); (v) gross incompetence; (vi) for the Executive's violation of this Agreement, including, without limitation, Section 5 hereof; (vii) chronic absenteeism; (viii) for use of illegal drugs; (ix) insobriety by the Executive while performing his or her duties hereunder; and
(x) for any act of dishonesty or falsification of reports, records, or information submitted by the Executive to the Company.

(d) Payments Upon Termination. In the event of a termination of the Executive's employment pursuant to Section 6 or by the Executive, all payments and Company benefits to the Executive hereunder, except the payments (if any) provided below, shall immediately cease and terminate. In the event of an early termination by the Company of the Executive's employment with the Company for any reason other than pursuant to Section 6(a)(b)(c), the Company shall pay the Executive an amount equal to the Liquidated Damages defined in (e) below (in lieu of actual damages) for the early termination of his/her employment. In the event of a termination of the Executive's employment for any reason other than pursuant to Section 6(a)(b)(c), the Covenant Not-to-Compete set forth in Section 5 hereof shall remain in full force and effect for the period set forth in (e) below. If the Company terminates the Executive's employment pursuant to Section 6(a)(b)(c) or the Executive terminates such employment, the Executive shall not be entitled to any Liquidated Damages and the Covenant Not-to-Compete set forth in Section 5 hereof shall remain in full force and effect as set forth in (e) below. Notwithstanding anything to the contrary herein contained, and in addition to any other compensation to which the Executive may be entitled to receive pursuant to this Agreement, the Executive shall receive all compensation and other benefits to which he or she was entitled under this Agreement or otherwise as an executive of the Company through the termination date. Executive shall not be entitled to any Liquidated Damages in the event the Company does not terminate this Agreement but elects not to renew this Agreement as permitted by Section 2 hereof.

(e) Liquidated Damages and Non-Competition/Solicitation. The Liquidated Damages ("Liquidated Damages") amount, if due as provided above, shall be equal to the weekly amount stated as Base Salary on Exhibit A, through the end of the Term or Renewal Period of the Agreement or for fifty two (52) weeks, whichever is greater. The provisions of Section 5 (the "Non-Competition/Solicitation Provisions") shall survive the early termination of this Agreement, by either party, and for any reason, through the end of the Term or Renewal Period of the Agreement or for fifty two (52) weeks, whichever is greater. Provided, however, the Company may elect, in its sole discretion, to release the Executive from all or any portion of the term of the Covenant Not-to-Compete set forth in Section 5 hereof. In the event the Company elects to release the Executive from such covenants, the amount of Liquidated Damages payable hereunder, if any, shall be reduced by an amount equal to the weekly amount stated as Base Salary on Exhibit A, times the number of weeks the Company has elected to release the Executive from such covenants. Provided however, notwithstanding anything herein to the contrary, the amount of Liquidated Damages shall not be less than the weekly amount stated as Base Salary on Exhibit A, times the number of weeks remaining between the early termination date and the end of the Term or Renewal Period. The amount of Liquidated Damages shall be paid biweekly in equal installments over such period. Not withstanding anything here to the contrary, the Non-Solicitation restrictions set forth in Section 5(c)(4) shall survive the termination of this Agreement and remain in effect for the greater of fifty two (52) full weeks following termination or the full stated Term or Renewal Period of this Agreement.

(f) Condition Precedent to Receipt of Liquidated Damages. Executive expressly agrees that in the event of a termination of this Agreement prior to the expiration of the Term or Renewal Period, Executive will execute an agreement containing the waiver and release provisions set forth on Exhibit "B." Executive agrees and acknowledges that the execution of such an agreement upon termination prior to the expiration of the Term or Renewal Period, is a condition precedent to the obligation of the Company to pay any Liquidated Damages hereunder. The provisions set forth in Exhibit "B" provide for the release and waiver of important rights and/or claims that Executive might have against the Company at the time of any early termination of this Agreement. Executive hereby represents and warrants that he /she has read the attached Exhibit "B" and fully and completely understands the provisions thereof.

7. WARRANTY AND INDEMNIFICATION.

Employee warrants that he/she is not a party to an employment agreement or restrictive covenant currently in existence which would prohibit his/her employment by Sykes or restrict his/her activities of employment with Sykes. Employee further agrees to indemnify and hold Sykes harmless from any and all suits, claims, or damages which arise out of the assertion by any other person, firm, or entity that such a restrictive covenant or employment agreement exists, has existed, or operates to control or restrict Employee's activities or conduct of employment by Sykes. Employee further agrees to reimburse Sykes, totally, for all legal expenses incurred by Sykes in defending any and all suits, claims, or damages which may arise out of the assertion by any other person, firm, or entity as it pertains to such a restrictive covenant or employment agreement as mentioned above. Employee agrees to allow Sykes to withhold any and all monies due Sykes (as referred to above) from outstanding wages, bonuses, commissions, or any other funds due the Employee, as allowable by law.

8. NOTICE. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when hand-delivered, sent by telecopier, facsimile transmission, or other electronic means of transmitting written documents (as long as receipt is acknowledged) or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive, to the address set forth on the signature page.

If to the Company:
Sykes Enterprises, Incorporated
400 North Ashley Drive, Suite 2800
Tampa, Florida 33602
Attention: Group Executive and Sr. VP Human Resources

**Senior Vice President & Chief Information Officer**

with a copy to:

Sykes Enterprises, Incorporated
400 North Ashley Drive, Suite 2800
Tampa, Florida 33602
Attention: General Counsel

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that a notice of change of address shall be effective only upon receipt.

9. ENFORCEMENT AND GOVERNING LAW. It is stipulated that a breach by Executive of the restrictive covenants set forth in Sections 4 and 5 of this Agreement will cause irreparable damage to Company or its Clients, and that in the event of any breach of those provisions, Company is entitled to injunctive relief restraining Executive from violating or continuing a violation of the restrictive covenants as well as other remedies it may have. Additionally, such covenants shall be enforceable against the Executive's successors or assigns or by successor assigns.

The validity, interpretation, construction, and performance of this Agreement shall be governed by the internal laws of the State of Florida. Any litigation to enforce this Agreement shall be brought in the state or federal courts of Hillsborough County, Florida, which is the principal place of business for Company and which is considered to be the place where this Agreement is made. Both parties hereby consent to such courts' exercise of personal jurisdiction over them.

10. ARBITRATION OF DISPUTES.

(a) Duty to Arbitrate. Except for any claim by the Company to enforce the restrictive covenants set forth in Sections 4 and 5 above, Company and Executive agree to resolve by binding arbitration any claim or controversy arising out of or related to Executive's employment by Company or this Agreement, to include all matters directly or indirectly related to your recruitment, employment or termination of employment by the Company including, but not limited to claims involving laws against discrimination whether brought under federal and /or state law, and/or claims involving co-employees but excluding workers compensation claims, whether such claim is based in contract, tort, statute, or any other legal theory, including any claim for damages, equitable relief, or both. The duty to arbitrate under this Section extends to any claim by or against any officer, director, shareholder, employee, agent, representative, parent, subsidiary, affiliate, heir, trustee, legal representative, successor, or assign of either party making or defending any claim that would otherwise be arbitrable under this Section. However, this Section shall not be interpreted to preclude either party from petitioning a court of competent jurisdiction for temporary injunctive relief, solely to preserve the status quo pending arbitration of the claim or controversy, upon a proper showing of the need for such relief.

(b) The Arbitrator. A single arbitrator will conduct the arbitration in Tampa, Florida, U.S.A., in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "Rules"), and judgment upon the written award rendered by the arbitrator may be entered in any court of competent jurisdiction. Notwithstanding the application of the Rules, however, discovery in the arbitration, including interrogatories, requests for production, requests for admission, and depositions, will be fully available and governed by the Federal Rules of Civil Procedure and Local Rules of the United States District Court for the Middle District of Florida. The parties may agree upon a person to act as sole arbitrator within thirty (30) days after submission of any claim or controversy to arbitration pursuant to this Section. If the parties are unable to agree upon such a person within such time period, an arbitrator shall be selected in accordance with the Rules. The arbitrator will not have the power to award punitive or exemplary damages.

(c) Limitations Period. The parties agree that any claim or controversy that would be arbitrable under this Section must be submitted to arbitration within one (1) year after the claim or controversy arises and that a failure to institute arbitration proceedings within such time period shall constitute an absolute bar to the institution of any proceedings, in arbitration or in any court, and a waiver of all such claims. This Section will survive the expiration or early termination of this Agreement.

(d) Governing Law. This Agreement shall be governed in its construction, interpretation, and performance by the laws of the State of Florida, without reference to law pertaining to conflict of laws. However, the Federal Arbitration Act, as amended, will govern the interpretation and enforcement of this Section.

(e) Attorneys' Fees. The prevailing party in any arbitration or dispute, or in any litigation, arising out of or related to Executive's employment by Company or this Agreement, shall be entitled to recover all costs and reasonable attorneys' fees incurred on all levels and in all proceedings, including, but not limited to, arbitration, filing, hearing, processing, and witness fees, and any other costs and fees incurred, in any investigations, arbitrations, trials, bankruptcies, and appeals.

(f) Severability. Each part of this Section is severable. A holding that any part of this Section is unenforceable will not affect the duty to arbitrate under this Section.

11. MISCELLANEOUS. No provision of this Agreement may be modified or waived unless such waiver or modification is agreed to in writing signed by the parties hereto; provided, however, that the terms of the performance bonus and fringe benefits set forth or Exhibit A may be amended by the Company in its discretion without the Executive's consent to the extent provided therein. No waiver by any party hereto of any breach by any other party hereto shall be deemed a waiver of any similar or dissimilar term or condition at the same or at any prior or subsequent time. This Agreement is the entire agreement between the parties hereto with respect to the Executive's employment by the Company and there are no agreements or representations, oral or otherwise, expressed or implied, with respect to or related to the employment of the Executive which are not set forth in this Agreement. Any prior agreement relating to the Executive's employment with the Company is hereby superseded and void, and is no longer in effect. This Agreement shall be binding upon and inure to the benefit of the Company, its respective successors and assigns, and the Executive and his/her heirs, executors, administrators and legal representatives. Except as expressly set forth herein, no party shall assign any of his/her or its rights under this Agreement without the prior written consent of the other party and any attempted assignment without such prior written consent shall be null and void and without legal effect. The parties agree that if any provision of this Agreement shall under any circumstances be deemed invalid or inoperative, the Agreement shall be construed with the invalid or inoperative provision deleted and the rights and obligations of the parties shall be construed and enforced accordingly. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute but one and the same instrument. This Agreement has been negotiated and no party shall be considered as being responsible for such drafting for the purpose of applying any rule construing ambiguities against the drafter or otherwise.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

| | |
|---|---|
| *SYKES ENTERPRISES, INCORPORATED* | *EXECUTIVE* |
| *By: /s/ Jenna R. Nelson* | */s/ David L. Pearson* |
| | *Address:* ________________________________ |
| | ________________________________ |

**Senior Vice President & Chief Information Officer**

**EXHIBIT A TO EMPLOYMENT AGREEMENT**

| | |
|---|---|
| Effective Date: | August 3, 2004 |
| Term: | Through August 2, 2005 |
| Base Salary: | $3,846.15 per week |
| Performance Bonus: | 0% - 50% of annual base salary. |
| | Performance bonus payments will be made in accordance with the Company's standard policy for the payment of performance bonuses. |
| Fringe Benefits: | Standard executive fringe benefits |
| Renewal Notice Period | Ninety days (90) days |

**THE COMPANY RESERVES THE RIGHT, AT ITS SOLE DISCRETION, AT SUCH TIME OR TIMES AS IT ELECTS, TO CHANGE OR ELIMINATE BONUSES OR OTHER BENEFITS.**

IN WITNESS WHEREOF, the parties have executed this Exhibit A to the Employment Agreement as of the 15th day of June 2004.

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|---|---|
| *SYKES ENTERPRISES, INCORPORATED* | *EXECUTIVE* |
| *By: /s/ Jenna R. Nelson* | */s/ David L. Pearson* |

**EXHIBIT 15**

August 6, 2004

Board of Directors
Sykes Enterprises, Incorporated
400 N. Ashley Drive
Tampa, FL 33602

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of Sykes Enterprises, Incorporated and subsidiaries for the periods ended June 30, 2004 and 2003, as indicated in our report dated August 6, 2004; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, is incorporated by reference in Registration Statement Nos. 333-23681, 333-76629, 333-88359, and 333-73260 on Forms S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

*/s/ Deloitte & Touche LLP*

*Tampa, Florida*

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO RULE 13A-14(a)**

I, Charles E. Sykes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: August 6, 2004*

*/s/ Charles E. Sykes*
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*Charles E. Sykes, President and Chief Executive Officer*

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO RULE 13A-14(a)**

I, W. Michael Kipphut, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*Date: August 6, 2004*

*/s/ W. Michael Kipphut*
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*W. Michael Kipphut, Group Executive, Senior Vice President - Finance*

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Sykes, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: August 6, 2004*

*By: /s/ Charles E. Sykes*
*------------------------------------*
*Charles E. Sykes*
*President and Chief Executive Officer*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Michael Kipphut, Group Executive, Senior Vice President - Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Date: August 6, 2004*

*By: /s/ W. Michael Kipphut*
*-----------------------------------------------*
*W. Michael Kipphut*
*Group Executive, Senior Vice President - Finance*
*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.