SYKES ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

Filed 11/15/99 for the Period Ending 09/30/99

Address	400 NORTH ASHLEY DRIVE 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

SYKES ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

Filed 11/15/1999 For Period Ending 9/30/1999

Address	100 NORTH TAMPA ST STE 3900
	TAMPA, Florida 33602
Telephone	813-274-1000
CIK	0001010612
Industry	Computer Networks
Sector	Technology
Fiscal Year	12/31

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1999

[ ] 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

(Exaction name of Registrant as specified in its charter)

Florida	56-1383460
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 North Tampa Street, Suite 3900, Tampa, FL 33602
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.

[X] Yes [ ] No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDING DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

[ ] Yes [ ] No

Number of shares of registrant's common stock outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, $0.01 Par Value, 42,364,994 shares as of November 9, 1999

The Exhibit Index Appears on Page 17

PART I

Item 1 - Financial Statements

SYKES ENTERPRISES, INCORPORATED
CONSOLIDATED BALANCE SHEETS

	December 31, 1998	September 30, 1999
		(Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 36,348,863	$ 32,044,116
Restricted cash	11,090,890	15,086,325
Receivables	113,840,262	152,023,769
Prepaid expenses and other current assets	15,861,742	18,131,158
Total current assets	177,141,757	217,285,368
Property and equipment, net	99,176,512	126,888,346
Marketable securities	199,875	199,875
Intangible assets, net	75,132,011	75,959,242
Deferred charges and other assets	13,484,146	17,274,096
	$ 365,134,301	$ 437,606,927
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current installments of long-term debt	$ 3,983,239	$ 1,413,284
Accounts payable	30,086,549	32,942,750
Income taxes payable	10,549,623	21,108,794
Accrued employee compensation and benefits	19,144,242	22,936,662
Customer deposits	10,978,868	11,719,943
Other accrued expenses and current liabilities	17,194,752	22,246,615
Total current liabilities	91,937,273	112,368,048
Long-term debt	75,448,202	79,716,697
Deferred grants	15,434,676	21,249,091
Deferred revenue	14,707,773	19,462,831
Other long-term liabilities	2,668,895	1,721,141
Total liabilities	200,196,819	234,517,808
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.01 par value, 200,000,000 shares authorized; 41,451,905 and 42,329,887 issued and outstanding	414,519	423,299
Additional paid-in capital	136,199,748	140,571,509
Retained earnings	29,730,975	65,356,213
Accumulated other comprehensive income (loss)	(1,407,760)	(3,261,902)
Total shareholders' equity	164,937,482	203,089,119
	$ 365,134,301	$ 437,606,927

See accompanying notes to consolidated financial statements.

SYKES ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

Nine and Three Months Ended September 30, 1998 and 1999

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	1998	1999	1998	1999
Revenues....................	$ 327,070,503	$ 443,452,337	$ 118,315,536	$ 160,966,807
Operating expenses				
Direct salaries and related costs...........	202,734,291	268,907,291	72,806,063	96,722,468
General and administrative..........	86,423,209	113,962,045	31,314,963	40,134,415
Acquired in-process research and development	14,468,907	-	14,468,907	-
Total operating expenses	303,626,407	382,869,336	118,589,933	136,856,883
Income (loss)from operations............	23,444,096	60,583,001	(274,397)	24,109,924
Other income (expense)				
Interest, net.............	(147,349)	(2,588,002)	(366,361)	(1,052,748)
Net loss from joint venture...........	(3,947,380)	-	(102,231)	-
Other.....................	(60,143)	162,958	(35,558)	65,877
Total other expense.....	(4,154,872)	(2,425,044)	(504,150)	(986,871)
Income (loss) before income taxes...................	19,289,224	58,157,957	(778,547)	23,123,053
Provision for income taxes..	14,196,831	22,532,719	5,332,715	8,974,624
Net income (loss)...........	$ 5,092,393	$ 35,625,238	$ (6,111,262)	$ 14,148,429
Net income (loss) per share				
Basic.....................	$ 0.12	$ 0.85	$ (0.15)	$ 0.33
Diluted...................	$ 0.12	$ 0.83	$ (0.15)	$ 0.33
Shares outstanding				
Basic.....................	41,216,989	41,940,706	41,336,973	42,280,529
Diluted...................	42,218,851	42,984,543	41,336,973	43,032,429

See accompanying notes to consolidated financial statements.

SYKES ENTERPRISES, INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 1998	41,119,626	$ 411,196	$ 133,592,337	$ 22,151,352	$(3,594,665)	$ 152,560,220
Issuance of common stock	259,092	2,591	987,289	-	-	989,880
Tax effect of non-qualified exercise of stock options	-	-	1,412,814	-	-	1,412,814
Distributions	-	-	-	(698,374)	-	(698,374)
Net income	-	-	-	5,092,393	-	5,092,393
Unrealized loss on securities	-	-	-	-	(6,199,844)	(6,199,844)
Foreign currency translation adjustment	-	-	-	-	1,079,415	1,079,415
Comprehensive income (loss)						(28,036)
Balance at September 30, 1998 (unaudited)	41,378,718	413,787	135,992,440	26,545,371	(8,715,094)	154,236,504
Issuance of common stock	73,187	732	86,122	-	-	86,854
Tax-effect of non-qualified exercise of stock options	-	-	121,186	-	-	121,186
Distributions	-	-	-	(2)	-	(2)
Net income	-	-	-	3,185,606	-	3,185,606
Unrealized loss on securities	-	-	-	-	(400,283)	(400,283)
Recognition of write-down on marketable securities	-	-	-	-	7,334,645	7,334,645
Foreign currency translation adjustment	-	-	-	-	372,972	372,972
Comprehensive income						10,492,940
Balance at December 31, 1998	41,451,905	414,519	136,199,748	29,730,975	(1,407,760)	164,937,482
Issuance of common stock	877,982	8,780	4,371,761	-	-	4,380,541
Net income	-	-	-	35,625,238	-	35,625,238
Foreign currency translation adjustment	-	-	-	-	(1,854,142)	(1,854,142)
Comprehensive income						33,771,096
Balance at September 30, 1999 (unaudited)	42,329,887	$423,299	$ 140,571,509	$ 65,356,213	$(3,261,902)	$ 203,089,119

See accompanying notes to consolidated financial statements.

SYKES ENTERPRISES, INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 1998 and 1999
(Unaudited)

	1998	1999
Cash flows from operating activities		
Net income	$ 5,092,393	$ 35,625,238
Depreciation and amortization	13,289,563	25,801,708
Acquired in-process research and development cost	14,468,907	-
Deferred income taxes	(390,071)	(3,068,216)
Gain on disposal of property and equipment	(328,771)	-
Changes in assets and liabilities		
Receivables	(32,827,498)	(39,265,073)
Prepaid expenses and other current assets	(5,003,659)	(2,559,345)
Intangible assets	-	(11,381)
Deferred charges and other assets	(1,274,854)	(2,457,948)
Accounts payable	5,092,502	2,733,837
Income taxes payable	8,024,413	10,375,234
Accrued employee compensation and benefits	10,927,303	3,239,448
Customer deposits, net of restricted cash	-	(3,254,360)
Other accrued expenses and current liabilities	4,595,175	3,051,862
Deferred revenue	2,850,659	4,755,058
Other long-term liabilities	(124,296)	(947,756)
Net cash provided by operating activities	24,391,766	34,018,306
Cash flows from investing activities		
Capital expenditures	(22,893,857)	(43,793,711)
Acquisition of businesses	(28,131,282)	(5,846,289)
Investment in joint venture	(10,723,040)	-
Proceeds from sale of marketable securities	1,000,000	-
Proceeds from sale of property and equipment	1,267,503	193,672
Net cash used for investing activities	(59,480,676)	(49,446,328)
Cash flows from financing activities		
Paydowns under revolving line of credit agreements	(7,342,355)	(54,500,000)
Borrowings under revolving line of credit agreements	85,304,463	59,000,000
Proceeds from issuance of stock	2,404,860	4,080,541
Proceeds from issuance of long-term debt	-	903,656
Proceeds from grants	95,550	7,198,335
Payments of long-term debt	(87,370,298)	(3,705,115)
Distributions	(698,374)	-
Net cash provided by (used for) financing activities	(7,606,154)	12,977,417
Adjustments for foreign currency translation	1,079,415	(1,854,142)
Net decrease in cash and cash equivalents	(41,615,649)	(4,304,747)
Cash and cash equivalents - beginning	75,308,505	36,348,863
Cash and cash equivalents - ending	$ 33,692,856	$ 32,044,116

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 1998 and 1999
(Unaudited)

Sykes Enterprises, Incorporated and consolidated subsidiaries (the "Company") provides vertically integrated information technology outsourcing services including information technology support services, information technology development services and solutions, on-line clinical managed care services, medical protocol products, employee benefit administration and support services, and customer product services. The Company's services are provided to a wide variety of industries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three-month periods ended September 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. For further information, refer to the consolidated financial statements and notes thereto as of and for the year ended December 31, 1998 included in the Company's Form 10-K dated December 31, 1998 as filed with the United States Securities and Exchange Commission ("SEC") on March 29, 1999.

Note 1 - Acquisitions and Mergers

Effective September 1, 1998, the Company acquired the remaining 50% of outstanding common stock of SHPS, Incorporated ("SHPS") for approximately $28.1 million plus the assumption of SHPS' debt. This purchase price was primarily financed through borrowings under the Company's credit facility.

This acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations for the period September 1, 1998 to September 30, 1998 and for the nine and three months ended September 30, 1999, have been included in the accompanying financial statements. The purchase price has been allocated to the assets and liabilities of SHPS based upon fair values at the date of acquisition. The allocations were based on appraisals, evaluations, estimations and other studies.

On November 27, 1998, the Company acquired all of the stock of TAS GmbH Nord Telemarketing und Vertriebsberatung ("TAS III") of Hannover, Germany, in exchange for 587,000 shares of the Company's common stock. The Company accounted for the acquisition utilizing the pooling-of-interests method of accounting. TAS III provides technical call center support and customer care services, database development and consulting services to customers in Germany.

On December 29, 1998, the Company acquired all of the stock of Oracle Service Networks Corporation ("Oracle") in exchange for 1,475,000 shares of the Company's common stock. The Company accounted for the acquisition utilizing the pooling-of-interests method of accounting. Oracle provides call center support and customer care services to various customers in North America, as well as demand management services for the Canadian provincial health care system.

On August 20, 1999, the Company acquired all of the common stock of CompuHelpline, Inc., d/b/a PC Answer for approximately $340,000 of cash and Company stock. PC Answer was engaged in developing, marketing and selling prepaid technical computer support cards and services under the trademark names of PC Answer and MAC Answer. The transaction was accounted for under the purchase method of accounting with resulting goodwill being

Note 1 - Acquisitions and Mergers, continued

amortized over a ten-year life. Pro forma information is not presented as the operating results are not material to the Company's consolidated operations.

Effective August 31, 1999, the Company acquired all the common stock of Acer Servicios De Informacion Sociedad Anonima ("AIS") of San Jose, Costa Rica for $6.0 million in cash. AIS operates an information technology call center and provides technical support and services to customers in North America and Central America. The transaction was accounted for under the purchase method of accounting with resulting goodwill being amortized over a ten-year life. Pro forma information is not presented as the operating results are not material to the Company's consolidated operations.

The above transactions, excluding SHPS, PC Answer and AIS, have been accounted for as pooling-of-interests and, accordingly, the consolidated financial statements for the periods presented have been restated to include the accounts of TAS III and Oracle. Separate results of operations for the period prior to the mergers with TAS III and Oracle are outlined below.

	Nine months ended September 30, 1998	Three months ended September 30, 1998
Revenues:		
Sykes	$ 297,720,508	$ 107,759,287
TAS III	6,407,228	2,842,440
Oracle	22,942,767	7,713,809
Combined	$ 327,070,503	$ 118,315,536
Net income (loss):		
Sykes (1)	$ 4,161,601	$ (6,429,337)
TAS III	297,971	156,641
Oracle	632,821	161,434
Combined	$ 5,092,393	$ (6,111,262)
Other changes in shareholders' equity:		
Sykes	$ (4,649,994)	$ (1,132,923)
TAS III	382,580	382,580
Oracle	(1,245,908)	(894,640)
Combined	$ (5,513,322)	(1,644,983)

(1) The Company has restated its financial statements for both the three and nine-month periods ended September 30, 1998, respectively, to reflect the methodology as set forth in a September 15, 1998 letter from the SEC Staff to the AICPA regarding acquired in-process research and development charges. This letter set forth the SEC's views regarding the valuation methodology to be used in allocating a portion of the purchase price to acquired in-process research and development at the date of acquisition. As a result of the revised valuation, the Company's financial statements for the nine months ended September 30, 1998 have been restated to reduce the amount of acquired in-process research and development charges incurred by SHPS, and the resulting impact on the Company's proportionate share of the adjustment.

Note 2 - Commitments and Contingencies

The Company from time to time is involved in legal actions arising in the ordinary course of business. With respect to these matters, management believes that it has adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on the Company's future financial position.

Note 3 - Accumulated Other Comprehensive Income

Effective January 1, 1998 the Company adopted Statement of Financial Accounting Standard No. 130 "Reporting Comprehensive Income" which requires all items that are required to be recognized under accounting standards as components of comprehensive income be reported in the financial statements. The components of other comprehensive income are as follows:

	Foreign Currency Translation	Accumulated Other Comprehensive Income
Balance at December 31, 1998	$ (1,407,760)	$ (1,407,760)
Foreign currency translation adjustment	(1,854,142)	(1,854,142)
Balance at September 30, 1999 (unaudited)	$ (3,261,902)	$ (3,261,902)

Earnings associated with the Company's investment 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.

Note 4 - Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock options using the treasury stock method.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	1998	1999	1998	1999
Basic:				
Weighted average common outstanding	41,216,989	41,940,706	41,336,973	42,280,529
Total basic. shares outstanding	41,216,989	41,940,706	41,336,973	42,280,529
Diluted:				
Dilution of stock options	1,001,862	1,043,837	-	751,900
Total diluted. shares outstanding	42,218,851	42,984,543	41,336,973	43,032,429

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

The following should be read in conjunction with the Sykes Enterprises, Incorporated (the "Company") December 31, 1998 Consolidated Financial Statements, including the notes thereto. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Future events and the Company's actual results could differ materially from the results reflected in these forward-looking statements as a result of certain of the factors set forth below and elsewhere in this analysis.

Financial Condition

The Company's primary sources of liquidity are equity offerings, cash flows from operations and available borrowings under its credit facility. The Company has utilized these sources to make additional capital expenditures associated primarily with its technical support services, to repay debt associated with entities it has acquired, and for working capital and general corporate purposes. In addition, the Company intends future uses of its sources of liquidity to include the aforementioned and possible additional acquisitions. The Company invests any excess funds in short-term, investment-grade securities or money market instruments.

During the nine-month period ended September 30, 1999, the Company generated approximately $34.0 million in cash from operations. The Company utilized these funds and certain of its available cash and credit facility to fund approximately $43.8 million of capital expenditures. The capital expenditures were predominately the result of facility and capital equipment expenditures incurred in connection with the integration and expansion of the Company's technical support and e-commerce services.

The Company believes that its accessible funds under its credit facilities and cash flows from operations will be adequate to meet its continued expansion objectives, anticipated levels of capital expenditures and debt repayment requirements, including those that may be required pursuant to the integration of its acquisitions, for the foreseeable future.

Results of Operations

Nine Months Ended September 30, 1999, Compared to Nine Months Ended September 30, 1998

For the nine months ended September 30, 1999, the Company recorded consolidated revenues of $443.5 million, an increase of $116.4 million or 35.6%, from the $327.1 million of consolidated revenues for the comparable period during 1998. This growth in revenue was the result of a $145.2 million or 77.4% increase in technical support services, an increase of $4.3 million from customer product services, offset by a decrease of $33.2 million from information technology services and solutions.

The increase in information technology support services revenues was primarily attributable to an increase in the number of IT call centers providing services throughout the period and the resultant increase in call volumes from clients, and the inclusion of SHPS' revenue generated for the entire nine months ended September 30, 1999. The new IT call centers were required as a result of continued growth of technical support services from both e-commerce and traditional telephone support customers.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Nine Months Ended September 30, 1999, Compared to Nine Months Ended September 30, 1998, continued

Subsequent to the first nine months of 1998, the Company opened four domestic and one international IT call centers, acquired an international IT call center, and expanded its call center in Sveg, Sweden. The increase in customer product services revenue for the nine months ended September 30, 1999 was primarily attributable to the Company's e-commerce initiatives. The decrease in information technology services and solutions revenues was attributable to a decrease in license fees and royalties associated with the Company's technology applications, a decline in the number of hours billed to customers for consulting services partially offset by an increase in the average bill rate, and to a decline in language translation and localization services, when compared to the comparable period in 1998.

Direct salaries and related costs increased approximately $66.2 million or 32.7% to $268.9 million for the nine-month period in 1999 from the comparable period in 1998. As a percentage of revenues, however, direct salaries and related costs decreased to approximately 60.6% in 1999 from approximately 62.0% for the comparable period in 1998. The increase in the amount of direct salaries and related costs was primarily attributable to the addition of personnel to support revenue growth. The decrease as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base and the continued change in the Company's mix of business reflecting the growth of technical support and e-commerce services as a percentage of consolidated results.

General and administrative expenses increased approximately $27.6 million or 31.9% to $114.0 million for the nine-month period in 1999 from the comparable period in 1998. As a percentage of revenues, however, general and administrative expenses decreased to 25.7% in 1999 from 26.4% for the comparable period in 1998. The increase in the amount of general and administrative expenses was primarily attributable to an increase in depreciation expenses associated with facility and capital equipment expenditures incurred in connection with the integration and expansion of the Company's technical support and e-commerce services, and an increase in amortization expense associated with the goodwill incurred as part of the SHPS acquisition. The decrease in general and administrative expenses as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base.

As part of the original ownership and subsequent acquisition of the remaining outstanding shares of SHPS, the Company determined that the technical feasibility of SHPS' in-process technology had not been established and a portion of the technology had no alternative use. Therefore, the Company recorded a charge of approximately $14.5 million related to the write-off of the acquired in-process research and development during the quarter ended September 30, 1998.

Interest and other expense was $2.4 million during the first nine months of 1999, compared to $4.2 million during the comparable 1998 period, inclusive of a $3.9 million net loss from joint venture. The net loss from the joint venture was attributable to acquisition-related in-process research and development costs associated with acquisitions completed by the joint venture, which was recorded as other expense. The increase in interest and other expense for the nine-month period exclusive of the net loss from joint venture was primarily attributable to an increase in the Company's debt position as a result of the acquisition of SHPS completed during 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Nine Months Ended September 30, 1999, Compared to Nine Months Ended September 30, 1998, continued

The provision for income taxes increased $8.3 million to $22.5 million for the nine-month period in 1999 from the comparable period in 1998. As a percentage of revenue, the provision for income taxes increased to 5.1% during the 1999 period when contrasted to approximately 4.3% for the comparable 1998 period. The increase was attributable to the increase of income before income taxes and to an increase in income before income taxes as a percentage of revenue. The Company's effective tax rate was 38.7% for 1999 compared to 37.1% for the comparable 1998 period, excluding the effect of one-time charges, primarily as a result of non-deductible expenses which consisted primarily of goodwill amortization.

Three Months Ended September 30, 1999, Compared to Three Months Ended September 30, 1998

For the three months ended September 30, 1999, the Company recorded consolidated revenues of $161.0 million, an increase of $42.7 million or 36.1%, from the $118.3 million of consolidated revenues for the comparable period during 1998. This growth in revenue was the result of a $49.5 million or 66.9% increase in technical support services, and an increase of $2.4 million from customer product services, offset by a decrease of $9.2 million from information technology services and solutions.

The increase in information technology support services revenues was primarily attributable to an increase in the number of IT call centers providing services throughout the period and the resultant increase in call volumes from clients, and the inclusion of SHPS' revenue generated for the entire third quarter of 1999. Subsequent to the third quarter of 1998, the Company opened four domestic and one international IT call centers, acquired an international IT call center, and expanded its call center in Sveg, Sweden. The increase in customer product services revenue for the three months ended September 30, 1999 was primarily attributable to the Company's e-commerce initiatives. The decrease in informa- tion technology services and solutions revenues was attributable to a decrease in license fees and royalties associated with the Company's technology applica- tions, a decline in the number of hours billed to customers for consulting services partially offset by an increase in the average bill rate, and to a decline in language translation and localization services, when compared to the comparable period in 1998.

Direct salaries and related costs increased approximately $23.9 million or 32.8% to $96.7 million for the three-month period in 1999 from the comparable period in 1998. As a percentage of revenues, however, direct salaries and related costs decreased to approximately 60.1 % in 1999 from approximately 61.5% for the comparable period in 1998. The increase in the amount of direct salaries and related costs was primarily attributable to the addition of personnel to support revenue growth. The decrease as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base and the continued change in the Company's mix of business reflecting the growth of technical support and e-commerce services as a percentage of consolidated results.

General and administrative expenses increased approximately $8.8 million or 28.1% to $40.1 million for the three-month period in 1999 from the comparable period in 1998. As a percentage of revenues, however, general and administrative expenses decreased to 24.9%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Three Months Ended September 30, 1999, Compared to Three Months Ended September 30, 1998, continued

in 1999 from 26.5% for the comparable period in 1998. The increase in the amount of general and administrative expenses was primarily attributable to an increase in depreciation expenses associated with facility and capital equipment expenditures incurred in connection with the integration and expansion of the Company' technical support and e-commerce services, an increase in amortization expense associated with the goodwill incurred as part of the SHPS acquisition and to a lesser extent, the addition of sales and administrative personnel to support the Company's growth. The decrease in general and administrative expenses as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base.

As part of the original ownership and subsequent acquisition of the remaining outstanding shares of SHPS, the Company determined that the technical feasibility of SHPS' in-process technology had not been established and a portion of the technology had no alternative use. Therefore, the Company recorded a charge of approximately $14.5 million related to the write-off of the acquired in-process research and development during the quarter ended September 30, 1998.

Interest and other expense was $1.0 million during the three-month period of 1999, compared to interest and other expense of $0.5 million during the comparable 1998 period. The increase in interest and other expense for the three-month period was primarily attributable to an increase in the Company's debt position as a result of the acquisition of SHPS completed during 1998.

The provision for income taxes increased $3.7 million to $9.0 million for the three-month period in 1999 from the comparable period in 1998. As a percentage of revenue, the provision for income taxes increased to 5.6% during the 1999 period when contrasted to approximately 4.5% for the comparable 1998 period. The increase was attributable to the increase of income before income taxes and to an increase in income before income taxes as a percentage of revenue. The Company's effective tax rate was 38.8% for the quarter ended September 30, 1999 compared to 37.6% for the comparable 1998 period, primarily as a result of non-deductible expenses which consisted primarily of goodwill amortization.

Quantitative and Qualitative Disclosure

The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Movements in foreign currency exchange rates may affect the Company's competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-United States based competitors. Under its current policy, the Company does not use foreign exchange derivative instruments to manage its exposure to changes in foreign currency exchange rates.

Year 2000

Introduction

The Year 2000 issue is the result of some computer software programs being written using two digits rather than four to define the applicable year. As a result of this design decision, some of these systems could fail to produce correct results if "00" is interpreted to mean 1900, rather than 2000. To the extent the Company's software applications contain source codes that are unable to appropriately interpret the calendar year 2000, some level of modification or even possibly replacement of such applications was necessary.

Description of Areas of Impact and Risk

During late 1997, the Company initiated the process of reviewing its existing software programs to determine the potential exposure and amount of resources that was needed to become Year 2000 compliant. Based on this review, the Company has experienced very few problems related to Year 2000 testing and those identified have been resolved in the Company's day-to-day operations.

The Company initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. In the event any third parties cannot timely provide the Company with contents, products, services or systems that meet Year 2000 requirements, the Company's services could be materially adversely affected. The Company continues to solicit, receive and renew responses to surveys sent to those third parties determined to be material to the operations of the Company to determine their Year 2000 readiness. For those critical third parties that have failed to respond to the Company's survey, the Company has pursued alternative means of obtaining Y2K readiness information and is conducting reviews of publicly available information published by such third parties.

The Company completed its Year 2000 testing and modifications during September 1999 and continues to monitor its internal systems and suppliers to ensure ongoing compliance.

Cost of Project

The total cost of the Year 2000 project is estimated at approximately $1.2 million and is being funded through operating cash flows. To date, the Company has incurred and expensed approximately $1.0 million related to this project. Such cost is not expected to have a material effect on the Company's results of operations.

The remaining costs to become Year 2000 compliant and the date on which the Company believes it will complete all Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, availability of corrective software provided by external suppliers, the ability to locate and correct all relevant computer codes and similar uncertainties.

Most Likely Consequences of Year 2000 Problems

In a recent Securities and Exchange Commission release regarding Year 2000 disclosure, the Commission stated that public companies must disclose the most likely worst case Year 2000 scenario. Although it is not possible to assess the likelihood of any of the

Year 2000 continued

following events, each must be included in a consideration of worst case scenarios: widespread failure of electrical and similar supplies serving the Company; widespread disruption of the services provided by common communica- tions' carriers; similar disruption to the means and modes of transportation for the Company and its employees, suppliers, and customers; significant disruption to the Company's ability to gain access to, and remain working in, office buildings and other facilities; the failure of substantial numbers of the Company's customers' and its suppliers' critical computer hardware and software systems, and the failure of outside entities' systems, including systems related to banking and finance.

Contingency Plan

The company has substantially completed developing contingency plans to be implemented if its efforts to identify and correct Year 2000 Problems affecting its internal systems are not effective. The Company's contingency plans were substantially complete as of September 30, 1999. Depending on the systems affected, these plans could include accelerated replacement of affected equip- ment or software, short-to-medium-term use of alternate sites, equipment and software, increased work hours for Company personnel or use of contract personnel. If the Company is required to implement any of these contingency plans, it could have a material adverse effect on the Company's financial condition and results of operations.

Part II - OTHER INFORMATION

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

None

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K

Exhibit 27.1......Financial Data Schedule

(b) Reports on Form 8-K

No reports were filed on Form 8-K during the three months ended September 30, 1999.

SIGNATURES

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

SYKES ENTERPRISES, INCORPORATED
(Registrant)

Date: November 10, 1999	*By: /s/ Scott J. Bendert*
	Scott J. Bendert *Senior Vice President-Finance and* *Chief Financial Officer* *(Principal Financial and Accounting Officer)*

SYKES ENTERPRISES, INCORPORATED
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1999

EXHIBIT INDEX

Exhibit Number		Page Number
27.1	Financial Data Schedule	18

ARTICLE 5

This schedule contains summary consolidated financial information extracted from the Company's Form 10-Q for the nine-month period ended September 30, 1999 and is qualified in its entirety by reference to such Form 10-Q.

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	SEP 30 1999
CASH	31,769,983
SECURITIES	0
RECEIVABLES	152,927,116
ALLOWANCES	903,347
INVENTORY	0
CURRENT ASSETS	217,011,235
PP&E	222,145,261
DEPRECIATION	95,256,915
TOTAL ASSETS	437,606,927
CURRENT LIABILITIES	112,368,048
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	423,299
OTHER SE	202,665,820
TOTAL LIABILITY AND EQUITY	437,606,927
SALES	443,452,337
TOTAL REVENUES	443,452,337
CGS	0
TOTAL COSTS	382,869,336
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	2,588,002
INCOME PRETAX	58,157,957
INCOME TAX	22,532,719
INCOME CONTINUING	35,625,238
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	35,625,238
EPS BASIC	0.85
EPS DILUTED	0.83

End of Filing