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SYKES ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

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

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 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 May 3, 2004, there were 40,153,410 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

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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)

	March 31, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 84,114	$ 92,085
Receivables, net	85,252	82,415
Prepaid expenses and other current assets	13,580	11,813
Total current assets	182,946	186,313
Property and equipment, net	106,247	107,194
Goodwill, net	5,064	5,085
Deferred charges and other assets	21,732	19,583
	$315,989	$318,175
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 69	$ 87
Accounts payable	16,631	17,706
Accrued employee compensation and benefits	31,943	30,869
Income taxes payable	4,831	4,921
Other accrued expenses and current liabilities	14,306	14,226
Total current liabilities	67,780	67,809
Deferred grants	25,359	27,369
Deferred revenue	22,157	19,835
Other long-term liabilities	2,219	2,330
Total liabilities	117,515	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; 43,793 and 43,771 shares issued	438	438
Additional paid-in capital	163,655	163,511
Retained earnings	81,757	81,513
Accumulated other comprehensive loss	(2,380)	(208)
	243,470	245,254
Treasury stock at cost; 3,638 shares and 3,557 shares	(44,996)	(44,422)
Total shareholders' equity	198,474	200,832
	$315,989	$318,175

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
Three Months Ended March 31, 2004 and March 31, 2003
(Unaudited)

(in thousands, except per share data)	2004	2003
Revenues	$121,043	$117,286
Operating expenses:		
Direct salaries and related costs	83,389	77,356
General and administrative	41,276	39,907
Net (gain) loss on disposal of property and equipment	(2,741)	68
Total operating expenses	121,924	117,331
Loss from operations	(881)	(45)
Other income:		
Interest, net	396	285
Other	813	45
Total other income	1,209	330
Income before provision for income taxes	328	285
Provision for income taxes	84	97
Net income	$ 244	$ 188
Net income per share:		
Basic	$ 0.01	$ 0.00
Diluted	$ 0.01	$ 0.00
Weighted average shares:		
Basic	40,216	40,368
Diluted	40,388	40,371

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
Three Months Ended March 31, 2003, Nine Months Ended December 31, 2003 and
Three Months Ended March 31, 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	25	—	56	—	—	—	56
Purchase of treasury stock	—	—	—	—	—	(317)	(317)
Comprehensive income	—	—	—	188	1,376	—	1,564
Balance at March 31, 2003	43,516	435	162,173	72,396	(9,725)	(41,631)	183,648
Issuance of common stock	255	3	1,110	—	—	—	1,113
Purchase of treasury stock	—	—	—	—	—	(2,791)	(2,791)
Tax benefit from exercise of stock options	—	—	228	—	—	—	228
Comprehensive income	—	—	—	9,117	9,517	—	18,634
Balance at December 31, 2003	43,771	438	163,511	81,513	(208)	(44,422)	200,832
Issuance of common stock	22	—	144	—	—		144
Purchase of treasury stock	—	—	—	—	—	(574)	(574)
Comprehensive income (loss)	—	—	—	244	(2,172)	—	(1,928)
Balance at March 31, 2004	**43,793**	**$438**	**$163,655**	**$81,757**	**$ (2,380)**	**$(44,996)**	**$198,474**

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

(in thousands)	2004	2003
Cash flows from operating activities :		
Net income	$ 244	$ 188
Depreciation and amortization	7,901	8,862
Deferred income tax (benefit) provision	(2,060)	433
Net (gain) loss on disposal of property and equipment	(2,741)	68
Termination costs associated with exit activities	763	—
Bad debt (recoveries) expense	(24)	83
Changes in assets and liabilities:		
Receivables	(3,616)	(16,924)
Prepaid expenses and other current assets	(1,798)	(2,694)
Deferred charges and other assets	(89)	180
Accounts payable	(1,028)	(1,171)
Income taxes receivable/payable	322	(3,695)
Accrued employee compensation and benefits	1,340	729
Other accrued expenses and current liabilities	(530)	26
Deferred revenue	2,446	(934)
Other long-term liabilities	(348)	2
Net cash provided by (used for) operating activities	782	(14,847)
Cash flows from investing activities:		
Capital expenditures	(10,757)	(3,532)
Proceeds from sale of facilities	4,052	—
Proceeds from sale of property and equipment	18	14
Net cash used for investing activities	(6,687)	(3,518)
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	(17)	(11)
Proceeds from issuance of stock	144	56
Purchase of treasury stock	(574)	(317)
Net cash used for financing activities	(447)	(272)
Effects of exchange rates on cash	(1,619)	1,268
Net decrease in cash and cash equivalents	(7,971)	(17,369)
Cash and cash equivalents – beginning	92,085	79,480
Cash and cash equivalents – ending	$ 84,114	$ 62,111
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 37	$ 142
Income taxes	$ 2,107	$ 3,232

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 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, Stock-Based Compensation, Property and Equipment, Foreign Currency Translation, Recent Accounting Pronouncements and Reclassifications

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 months ended March 31, 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 1 – Basis of Presentation, Stock-Based Compensation, Property and Equipment, Foreign Currency Translation, Recent Accounting Pronouncements and Reclassifications - (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 (loss) and earnings (loss) per share would have been reduced to the pro forma amounts as follows (in thousands except per share amounts):

	Three Months Ended March 31,	
	2004	**2003**
Net Income (Loss):		
Net income as reported	$ 244	$ 188
Pro forma compensation expense, net of tax	(252)	(644)
Pro forma net loss	$ (8)	$ (456)
Net Income (Loss) Per Share:		
Basic, as reported	$0.01	$(0.00)
Basic, pro forma	$0.00	$(0.01)
Diluted, as reported	$0.01	$(0.00)
Diluted, pro forma	$0.00	$(0.01)

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 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 March 31, 2004, the Company determined that its property and equipment, including those at the previously referenced customer contact management centers, were not impaired. Additionally, there were no assets that met the criteria to be classified as held for sale as of March 31, 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
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 1 - Basis of Presentation, Stock-Based Compensation, Property and Equipment, Foreign Currency Translation, Recent Accounting Pronouncements and Reclassifications - (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 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 three months ended March 31, 2004.

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. 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.

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.

Reclassifications – Certain amounts from prior years have been reclassified to conform to the current year’s presentation.

Note 2 – 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 $(1.9) million and $1.6 million the three months ended March 31, 2004 and 2003, respectively.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 3 – Termination Costs Associated with Exit Activities

During the first quarter of 2004, the Company determined to reduce costs by consolidating two European customer contact management centers in Germany. The Company anticipates the closure of these facilities will be completed by the end of the second quarter of 2004. In connection with these closures, the Company plans to terminate approximately 240 employees, who will receive, as a termination benefit, cash payments totaling $1.6 million. The estimated liability based on the fair value as of the termination date of $1.6 million is accrued over the remaining service period of these employees. As of March 31, 2004, the liability recognized for these termination costs of $0.8 million is included in “Accrued employee compensation and benefits” in the accompanying Condensed Consolidated Balance Sheet. There were no significant payments made during the three months ended March 31, 2004. Termination costs of $0.8 million are included in “Direct salaries and related costs” in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2004.

Note 4 – 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.

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 March 31, 2004:	**Balance at January 1, 2004**	**Cash Outlays**	**Other Non-Cash Changes**	**Balance at March 31, 2004 (1)**
Severance and related costs	$106	$ —	$—	$106
Lease termination costs	342	(99)	—	243
Other restructuring costs	545	(120)	—	425
Total	$993	$(219)	$—	$774

Three Months ended March 31, 2003:	**Balance at January 1, 2003**	**Cash Outlays**	**Other Non-Cash Changes**	**Balance at March 31, 2003**
Severance and related costs	$4,696	$(1,270)	$—	$3,426
Lease termination costs	1,827	(167)	—	1,660
Other restructuring costs	1,852	(730)	—	1,122
Total	$8,375	$(2,167)	$—	$6,208

(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”.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2003 and March 31, 2002
(Unaudited)

Note 4 – 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):

	Balance at January 1, 2003	Cash Outlays	Other Non-Cash Changes	Balance at March 31, 2003
Three Months ended March 31, 2003:				
Severance and related costs	$153	$(50)	$—	$103
Lease termination costs	161	(21)	—	140
Other restructuring costs	32	—	—	32
Total	$346	$(71)	$—	$275

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 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 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2003 and March 31, 2002
(Unaudited)

Note 4 – Restructuring and Other Charges (continued)

2000 Charges (continued)

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

	Balance at January 1, 2004	Cash Outlays	Other Non-Cash Changes	Balance at March 31, 2004
Three Months Ended March 31, 2004:				
Severance and related costs	$588	$(111)	$—	$477[1]
Lease termination costs	—	—	—	—
Total	$588	$(111)	$—	$477

	Balance at January 1, 2003	Cash Outlays	Other Non-Cash Changes	Balance at March 31, 2003
Three Months ended March 31, 2003:				
Severance and related costs	$1,053	$(103)	$—	$ 950
Lease termination costs	120	—	—	120
Total	$1,173	$(103)	$—	$1,070

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

Note 5 – 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.

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 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 March 31, 2004.

Note 6 – Income Taxes

The Company’s effective tax rate was 25.5% and 34.0% for the three months ended March 31, 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 6 – Income Taxes (continued)

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 Company is currently under examination in the U.S. by several states for periods covering 1999 through 2003. 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 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.

Note 7 – Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the respective periods and the further dilutive effect, if any, from stock options using the treasury stock method. For the three months ended March 31, 2004 and 2003, options to purchase shares of common stock of 2.5 million and 3.4 million, respectively, at various prices 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 March 31,	
	2004	**2003**
Basic:		
Weighted average common shares outstanding	40,216	40,368
Diluted:		
Dilutive effect of stock options	172	3
Total weighted average diluted shares outstanding	40,388	40,371

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 637 thousand 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 three months ended March 31, 2004, the Company had repurchased 82 thousand common shares under the 2002 repurchase program at prices ranging between $6.98 to $7.26 per share for a total cost of $0.6 million.

Note 8 – Segment Reporting and Major Clients

The Company operates within two regions, the "Americas" and "EMEA" which represented 62.2% and 37.8%, respectively, of the Company's consolidated revenues for the three months ended March 31, 2004 and 65.5% and 34.5%, respectively, of the Company's consolidated revenues for the comparable 2003 period. Each region

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 8 – Segment Reporting and Major Clients (continued)

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.

Information about the Company's reportable segments for the three months ended March 31, 2004 compared to the corresponding prior year period, is as follows (in thousands):

	Americas	EMEA	Other [1]	Consolidated Total
Three Months Ended March 31, 2004:				
Revenues	$75,261	$45,782		$121,043
Depreciation and amortization	5,669	2,232		7,901
Income (loss) from operations	$ 3,373	$ 1,154	$(5,408)	$ (881)
Other income			1,209	1,209
Provision for income taxes			84	84
Net income				$ 244
Three Months Ended March 31, 2003:				
Revenues	$76,836	$40,450		$117,286
Depreciation and amortization	6,324	2,538		8,862
Income (loss) from operations	$ 5,401	$ 418	$(5,864)	$ (45)
Other income			330	330
Provision for income taxes			97	97
Net income				$ 188

[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 months ended March 31, 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.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Three months ended March 31, 2004 and March 31, 2003
(Unaudited)

Note 8 – Segment Reporting and Major Clients (continued)

The Americas' revenues for the three months ended March 31, 2004 included $14.8 million, or 12.2% of consolidated revenues 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 comparable 2003 period as it relates to this relationship were $19.6 million, or 16.7% of consolidated revenues.

In addition, revenues for the three months ended March 31, 2004 and 2003 include $11.5 million, or 9.5% of consolidated revenues, and $15.6 million, or 13.3% of consolidated revenues, respectively, from a leading software and services provider. This includes $11.5 million and $15.2 million in revenue from the Americas for the three months ended March 31, 2004 and 2003, respectively, and $0.4 million in revenue from EMEA for the three months ended March 31, 2003 (none in 2004).

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders
Sykes Enterprises, Incorporated

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

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, 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 auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2003, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 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
May 5, 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 March 31,	
	2004	2003
Revenues	$121,043	$117,286
Direct salaries and related costs	$ 83,389	$ 77,356
Percentage of revenues	68.9%	66.0%
General and administrative expenses	$ 41,276	$ 39,907
Percentage of revenues	34.1%	34.0%
Net (gain) loss on disposal of property and equipment	$ (2,741)	$ 68
Percentage of revenues	(2.3%)	0.1%
Loss from operations	$ (881)	$ (45)
Percentage of revenues	(0.7%)	(0.1%)

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

	Three Months Ended March 31,	
	2004	2003
Revenues:		
Americas	$ 75,261	$ 76,836
EMEA	45,782	40,450
Consolidated	$121,043	$117,286

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Revenues

For the three months ended March 31, 2004, we recognized consolidated revenues of $121.0 million, an increase of $3.7 million, or 3.2%, from $117.3 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 62.2%, or $75.2 million, for the three months ended March 31, 2004, compared to 65.5%, or $76.8 million, for the comparable 2003 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 37.8%, or $45.8 million, for the three months ended March 31, 2004, compared to 34.5%, or $40.5 million, for the comparable 2003 period.

The decrease in the Americas' revenue of $1.6 million, or 2.1%, for the three months ended March 31, 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

Results of Operations (continued)

Revenues (continued)

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 23.6% of consolidated revenues for the three months ended March 31, 2004, compared to 13.2% 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.

The increase in EMEA's revenue of $5.3 million, or 13.2%, for the three months ended March 31, 2004, compared to the same period in 2003, was primarily related to the strengthening Euro, which positively impacted revenues for the three months ended March 31, 2004 by approximately $6.5 million compared to the same period in 2003. Without this foreign currency benefit, EMEA's revenues would have declined $1.2 million compared with last year due to the continued softness in customer call volumes and protracted sales cycles.

Direct Salaries and Related Costs

Direct salaries and related costs increased $6.0 million, or 7.8%, to $83.4 million for the three months ended March 31, 2004, from $77.4 million in the comparable 2003 period. As a percentage of revenues, direct salaries and related costs increased to 68.9% for the three months ended March 31, 2004, from 66.0% for the comparable 2003 period. This increase was primarily attributable to duplicative staffing and training costs associated with the offshore migration 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 claim costs due to the severe Canada winter associated with our customer contact management 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 three months ended March 31, 2004 by approximately $4.4 million compared to the same period in 2003.

General and Administrative

General and administrative expenses increased $1.4 million, or 3.5%, to $41.3 million for the three months ended March 31, 2004, from $39.9 million in the comparable 2003 period. As a percentage of revenues, general and administrative expenses increased to 34.1% for the three months ended March 31, 2004, from 34.0% for the comparable 2003 period. This increase was primarily attributable to higher lease costs, travel, training, utilities, maintenance costs associated with expansion of offshore facilities and higher compliance costs partially offset by additional depreciation expense of $1.0 million recognized in the first quarter of 2003 related to the expiration of two technology client contracts and lower 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 March 31, 2004 by approximately $1.9 million compared to the same period in 2003.

Sykes Enterprises, Incorporated and Subsidiaries
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Results of Operations (continued)

Net (Gain) Loss on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $2.7 million for the three months ended March 31, 2004 included a $2.7 million net gain on the sale of our Klamath Falls, Oregon facility and a $0.1 million net gain on the sale of a parcel of land at our Pikeville, Kentucky 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 and Expense

Other income was $1.2 million for the three months ended March 31, 2004, compared to $0.3 million for the comparable 2003 period. The increase of $0.9 million was primarily attributable to a $0.1 million increase in interest earned on cash and cash equivalents net of interest expense, a $0.7 million increase in foreign currency translation gains net of losses and a $0.1 million increase in other miscellaneous income. Other income and expense excludes the 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 $0.1 million for the three months ended March 31, 2004 was based upon pre-tax book income of $0.3 million, compared to $0.1 million for the comparable 2003 period based upon pre-tax book income of $0.3 million. The effective tax rate was 25.5% for the three months ended March 31, 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) and requisite valuation allowances.

Net Income

As a result of the foregoing, we experienced a loss from operations for the three months ended March 31, 2004 of $0.9 million, an increase of $0.9 million from the comparable 2003 period. This increase was principally attributable to a $6.0 million increase in direct salaries and related costs and a $1.4 million increase in general and administrative costs, offset by a $3.7 million increase in revenues and a $2.8 million increase in net gain on disposal of property and equipment, as previously discussed. The $0.9 million increase in loss from operations was offset by a $0.9 million increase in other income resulting in net income of $0.2 million for the three months ended March 31, 2004, or no change from net income of $0.2 million for the comparable 2003 period.

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 637 thousand 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

Results of Operations (continued)

Liquidity and Capital Resources (continued)

transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the three months ended March 31, 2004, the Company had repurchased 82 thousand common shares under the 2002 repurchase program at prices ranging between $6.98 to $7.26 per share for a total cost of $0.6 million.

During the three months ended March 31, 2004, we generated $0.8 million in cash from operating activities, $4.1 million in cash from the sale of facilities, property and equipment, and $0.1 million in cash from issuance of stock. Further, we used $10.8 million in funds for capital expenditures and $0.6 million to repurchase stock in the open market resulting in a $8.0 million decrease in available cash (net of the effects of international currency exchange rates on cash of $1.6 million).

Net cash flows provided by operating activities for the three months ended March 31, 2004 were $0.8 million, compared to net cash flows used for operating activities of $14.8 million for the comparable 2003 period. The $15.6 million increase in net cash flows from operating activities was due to a net increase associated with changes in assets and liabilities of $21.2 million, offset by a net decrease in non-cash flow reconciling items of $5.6 million such as depreciation and amortization, deferred income taxes, net gain or loss on disposal of property and equipment and termination costs. The $21.2 million increase associated with changes in assets and liabilities was principally a result of a $13.3 million decrease in receivables due to an increase in revenues and timely collections and $7.9 million in cash generated from net higher payables and accrued liabilities.

Capital expenditures, which are generally funded by cash generated from operating activities and borrowings available under our credit facilities, were $10.8 million for the three months ended March 31, 2004, compared to $3.5 million for the comparable 2003 period, an increase of $7.3 million, which was driven primarily by offshore expansion. During the three months ended March 31, 2004, approximately 92% of the capital expenditures were the result of investing in new and existing customer contact management centers, primarily offshore, and 8% was expended primarily for maintenance and systems infrastructure. In 2004, we anticipate capital expenditures in the range of $25.0 million to $30.0 million.

One primary source of future cash flows from financing activities will be from borrowings under our $50.0 million revolving credit facility (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.

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 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 March 31, 2004. At March 31, 2004, we were in compliance with all loan requirements of the

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Results of Operations (continued)

Liquidity and Capital Resources (continued)

Credit Facility. At March 31, 2004, we had $84.1 million in cash, of which approximately $69.0 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 March 31, 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.

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.

Sykes Enterprises, Incorporated and Subsidiaries
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Results of Operations (continued)

Critical Accounting Policies and Estimates (continued)

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 property, the amount of revenue recognized would be adjusted accordingly. Deferred grants totaled $25.4 million as of March 31, 2004. Income from operations included amortization of the deferred grants of $0.9 million for the three months ended March 31, 2004.

- We maintain allowances for doubtful accounts of $4.3 million as of March 31, 2004, or 5.3% of trade receivables, for estimated losses arising from the inability of our customers to make required payments. If the

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

Critical Accounting Policies and Estimates (continued)

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 March 31, 2004, we determined a valuation allowance was 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. The recoverability of the remaining net deferred tax assets is dependent upon future profitability within each tax jurisdiction. As of March 31, 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 March 31, 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 $111.3 million as of March 31, 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 March 31, 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.

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.

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Item 3 - Quantitative and Qualitative Disclosure 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. Under our current policy, we do not use non-U.S. exchange derivative instruments to manage exposure to changes in non-U.S. currency exchange rates.

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 three months ended March 31, 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 March 31, 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.

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 March 31, 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 effective as of March 31, 2004, 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.

There were no significant changes in our internal controls over financial reporting during the quarter ended March 31, 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 March 31, 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 March 31, 2004 (in thousands, except average price per share). See Note 7, 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
January 1, 2004 – January 31, 2004	—	—	—	2,445
February 1, 2004 – February 29, 2004	47	$7.05	602	2,398
March 1, 2004 – March 31, 2004	35	$7.14	637	2,363

(1) All shares purchased as part of a repurchase plan publicly announced on August 5, 2002. Total number of shares approved for repurchase under the plan was 3 million with no expiration date.

Item 6 – Exhibits and Reports on Form 8-K

(a) Exhibits

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

3.3.1 Certificate of Amendment of Bylaws of Sykes Enterprises, Incorporated.

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.

Item 6 – Exhibits and Reports on Form 8-K. (continued)

(b) Reports on Form 8-K

We filed the following reports on Form 8-K during the quarter ended March 31, 2004:

We filed a current report on Form 8-K, dated February 23, 2004, with the Securities and Exchange Commission on February 23, 2004, reporting under Item 12, the filing of a press release announcing our financial results for the year ended December 31, 2003.

We filed a current report on Form 8-K, dated March 29, 2004, with the Securities and Exchange Commission on March 29, 2004, reporting under Item 5, the execution of a $50.0 million revolving credit facility.

Sykes Enterprises, Incorporated and Subsidiaries
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For the Quarter Ended March 31, 2004

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: May 5, 2004

By: /s/ W. Michael Kipphut

W. Michael Kipphut
Group Executive, Senior Vice President – Finance
(Principal Financial and Accounting Officer)

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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.

EXHIBIT 3.3.1

CERTIFICATE OF AMENDMENT OF BYLAWS
OF
SYKES ENTERPRISES, INCORPORATED

The undersigned, being the duly appointed Secretary of Sykes Enterprises, Incorporated, a Florida corporation (the "Company"), hereby certifies that Article 4, Section 4.4 of the Company's Bylaws entitled "Nominations of Directors" was amended by a duly adopted resolution of the Board of Directors at a meeting duly held on April 2, 2004 to read in its entirety as follows:

Section 4.4 Nominations of Directors. Except as otherwise provided pursuant to the provision of the Articles of Incorporation or Articles of Amendment relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, nominations of persons for election to the Board of Directors may be made by the Chairman of the Board on behalf of the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of directors at the annual meeting of the shareholders who complies with the notice provisions set forth in this Section 4.4. To be timely, a shareholder's notice shall be received at the principal business office of the Corporation no later than the date designated for receipt of shareholders' proposals in a prior public disclosure made by the Corporation. If there has been no such prior public disclosure, then to the timely, a shareholder's nomination must be delivered to or mailed and received at the principal business office of the Corporation not less than sixty (60) days to more than ninety (90) days prior to the annual meeting of shareholders; provided, however, that in the event that less than seventy (70) days' notice of the date of the meeting is given to the shareholders or prior public disclosure of the date of the meeting is made, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A shareholder's notice to the Secretary shall set forth (a) as to each person the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such proposed nominee, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving notice (i) the name and address, as they appear on the Corporation's books, of the shareholder proposing such nomination, together with the name and address, as they appear on the Corporation's books, of any other shareholder known to be supporting the nominee, and (ii) the class and number of shares of stock of the Corporation which are beneficially owned by the shareholder and by any other supporting shareholder. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 4.4. The Chairman of the meeting shall, if the facts warrant, determine and declare to the annual meeting that a nomination was not made in accordance with the provisions of this Section 4.4, and if the Chairman shall so determine, the Chairman shall so declare at the meeting and the defective nomination shall be disregarded.

Dated: April 30, 2004

/s/ James T. Holder
James T. Holder, Secretary

Exhibit 15

May 5, 2004

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

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim condensed consolidated financial information of Sykes Enterprises, Incorporated and subsidiaries for the three-month periods ended March 31, 2004 and 2003, as indicated in our report dated May 5, 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 March 31, 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, John H. 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: May 5, 2004

/s/ John H. Sykes

John H. Sykes, Chairman 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: May 5, 2004

/s/ W. Michael Kipphut

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

Exhibit 32.1

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

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the “Company”) on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John H. Sykes, Chairman 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: May 5, 2004	By: /s/ John H. Sykes
	John H. Sykes Chairman 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. §1350

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the “Company”) on Form 10-Q for the period ending March 31, 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: May 5, 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.