

# SYKES ENTERPRISES INC

## FORM 10-K (Annual Report)

Filed 03/27/01 for the Period Ending 12/31/00

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-K (Annual Report)

Filed 3/27/2001 For Period Ending 12/31/2000

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

---

---

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

**FORM 10-K**

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-28274

**SYKES ENTERPRISES, INCORPORATED**

(Exact name of registrant as specified in its charter)

FLORIDA  
(State or other jurisdiction of  
incorporation or organization)

56-1383460  
(I.R.S. Employer  
Identification No.)

100 N. TAMPA STREET, SUITE 3900, TAMPA, FLORIDA  
(Address of principal executive offices)

33602  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

NONE

**Securities registered pursuant to Section 12(g) of the Act:**

**TITLE OF EACH CLASS**  
**Voting Common Stock \$.01 Par Value**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

As of March 15, 2001, there were 40,103,221 shares of Common Stock outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant based on the last sale price reported on the Nasdaq National Market as of March 15, 2001 was \$117,025,644.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Documents..... Form 10-K Reference  
Portions of the 2000 Sykes Enterprises, Incorporated Annual

Report..... Part II Items 5-8  
Portions of the Proxy Statement dated March 27, 2001..... Part III Items 10-13

---

---

**SYKES ENTERPRISES, INCORPORATED**

**FORM 10-K ANNUAL REPORT**

**TABLE OF CONTENTS**

	PAGE NO.
	-----
PART I	
Item 1 Business.....	1
Item 2 Properties.....	14
Item 3 Legal Proceedings.....	15
Item 4 Submission of Matters to a Vote of Security Holders.....	16
PART II	
Item 5 Market for Registrant's Common Equity and Related Stockholder Matters.....	16
Item 6 Selected Financial Data.....	16
Item 7 Management's Discussion and Analysis of Financial Conditions and Results of Operations.....	16
Item 7a Quantitative and Qualitative Disclosures About Market Risk.....	16
Item 8 Financial Statements and Supplementary Data.....	17
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	17
PART III	
Item 10 Directors and Executive Officers of the Registrant.....	18
Item 11 Executive Compensation.....	18
Item 12 Security Ownership of Certain Beneficial Owners and Management.....	18
Item 13 Certain Relationships and Related Transactions.....	18
PART IV	
Item 14 Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	18

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Sykes Enterprises, Incorporated and consolidated subsidiaries ("Sykes" or the "Company") is a global leader in providing customer management solutions and services to technology-enabled companies primarily within the technology, communications and financial services markets. Sykes' Business Solutions group provides consultative professional services in e-commerce and customer relationship management with a focus on business strategy, project management, business process redesign, change management, knowledge management, education, training and web development. Sykes' Business Services group provides customer care outsourcing with emphasis on technical support and customer service. These services are delivered through multiple communications channels encompassing phone, e-mail, web and chat. Sykes also provides distribution and fulfillment services throughout Europe including multi-lingual sales order processing via the Internet and phone, full multi-currency financial management, inventory control and storage, vendor management, product delivery and product returns handling. Sykes has developed an extensive global reach with 42 state-of-the-art technical and customer support centers throughout North America, Europe, Latin America, Asia and Africa.

The Company believes that outsourcing by technology-enabled companies for customer management solutions and services will continue to grow as pressures of the new economy place greater emphasis on customer-facing activities to enhance customer relationships and build brand loyalty. Rapid changes in technology, pricing pressures, growth rates and global competition are making it increasingly difficult for companies to cost-effectively maintain quality, long-term relationships with their customers.

Sykes was founded in 1977 in North Carolina and moved its headquarters to Florida in 1993. In March 1996, Sykes changed its state of incorporation from North Carolina to Florida. Sykes headquarters are located at 100 North Tampa Street, Suite 3900, Tampa, Florida 33602, and its telephone number is (813) 274-1000.

#### DIVESTITURE ACTIVITY IN 2000

On June 30, 2000, the Company sold 93.5% of its ownership interest in SHPS, Incorporated ("SHPS") for approximately \$165.5 million cash. The cash proceeds reflected in the Statement of Cash Flows for 2000, included elsewhere in this Form 10-K, is net of approximately \$0.7 million used to retire other debt and approximately \$5.0 million of cash recorded on SHPS' balance sheet on the date of the sale. The sale of SHPS resulted in a gain for financial reporting purposes of approximately \$84.0 million (\$59.9 million net of taxes). The 2000 results of operations includes the results of SHPS through June 30, 2000, its disposition date. SHPS generated revenue and income from operations of \$35.7 million and \$1.7 million, respectively, for the six month period ended June 30, 2000 compared to \$73.0 million and \$5.9 million for the year ended 1999, exclusive of compensation expense associated with the exercise of options during 2000.

The Company recorded restructuring and other charges during the second and fourth quarters of 2000 totaling \$30.5 million. Related to the second quarter restructuring and other charges totaling \$9.6 million, the Company consolidated several European and one U.S. distribution and fulfillment center and closed or consolidated six professional services offices. As a result of the second quarter restructuring, the Company reduced the number of employees by 157 during 2000 and expects the remaining lease obligations related to the closed facilities to be completed by June 2001. Included in the second quarter restructuring and other charges is a \$3.5 million lease termination payment related to the corporate aircraft.

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 and distribution operations, the consolidation of its Tampa, Florida technical support center into its Charlotte, North Carolina center and the exit of its worldwide localization operations.

In connection with the fourth quarter restructuring, the Company plans to reduce the number of employees by 250. The Company expects to substantially complete the workforce reduction by March 2001 and any remaining lease obligations related to the closed facilities by December 2001. Included in the restructuring and other charges is a \$2.4 million severance payment related to the employment contract of the Company's former President.

The Company estimates it may achieve up to approximately \$12.0 million in annualized savings related to the closed operations included in the second and fourth quarter restructurings.

## **INDUSTRY BACKGROUND**

In today's digital economy, companies require innovative customer management solutions that allow them to enhance the end user's experience with their products and services, strengthen and enhance company brands, maximize the lifetime value of customers, efficiently and effectively deliver human interaction when customers value it most, and deploy best-in-class Customer Relationship Management (CRM) strategies, processes and technologies.

Technological changes, pricing pressures, fast growth rates and global competition are making it increasingly difficult for companies to cost-effectively maintain in-house the necessary personnel to handle all of their customer management needs. Companies are increasingly turning to outsourcers to perform specialized functions and services in CRM due to the following factors:

- Increasing importance of companies to focus on customer-facing activities;
- Increasing need for companies to focus on core competencies rather than non-revenue producing activities;
- Rapid changes in technology requiring personnel with specialized technical expertise;
- Growing capital requirements for sophisticated technology needed to maintain the necessary infrastructure to provide timely technical and customer support service;
- Increasing need to integrate and continually update complex systems incorporating a variety of hardware and software components spanning a number of technology generations;
- Extensive and ongoing staff training and associated costs required to maintain responsive, up-to-date in-house technical and customer support services; and
- Cost savings from converting fixed employee costs to flexible, variable costs.

## **STRATEGY**

The Company's objective is to continue to grow and expand its global customer base as a leading provider of outsourced customer management solutions and services while focusing on its core competencies of technical support, customer service and consulting capabilities. The Company's principal strategies for its Business Services and Business Solutions groups are as follows:

Continue Growing the Company's Customer Care Outsourcing Encompassing Technical Support and Customer Service. Sykes has grown its Customer Care operations utilizing a strategy of both internal growth and external acquisitions. This plan has resulted in an increase from three technical and customer support centers in 1994 to 42 worldwide as of February 15, 2001, with an additional 2 domestic facilities scheduled to open in 2001. The Company's technical and customer support centers currently have the capacity to handle millions of customer contacts per year depending on the mix of contact media. Sykes has standardized the establishment and ongoing operation of its domestic technical and customer support centers by: (i) locating the centers in smaller communities, near a college or university, with a relatively low cost structure and a technically proficient, stable work force; (ii) constructing the technical and customer support centers modeled after the same prototype; (iii) utilizing standardized procedures to hire and train customer care agents; and (iv) maintaining consistently responsive, high quality services through call monitoring and tracking technology

and other quality assurance procedures. The Company's systematic approach and procedures are part of its strategy of providing responsive, high quality and cost efficient support.

**Leverage Customer Relationship Management Practice.** The Company's expertise in change management, knowledge management, education and training, coupled with Sykes' customer care outsourcing capabilities, enable the Company to deliver broad based customer management solutions on a global basis. Sykes works with large and medium size companies to review, plan and build their CRM strategies by conducting assessments, audits, strategy definitions, process redesigns as well as the selection and implementation of technology.

**Expand Vertical Market Reach.** The Company markets its services on a worldwide basis primarily to technology-enabled companies within the technology, communications and financial services markets. The Company built its industry knowledge by initially focusing on software publishers, personal computer manufacturers and peripheral hardware manufacturers within the technology market, providing Sykes with a competitive advantage in technical support. In 2000, the Company's growth strategy targeted the communications market, where Sykes has leveraged its technical support capabilities to capitalize on dial-up Internet, broadband Internet and wireless services opportunities. Sykes' established presence in these markets provides tremendous opportunities for outsourced services and growth in new target markets such as financial services.

**Establish a Competitive Advantage Through Sophisticated Technology.** The Company seeks to establish a competitive advantage by continuing to capitalize on its sophisticated and specialized technological capabilities, including its current private asynchronous transfer mode (ATM) network between North America and Latin America that provides the Company the ability to redirect inquiries and to also carry voice and data over the same network. Sykes flexible and scalable network infrastructure allows the Company to rapidly respond to changes in client voice and data traffic and quickly establish support operations for new and existing clients. Through strategic partnerships, the Company is able to provide fully integrated communication services encompassing e-mail, chat and web, coupled with a self-healing, self-service technical e-support platform. Additional technological capabilities include automatic call distributors, sophisticated call routing and workforce management capabilities, call tracking software, quality management systems and computer-telephony integration (CTI) that enable Sykes' technical and customer support centers to serve as the transparent extension of the Company's clients, receive telephone calls and data directly from our clients' systems, and report detailed information concerning the status and results of the Company's services on a daily basis. The Company's European deployment of Global Direct, Sykes' CRM/e-commerce application, establishes a platform whereby our clients can manage all customer profile and contact information from every communication channel making it a viable customer-facing infrastructure solution to support our clients' CRM initiatives.

**Growth Through Selective Acquisitions and Mergers.** The Company has completed numerous strategic combinations since its initial public offering in April 1996. The Company believes there are further opportunities to expand the scope and quality of its support services by acquiring or combining with companies with technical and customer support centers in international markets, which provide quality call center activities within the technology, communications, and financial services markets, as well as companies which enhance its ability to provide such services. The Company will evaluate these opportunities to acquire or combine with organizations, which provide these services within the Company's strategic focus of technology, communications and financial services markets. Many of these companies may be attractive acquisition or merger candidates because they would enable Sykes to expand existing service offerings or open new geographic locations.

## **SERVICES**

The Company provides innovative customer management solutions and services. The following is a description of Sykes' outsourcing solutions and services:

### **Business Services**

**Customer Care Outsourcing.** Sykes provides customer care management solutions that support its clients' customers through the partial or complete outsourcing or in-sourcing of people, processes and technologies. Sykes specializes in providing technical support and customer service through multiple communication channels encompassing phone, e-mail, web and chat through its 18 stand-alone technical and customer support centers in the United States, 3 centers in Canada, 2 centers in Costa Rica, and 19 international technical and customer support centers located in Europe, South Africa, Peoples Republic of China and The Philippines. Client customers contact a Sykes' customer care agent through telephony support, e-mail, web or chat who is specially trained in the applicable product and/or service. The agent acts as a transparent extension of the client in diagnosing problems and providing a solution. The international technical and customer support centers provide global support capabilities in over 18 languages.

Technical support and customer service provided through the Company's support centers are generally billed to the client based on a fee per e-mail or call, rate per minute or time and material basis. As a result of the significant infrastructure costs required for each support center, the Company requires a minimum billing amount to facilitate planning and capital needs.

**Distribution and Fulfillment Services.** Fully integrated with customer care services, the Company provides Pan-European fulfillment solutions including multi-lingual sales order processing via the Internet and phone, full multi-currency financial management, inventory control and storage, vendor management, product delivery and product returns handling.

### **Business Solutions**

**CRM Consulting.** The Company's Customer Relationship Management (CRM) practice provides the full range of capabilities required for effectively performing assessments and audits, defining CRM/eCRM strategies, selecting appropriate technologies, defining training and knowledge management methodologies and managing full implementation programs.

**Enterprise Support Services.** The Company provides a wide range of enterprise support services for a company's internal support operations ranging from training development, knowledge management and technical staffing services, to the partial or complete outsourcing or in-sourcing of a company's internal help desk. Help desk services are provided to major companies, either at their facilities or through Sykes' support centers. Employees of Sykes' clients telephone the help desk number provided to them by their employer for technical assistance. Trained technicians dedicated to a specific client, answer questions and diagnose and resolve technical problems ranging from a simplistic error message to a wide area network failure.

## **OPERATIONS**

**CRM Consulting and Enterprise Support Services Offices.** Consultative professional personnel from Sykes' CRM Consulting and Enterprise Support Services teams are assigned to one of the Company's 9 offices, which are located in metropolitan areas throughout the United States. The Company's CRM consulting practice provides the full range of capabilities required for effectively performing assessments and audits, defining CRM/eCRM strategies, selecting appropriate technologies, defining training and knowledge management methodologies and managing full implementation programs. In addition, the Company provides a wide range of enterprise support services for a company's internal support operations ranging from training development, knowledge management and technical staffing services, to the partial or complete outsourcing or in-sourcing of a company's internal help desk. These CRM Consulting and Enterprise Support Services offices provide a strong recruiting platform for high-end knowledge workers and establish a local presence to service major accounts. Each office is responsible for staffing the consultative professional personnel needs of clients

or managing program implementations within its geographic region. These offices give Sykes the ability to (i) offer a broad range of consultative professional services to existing clients, and (ii) deliver flexible, innovative solutions to new and existing clients in each market. The number of consultative professionals assigned to each office ranges from 40 to 150.

Each office is staffed with one or more account executives whose goal is to become the client's partner in evaluating and meeting their customer care needs. The account executive's primary responsibilities include: client development; understanding and identifying clients' customer management needs; working closely with recruiters to staff assignments appropriately; setting billing rates for each assignment; and monitoring ongoing assignments. Each account executive is responsible for between four and ten active corporate accounts, some of which may involve several projects with multiple operating units of a particular company. The account executive cultivates and maintains relationships with the executive officers and numerous department and project managers within the client's organization.

The account executive has responsibility for staffing an assignment on a timely basis. Upon receiving a new assignment, the account executive prepares a proposal with assignment specifications and distributes the proposal to a recruiter who is familiar with the professionals who have the expertise required for the assignment. The account executive reviews the recruiter's recommended candidates, submits the resumes of qualified employees and other available candidates to the client and schedules client interviews of the candidates. Typically, an assignment is staffed within five working days.

Technical and Customer Support Centers. The Company's strategy in the United States is to locate its technical and customer support centers in smaller communities with similar demographic characteristics, typically near a college or university. The Company believes these characteristics tend to provide a well-educated, technically proficient employee pool from which to attract qualified candidates. These locations also tend to have lower labor and infrastructure costs than large metropolitan areas.

New technical and customer support centers are established to accommodate anticipated growth in the Company's business or in response to a specific customer need. The Company believes there are opportunities to establish additional technical and customer support centers in the United States and Europe and potentially in Asia, the Pacific Rim region and South America.

A typical domestic technical and customer support center is approximately 42,000 square feet, has 432 work stations and can handle in excess of 12,000 user transactions per day. The technical and customer support centers employ current technology in PBX switches, call tracking software, telephone-computer integration, interactive voice response and relational database management systems that are integrated into centrally managed local area networks and wide area networks. The Company's equipment and technology enable it to serve as the transparent extension of its clients at a low cost per transaction and provide its clients with immediate access to the status and results of the Company's services. Due to its modular, open system architecture, the Company's computer system allows timely system updates and modifications.

The Company utilizes call-tracking software and systems to provide efficient scheduling of personnel to accommodate fluctuations in call volume. Automated call distributors and digital switches identify each call by the number dialed and automatically route the call to a customer care agent with the applicable knowledge and training. The customer care calls are routed directly from the end user to the technical and customer support center or are routed from the client's place of business.

Technical and customer support center systems capture and download to permanent databases a variety of information concerning each call for reporting on a daily basis to clients, including number and duration of calls which are important for billing purposes, response time and results of the call. Summary data and complete databases are made available to the client to enable it to monitor the level of service provided by the Company, as well as to determine whether end users of its products are encountering recurring problems that require modification. The databases also provide Sykes' clients with considerable marketing information concerning end users, such as whether the user is a home or business user and regional differences in

purchasing patterns or usage. The Company maintains tape backups and offsite storage to assure the integrity of its reporting systems and databases.

The technical and customer support centers are protected by a fire extinguishing system and backup generators and short-term battery backup in the event of a power outage, reduced voltage or a power surge. Rerouting of telephone calls to one of the other technical support centers is also available in the event of a telecommunications failure, natural disaster or other emergency. Security measures are imposed to prevent unauthorized access. Software and related data files are backed up daily and stored off site at multiple locations. The Company carries business interruption insurance covering interruptions that might occur as a result of damage to its business. In addition, the Company believes that it has adequate arrangements with its equipment vendors pursuant to which damaged equipment can be replaced promptly.

Distribution and Fulfillment Centers. Sykes had originally expanded its distribution and fulfillment services through acquisitions, and through its ability to utilize the Internet. During 2000, Sykes consolidated several European distribution and fulfillment centers and announced the closure of its U.S. distribution and fulfillment centers. Sykes currently has 5 distribution and fulfillment centers located in Europe.

## **QUALITY ASSURANCE**

Sykes trains, monitors and supervises its employees to enhance the efficiency and the quality of its services. Representatives of the Company's clients conduct the training of new customer care agents in-house at the technical and customer support centers through certified trainers or Sykes actively recruits highly skilled professionals to staff specific assignment needs of its clients. Generally, employees also receive ongoing training throughout the year to respond to changes in technology.

A support center manager supervises project leaders, team leaders, technicians and customer support representatives dedicated to individual client accounts. Each team leader at the support centers monitors approximately ten customer care agents. A project leader supervises a particular client's account by monitoring calls and reviewing quality standards. Using call tracking software, the project leader monitors the number of calls each technician handles, the duration of each call, time between calls, response time, number of queries resolved after the first call and other statistics important in measuring and enhancing productivity and service levels. Remote and on-site call monitoring systems and on-line performance tracking are used to enhance high quality services. Clients have daily access to a variety of measures of service performance tracked by the Company's technology and can monitor calls directly through the Company's remote call monitoring systems.

The Company emphasizes a team approach in order to provide high quality, customized solutions to meet its clients' customer management needs. The Company's account executives and recruiters who work together to achieve a successful relationship between the client and the Company provide the central role in this team approach. The team shares information on active and prospective clients, reviews the availability of the staff and discusses general market conditions. Such forums enable the teams to remain informed and knowledgeable on the latest technologies and to identify business development opportunities as they emerge.

In November 2000, the Company announced that one of its Bismarck, North Dakota technical and customer support centers received certification for the COPC-2000(R) Standard (Customer Operations Performance Center Inc.) for technical support and help desk services. The COPC-2000(R) Standard was developed in 1996 by representatives from American Express, Dell, L.L. Bean, Microsoft, Motorola, Novell and other customer focused companies that wanted measurable standards to improve the level of service quality their customers received from external customer service providers. The development team used the criteria and framework of the Malcolm Baldrige National Quality Award as the foundation of the standard, and adapted the Baldrige criteria to accommodate the practical realities of the customer support industry. In addition to the Bismarck center, which marks the Company's first step towards global COPC certification, the Company is also in the process of certifying one of its Pan-European, multi-lingual customer support centers as well as several other centers in the United States. The Company is committed to the COPC 2000 standard and anticipates that it will eventually replace the current ISO 9002 standard within the support industry. The Company's commitment to quality has resulted in receiving the STAR Award for the years 1995 through 1999

in the highest call volume category and received a lifetime achievement award during 2000. This award has been presented annually since 1988 by the Software Support Professionals Association (SSPA) to the software support company that achieves superior customer satisfaction and call metrics.

## **SALES AND MARKETING**

The Company's marketing objective is to develop long-term relationships with existing and potential clients to become the preferred vendor for their customer management outsourcing services. Sykes believes that its significant client base provides excellent opportunities for further marketing and cross selling of its broad range of capabilities. The Company markets its services through a variety of methods, including client referrals, personal sales calls, advertising in industry publications, attending trade shows, direct mailings to targeted customers, telemarketing and cross selling additional services to existing clients. The Company currently employs 110 people in its sales force.

As part of its marketing efforts, the Company invites potential and existing customers to visit the technical and customer support centers, where the Company demonstrates its sophisticated telecommunications and call tracking technology, quality procedures and the knowledge of its technicians. The Company also demonstrates its ability to quickly accommodate a new customer or a significant increase in business from an existing customer by emphasizing its systematic approach to establishing and managing support centers.

The Company emphasizes account development to strengthen its relationships with its customers. Sales representatives and account executives are assigned to a limited number of accounts in order to develop a complete understanding of each customer's particular needs, to form strong customer relationships and encourage cross selling of other services offered by the Company. Account executives also receive incentives for cross selling the Company's services.

The Company's sales force is composed of field sales representatives and major account executives that manage relationships with existing accounts. In addition, the Company has inside customer sales representatives who receive customer inquiries and provide outbound lead generation for the field sales force.

## **CLIENTS**

The Company serves clients in the United States, Canada, Latin America, Europe, The Philippines, Peoples Republic of China and South Africa. The Company primarily markets to Fortune 500 corporations within the technology, communications and financials services industries. The Company believes its globally recognized client base presents opportunities for further cross marketing of its services.

No single client accounted for 10% or more of consolidated revenues for the years ended December 31, 2000, 1999, and 1998, respectively. The Company's loss of (or the failure to retain a significant amount of business with) its key clients could have a material adverse effect on the Company. The Company's largest ten clients accounted for approximately 49% of the consolidated revenues in 2000, exclusive of SHPS revenue. Many of the Company's contracts are cancelable by the client at any time or on short-term notice, and clients may unilaterally reduce their use of the Company's services under such contracts without penalty. Sykes provided services to over 1,000 clients during 2000.

## **COMPETITION**

The industry in which the Company competes is extremely competitive and highly fragmented. While many companies provide customer management solutions and services, management believes no one company is dominant. There are numerous and varied providers of such services, including firms specializing in various CRM consulting, support center operations, product distribution, general management consulting firms, major accounting firms, divisions of large hardware and software companies and niche providers of customer management solutions and services, many of whom compete in only certain markets. The Company's

competitors include many companies who may possess substantially greater resources, greater name recognition and a more established customer base than the Company. In addition, in-house personnel have provided the services offered by the Company historically.

The Company believes that the most significant competitive factors in the sale of its services include quality, reliability, scalability, flexibility, experience, price and tailored service offerings. As a result of intense competition, customer management solutions and services frequently are subject to pricing pressure. Customers also require vendors to be able to provide services in multiple locations. Competition for contracts for many of Sykes' services takes the form of competitive bidding in response to requests for proposals.

## **INTELLECTUAL PROPERTY**

The Company relies upon a combination of contract provisions and trade secret laws to protect the proprietary technology it uses at its technical and customer support centers and facilities, and relies on a combination of copyright, trademark and trade secret laws to protect its proprietary software. The Company attempts to further protect its trade secrets and other proprietary information through agreements with employees and consultants. The Company does not hold any patents and does not have any patent applications pending. There can be no assurance that the steps taken by the Company to protect its proprietary technology will be adequate to deter misappropriation of its proprietary rights or third party development of similar proprietary software. Sykes(R), SEI(R), REAL PEOPLE. REAL SOLUTIONS.(R) are registered service marks of the Company. Sykes holds a number of registered trademarks, including QAPLUS(R), ETSC(R), FS PRO(R) and FS PRO MARKETPLACE (R), QA+(R) and ANSWEREXPRESS(R).

## **EMPLOYEES**

As of February 15, 2001, the Company had 17,300 employees (full-time and part-time), consisting of 15,200 customer care agents at the technical and customer support centers, 470 in CRM consulting, 320 in distribution and fulfillment services, 110 in sales and marketing and 1,200 in management, administration and finance.

The technical and service nature of the Company's business makes its employees an important corporate asset. While the market for qualified personnel is extremely competitive, the Company believes its relationship with its employees is good. The Company's employees, with the exception of three employees in Scotland, are not represented by any labor union.

The Company recruits its personnel through a continually updated recruiting network. This network includes a seasoned team of technical recruiters, a Company-wide candidate database, internet/newspaper advertising, candidate referral programs and job fairs. However, demand for qualified professionals conversant with certain technologies may outstrip supply, as new skills are needed to keep pace with the requirements of customer engagements. Competition for such personnel is intense and employee turnover in this industry is high.

## **FACTORS INFLUENCING FUTURE RESULTS AND ACCURACY OF FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about the Company, management's beliefs, and assumptions made by management. In addition, other written or oral statements, which constitute forward-looking statements, may be made from time to time by or on behalf of Sykes. Words such as "may," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe the Company's 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. The Company's actual results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: the marketplace's continued receptivity to Sykes' terms and elements of services offered under Sykes' standardized contract for future bundled service offerings; Sykes' ability to continue the growth of its support service revenues through additional technical and customer support centers; Sykes' ability to leverage its customer relationship management practice; Sykes' ability to further penetrate into vertically integrated markets; Sykes' ability to expand revenues within the global markets; Sykes' ability to continue to establish a competitive advantage through sophisticated technological capabilities, and the following risk factors:

### **The Company Faces Uncertainties Relating To Pending Litigation**

Sykes faces uncertainties relating to the pending litigation described in "Item 3. Legal Proceedings." Although the Company intends to vigorously defend these lawsuits, it cannot predict the outcome or the impact they may have on the Company. Sykes also cannot predict whether any other suits, claims, or investigations may arise in the future based on the same or other claims. Regardless of the outcome of any of these lawsuits or any future lawsuits, claims, or investigations relating to the same or any other subject matter, the Company may incur substantial defense costs and such actions may cause a diversion of management time and attention. Also, it is possible that Sykes may be required to pay substantial damages or settlement costs which could have a material adverse effect on its financial condition or results of operation.

### **Dependence on Key Clients**

Sykes derives a substantial portion of its revenues from a few clients. Sykes' largest ten clients accounted for approximately 49%, 52%, and 44% of its consolidated revenue for the years ended December 31, 2000, 1999, and 1998, respectively, exclusive of SHPS revenue. No single client accounted for 10% or more of consolidated revenues for the years ended December 31, 2000, 1999, and 1998, respectively. Sykes' loss of, or the failure to retain a significant amount of business with, any of its key clients could have a material adverse effect on Sykes' business, financial condition and results of operations. Generally, Sykes' contracts with its clients are cancelable by the client at any time or on short-term notice, and clients may unilaterally reduce their use of Sykes' services under such contracts without penalty. Thus, Sykes' contracts with its clients do not ensure that Sykes will generate a minimum level of revenues.

### **Inability to Attract and Retain Experienced Personnel May Adversely Impact Sykes' Business**

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

### **The Company Faces Potential Difficulties in Continuing to Expand and Manage Growth**

Sykes has grown rapidly. The Company cannot guarantee that it will be able to continue to expand or successfully manage its growth. This growth has placed, and is expected to continue to place, significant demands on Sykes' management. The Company also cannot guarantee that it will achieve levels of revenue and profitability or otherwise perform as expected.

### **The Company's Strategy of Growing through Selective Acquisitions and Mergers Involves Potential Risks**

The Company evaluates opportunities to expand the scope of its services through acquisitions and mergers. The Company may be unable to identify companies that complement its strategy, and even if it

identifies a company that complements its strategy, Sykes may be unable to acquire or merge with the company. In addition, the decrease in the price of the Company's common stock could hinder Sykes' growth strategy, including growth through acquisitions.

The Company's acquisition strategy involves other potential risks. These risks include:

- the inability to obtain the capital required to finance potential acquisitions on satisfactory terms; and
- the diversion of management's attention to the integration of the businesses to be acquired;
- the risk that the acquired businesses will fail to maintain the quality of services that Sykes has historically provided;
- the need to implement financial and other systems and add management resources;
- the risk that key employees of the acquired business will leave after the acquisition;
- potential liabilities of the acquired business;
- unforeseen difficulties in the acquired operations;
- adverse short-term effects on Sykes' operating results;
- lack of success in assimilating or integrating the operations of acquired businesses with those of Sykes;
- the dilutive effect of the issuance of additional equity securities;
- the incurrence of additional debt or issuing additional equity securities as a result of future acquisitions;
- the impairment of goodwill and other intangible assets involved in any acquisitions that are accounted for using the purchase method of accounting;
- the businesses we acquire not proving profitable; and potentially incurring additional indebtedness.

### **Rapid Technological Change**

Rapid technological advances, frequent new product introductions and enhancements, and changes in client requirements characterize the market for information technology services. Sykes' future success will depend in large part on its ability to service new products, platforms, and rapidly changing technology. These factors will require Sykes to provide adequately trained personnel to address the increasingly sophisticated, complex and evolving needs of its clients. In addition, Sykes' ability to capitalize on its acquisitions will depend on its ability to continually enhance software and services and adapt such software to new hardware and operating system requirements. Any failure by Sykes to anticipate or respond rapidly to technological advances, new products and enhancements, or changes in client requirements could have a material adverse effect on Sykes' business, financial condition and results of operations.

### **Reliance on Technology and Computer Systems**

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

## **Dependence on Trend Toward Outsourcing**

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

### **Risk of Emergency Interruption of Technical and Customer Support Center Operations**

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

### **Risks Associated with International Operations and Expansion**

The Company intends to continue to pursue growth opportunities in markets outside the United States. At December 31, 2000, Sykes' international operations were conducted from 19 technical and customer support centers located in Sweden, The Netherlands, France, Germany, South Africa, Scotland, Ireland, Hungary, Turkey, Peoples Republic of China, and The Philippines. Revenues from these operations for the years ended December 31, 2000, 1999, and 1998, were 38%, 36%, and 38%, of consolidated revenues, respectively, exclusive of SHPS revenue. The Company also conducts business in Canada and Costa Rica which are included in the Americas geographic region. International operations are subject to certain risks common to international activities, such as changes in foreign governmental regulations, tariffs and taxes, import/export license requirements, the imposition of trade barriers, difficulties in staffing and managing foreign operations, political uncertainties, longer payment cycles, foreign exchange restrictions that could limit the repatriation of earnings, possible greater difficulties in accounts receivable collection, potentially adverse tax consequences, and economic instability.

Sykes conducts business in various foreign currencies and is therefore exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact its results of operations and financial condition. Sykes is also subject to certain exposures arising from the translation and consolidation of the financial results of its foreign subsidiaries. Sykes has from time to time taken limited actions to attempt to mitigate Sykes' foreign transaction exposure. However, there can be no assurance that the Company will take any actions to mitigate such exposure in the future, and if taken that such actions taken will be successful or that future changes in currency exchange rates will not have a material impact on Sykes' future operating results. A significant change in the value of the dollar against the currency of one or more countries where Sykes operates may materially adversely affect Sykes' results. Sykes has historically not entered into a hedge contract for either its translation risk or its economic risk.

### **Existence of Substantial Competition**

The markets for Sykes' services are highly competitive, subject to rapid change, and highly fragmented. While many companies provide information technology services, Sykes believes no one company is dominant. There are numerous and varied providers of such services, including firms specializing in call center operations, temporary staffing and personnel placement companies, general management consulting firms, divisions of large hardware and software companies and niche providers of information technology services,

many of whom compete in only certain markets. Sykes' competitors include many companies who may possess substantially greater resources, greater name recognition and a more established customer base than it does. In contrast to Sykes' competitors, in-house personnel often provide the services offered by Sykes. Increased competition, the failure of Sykes to compete successfully, pricing pressures, loss of market share and loss of clients could have a material adverse effect on Sykes' business, financial condition, and results of operations.

Many of Sykes' large clients purchase customer management solutions and services primarily from a limited number of preferred vendors. Sykes has experienced and continues to anticipate significant pricing pressure from these clients in order to remain a preferred vendor. These companies also require vendors to be able to provide services in multiple locations. Although Sykes believes it can effectively meet its clients' demands, there can be no assurance that it will be able to compete effectively with other information technology services companies. Sykes believes that the most significant competitive factors in the sale of its services include quality, reliability, scalability, flexibility, experience, price and tailored service offerings.

### **Dependence on Senior Management**

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

### **Control by Principal Shareholder and Anti-Takeover Considerations**

As of the date of this report, John H. Sykes, Sykes' Chairman of the Board, President and Chief Executive Officer, beneficially owned more than 43% of Sykes' outstanding common stock. As a result, Mr. Sykes will have substantial influence in the election of the Company's directors and in determining the outcome of other matters requiring shareholder approval.

Sykes' Board of Directors is divided into three classes serving staggered three-year terms. The staggered Board of Directors and the anti-takeover effects of certain provisions contained in the Florida Business Corporation Act and in Sykes' Articles of Incorporation and Bylaws, including the ability of the Board of Directors of Sykes to issue shares of preferred stock and to fix the rights and preferences of those shares without shareholder approval, may have the effect of delaying, deferring or preventing an unsolicited change in the control of Sykes. This may adversely affect the market price of Sykes' common stock or the ability of shareholders to participate in a transaction in which they might otherwise receive a premium for their shares.

### **Volatility of Stock Price May Result in Loss of Investment**

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

## EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME	AGE	PRINCIPAL POSITION
John H. Sykes.....	64	Chairman and Chief Executive Officer
James E. Lamar.....	54	Group Executive and Executive Vice President -- Business Services
Mitchell I. Nelson...	32	Group Executive and Senior Vice President -- Business Solutions
Gerry L. Rogers.....	55	Group Executive, Senior Vice President and Chief Information Officer
Charles E. Sykes.....	38	Senior Vice President -- Marketing
Jenna R. Nelson.....	37	Group Executive and Vice President, Human Resources
W. Michael Kipphut...	47	Vice President and Chief Financial Officer
James T. Holder.....	42	General Counsel and Corporate Secretary

John H. Sykes has held the titles and responsibilities of Chairman and Chief Executive Officer of the Company since December 1998. He has been President of the Company from inception in 1977 until December 1998. Previously, Mr. Sykes was Senior Vice President of CDI Corporation, a publicly held technical services firm.

James E. Lamar joined the Company in May 1999 as Vice President and Managing Director of EMEA and was named Group Executive and Executive Vice President -- Business Services during July 2000. From March 2000 until July 2000, Mr. Lamar was named Group Executive and Senior Vice President -- International. From 1994 to 1999, Mr. Lamar held various management positions with Lucent Technologies, a publicly held telecommunications firm, most recently as Managing Director of Licensing for Europe, the Middle East and Africa.

Mitchell I. Nelson joined the Company in August 1999 and was named Group Executive and Senior Vice President -- Business Solutions during July 2000. From January 1999 to July 1999, Mr. Nelson was Vice President of Professional Services Worldwide with IMRglobal, an IT strategy consulting and e-business solutions organization. Mr. Nelson was a partner with EC Werks, an e-business/e-commerce consulting firm, from October 1997 until December 1999 when IMRglobal acquired it. From January 1996 to September 1997, Mr. Nelson held the position of President and Chief Executive Officer for Technology Architects until it was sold to EC Werks. Previously, Mr. Nelson was General Manager and Director of Professional Services of Waldec Group, a consulting and technology systems integration company.

Gerry L. Rogers joined the Company in February 1999 as Group Vice President, North America and was named Group Executive, Senior Vice President and Chief Information Officer during July 2000. From March 2000 until July 2000, Mr. Rogers was named Group Executive and Senior Vice President -- The Americas. From 1968 to 1999, Mr. Rogers held various management positions with AT&T, a publicly held telecommunications firm, most recently as General Manager for the Business Growth Markets.

Charles E. Sykes joined the Company in 1986 and was named Senior Vice President -- Marketing during March 2000. In December 1996, Mr. Sykes was appointed Vice President Sales and held the position of Regional Manager of the Midwest Region for Professional Services from 1992 until 1996. Mr. Charles E. Sykes is the son of Mr. John H. Sykes.

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

W. Michael Kipphut joined the Company in March 2000 as Vice President and Chief Financial Officer. From September 1998 to February 2000, Mr. Kipphut held the position of Chief Financial Officer for USA Floral Products, Inc., a publicly held worldwide perishable products distributor. From September 1994 until September 1998, Mr. Kipphut held the position of Vice President and Treasurer for Spalding & Evenflo Companies, Inc., a global manufacturer of consumer products.

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

## ITEM 2. PROPERTIES

The Company's principal executive offices are located in Tampa, Florida. This facility currently serves as the headquarters for senior management, the financial and administrative departments and the Tampa office. The following table sets forth additional information concerning the Company's facilities:

PROPERTIES	GENERAL USAGE	SQUARE FEET	LEASE EXPIRATION
UNITED STATES LOCATIONS			
Tampa, Florida.....	Corporate headquarters	18,000	December 2002
Tampa, Florida.....	Office	56,900	June 2002
Ada, Oklahoma.....	Technical and customer support center	42,000	Company owned
Bismarck, North Dakota.....	Technical and customer support centers (2)	84,000	Company owned
Charlotte, North Carolina.....	Technical and customer support center	52,000	October 2001
Greeley, Colorado.....	Technical and customer support center	42,000	Company owned
Hays, Kansas.....	Technical and customer support center	42,000	Company owned
Klamath Falls, Oregon.....	Technical and customer support center	42,000	Company owned
Manhattan, Kansas.....	Technical and customer support center	42,000	Company owned
Milton-Freewater, Oregon.....	Technical and customer support center	42,000	Company owned
Morganfield, Kentucky.....	Technical and customer support center	42,000	Company owned
Perry County, Kentucky.....	Technical and customer support center	42,000	Company owned
Minot, North Dakota.....	Technical and customer support center	42,000	Company owned
Pikesville, Kentucky.....	Technical and customer support center	42,000	Company owned
Ponca City, Oklahoma.....	Technical and customer support center	42,000	Company owned
Scottsbluff, Nebraska	Technical and customer support center	42,000	Company owned
Sterling, Colorado.....	Technical and customer support center	34,000	Company owned
Eveleth, Minnesota.....	Technical and customer support center	42,000	Company owned
Nashville, Tennessee.....	Distribution center	91,200	October 2001
Atlanta, Georgia.....	Office	4,900	June 2003
Cary, North Carolina.....	Office	3,700	March 2003
Charlotte, North Carolina.....	Office	2,900	June 2001
Charlotte, North Carolina.....	Office	37,800	October 2003
Dallas, Texas.....	Office	3,000	June 2003
Denver, Colorado.....	Office	2,000	April 2001
Poughkeepsie, New York.....	Office	1,000	January 2002 September 2001
St. Louis, Missouri.....	Office	5,700	2001
INTERNATIONAL LOCATIONS			
Amsterdam, The Netherlands.....	Technical and customer support center/ International headquarters	70,500	July 2004
Budapest, Hungary.....	Technical and customer support center	15,700	June 2002 September 2019
Edinburgh, Scotland.....	Technical and customer support center/office	36,000	2019
Heredia, Costa Rica.....	Technical and customer support centers(2)	23,800	June 2001
London, Ontario, Canada.....	Technical and customer support center	45,000	Company owned
Toronto, Ontario, Canada.....	Technical and customer support center	14,600	December 2006
Moncton, New Brunswick.....	Technical and customer support center	8,200	December 2001
Les Ulis, France.....	Technical and customer support center	36,200	January 2007
Bochum, Germany.....	Technical and customer support center	29,100	June 2001

PROPERTIES	GENERAL USAGE	SQUARE FEET	LEASE EXPIRATION
Hannover, Germany.....	Technical and customer support center	12,500	November 2008
Hamburg, Germany.....	Technical and customer support center	6,400	June 2001
Esslingen, Germany.....	Technical and customer support center	9,200	December 2005
Pasewalk, Germany.....	Technical and customer support center	41,900	July 2001
Wilhelmshaven, Germany.....	Technical and customer support centers(2)	36,800	March 2003
Manila, The Philippines.....	Technical and customer support center	26,100	October 2002
Sunninghill, South Africa.....	Technical and customer support center	12,500	June 2001
Ed, Sweden.....	Technical and customer support center	44,000	November 2002
Sveg, Sweden.....	Technical and customer support center	35,100	June 2001
Istanbul, Turkey.....	Technical and customer support center	20,700	June 2001
Shanghai, PRC.....	Technical and customer support center	41,900	May 2002 September
Florence, Italy.....	Technical and customer support center	32,300	2002
Shannon, Ireland.....	Technical and customer support center and distribution center	66,000	April 2013 September
Aachen, Germany.....	Distribution center	49,400	2002
Sevran, France.....	Distribution center	19,400	August 2002
Galashiels, Scotland.....	Distribution center	126,700	Company owned
Upplands Vasby, Sweden.....	Distribution center	21,300	December 2001
Stockholm, Sweden.....	Sales office	5,000	December 2001
London, Ontario, Canada.....	Sales office	2,000	August 2002
Ottawa, Ontario, Canada.....	Sales office	5,400	March 2002
Vancouver, British Columbia.....	Sales office	400	June 2002

The Company owns each of its domestic technical and customer support centers as identified and anticipates that additional support centers may be required due to growth and expansion. In addition to the above list, the Company has established technical and customer support centers at its customer's production facilities in Germany, Peoples Republic of China and Turkey.

The Company currently has two domestic facilities scheduled to open in 2001 and may operate from time-to-time in temporary facilities to accommodate growth before new support centers are available. The Company is currently utilizing one such temporary facility totaling 27,800 square feet.

### ITEM 3. LEGAL PROCEEDINGS

#### A. CLASS ACTION LITIGATION

The Company is aware of 16 purported class action lawsuits that have been filed against Sykes and certain of its officers alleging violations of federal securities laws. All of the actions have been consolidated into one case which is pending in the United States District Court for the Middle District of Florida. The plaintiffs purport to assert claims on behalf of a class of purchasers of Sykes common stock during the period from July 27, 1998 through September 18, 2000. The consolidated action claims violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Among other things, the consolidated action alleges that during 2000, 1999 and 1998, the Company and certain of its officers made materially false statements concerning the Company's financial condition and its future prospects. The consolidated complaint also claims that certain of the Company's quarterly financial statements during 1999 and 1998 were not prepared in accordance with generally accepted accounting principles. The consolidated action seeks compensatory and other damages, and costs and expenses associated with the litigation. The Company believes these claims are without merit and intends to defend the actions vigorously.

The Company is also aware of a lawsuit filed by Kyros that asserts functionality issues associated with software that Kyros had licensed from the Company. At the time of the software license, the Company and Kyros entered into an agreement which provided for a return of a portion of the convertible preferred stock transferred to the Company in consideration of the license in the event that revenues generated by Kyros from the software did not reach agreed upon levels. In this lawsuit, Kyros claims that revenues from the software did not meet the minimum levels agreed upon and that Kyros is therefore entitled to a return of the convertible preferred stock having a fair value of \$4.5 million at the time of the software license. The

Company has not recorded the convertible preferred stock subject to the contingency in the accompanying Consolidated Balance Sheets as of December 31, 2000 and 1999. Therefore, in the event the Company is required to return the preferred stock to Kyrus, the return will not impact the Company's financial position or results of operations. This litigation is currently pending in the Court of Common Pleas for Greenville County, South Carolina. This lawsuit is in the very early stages and formal discovery has not yet begun. The Company intends to vigorously defend this lawsuit.

Although the Company intends to vigorously defend these lawsuits, it cannot predict their outcome or the impact they may have on the Company. The Company also cannot predict whether any other suits, claims, or investigations may arise in the future based on the same claims. The outcome of any of these lawsuits or any future lawsuits, claims, or investigations relating to the same subject matter may have a material adverse impact on the Company's financial condition and results of operations.

## **B. OTHER LITIGATION**

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.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

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

## **PART II**

## **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS**

### **MARKET SHAREHOLDER DATA**

The information called for by this Item is contained on page 44 of the Company's 2000 Annual Report and is incorporated herein by reference.

## **ITEM 6. SELECTED FINANCIAL DATA**

### **SELECTED FINANCIAL DATA**

The information called for by this Item is contained on page 15 of the Company's 2000 Annual Report and is incorporated herein by reference.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information called for by this Item is contained on pages 16 through 22 of the Company's 2000 Annual Report and is incorporated herein by reference.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES**

The information called for by this Item is contained on page 22 of the Company's 2000 Annual Report and is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information called for by this Item is contained on pages 23 through 44 of the Company's 2000 Annual Report and is incorporated herein by reference.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

### PART III

ITEMS 10. THROUGH 13. All information required by Items 10 through 13, with the exception of information on Executive Officers which appears in the report under the caption "Executive Officers of the Registrant," is incorporated by reference to the Company's Proxy Statement for its Year 2001 Annual Meeting of Shareholders.

### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Consolidated Financial Statements Report of Independent Auditors.

The following information is contained in Item 8 "Financial Statements and Supplementary Data", and is incorporated herein by reference:

#### Consolidated Balance Sheets as of December 31, 2000 and 1999.

Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998.

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998.

Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.

#### Notes to Consolidated Financial Statements.

(a)(2) Financial Statement Schedule

#### Schedule II -- Valuation and Qualifying Accounts

(a)(3) Exhibits

The following documents are filed as exhibits to this report:

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
2.1	-- Articles of Merger between Sykes Enterprises, Incorporated, a North Carolina Corporation, and Sykes Enterprises, Incorporated, a Florida Corporation, dated March 1, 1996.(1)
2.2	-- Articles of Merger between Sykes Enterprises, Incorporated and Sykes Realty, Inc.(1)
2.3	-- Stock Purchase Agreement dated July 1, 1996 among Sykes Enterprises, Incorporated and Johan Holm, Arne Weinz and Norhold Invest AB.(2)
2.4	-- Stock Purchase Agreement dated August 30, 1996 among Sykes Enterprises, Incorporated and Gordon H. Kraft.(3)
2.5	-- Merger Agreement dated as of January 10, 1997 among Sykes Enterprises, Incorporated, Info Systems of North Carolina, Inc. and ISNC Acquisition Co.(4)
2.6	-- Stock Purchase Agreement date March 28, 1997 among Sykes Enterprises, Incorporated, Sykes Holdings of Belgium, B.V.B.A., Cycle B.V.B.A. and Michael McMahon.(5)
2.7	-- Joint Marketing and Distribution Agreement dated April 30, 1997 by and between Sykes Enterprises, Incorporated and SystemSoft Corporation.(10)
2.8	-- Common Stock Purchase Agreement dated May 6, 1997 by and between Sykes Enterprises, Incorporated and SystemSoft Corporation.(10)

EXHIBIT  
NUMBER

EXHIBIT DESCRIPTION

- 
- 2.9 -- Acquisition Agreement, dated May 30, 1997, by and among the holders of all of the capital interests of Telcare Gesellschaft fur Telekommunikations-Mehrwertdienste mbH, Sykes Enterprises GmbH, and Sykes Enterprises, Incorporated.(7)
  - 2.10 -- Acquisition Agreement, dated September 19, 1997, by and among the holders of all of the capital interests of TAS Telemarketing Gesellschaft fur Kommunikation und Dialog mbH, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated.(8)
  - 2.11 -- Acquisition Agreement, dated September 25, 1997, by and among the holders of all of the capital interests of TAS Hedi Fabinyi GmbH, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated.(8)
  - 2.12 -- Shareholder Agreement dated December 18, 1997, by and among Sykes Enterprises, Incorporated and HealthPlan Services Corporation.(14)
  - 2.13 -- Acquisition Agreement, dated December 31, 1997, by and among the holders of all of the capital interests of McQueen International Limited and Sykes Enterprises, Incorporated.(11)
  - 2.14 -- Stock Purchase Agreement, dated September 11, 1998, between HealthPlan Services Corporation and Sykes Enterprises, Incorporated.(17)
  - 2.15 -- Acquisition Agreement, dated November 23, 1998, by and among the holders of all of the capital interests of TAS GmbH Nord Telemarketing und Vertriebsberatung, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated(19).
  - 2.16 -- Combination Agreement, dated December 29, 1998, by and among the holders of all of the capital interests of Oracle Service Networks Corporation and Sykes Enterprises, Incorporated.(18)
  - 2.17 -- Merger Agreement, dated as of June 9, 2000, among Sykes Enterprises, Incorporated, SHPS, Incorporated, Welsh Carson Anderson and Stowe, VIII, LP ("WCAS") and Slugger Acquisition Corp.(24)
  - 3.1 -- Articles of Incorporation of Sykes Enterprises, Incorporated, as amended.(19)
  - 3.2 -- Bylaws of Sykes Enterprises, Incorporated, as amended.(19)
  - 4.1 -- Specimen certificate for the Common Stock of Sykes Enterprises, Incorporated.(1)
  - 4.2 -- Credit Agreement between NationsBank N.A. and Sykes Enterprises, Incorporated dated as of February 27, 1998.(16)
  - 4.3 -- Amendment No. 1 to Credit Agreement between NationsBank N.A. and Sykes Enterprises, Incorporated dated as of March 20, 1998.(16)
  - 4.4 -- Guaranty Agreement between Sykes Enterprises, Incorporated and HealthPlan Services Corp. to NationsBank N.A. dated March 16, 1998.(16)
  - 10.1 -- Loan Agreement between NationsBank, N.A. and Sykes Enterprises, Incorporated dated as of December 31, 1996.(6)
  - 10.2 -- Employment Agreement dated as of March 6, 2000 between John H. Sykes and Sykes Enterprises, Incorporated(20).
  - 10.3 -- Employment Agreement dated as of March 6, 2000 between David L. Grimes and Sykes Enterprises, Incorporated(20).
  - 10.4 -- Employment Agreement dated as of March 6, 2000 between Scott J. Bendert and Sykes Enterprises, Incorporated(20).
  - 10.5 -- Employment Agreement dated as of March 6, 2000 between W. Michael Kipphut and Sykes Enterprises, Incorporated(20).
  - 10.6 -- Employment Agreement dated as of March 6, 2000 between Dale W. Saville and Sykes Enterprises, Incorporated(20).

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10.7	-- Employment Agreement dated as of March 6, 2000 between Gerry L. Rogers and Sykes Enterprises, Incorporated(20).
10.8	-- Employment Agreement dated as of March 6, 2000 between James E. Lamar and Sykes Enterprises, Incorporated(20).
10.9	-- Employment Agreement dated as of March 6, 2000 between Charles E. Sykes and Sykes Enterprises, Incorporated(20).
10.10	-- Stock Option Agreement between Sykes Enterprises, Incorporated and David E. Garner dated as of December 31, 1995.(1)
10.11	-- 1996 Employee Stock Option Plan.(1)
10.12	-- 1996 Non-Employee Director Stock Option Plan.(1)
10.13	-- 1996 Non-Employee Directors' Fee Plan.(1)
10.14	-- Form of Split Dollar Plan Documents.(1)
10.15	-- Form of Split Dollar Agreement.(1)
10.16	-- Form of Indemnity Agreement between directors and executive officers and Sykes Enterprises, Incorporated.(1)
10.17	-- Aircraft Lease Agreement between JHS Leasing of Tampa, Inc. as lessor and Sykes Enterprises, Incorporated as lessee, dated December 1, 1995.(1)
10.18	-- Single Tenant Property Lease Agreement between Sykes Investments as landlord and Sykes Enterprises, Incorporated as tenant dated October 31, 1989, for building in Charlotte, North Carolina.(1)
10.19	-- Tax Indemnification Agreement between Sykes Enterprises, Incorporated and John H. Sykes.(1)
10.20	-- Consultant Agreement between Sykes Enterprises, Incorporated and E.J. Milani Consulting Corp. dated April 1, 1996.(1)
10.21	-- 1997 Management Stock Incentive Plan.(15)
10.22	-- 1999 Employees' Stock Purchase Plan.(19)
10.23	-- 2000 Stock Option Plan(20).
10.24	-- Amended and Restated Credit Agreement among Sykes Enterprises, Incorporated and Bank of America, NA, dated May 2, 2000.(21)
10.25	-- Termination of aircraft Lease Agreement between JHS Leasing of Tampa, Inc., as lessor and Sykes Enterprises, Incorporated as lessee dated June 30, 2000.(21)
10.26	-- Employment Agreement dated July 31, 2000 between James E. Lamar and Sykes Enterprises, Incorporated.(22)
10.27	-- Employment Separation Agreement dated as of September 20, 2000 between Dale W. Saville and Sykes Enterprises, Incorporated.(22)
10.28	-- Employment Separation Agreement dated as of September 22, 2000 between Scott J. Bendert and Sykes Enterprises, Incorporated.(22)
10.29	-- Employment Separation Agreement dated November 10, 2000 between David L. Grimes and Sykes Enterprises, Incorporated.(23)
10.30	-- Employment Agreement dated July 31, 2000 between Mitchell I. Nelson and Sykes Enterprises, Incorporated.(23)
10.31	-- Employment Agreement dated March 6, 2000, amended November 8, 2000, between W. Michael Kipphut and Sykes Enterprises, Incorporated.(23)
13.1	-- 2000 Sykes Enterprises, Incorporated Annual Report (incorporates sections only in electronic filing).

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
21.1	-- List of subsidiaries of Sykes Enterprises, Incorporated (filed herewith).
23.1	-- Consent of Ernst & Young LLP
24.1	-- Power of Attorney relating to subsequent amendments (included on the signature page of this report).

- 
- (1) Filed as the same numbered Exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-2324) and incorporated herein by reference.
- (2) Filed as an Exhibit to the Registrant's Form 8-K dated July 31, 1996, and incorporated herein by reference.
- (3) Filed as an Exhibit to the Registrant's Form 8-K dated September 16, 1996, and incorporated herein by reference.
- (4) Included as Appendix A to the Proxy Statement/Prospectus contained in the Registrant's Registration Statement on Form S-4 (Registration No. 333-20465) and incorporated herein by reference.
- (5) Filed as an Exhibit to the Registrant's Form 10-K dated March 30, 1997, and incorporated herein by reference.
- (6) Filed as Exhibit 2.5 to the Registrant's Registration Statement on Form S-4 (Registration No. 333-20465) and incorporated herein by reference.
- (7) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 16, 1997, and incorporated herein by reference.
- (8) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 26, 1997, and incorporated herein by reference.
- (9) Filed as the same numbered Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-38513) and incorporated herein by reference.
- (10) Filed as an Exhibit to the Registrant's Form 10-Q dated June 29, 1997, and incorporated herein by reference.
- (11) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated January 15, 1998, and incorporated herein by reference.
- (12) Filed as an Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-38513) and incorporated herein by reference.
- (13) Filed as an Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-46569) and incorporated herein by reference.
- (14) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1997, and incorporated herein by reference.
- (15) Filed as an Exhibit to the Registrant's Proxy Statement on Form 14A, dated April 1, 1998, and incorporated herein by reference.
- (16) Filed as an Exhibit to the Registrant's Form 10-Q dated March 31, 1998, and incorporated herein by reference.
- (17) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 11, 1998, and incorporated herein by reference.
- (18) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated December 29, 1998, and incorporated herein by reference.
- (19) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1998, and incorporated herein by reference.
- (20) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1999, and incorporated herein by reference.
- (21) Filed as an Exhibit to the Registrant's Form 10-Q dated June 30, 2000, and incorporated herein by reference.
- (22) Filed as an Exhibit to the Registrant's Form 10-Q dated September 30, 2000, and incorporated herein by reference.
- (23) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 2000, filed here within.

(24) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 30, 2000, and incorporated herein by reference.

(b) Reports on Form 8-K

The following reports on Form 8-K were filed during the period beginning October 2, 2000 through March 21, 2001:

Registrant filed a current report on Form 8-K, dated October 30, 2000, with the Commission on November 1, 2000 which announced its financial results for the third quarter and nine months ended September 30, 2000 and its completion of its previously announced accounting review.

Registrant filed a current report on Form 8-K, dated March 14, 2001, with the Commission on March 21, 2001, which announced the engagement of Deloitte & Touche LLP as its principal accountant to audit the consolidated financial statements of the Registrant for the year ended December 31, 2001 and the dismissal of Ernst & Young LLP, effective upon its completion of its audit of the Registrant's consolidated financial statements for the year ended December 31, 2000.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Tampa, and State of Florida, on this 27th day of March, 2001.

### SYKES ENTERPRISES, INCORPORATED (Registrant)

By: /s/ W. MICHAEL KIPPHUT

-----  
W. Michael Kipphut,  
Vice President and Chief Financial  
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints W. Michael Kipphut his true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or should do in person, thereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, may lawfully do or cause to be done by virtue hereof.

SIGNATURE -----	TITLE -----	DATE -----
/s/ JOHN H. SYKES ----- John H. Sykes	Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer)	March 27, 2001
/s/ GORDON H. LOETZ ----- Gordon H. Loetz	Vice Chairman of the Board and Director	March 27, 2001
/s/ FURMAN P. BODENHEIMER, JR. ----- Furman P. Bodenheimer, Jr.	Director	March 27, 2001
/s/ H. PARKS HELMS ----- H. Parks Helms	Director	March 27, 2001
/s/ IAIN A. MACDONALD ----- Iain A. Macdonald	Director	March 27, 2001
/s/ LINDA F. MCCLINTOCK-GRECO ----- Linda F. McClintock-Greco	Director	March 27, 2001
/s/ WILLIAM J. MEURER ----- William J. Meurer	Director	March 27, 2001
/s/ ERNEST J. MILANI ----- Ernest J. Milani	Director	March 27, 2001
/s/ THOMAS F. SKELLY ----- Thomas F. Skelly	Director	March 27, 2001
/s/ ADELAIDE A. SINK ----- Adelaide A. Sink	Director	March 27, 2001

**SYKES ENTERPRISES, INCORPORATED**

**SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998  
(IN THOUSANDS)**

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	RECLASSIFICATIONS (1)	DEDUCTIONS (2)	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:					
Year ended December 31, 2000.....	\$2,440	\$ 7,621	\$ --	\$ 2,801	\$7,260
Year ended December 31, 1999.....	796	2,202	--	558	2,440
Year ended December 31, 1998.....	537	262	--	3	796
Domestic current deferred tax asset valuation allowance:					
Year ended December 31, 2000.....	\$ --	\$ 1,819	\$ --	\$ --	\$1,819
Year ended December 31, 1999.....	--	--	--	--	--
Year ended December 31, 1998.....	--	--	--	--	--
Foreign current deferred tax asset valuation allowance:					
Year ended December 31, 2000.....	\$1,240	\$ 1,593	\$ --	\$ 1,018	\$1,815
Year ended December 31, 1999.....	--	626	704	90	1,240
Year ended December 31, 1998.....	135	--	--	135	--
Restructuring reserve:					
Year ended December 31, 2000.....	\$ --	\$24,366	\$ --	\$21,658	\$2,708
Year ended December 31, 1999.....	--	--	--	--	--
Year ended December 31, 1998.....	--	--	--	--	--
Domestic non-current deferred tax asset valuation allowance:					
Year ended December 31, 2000.....	\$2,894	\$ --	\$ --	\$ 2,546	\$ 348
Year ended December 31, 1999.....	3,000	--	--	106	2,894
Year ended December 31, 1998.....	--	3,000	--	--	3,000
Foreign non-current deferred tax valuation allowance:					
Year ended December 31, 2000.....	\$ --	\$ --	\$ --	\$ --	\$ --
Year ended December 31, 1999.....	704	--	(704)	--	--
Year ended December 31, 1998.....	--	704	--	--	704

(1) Amounts have been reclassified for reporting purposes.

(2) Write-offs and recoveries.

## EXHIBIT INDEX

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
2.1	-- Articles of Merger between Sykes Enterprises, Incorporated, a North Carolina Corporation, and Sykes Enterprises, Incorporated, a Florida Corporation, dated March 1, 1996.(1)
2.2	-- Articles of Merger between Sykes Enterprises, Incorporated and Sykes Realty, Inc.(1)
2.3	-- Stock Purchase Agreement dated July 1, 1996 among Sykes Enterprises, Incorporated and Johan Holm, Arne Weinz and Norhold Invest AB.(2)
2.4	-- Stock Purchase Agreement dated August 30, 1996 among Sykes Enterprises, Incorporated and Gordon H. Kraft.(3)
2.5	-- Merger Agreement dated as of January 10, 1997 among Sykes Enterprises, Incorporated, Info Systems of North Carolina, Inc. and ISNC Acquisition Co.(4)
2.6	-- Stock Purchase Agreement date March 28, 1997 among Sykes Enterprises, Incorporated, Sykes Holdings of Belgium, B.V.B.A., Cycle B.V.B.A. and Michael McMahon.(5)
2.7	-- Joint Marketing and Distribution Agreement dated April 30, 1997 by and between Sykes Enterprises, Incorporated and SystemSoft Corporation.(10)
2.8	-- Common Stock Purchase Agreement dated May 6, 1997 by and between Sykes Enterprises, Incorporated and SystemSoft Corporation.(10)
2.9	-- Acquisition Agreement, dated May 30, 1997, by and among the holders of all of the capital interests of Telcare Gesellschaft fur Telekommunikations-Mehrwertdienste mbH, Sykes Enterprises GmbH, and Sykes Enterprises, Incorporated.(7)
2.10	-- Acquisition Agreement, dated September 19, 1997, by and among the holders of all of the capital interests of TAS Telemarketing Gesellschaft fur Kommunikation und Dialog mbH, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated.(8)
2.11	-- Acquisition Agreement dated September 25, 1997, by and among the holders of all of the capital interests of TAS Hedi Fabinyi GmbH, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated.(8)
2.12	-- Shareholder Agreement dated December 18, 1997, by and among Sykes Enterprises, Incorporated and HealthPlan Services Corporation.(14)
2.13	-- Acquisition Agreement, dated December 31, 1997, by and among the holders of all of the capital interests of McQueen International Limited and Sykes Enterprises, Incorporated.(11)
2.14	-- Stock Purchase Agreement, dated September 11, 1998, between HealthPlan Services Corporation and Sykes Enterprises, Incorporated.(17)
2.15	-- Acquisition Agreement, dated November 27, 1998, by and among the holders of all of the capital interests of TAS GmbH Nord Telemarketing und Vertriebsberatung, Sykes Enterprises, GmbH, and Sykes Enterprises, Incorporated.(19)
2.16	-- Combination Agreement, dated December 29, 1998, by and among the holders of all of the capital interests of Oracle Service Networks Corporation and Sykes Enterprises, Incorporated.(18)
2.17	-- Merger Agreement, dated as of June 9, 2000, among Sykes Enterprises, Incorporated, SHPS, Incorporated, Welsh Carson Anderson and Stowe, VIII, LP ("WCAS") and Slugger Acquisition Corp.(24)
3.1	-- Articles of Incorporation of Sykes Enterprises, Incorporated, as amended.(12)
3.2	-- Bylaws of Sykes Enterprises, Incorporated, as amended.(12)
4.1	-- Specimen certificate for the Common Stock of Sykes Enterprises, Incorporated.(1)
4.2	-- Credit Agreement between NationsBank N.A. and Sykes Enterprises, Incorporated dated as of February 27, 1998.(16)

EXHIBIT  
NUMBER

## EXHIBIT DESCRIPTION

-----

4.3	--	Amendment No. 1 to Credit Agreement between NationsBank N.A. and Sykes Enterprises, Incorporated dated as of March 20, 1998.(16)
4.4	--	Guaranty Agreement between Sykes Enterprises, Incorporated and HealthPlan Services Corp. to NationsBank N.A. dated March 16, 1998.(16)
10.1	--	Loan Agreement between NationsBank, N.A. and Sykes Enterprises, Incorporated dated as of December 31, 1996.(6)
10.2	--	Employment Agreement dated as of March 6, 2000 between John H. Sykes and Sykes Enterprises, Incorporated(20).
10.3	--	Employment Agreement dated as of March 6, 2000 between David L. Grimes and Sykes Enterprises, Incorporated(20).
10.4	--	Employment Agreement dated as of March 6, 2000 between Scott J. Bendert and Sykes Enterprises, Incorporated(20).
10.5	--	Employment Agreement dated as of March 6, 2000 between W. Michael Kippnut and Sykes Enterprises, Incorporated(20).
10.6	--	Employment Agreement dated as of March 6, 2000 between Dale W. Saville and Sykes Enterprises, Incorporated(20).
10.7	--	Employment Agreement dated as of March 6, 2000 between Gerry L. Rogers and Sykes Enterprises, Incorporated(20).
10.8	--	Employment Agreement dated as of March 6, 2000 between James E. Lamar and Sykes Enterprises, Incorporated(20).
10.9	--	Employment Agreement dated as of March 6, 2000 between Charles E. Sykes and Sykes Enterprises, Incorporated(20).
10.10	--	Stock Option Agreement between Sykes Enterprises, Incorporated and David E. Garner dated as of December 31, 1995.(1)
10.11	--	1996 Employee Stock Option Plan.(1)
10.12	--	1996 Non-Employee Director Stock Option Plan.(1)
10.13	--	1996 Non-Employee Directors' Fee Plan.(1)
10.14	--	Form of Split Dollar Plan Documents.(1)
10.15	--	Form of Split Dollar Agreement.(1)
10.16	--	Form of Indemnity Agreement between directors and executive officers and Sykes Enterprises, Incorporated.(1)
10.17	--	Aircraft Lease Agreement between JHS Leasing of Tampa, Inc. as lessor and Sykes Enterprises, Incorporated as lessee, dated December 1, 1995.(1)
10.18	--	Single Tenant Property Lease Agreement between Sykes Investments as landlord and Sykes Enterprises, Incorporated as tenant dated October 31, 1989, for building in Charlotte, North Carolina.(1)
10.19	--	Tax Indemnification Agreement between Sykes Enterprises, Incorporated and John H. Sykes.(1)
10.20	--	Consultant Agreement between Sykes Enterprises, Incorporated and E.J. Milani Consulting Corp. dated April 1, 1996.(1)
10.21	--	1997 Management Stock Incentive Plan.(15)
10.22	--	1999 Employees' Stock Purchase Plan.(19)
10.23	--	2000 Stock Option Plan.(20)
10.24	--	Amended and Restated Credit Agreement among Sykes Enterprises, Incorporated and Bank of America, NA, dated May 2, 2000.(21)

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.25	-- Termination of aircraft Lease Agreement between JHS Leasing of Tampa, Inc., as lessor and Sykes Enterprises, Incorporated as lessee dated June 30, 2000.(21)
10.26	-- Employment Agreement dated July 31, 2000 between James E. Lamar and Sykes Enterprises, Incorporated.(22)
10.27	-- Employment Separation Agreement dated as of September 20, 2000 between Dale W. Saville and Sykes Enterprises, Incorporated.(22)
10.28	-- Employment Separation Agreement dated as of September 22, 2000 between Scott J. Bendert and Sykes Enterprises, Incorporated.(22)
10.29	-- Employment Separation Agreement dated November 10, 2000 between David L. Grimes and Sykes Enterprises, Incorporated.(23)
10.30	-- Employment Agreement dated July 31, 2000 between Mitchell I. Nelson and Sykes Enterprises, Incorporated.(23)
10.31	-- Employment Agreement dated March 6, 2000, amended November 8, 2000, between W. Michael Kipphut and Sykes Enterprises, Incorporated.(23)
13.1	-- 2000 Sykes Enterprises, Incorporated Annual Report (incorporates sections only in electronic filing).
21.1	-- List of subsidiaries of Sykes Enterprises, Incorporated (filed herewith).
23.1	-- Consent of Ernst & Young LLP
24.1	-- Power of Attorney relating to subsequent amendments (included on the signature page of this report).

- 
- (1) Filed as the same numbered Exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-2324) and incorporated herein by reference.
- (2) Filed as an Exhibit to the Registrant's Form 8-K dated July 31, 1996, and incorporated herein by reference.
- (3) Filed as an Exhibit to the Registrant's Form 8-K dated September 16, 1996, and incorporated herein by reference.
- (4) Included as Appendix A to the Proxy Statement/Prospectus contained in the Registrant's Registration Statement on Form S-4 (Registration No. 333-20465) and incorporated herein by reference.
- (5) Filed as an Exhibit to the Registrant's Form 10-K dated March 30, 1997, and incorporated herein by reference.
- (6) Filed as Exhibit 2.5 to the Registrant's Registration Statement on Form S-4 (Registration No. 333-20465) and incorporated herein by reference.
- (7) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated June 16, 1997, and incorporated herein by reference.
- (8) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated September 26, 1997, and incorporated herein by reference.
- (9) Filed as the same numbered Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-38513) and incorporated herein by reference.
- (10) Filed as an Exhibit to the Registrant's Form 10-Q dated June 29, 1997, and incorporated herein by reference.
- (11) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated January 15, 1998, and incorporated herein by reference.
- (12) Filed as an Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-38513) and incorporated herein by reference.
- (13) Filed as an Exhibit to the Registrant's Registration Statement on Form S-3 (Registration No. 333-46569) and incorporated herein by reference.

- (14) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1997, and incorporated herein by reference.
- (15) Filed as an Exhibit to the Registrant's Proxy Statement on Form 14A dated April 1, 1998, and incorporated herein by reference.
- (16) Filed as an Exhibit to the Registrant's Form 10-Q dated March 31, 1998, and incorporated herein by reference.
- (17) Filed as an Exhibit to Registrant's Current Report on Form 8-K dated September 11, 1998, and incorporated herein by reference.
- (18) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated December 29, 1998, and incorporated herein by reference.
- (19) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1998, and incorporated herein by reference.
- (20) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 1999, and incorporated herein by reference.
- (21) Filed as an Exhibit to the Registrant's Form 10-Q dated June 30, 2000, and incorporated herein by reference.
- (22) Filed as an Exhibit to the Registrant's Form 10-Q dated September 30, 2000, and incorporated herein by reference.
- (23) Filed as an Exhibit to the Registrant's Form 10-K dated December 31, 2000, filed here within.
- (24) Filed as an Exhibit to the Registrant's Current Report on Form 8-K dated

June 30, 2000, and incorporated herein by reference.

**Exhibit 10.29**

**EMPLOYMENT SEPARATION AGREEMENT**

THIS EMPLOYMENT SEPARATION AGREEMENT (this "Agreement") is made and entered into as of the 10th day of November, 2000, by and between SYKES ENTERPRISES, INCORPORATED, a Florida corporation ("Company"), and DAVID L. GRIMES, an individual ("Employee").

**RECITALS:**

- A. Pursuant to that certain Amended and Restated Employment Agreement, dated March 6, 2000, by and between Company and Employee (the "Employment Agreement"), Employee is currently employed by Company as an executive officer of Company.
- B. Employee wishes to terminate his employment with Company.
- C. Employee and Company have reached agreement on the terms of Employee's departure, and both parties view their separation as amicable.

NOW, THEREFORE, in consideration of the premises and covenants contained in this Agreement, the parties hereto, intending to be legally bound, agree as follows:

- 1. **RECITALS.** The above recitals are true and correct and are made a part hereof.
- 2. **TERMINATION OF EMPLOYMENT AGREEMENT.** Company and Employee hereby agree that, except as specifically provided in this Agreement, the Employment Agreement is terminated effective as of the date hereof, and except as set forth in Section 6 below and except as otherwise specifically provided in this Agreement, neither Company nor Employee shall have any further rights, obligations, or duties under the Employment Agreement as of the date hereof.
- 3. **SEPARATION PAYMENTS.** In consideration of Employee's agreement to the terms of this Agreement, Company will pay Employee the following amounts (the "Separation Payments"):
  - a. For the period beginning on the date hereof through March 5, 2005 (the "Post-Employment Period"), Company will continue to pay to Employee an amount equal to the Employee's base salary of \$525,000 as in effect under the Employment Agreement as of the date hereof. Such base salary shall continue to be paid in accordance with the prevailing payroll schedule for Company executives, in weekly payments of \$10,096.16, subject to applicable tax withholding as W-2 income and reported in accordance therewith, such first payment to be made on or as soon as practicable after the eighth (8th) day following the date Employee executes this Agreement.

b. On the eighth (8th) day following the date Employee executes this Agreement, Company shall pay to Employee, in a lump sum, Eighty-five Thousand Six Hundred Three Dollars and 60/100 (\$85,603.60), less applicable tax withholdings, representing the dollar value of all of Employee's accrued but unused vacation as of the date hereof and twelve months dues for the Avila Country Club.

c. As promptly as practicable following the execution of this Agreement, and in no event later than the eighth (8th) day following the date Employee executes this Agreement, the Company will, in accordance with the Company's standard expense reimbursement policies, reimburse Employee for all appropriately documented travel and other Company expense items submitted by Employee for reimbursement. Thereafter, the Company will, in accordance with the Company's standard expense reimbursement policies, promptly reimburse Employee for any additional Company expenses appropriately incurred by Employee during his employment with the Company as credit card and other charges are received by Employee and submitted to the Company with appropriate documentation for reimbursement.

4. TRANSFER OF AVILA COUNTRY CLUB MEMBERSHIP. On or immediately after the eighth (8th) day following the date Employee executes this Agreement, the Company will transfer to the Employee the Avila Country Club membership for which Employee is the current holder, and the Company will promptly furnish an appropriate transfer letter to such country club indicating the transfer of ownership to the Employee as current holder and provide any other evidence of such transfer as may be requested by such country club.

5. CONTINUATION OF BENEFITS. Beginning on the date hereof and continuing hereafter during the Post-Employment Period, Company shall continue to provide Employee and his spouse at no cost to Employee or his spouse with (i) the same (or substantially similar) health insurance coverage, dental insurance coverage, and prescription drug plan that is being provided to Employee and his spouse by Company as of the date of this Agreement, and (ii) with substantially the same life insurance (excluding "split-dollar" life insurance coverage) that is being provided to Employee by the Company as of the date of this Agreement, so long as Employee passes a physical examination as a condition of such life insurance coverage. Notwithstanding the foregoing, in the event that Employee obtains full-time employment prior to the expiration of the Post-Employment Period, then Company's obligation to provide the benefits described in this Section 5 shall terminate upon the first day on which Employee would be eligible to receive benefits from his new employer. The Company shall furnish Employee with the written confirmation of any third-party insurer that Employee's coverage continues in accordance with these terms notwithstanding the fact that Employee is no longer in the employ of the Company and further will indemnify the Employee fully in the event that such coverage is not provided for any reason.

6. SURVIVAL OF CERTAIN PROVISIONS OF EMPLOYMENT AGREEMENT. Notwithstanding anything to the contrary set forth in this Agreement, Section 4 and Section 5 of the Employment Agreement shall continue to remain in full force and effect in accordance with the terms thereof, and Employee shall continue to be bound by the terms thereof (as well as by any

other terms of the Employment Agreement relating to the enforceability and construction of said Sections 4 and 5), subject to the following:

- a. The obligations of Employee under Sections 4 and 5 of the Employment Agreement shall continue until the expiration of twenty-four (24) months after the date Employee executes this Agreement.
- b. Notwithstanding anything set forth in the Employment Agreement, but subject to Section 6(c) and 6(d) below, Employee shall not be limited in his ability to accept employment with, consult with, or otherwise be associated with in any capacity, any corporation, partnership, firm or other business organization that is not a direct competitor of the core outsourcing business, consisting of customer care and technical support, of the Company substantially as such business is conducted on the date hereof (the "Core Business"), nor shall Employee be limited in his ability to deal with any customers or clients of the Company or its subsidiaries so long as such dealings (i) are not in, and would not result in, direct competition with the Core Business, and (ii) do not otherwise violate Section 6(c) below. Other than as specifically set forth in this Agreement, the Company shall not be obligated to pay any additional compensation (such as compensation pursuant to Section 5(g)(i) of the Employment Agreement) as a condition to Employee's continuing obligation to comply with Section 5 of the Employment Agreement.
- c. In addition to the provisions of Section 5 of the Employment Agreement, Employee hereby agrees that he will not, at any time during the period of twenty-four (24) months after the date Employee executes this Agreement, provide or solicit the opportunity to provide any services that would be in direct competition with the Core Business or the Company's information technology staffing business, to any persons or entities who, at any time prior to the expiration of the period of twenty-four (24) months after the date Employee executes this Agreement, are or were customers or clients of Company or its subsidiaries. The parties acknowledge and agree that, for this purpose, the Company's information technology staffing business does not include services provided through the Company's IT consulting, e-commerce solutions, crm/ecrm, or solutions practices businesses, except to the extent that such services are provided to eShare, Compaq, Fidelity, Freedom Technology Media Group, Lightning Source, White Amber, CG-i, Legal Plan Resource Group, Portal Software, and Blockbuster/Soneta. Additionally, Employee hereby agrees that he will not, at any time during the period of twenty-four (24) months after the date Employee executes this Agreement, provide or solicit the opportunity to provide to any Qualified Customer (as defined below) the types of products or services that the Company or its subsidiaries provide, provided, or proposed to provide to any such Qualified Customer at any time during Employee's employment by the Company. For purposes hereof, the term "Qualified Customer" means any person or entity who or which was a customer or client of the Company at any time during Employee's employment by the Company, as well as any prospective customer or client with which the Company has had, at any time during the 6-month period prior to the date of this Agreement, substantive discussions regarding the possible provision of services by the Company.

d. In addition to the provisions of Section 5 of the Employment Agreement, Employee hereby agrees that he will not, at any time during the period of twenty-four (24) months after Employee executes this Agreement, retain or attempt to retain, directly or indirectly, for himself or for any other person or entity, the services of any person who is an employee of the Company or any subsidiary thereof on the date of this Agreement or at any time during such twenty-four (24) month period, unless Employee first obtains the written consent of the Company (which consent will not be unreasonably withheld).

7. WAIVER AND RELEASE. In consideration of the obligations and duties of Company set forth herein, Employee agrees as follows:

a. Employee hereby knowingly and voluntarily waives, releases and forever discharges Company from any and all claims, demands, damages, lawsuits, obligations, promises, and causes of action, both known and unknown, whether now existing or arising in the future, at law or in equity, relating to or arising out of Employee's employment with Company, the Employment Agreement, the Deferred Compensation Plan, compensation by Company, or separation of employment from Company.

b. Employee shall not disclose, either directly or indirectly, any information whatsoever regarding any of the terms or the existence of this Agreement to any person or organization, including but not limited to members of the press and media, present and former employees of Company, and persons or companies who do business with Company. The only exceptions to Employee's promise of confidentiality herein is that Employee may reveal such terms of this Agreement (i) as is necessary to comply with a request made by the Internal Revenue Service; (ii) as otherwise compelled by a court or agency of competent jurisdiction; (iii) as required by law; (iv) as is necessary to comply with requests from Employee's accountants, attorneys, financial advisors, or other professional advisors for legitimate business purposes or personal financial planning, (v) to his immediately family members solely for personal planning purposes (provided that such immediate family members undertake to maintain the complete confidentiality of this Agreement), or (vi) when and if this Agreement is included by the Company as a part of a securities law filing that is actually filed with the Securities and Exchange Commission.

c. Employee agrees to release and forever discharge by this Agreement the Company from all liabilities, causes of actions, charges, complaints, suits, claims, obligations, costs, losses, damages, injuries, rights, judgments, attorneys' fees, expenses, bonds, bills, penalties, fines, and all other legal responsibilities of any form whatsoever whether known or unknown, whether suspected or unsuspected, whether fixed or contingent, whether in law or in equity, including but not limited to those arising from any acts or omissions occurring prior to the effective date of this Agreement, including those arising by reason of any and all matters from the beginning of time to the present, arising out of his past employment with, compensation during, and resignation from the Company. Employee specifically releases claims under all applicable state and federal laws, including but not limited to, Title VII of the Civil Rights Act of 1964 as amended, the Fair Labor Standards Act, the Rehabilitation Act of 1973, the Family Medical Leave Act, the Employee Retirement Income Security Act, the

Consolidated Omnibus Reconciliation Act of 1986, the Americans with Disabilities Act, the Florida Civil Rights Act of 1992, the Workers' Compensation Act, the Equal Pay Act, the Age Discrimination in Employment Act of 1967 (Title 29, United States Code, Section 621, et seq.) ("ADEA"), as well as all common law claims, whether arising in tort or contract.

d. In addition to the other provisions in this Agreement, Employee acknowledges that the information in the following paragraphs is included for the express purpose of complying with the Older Workers' Benefits Protection Act, 29 U.S.C.ss.626(f):

i. I, David L. Grimes, was over 40 years of age when I resigned my employment and when I signed this Agreement. I realize there are many laws and regulations prohibiting employment discrimination or otherwise regulating employment or claims related to employment pursuant to which I may have rights or claims, including the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"). I hereby waive and release any rights or claims I may have under the ADEA.

ii. By signing this Agreement, I state that I am receiving compensation and severance benefits to which I was not otherwise entitled. I am waiving and releasing all claims against the Company that I may have based on my age. I am not waiving any claim or action under the ADEA based upon rights or claims that may arise after the date I sign this Agreement.

iii. I am being given continued compensation as specified in Section 3 hereof in exchange for the release and waiver of all claims that I am agreeing to herein. This continued compensation is in addition to anything of value to which I am already entitled in that I am receiving this continued compensation without having to perform services of an equal value.

iv. I was informed in writing that I could consult with an attorney before signing this Agreement. I acknowledge that I was given the opportunity to consider this Agreement for twenty-one (21) days before signing it, and, if I sign it, to revoke it for a period of seven (7) days thereafter. Regardless of when I signed this Agreement, I acknowledge that my seven-day period will not be waived. No payments will be made to me until after the seven-day revocation period expires.

8. EMPLOYMENT RECOMMENDATIONS; NON-DISPARAGEMENT. Company hereby agrees that, in the event that a future prospective employer of Employee seeks information from Company regarding the competence, experience, or abilities of Employee, Company shall follow its standard human resource guidelines, policies, and practices with respect to such inquiry. In addition, the parties shall each refrain from making any written or oral statement or taking any action, directly or indirectly, which the parties know or reasonably should know to be disparaging or negative concerning Company or Employee, except as required by law. The parties hereto shall also refrain from suggesting to anyone that any written or oral statements be made which the parties know or reasonably should know to be disparaging or negative concerning Company or Employee, or from urging or influencing any person to make any such statement. This provision shall include, but not be limited to, the requirement that the

parties refrain from expressing any disparaging or negative opinions concerning Company or Employee, Employee's resignation from Company, any of Company's officers, directors, or employees, or other matters relative to Company's reputation as an employer or any other matters relative to Employee's reputation as an employee or executive. Company's and Employee's promises in this subsection, however, shall not apply to any judicial or administrative proceeding in which Employee or Company is a party or in which Employee or Company has been subpoenaed to testify under oath by a government agency or by any third party.

9. RESIGNATION FROM OFFICES AND DIRECTORSHIPS. Employee hereby resigns, effective as of the date hereof, from all offices, directorships, and trusteeships which Employee holds with Company and any subsidiary or affiliate of Company.

10. SECURITIES MATTERS. For a period of 90 days following the date hereof, Employee shall be subject to the conditions, restrictions, and requirements applicable to executive officers of Company with respect to any purchase, sale, transfer, disposition, or other transaction involving the common stock of Company and shall not engage in any such transaction in violation of such conditions, restrictions, or requirements.

11. LITIGATION COOPERATION. Beginning on the date of this Agreement and continuing at all times hereafter, Employee and Company shall, without any additional compensation except as provided herein, provide each other with full cooperation and reasonable assistance in connection with Company's defense of (i) any litigation against Company, its officers, its subsidiaries, or its affiliates pending as of the date hereof or (ii) any other litigation against Company, its officers, its subsidiaries, or its affiliates arising out of or relating to any circumstance, fact, event, or omission alleged to occur while Employee was employed by Company. Employee shall at all times promptly be reimbursed by the Company for any and all out-of-pocket expenses, including travel expenses, that may be incurred by Employee in providing such cooperation and assistance, and to the extent that Employee provides any such assistance or cooperation after the Post-Employment Period, the Employee also shall be compensated for his time in providing such cooperation and assistance at a rate equivalent to a per diem based upon his base salary as in effect under the Employment Agreement as of the date hereof. Such cooperation and assistance shall include, but not be limited to, access for research, being available for consultation, for deposition and trial testimony, and for availability and execution of discovery-related documents such as interrogatories, affidavits, requests for production, requests for admissions, and responses to each, as deemed necessary. Employee and Company further agree to provide their good will and good faith in providing honest and forthright cooperation in all other aspects of their defense of any such litigation. Company hereby agrees that nothing set forth in this Agreement shall be construed as limiting, adversely affecting, or altering Employee's indemnification rights under the Company's Articles of Incorporation and/or bylaws and under the Florida Business Corporation Act. The Company further agrees that it will take no steps to limit or affect adversely any indemnification rights currently available to the Employee and that the Company will maintain throughout the Post-Employment Period in full force and effect for the benefit of Employee officer and director liability insurance no less favorable in terms or

amount than that currently in place for the Company and its officers and directors in such manner to cover for the Employee all periods during which Employee served as an officer, director or employee of the Company.

## 12. MISCELLANEOUS.

- a. In the event any provision of this Agreement is found to be unenforceable, void, invalid or unreasonable in scope, such provision shall be modified to the extent necessary to make it enforceable, and as so modified, this Agreement shall remain in full force and effect.
- b. The paragraph headings in this Agreement are for convenience only and do not form any part of or affect the interpretation of this Agreement.
- c. This Agreement may be executed in counterparts, each of which shall be deemed an original of this Agreement and all of which, when taken together, shall be deemed to constitute one and the same Agreement.
- d. The waiver by any party of a breach of any condition of this Agreement by the other party shall not be construed as a waiver of any subsequent breach. No waiver of any right hereunder shall be effective unless in writing and signed by the party against whom the waiver is sought to be enforced.
- e. The rights and obligations of the parties under this Agreement shall inure to the benefit of, and shall be binding upon, their respective heirs, executors, administrators, successors, assigns, subsidiaries, affiliates, directors, officers, employees, representatives and agents, as applicable.
- f. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes any previous employment agreements or contracts, whether written or oral, between Company and Employee.
- g. This Agreement shall be construed under, and governed by, the laws of the State of Florida.
- h. Employee and Company acknowledge that each has had the opportunity to read, study, consider and deliberate upon this Agreement, and to consult with legal counsel, and both parties fully understand and are in complete agreement with all of the terms of this Agreement.

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

COMPANY:

SYKES ENTERPRISES, INCORPORATED

By: /s/ John H. Sykes

-----  
John H. Sykes,  
Chairman of the Board

Date: November 10, 2000

-----

EMPLOYEE:

DAVID L. GRIMES

/s/ David L. Grimes

-----  
David L. Grimes, individually

Date: November 10, 2000

-----

[SYKES LOGO]

**EMPLOYMENT AGREEMENT**

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

THIS AGREEMENT is made as of the 31st day of July, 2000, by and between SYKES ENTERPRISES, INCORPORATED, a Florida corporation (the "Company"), and MITCHELL NELSON (the "Executive").

**WITNESSETH:**

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

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

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

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

2. **TERM.** Subject to the terms and conditions of this Agreement, including, but not limited to, the provisions for termination set forth in Section 6 hereof the employment of the Executive under this Agreement shall commence on the effective date hereof and shall continue through and including the close of business on the date hereof as set forth on Exhibit A attached hereto and incorporated herein (such term shall herein be defined as the "Term"). The Executive agrees that some portions of this Agreement, including Sections 4, 5, and 6 hereof, will remain in force after the termination of this Agreement.

3. Compensation.

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

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

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

4. Confidential Information.

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

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

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

**Mitchell Nelson**

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

(a) Executive acknowledges the following:

- (1) The Company expended considerable resources in obtaining contracts with its Clients;
- (2) The Company expended considerable resources to recruit and hire employees who could perform services for its Clients;
- (3) Through his/her employ with the Company, Executive will develop a substantial relationship with the Company's existing or potential Clients, including, but not limited to, being the sole or primary contact between the Client and the Company,
- (4) Executive will be exposed to valuable confidential business information about the Company, its Clients, and the Company's relationship with its Client;
- (5) By providing services on behalf of the Company, Executive will develop and enhance the valuable business relationship between the Company and its Client;
- (6) The relationship between the Company and its Client depends on the quality and quantity of the services Executive performs;
- (7) Through employment with the Company, Executive will increase his/her opportunity to work directly for the Client or for a competitor of the Company, and
- (8) The Company will suffer irreparable harm if Executive breaches these Covenant Not-to-Compete and No Solicitation provisions of this Agreement.

(b) Executive agrees that:

- (1) The relationship between the Company and its Client (developer) and enhanced when the Executive performs services on behalf of the Company) is a legitimate business interest for the Company to protect;
- (2) The Company's legitimate business interest is protected by the existence and enforcement of these Covenant Not-to-Compete and No Solicitation provisions;
- (3) The business relationship which is created or exists between the Company and its Client, or the goodwill resulting from it, is a business asset of the Company and not the Executive; and
- (4) Executive will not seek to take advantage of opportunities which result from his/her employment with the Company and that entering into the Agreement containing Covenant Not-to-Compete and No Solicitation provisions is reasonable to protect the Company's business relationship with its Clients.

## Mitchell Nelson

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

- (1) Directly or indirectly engage in, continue in, or carry on the business of the Company or any business substantially similar thereto, including owning or controlling any financial interest in any corporation, partnership, firm, or other form of business organization which competes with or is engaged in or carries on any aspect of such business or any business substantially similar thereto;
  - (2) Consult with, advise, or assist in any way, whether or not for consideration, any corporation, partnership, firm, or other business organization which is now, becomes, or may become a competitor of the Company in any aspect of the Company's business during the Executive's employment with the Company, including, but not limited to, advertising or otherwise endorsing the products of any such competitor or loaning money or rendering any other form of financial assistance to or in any form of transaction whether or not on an arm's length basis with any such competitor;
  - (3) Provide or attempt to provide or solicit the opportunity to provide or advise others of the opportunity to provide any services of the type Executive performed for the Company or the Company's Clients (regardless of whether and how such services are to be compensated, whether on a salaried, time and materials, contingent compensation, or other basis) to or for the benefit of any Client (i) to which Executive has provided services in any capacity on behalf of the Company, or (ii) to which Executive has been introduced to or about which the Executive has received information through the Company or through any Client from which Executive has performed services in any capacity on behalf of the Company,
  - (4) Retain or attempt to retain, directly or indirectly, for itself or any other party, the services of any person, including any of the Company's employees, who were providing services to or on behalf of the Company while Executive was employed by the Company and to whom Executive has been introduced or about whom Executive has received information through Employer or through any Client for which Executive has performed services in any capacity on behalf of the Company;
  - (5) Engage in any practice, the purpose of which is to evade the provisions of this Agreement or to commit any act which is detrimental to the successful continuation of or which adversely affects the business or the Company, provided, however, that the foregoing shall not preclude the Executive's ownership of not more than 2% of the equity securities registered under Section 12 of the Securities Exchange Act of 1934, as amended; or
  - (6) For purpose of these Covenant Not-to-Compete and No Solicitation provisions, Client includes any subsidiaries, affiliates, customers, and clients of the Company's Clients. The Executive agrees that the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area where the Company's Clients conduct business at any time during the Term of this Agreement. For purposes of this Agreement, "Clients" means any person or entity to which the Company provides or has provided within a period of one (1) year prior to the Executive's termination of employment labor, materials or services for the furtherance of such entity's or person's business or any person or entity that within such period of one (1) year the Company has pursued or communicated with for the purpose of obtaining business for the Company.
- (d) Enforcement. These Covenant Not-to-Compete and No Solicitation provisions shall be construed and enforced under the laws of the State of Florida. In the event of any breach of this Covenant.

## Mitchell Nelson

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

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

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

### 6. Termination

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

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

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

(d) Non-Compete Payment and Liquidated Damages. In the event of a termination of the Executive's employment pursuant to Section 6 or by the Executive, all payments and Company benefits to the Executive hereunder, except the payments (if any) provided below, shall immediately cease and terminate. In the event of a termination by the Company of the Executive's employment with the Company for any reason other than pursuant to Section 6(c), the Company shall pay the Executive Liquidated Damages as defined in (e) below for early termination of his employment and the Covenant Not-to-Compete set forth in Section 5 hereof shall remain in full force and effect through the full stated Term of this Agreement; and additionally, from the end of the Term of this Agreement through the non-compete period stated on Exhibit "A", the Company shall pay the Executive Not-to-Compete pay 'in equal biweekly installments ("Non-Compete Payment Installments') in the amount set forth on Exhibit A ("Non-Compete Payment"). Such Non-

## Mitchell Nelson

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

(e) The Liquidated Damages amount, if due as provided above, shall be equal to the weekly amount stated on Exhibit A times the number of weeks remaining between the early termination date and the end of Term as stated on Exhibit A ("Liquidated Damages"). This amount shall be paid biweekly in equal installments over such period.

### 7. Ownership of Executive Developments

(a) Existing Proprietary Rights. The following patents, patent applications, copyrights, trade secrets, and trademarks are the only intangible interests and properties that the Executive owns, or has any claim in, at the time of execution of this Agreement: NONE

(b) Ownership of Work Product.

(1) To the maximum extent permitted by law, Company shall own all Work Product (as defined in paragraph (5)). All Work Product shall be considered work made for hire by the Executive.

(2) If any of the Work Product may not, by operation of law, be considered work made for hire by the Executive for Company, or if ownership of all right, title, and interest of the intellectual property rights therein shall not otherwise vest exclusively in Company, the Executive agrees to assign, and upon creation thereof automatically assign, without further consideration and without the necessity for the execution of further instruments or documents, the ownership of all trade secrets, U.S. and international copyrights, patentable inventions, and all intellectual property rights therein to Company, its successors, and assigns to the maximum extent permitted by law.

(3) Company and its successors and assigns shall have the right to obtain and hold in its or their own name patents, copyrights, registrations, and any other protection available in the foregoing.

(4) The Executive agrees to perform upon the reasonable request of Company, during or after his employment, such further acts as may be necessary or desirable to transfer, perfect, and defend Company's ownership of the Work Product. When requested, the Executive will:

(i) execute, acknowledge, and deliver any requested affidavits and documents of assignment and conveyance;

(ii) obtain and aid in the enforcement of copyrights, and, if applicable, patents with respect to the Work product in any countries;

(iii) provide testimony in connection with any proceeding affecting the right, title, or interest of Company in any Work Product; and

**Mitchell Nelson**

(iv) perform any other acts deemed necessary or desirable to carry out, the purposes of this Agreement.

Company shall reimburse all reasonable out-of-pocket expenses incurred by the Executive at Company's request in connection with the foregoing, including (unless the Executive is otherwise being compensated at the time) a reasonable per diem or hourly fee for services rendered following termination of the Executive's employment.

(5) For purposes hereof "Work Product" shall mean all intellectual property, including all trade secrets, U.S. and international copyrights, patentable inventions, patents, patent applications, discoveries, concepts, techniques, improvements, works of authorship, and all intellectual property rights therein that relate to the business and interests of the Company and its predecessors, successors, affiliates, subsidiaries, and parent and that the Executive conceives, develops, or delivers to Company at any time during the term the Executive's employment or for three (3) months after its expiration or termination for any reason. Work Product shall also include all intellectual property rights, including all trade secrets, U.S. and international copyrights, patentable inventions, patents, patent applications, discoveries, concepts, techniques, improvements, works of authorship, and all intellectual property rights therein that relate to the business and interests of Company, its predecessors, successors, affiliates, subsidiaries, and part and that is now contained in any of the products or systems, including development and support systems, of Company to the extent the Executive conceived, developed, contributed to, or delivered such Work Product prior to the date of this Agreement while the Executive was engaged as an independent contractor or an Executive of Company, its predecessors, subsidiaries, affiliates, or parent.

(6) The Executive hereby irrevocably assigns to Company forever all of his right, title, and interest in and to any and all Work Product. The Executive hereby also irrevocably relinquishes for the benefit of Company and its assigns any moral rights in the Work Product recognized by applicable law. Upon Company's request, the Executive shall take such further actions and execute and deliver such other instruments as the Company deems necessary or useful to give full and proper effect to or to record such assignment.

(7) The Executive hereby irrevocably waives, releases, remises, and forever discharges the Company and its part, successors, predecessors, subsidiaries, and affiliates, and their respective officers, directors, and representatives and all persons, corporations or other entities who might be claimed to be jointly and severally liable with them (the "Released Parties") from any and all claims, causes of action, suits, damages, fees, and liabilities of whatever nature or description, whether known or unknown, actual or contingent, from the beginning of time to the date of the execution of this Agreement which the Executive or anyone claiming by, through, or under him might have or could claim against any of the Released Parties, including ,but not limited to, claims arising out of or related to the Work Product, the Executive's employment by any of the Released Parties, or promises regarding the granting of an equity interest in any of the Released Parties. The Executive shall take such further actions and shall execute and deliver such other instrument's as the Company deems necessary or useful to give full and proper effect to or to record this release.

(c) Clearance Procedure for Proprietary Rights Not Claimed by company. If the Executive, during the Term of employment, ever wishes to create or develop, on his own time and with his own resources, anything that may be considered Work Product but to which the Executive believes he should be entitled to the personal benefit of, the Executive is required to follow the clearance procedure set forth in this section in order to ensure that Company has no claim to the proprietary rights that may arise.

Before the Executive begins any development work on his own time, he must give Company advance notice of his plans and supply a description of the development under consideration. Unless otherwise agreed in a writing signed by Company prior to its receipt of such description, Company shall have no obligation of confidentiality with respect to such description. Company will determine in good faith within thirty (30) days after the Executive fully disclosed his plans to Company whether the development is claimed by Company. If Company determines that it

**Mitchell Nelson**

does not claim such development, the Executive will be notified in writing and may retain ownership of the development to the extent of what has been disclosed to Company. The Executive should submit for further clearance any significant improvement, modification, or adoption that relates to the business or interests of Company.

Clearance under this procedure does not relieve the Executive of the need to obtain the written consent of the Company before engaging in business activities or rendering business, commercial, or professional services for the benefit of anyone other than the Company, as required in Section 1 of this Agreement.

If the Executive is asked to work on any Work Product that is or potentially might be in conflict with the Executive's intellectual property created outside the scope of this Agreement, the Executive will promptly notify the Company in writing of any potential conflict and will not perform any further work on the Work Product in the area of conflict until notified in writing by the Company.

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

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

If to the Company: Sykes Enterprises, Incorporated 100 North Tampa Street, Suite 3900 Tampa, Florida 33602 Attention: Sr. VP Human Resources

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

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

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

Except where required, to enforce the restrictive covenants regarding Not-to-Compete, No Solicitation, and Confidential Information, as provided in Sections 4 and 5 of this Agreement, Company and the Executive will each pay their own attorney's fees and costs in the event Company or the Executive must enforce any of the other rights granted to them, regardless of the outcome of any action seeking to enforce rights under this Agreement.

10. Miscellaneous. No provision of this Agreement may be modified or waived unless such waiver or modification is agreed to in writing signed by the parties hereto; provided, however, that the terms of the performance bonus and fringe benefits set forth in Exhibit A may be amended by the Company in its discretion without the Executive's consent to the extent provided therein. No waiver by any party hereto of any breach by any other party hereto shall be deemed a waiver of any similar or dissimilar term or condition at the same or at any prior or subsequent

**Mitchell Nelson**

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

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

*SYKES ENTERPRISES, INCORPORATED*

*EXECUTIVE*

By: */s/ David L. Grimes*  
-----

*/s/ Mitchell Nelson*  
-----  
*Mitchell Nelson*

*Address:*  
*715 Seagate Drive*  
-----  
*Tampa, FL 33602*  
-----

**EXHIBIT A TO EMPLOYMENT AGREEMENT**

This Exhibit A is attached to and made a part of that certain Employment Agreement dated effective July 31, 2000, entered into by and between Sykes Enterprises, Incorporated (the "Company") and Mitchell Nelson (the "Executive"), which Employment Agreement supercedes and replaces that certain Employment Agreement dated August 27, 1999 entered into by and between the Company and the Executive.

Term:	Period of time ending July 30, 2003
Base Salary:	\$3038.46 per week
Performance Bonus:	0% to 50% of annual base salary
Fringe Benefits:	Standard fringe benefits for executives
Stock Options:	60,000 options under the Sykes Enterprises, Incorporated 2000 Stock Option Plan. One third of the options will vest on each of the first, second, and third anniversaries of the effective date of this Agreement.
Covenant Not to Compete:	Twelve (12) months
Non-Compete Payment:	\$1,519.23 per week for 52 weeks
Liquidated Damages:	\$1,519.23 per week
Directors & Officers Liability:	You will be covered by the Company's Directors and Officer Liability Policy the same as other officers of the Company.

**THE COMPANY RESERVES THE RIGHT, AT ITS SOLE DISCRETION, AT SUCH TIME**

**OR TIMES AS IT ELECTS, TO CHANGE OR ELIMINATE BONUSES OR OTHER BENEFITS.**

IN WITNESS WHEREOF, the parties have executed this Exhibit A to the Employment Agreement as of the 31st day of July, 2000.

*SYKES ENTERPRISES,  
INCORPORATED*

*EXECUTIVE*

*By: /s/ David L. Grimes*

*/s/ Mitchell Nelson*

-----

-----

**Exhibit 10.31**

**[SYKES LOGO]**

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

THIS AGREEMENT is made effective as of the 6th day of March, 2000, by and between SYKES ENTERPRISES, INCORPORATED, a Florida corporation (the "Company"), and W. MICHAEL KIPP HUT (the "Executive").

**WITNESSETH:**

WHEREAS, the Company desires to assure itself of the Executive's continued employment in an executive capacity as the Company's Vice President and Chief Financial Officer; and

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

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

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

2. **TERM.** Subject to the terms and conditions of this Agreement, including, but not limited to, the provisions for termination set forth in Section 6 hereof, the employment of the Executive under this Agreement shall commence on the effective date hereof and shall continue through and including the close of business on the date hereof as set forth on Exhibit A attached hereto and incorporated herein (such term shall herein be defined as the "Term"). The Executive agrees that some portions of this Agreement, including Sections 4, 5, and 6 hereof, will remain in force after the termination of this Agreement.

3. COMPENSATION.

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

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

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

4. CONFIDENTIAL INFORMATION.

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

(b) The Executive agrees that all memoranda; notes;

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

**W. Michael Kipphut**

aforementioned documents and objects, if any, that may be in the Executive's possession to the Company upon termination of the Executive's employment, or at any other time at the Company's request.

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

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

(a) Executive acknowledges the following:

- (1) The Company expended considerable resources in obtaining contracts with its Clients;
- (2) The Company expended considerable resources to recruit and hire employees who could perform services for its Clients;
- (3) Through his/her employ with the Company, Executive will develop a substantial relationship with the Company's existing or potential Clients;
- (4) Executive will be exposed to valuable confidential business information about the Company, its Clients, and the Company's relationship with its Client;
- (5) By providing services on behalf of the Company, Executive will develop and enhance the valuable business relationship between the Company and its Client;
- (6) The relationship between the Company and its Client depends on the quality and quantity of the services Executive performs;
- (7) Through employment with the Company, Executive will increase his/her opportunity to work directly for the Client or for a competitor of the Company; and
- (8) The Company will suffer irreparable harm if Executive breaches these Covenant Not-to-Compete and No Solicitation provisions of this Agreement.

(b) Executive agrees that:

- (1) The relationship between the Company and its Client (developed and enhanced when the Executive performs services on behalf of the Company) is a legitimate business interest for the Company to protect;
- (2) The Company's legitimate business interest is protected by the existence and enforcement of these Covenant Not-to-Compete and No Solicitation provisions;
- (3) The business relationship which is created or exists between the Company and its Client, or the goodwill resulting from it, is a business asset of the Company and not the Executive; and

## W. Michael Kipphut

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

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

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

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

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

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

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

(6) For purpose of these Covenant Not-to-Compete and No Solicitation provisions, Client includes any subsidiaries, affiliates, customers, and clients of the Company's Clients. The Executive agrees that, for the purposes of Sections 5(c)(1), 5(c)(2) and 5(c)(4), the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area that is within 50 miles of any of the Company's business locations. For the purposes of Section

## W. Michael Kipphut

5(c)(3), the geographic scope of this Covenant Not-to-Compete shall extend to the geographic area where the Company's Clients conduct business at any time during the Term of this Agreement. For purposes of this Agreement, "Clients" means any person or entity to which the Company provides or has provided within a period of one (1) year prior to the Executive's termination of employment labor, materials or services for the furtherance of such entity's or person's business or any person or entity that within such period of one (1) year the Company has pursued or communicated with for the purpose of obtaining business for the Company.

(d) Enforcement. These Covenant Not-to-Compete and No Solicitation provisions shall be construed and enforced under the laws of the State of Florida. In the event of any breach of this Covenant Not-to-Compete, the Executive recognizes that the remedies at law will be inadequate, and that in addition to any relief at law which may be available to the Company for such violation or breach and regardless of any other provision contained in this Agreement, the Company shall be entitled to equitable remedies (including an injunction) and such other relief as a court may grant after considering the intent of this

Section 5. It is further acknowledged and agreed that the existence of any claim or cause of action on the part of the Executive against the Company, whether arising from this Agreement or otherwise, shall in no way constitute a defense to the enforcement of this Covenant Not-to-Compete, and the duration of this Covenant Not-to-Compete shall be extended in an amount which equals the time period during which the Executive is or has been in violation of this Covenant Not-to-Compete. In the event a court of competent jurisdiction determines that the provisions of this Covenant Not-to-Compete are excessively broad as to duration, geographic scope, prohibited activities or otherwise, the parties agree that this covenant shall be reduced or curtailed to the extent necessary to render it enforceable.

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

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

## 6. TERMINATION

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

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

(c) Cause. The Company may terminate the Executive's employment hereunder for Cause effective immediately upon notice. For purposes of this Agreement, the Company shall have "Cause" to terminate the Executive's employment hereunder: (i) if the Executive engages in conduct which has caused or is reasonably likely to cause demonstrable and serious injury to Company; (ii) if the Executive is convicted of a felony as evidenced by a binding and final judgment, order, or decree of a court of competent jurisdiction; (iii) for the Executive's neglect of his duties hereunder or the Executive's refusal to perform his duties or responsibilities hereunder as determined by the Company's Board of Directors in good faith; (iv) consistent failure to achieve goals established by the Board of Directors or their designate, provided that such goals are presented in writing or otherwise communicated to Executive; (v) gross incompetence; (vi) for the Executive's

**W. Michael Kipphut**

violation of this Agreement, including, without limitation. Section 5 hereof; (vii) chronic absenteeism; (viii) for use of illegal drugs; (ix) insobriety by the Executive while performing his or her duties hereunder; and (x) for any act of dishonesty or falsification of reports, records, or information submitted by the Executive to the Company.

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

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

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

If to the Company: Sykes Enterprises, Incorporated 100 North Tampa Street, Suite 3900 Tampa, Florida 33602 Attention: VP Human Resources

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

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

The validity, interpretation, construction, and performance of this Agreement shall be governed by the internal laws of the State of Florida. Any litigation to enforce this Agreement shall be brought in the state or federal courts of Hillsborough County, Florida, which is the principal place of business for

**W. Michael Kipphut**

Company and which is considered to be the place where this Agreement is made. Both parties hereby consent to such courts' exercise of personal jurisdiction over them.

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

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

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

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

*SYKES ENTERPRISES, INCORPORATED*

*EXECUTIVE*

*By: /s/ David L. Grimes*

*/s/ W. Michael Kipphut*

*W. Michael Kipphut*

*Address:*

*850 S. Willow*

*Tampa, Florida 33606-2943*

**EXHIBIT A TO EMPLOYMENT AGREEMENT**

TERM: Two (2) years

BASE SALARY: \$3,846.15 per week

PERFORMANCE BONUS: Eligible for 0 % to 100 % of base compensation based on Performance Bonus Plan for Vice President & Chief Financial Officer to be developed.

FRINGE BENEFITS: Eligible for standard fringe benefits for Executives.

STOCK OPTIONS: 50,000 1996 options, vesting 1/3 per year for 3 years; 60,000 1997 performance options, vesting based on goal achievement.

COVENANT NOT TO COMPETE: Twelve (12) months

NON-COMPETE PAYMENT: \$3,846.15 per week for 52 weeks

THE COMPANY RESERVES THE RIGHT, AT ITS SOLE DISCRETION, AT SUCH TIME OR TIMES AS IT ELECTS, TO CHANGE OR ELIMINATE BONUSES OR OTHER BENEFITS, EXCEPT FOR THOSE BONUSES AND OTHER BENEFITS SET FORTH IN THE EMPLOYMENT AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Exhibit A effective as of the 6th day of March, 2000.

*SYKES ENTERPRISES, INCORPORATED*  
-----

*EXECUTIVE*  
-----

By: */s/ David L. Grimes*  
-----

*/s/ W. Michael Kipphut*  
-----  
*W. Michael Kipphut*

[SYKES LOGO]

November 8, 2000

Mr. W. Michael Kipphut  
850 S. Willow Avenue  
Tampa, Florida 33606

**Re: LETTER AGREEMENT SETTING FORTH AMENDMENTS TO  
EMPLOYMENT AGREEMENT**

Dear Mike:

This letter agreement sets forth certain amendments to the Employment Agreement, dated March 6, 2000 (the "Employment Agreement"), between you (hereafter "Executive") and Sykes Enterprises, Incorporated, a Florida corporation ("Sykes"). All capitalized terms set forth in this letter agreement shall have the meanings ascribed thereto in the Employment Agreement, unless otherwise specifically defined herein. Effective as of the date hereof, the Employment Agreement shall be amended as follows:

1. **BASE SALARY.** Executive's base salary, as set forth on Exhibit A to the Employment Agreement, shall be increased to \$5,576.92 per week.

2. **BONUSES.** On Exhibit A to the Employment Agreement, the language set forth under the caption entitled "PERFORMANCE BONUS" shall be deleted and replaced with the following:

"Eligible for 0% to 50% of base compensation based on Performance Bonus Plan for Vice President and Chief Financial Officer to be developed for each fiscal year. Executive shall be entitled to a minimum performance bonus of \$200,000 for the fiscal year 2000, provided that Executive is still employed by the Company on the date on which the Company's audit for the fiscal year 2000 is successfully completed. Such performance bonus payments shall be made in accordance with the Company's standard policy for the payment of performance bonuses."

3. **TERMINATION AFTER CHANGE OF CONTROL.** A new Section 10 is hereby added to the end of the Employment Agreement, and such Section 10 shall read as follows:

"10. Termination after Change of Control. In the event Executive's employment hereunder is terminated by the Company for any of the reasons set

forth in Section 6(a), (b), or (c), or by the Executive (other than for Good Reason, defined herein below), then this Section 10, dealing with Change of Control, shall have no effect, and Executive shall not be entitled to any Change of Control Termination Payment in such event. If, however, Executive's employment hereunder is terminated after a Change of Control (i) by the Executive for Good Reason; or (ii) by the Company (or any successor thereto or assignee thereof) other than pursuant to Section 6(a), (b), or (c), then, in that event, Executive shall receive (in equal installments over two years and in accordance with Company policy immediately prior to such termination) an amount to be determined by multiplying by two (2) Executive's base salary and actual bonus for the calendar year immediately prior to such termination ("Change of Control Termination Payment"). A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(i) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, immediately after the annual meeting of shareholders of the Company held in 2000, constituted the Board of Directors and any new directors (other than directors whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors immediately after the annual meeting of shareholders of the Company held in 2000 or whose appointment, election or nomination for election was previously so approved; or

(ii) the stockholders of the Company approve a merger, consolidation or share exchange of the Company with any other corporation or approve the issuance of voting securities of the Company in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company) pursuant to applicable stock exchange requirements, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company outstanding immediately prior to such merger, consolidation or share exchange continuing to represent (either by remaining outstanding or by being converted into the right to receive voting securities of the surviving entity or any parent thereof) at least 50 % of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than John H. Sykes) is or becomes the beneficial owner, directly or indirectly, of securities of the

Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after the annual meeting of shareholders of the Company held in 2000 pursuant to express authorization by the Board that refers to this exception) representing 45 % or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

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

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

The Executive may terminate his own employment pursuant to and only after the condition of this Section 10 has occurred for Good Reason; and the Company expressly acknowledges and agrees that, upon such termination, the Executive shall be entitled to the Change of Control Termination Payment, as hereinafter defined, to which the Executive, but for such termination, would otherwise be entitled. For purposes of this Agreement, "Good Reason" shall mean the occurrence of any of the following events subsequent to a Change of Control: (i) any reduction of the Base Salary or any other compensation or benefits (other than the Performance Bonus); or (ii) any other material adverse change to the terms and conditions of the Executive's employment, including but not limited to any diminution of the Customary Duties (as herebelow defined).

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

4. OTHER TERMS AND PROVISION. Except as specifically set forth in this letter agreement, all of the terms and provisions set forth in the Employment Agreement shall remain in full force and effect.

If you are in agreement with the terms and conditions of this letter agreement, please sign below to indicate your assent.

Sincerely,

*/s/ John H. Sykes*

-----  
*John H. Sykes, Chairman of the  
Board of Directors*

Agreed to and acknowledged this  
8th day of November, 2000.

**M. MICHAEL KIPPHUT**

*By: /s/ W. Michael Kipphut*

-----  
*W. Michael Kipphut, individually*

## EXHIBIT 13.1

### MARKET SHAREHOLDER DATA

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

YEAR ENDED DECEMBER 31, 2000:	HIGH	LOW
-----	-----	-----
First Quarter.....	\$52.250	\$13.375
Second Quarter.....	23.250	12.250
Third Quarter.....	16.000	4.375
Fourth Quarter.....	7.000	3.313
YEAR ENDED DECEMBER 31, 1999:		
-----		
First Quarter.....	\$32.875	\$24.250
Second Quarter.....	34.750	20.438
Third Quarter.....	33.750	21.625
Fourth Quarter.....	51.500	22.750

Holders of Sykes' common stock are entitled to receive dividends out of the funds legally available when and if declared by the Board of Directors. Sykes has not declared or paid any cash dividends on its common stock in the past. Sykes currently anticipates that all of its earnings will be retained for development and expansion of the Company's business and does not anticipate paying any cash dividends in the foreseeable future.

As of March 1, 2001, the last sale price of the registrant's common stock was \$4.63 on the NASDAQ National Market, and there were approximately 1,607 holders of record of the common stock. The Company believes that there are approximately 12,000 beneficial owners of its common stock.

## SELECTED FINANCIAL DATA

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

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
INCOME STATEMENT DATA:					
Revenues.....	\$603,606	\$572,742	\$460,102	\$351,593	\$248,699
Income (loss) from operations.....	(12,308)	39,269	32,672	24,392	21,611
Net income.....	45,638	21,902	2,442	7,631	11,685
Net income per basic share.....	1.10	0.52	0.06	0.19	0.32
Net income per diluted share.....	1.10	0.51	0.06	0.18	0.31
PRO FORMA INFORMATION ASSUMING ACCOUNTING CHANGE IS APPLIED RETROACTIVELY(1)					
Revenues.....	\$603,606	\$571,243	\$460,102	\$351,593	\$248,699
Income (loss) from operations.....	(12,308)	36,630	31,935	24,392	21,611
Net income.....	47,706	20,286	1,981	7,631	11,685
Net income per basic share.....	1.15	0.48	0.05	0.19	0.32
Net income per diluted share.....	1.15	0.47	0.05	0.18	0.31
PRO FORMA INFORMATION EXCLUDING ONE-TIME ITEMS ASSUMING ACCOUNTING CHANGE IS APPLIED RETROACTIVELY(1):					
Revenues.....	\$603,606	\$571,243	\$460,102	\$351,593	\$248,699
Income from operations(2, 3, 4, 5).....	25,996	42,609	48,282	36,605	21,611
Net income(2, 3, 4, 5, 6, 7, 8)....	13,771	23,949	29,527	23,877	11,685
Net income per basic share(2, 3, 4, 5, 6, 7, 8).....	0.33	0.57	0.72	0.58	0.32
Net income per diluted share(2, 3, 4, 5, 6, 7, 8).....	0.33	0.56	0.70	0.56	0.31
BALANCE SHEET DATA:					
Working capital.....	\$ 92,964	\$ 93,075	\$ 84,632	\$116,661	\$116,687
Total assets.....	357,344	419,396	361,798	268,197	238,318
Long-term debt, less current installments.....	8,759	80,053	75,448	35,990	8,571
Shareholders' equity.....	196,897	195,387	159,102	152,560	147,402

(1) Effective January 1, 2000, the Company changed its policy regarding the accounting for grants and recognition of revenue based on criteria established by Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101").

(2) The balance for 2000 is exclusive of \$7.8 million of compensation expense related to payments made to certain SHPS, Incorporated ("SHPS") option holders as part of the Company's sale of a 93.5% ownership interest in SHPS that occurred on June 30, 2000 and \$30.5 million of restructuring and other charges.

(3) The balance for 1999 is exclusive of \$6.0 million of charges associated with the impairment of long-lived assets.

- (4) The balance for 1998 is exclusive of \$0.5 million of expense associated with accrued severance costs, \$1.4 million of one-time merger and related charges associated with acquisitions and \$14.5 million of acquisition related in-process research and development costs.
- (5) The balance for 1997 is exclusive of \$12.2 million of charges associated with the impairment of long-lived assets and one-time merger and related charges associated with an acquisition.
- (6) The balance for 2000 is exclusive of an \$84.0 million gain from the sale of a 93.5% ownership interest in SHPS that occurred on June 30, 2000 and a gain of \$0.7 million related to the sale of a small Canadian operation that sold roadside assistance memberships for which the Company provides customer support and \$38.3 million of one-time items as identified in note 2 above.
- (7) The balance for 1998 is exclusive of \$3.9 million of acquisition related in-process research and development costs incurred by a joint venture entity, \$7.3 million of charges associated with the write-down of marketable securities and \$16.4 million of one-time charges as identified in note (4) above.
- (8) The balance for 1997 is exclusive of \$2.8 million of expense associated with acquisition related in-process research and development costs incurred by a joint venture entity, \$1.2 million of one-time merger and related charges associated with an acquisition and \$12.2 million of one-time charges as identified in note (5) above.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following should be read in conjunction with the Consolidated Financial Statements, including the notes thereto. The following discussion compares the year ended December 31, 2000 ("2000") to the year ended December 31, 1999 ("1999"), and 1999 to the year ended December 31, 1998 ("1998"). The following discussion and analysis and other sections of this report contain forward-looking statements that involve risks and uncertainties. Words such as "may," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe the Company's future plans, objectives, or goals also are forward-looking statements. 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 and in the Company's Form 10-K for the year ended December 31, 2000 in Item 1 in the section entitled "Factors Influencing Future Results And Accuracy Of Forward-Looking Statements."

### **OVERVIEW**

The Company derives its revenue from providing outsourced customer management solutions and services through two business segments -- Business Solutions and Business Services.

Business Solutions provides professional services in e-commerce and customer relationship management (CRM) with a focus on business strategy development, project management, business process redesign, change management, knowledge management, education, training and web development. Revenues from Business Solutions usually are billed on a time and material basis, generally by the hour, and revenues generally are recognized as the services are provided. Revenues from fixed price contracts, generally with terms of less than one year, are recognized using the percentage-of-completion method. A significant majority of the Company's revenue is derived from non-fixed price contracts. The Company has not experienced material losses due to fixed price contracts and does not anticipate a significant increase in revenue derived from such contracts in the future.

Business Services provides customer care outsourcing services with an emphasis on technical support and customer service, delivered through multiple communication channels encompassing phone, e-mail, web and chat. Revenue from technical support and customer service, provided through the Company's support centers, is recognized as services are rendered. These services are billed on an amount per e-mail, a fee per call, a rate per minute or on a time and material basis. Revenue from distribution and fulfillment services is generally billed on a per unit basis.

Direct salaries and related costs include direct personnel compensation, statutory and other benefits associated with such personnel and other direct costs associated with providing services to customers. General

and administrative expenses include administrative, sales and marketing, occupancy, depreciation and amortization, and other indirect costs.

Other expense, excluding the effect of one-time items, consists primarily of interest expense, net of interest income and foreign currency transaction gains and losses. Foreign currency transaction gains and losses generally result from exchange rate fluctuations on intercompany transactions. During 1997, the Company entered into a joint venture and the results of this entity are included in the other income (expense) section of the Consolidated Statements of Income for the time period the entity operated as a 50% joint venture. Effective September 1, 1998, the Company acquired the remaining portion of this joint venture.

Grants from local or state governments for the acquisition of property and equipment are deferred and recognized as a reduction to general and administrative costs over the corresponding useful lives of the related property and equipment. Deferred property and equipment grants, net of amortization, totaled \$30.1 million and \$21.2 million at December 31, 2000 and 1999, respectively.

The Company's effective tax rate for the periods presented reflects the effects of foreign taxes, net of foreign income not taxed in the United States, nondeductible expenses for income tax purposes and a tax basis difference on the sale of an equity interest in SHPS.

## RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage of revenues represented by certain items reflected in the Company's statements of income:

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998
PERCENTAGES OF REVENUES:			
Revenues.....	100.0%	100.0%	100.0%
Direct salaries and related costs.....	63.3	64.6	63.0
General and administrative(1).....	32.4	27.5	26.8
Compensation expense associated with exercise of options.....	1.3	--	--
Restructuring and other charges.....	5.0	--	--
Impairment of long-lived assets.....	--	1.0	--
Acquired in-process research and development(2)...	--	--	3.1
Income (loss) from operations.....	(2.0)	6.9	7.1
Other income (expense)(3)(4)(5).....	13.4	(0.6)	(2.7)
Income before provision for income taxes and cumulative effect of change in accounting principle.....	11.4	6.3	4.4
Provision for income taxes.....	3.5	2.5	3.9
Income before cumulative effect of change in accounting principle.....	7.9	3.8	0.5
Cumulative effect of change in accounting principle.....	(0.3)	--	--
Net income(1)(2)(3)(4)(5).....	7.6%	3.8%	0.5%

(1) Includes charges associated with accrued severance pay and one-time merger and related charges of 0.4% related to the acquisitions completed in 1998.

(2) Includes expense associated with the write-off of acquisition related in-process research and development costs of 3.1% related to the Company's original ownership and subsequent acquisition of the remaining outstanding shares of SHPS.

(3) Includes expense associated with the write-off of acquisition related in-process research and development costs of 0.8% related to acquisitions completed by SHPS in 1998.

(4) Includes expense associated with the write-down of marketable securities of 1.6% in 1998.

(5) Includes gain on sale of SHPS of 13.9% in 2000.

## 2000 COMPARED TO 1999

Revenues. For 2000, the Company recorded consolidated revenues of \$603.6 million, an increase of \$30.9 million or 5.4%, from the \$572.7 million of consolidated revenues for the comparable period during 1999. Exclusive of SHPS (in which 93.5% of the Company's ownership interest was sold on June 30, 2000), revenues increased \$68.2 million or 13.6% to \$567.9 million for 2000 from \$499.7 million for the comparable period during 1999. This growth in revenue was the result of a \$29.0 million or 5.5% increase in Business Services' revenues (\$66.3 million or 14.8% exclusive of SHPS) and an increase of \$1.9 million or 3.8% from Business Solutions' revenues.

The increase in Business Services' revenues for 2000 was primarily attributable to an increase in the number of technical and customer support centers providing services throughout the period, and the resulting increase in e-mail requests and telephony call volumes from clients, the licensing of the Company's diagnostic software, partially offset by a decrease from distribution and fulfillment services revenues. The new support centers were required as a result of continued organic growth of technical and customer support services from both e-commerce and telephony support services. The Company had an additional four domestic and two international technical and customer support centers fully operational in 2000 and significantly expanded an additional four international centers. During 2000, the Company recognized \$8.0 million of revenue associated with the licensing of the Company's diagnostic software, of which \$3.5 million related to a one-year AnswerTeam(TM) licensing agreement and \$3.6 million related to the pro rata recognition of revenue associated with a multi-year AnswerTeam(TM) licensing agreement completed during 1999. The decrease in distribution and fulfillment services revenue for 2000 was primarily attributable to the closing of three international and two domestic distribution and fulfillment centers as part of the Company's restructuring plans and a client's decision to discontinue its operations within North America.

The increase in Business Solutions' revenues was attributable to a focus on professional e-commerce services, including web design, development and program management and an increase in the average bill rate charged for consulting services. The increase in Business Solutions' revenue for 2000 is partially offset by a \$0.7 million decline in worldwide translation and localization services and a \$1.9 million reduction in revenue associated with the sale of the Company's Manufacturing and Distribution operations during the second quarter of 1999.

Direct Salaries and Related Costs. Direct salaries and related costs increased \$12.3 million or 3.3% to \$382.2 million for 2000, from \$369.9 million in 1999. As a percentage of revenues, direct salaries and related costs decreased to 63.3% in 2000 from 64.6% for the comparable period in 1999. The increase in the dollar amount was primarily attributable to a \$43.4 million increase in salaries and benefits to support revenue growth and associated training costs, partially offset by a \$27.3 million decrease in direct material costs associated with distribution and fulfillment services. Exclusive of SHPS, direct salaries and all related costs increased \$35.1 million or 10.8% to \$359.0 million or 63.2% of revenue. The decrease in direct salaries and all related costs as a percentage of revenue resulted from economies of scale associated with spreading costs over a larger revenue base.

General and Administrative. General and administrative expenses increased \$37.8 million or 24.0% to \$195.4 million for 2000, from \$157.6 million in 1999. As a percentage of revenues, general and administrative expenses increased to 32.4% in 2000 from 27.5% for the comparable period in 1999. The increase in both the dollar amount and percentage of revenue of general and administrative expense was primarily attributable to a \$15.2 million increase in salaries and benefits to support the Company's organic growth, an \$8.2 million increase in telecom costs, a \$4.0 million increase in lease and rent expense, a \$4.8 million increase in depreciation expense associated with facility and capital equipment expenditures all generally incurred in connection with the expansion of the Company's technical and customer support services, and a \$6.9 million increase in bad debt expense due principally to weaker economic conditions for dot.com clients. Exclusive of SHPS, general and administrative expenses increased \$48.1 million or 35.2% to \$184.5 million, or 32.5% of revenue.

**Compensation Expense.** Compensation expense associated with the exercise of options was \$7.8 million for 2000. This charge related to payments made to certain SHPS' option holders as part of the Company's sale of a 93.5% ownership interest in SHPS that occurred on June 30, 2000.

**Restructuring and Other Charges.** The Company recorded restructuring and other charges of \$30.5 million during 2000. These charges were associated with

(1) the consolidation of certain of the Company's distribution and fulfillment operations in Europe; (2) the closure of the U.S. distribution and fulfillment operations; (3) the elimination of the worldwide translation and localization business; (4) the consolidation of certain of the Company's professional services locations; (5) elimination of redundant property, leasehold improvements and equipment; (6) lease termination costs associated with vacated properties and transportation equipment; and (7) severance payments to the Company's former President.

**Other Income and Expense.** Other income was \$81.2 million during 2000, compared to other expense of \$3.5 million during 1999. Excluding the \$84.0 million gain associated with the sale of SHPS, the Company reported other expense of \$2.8 million for 2000. The decrease in other expense for 2000, excluding the gain for the sale of SHPS, was attributable to a decrease in interest expense associated with a decrease in the Company's average outstanding debt position, partially offset by additional interest expense of \$0.7 million related to the cancellation of a contractual obligation. The Company's average debt balance for 2000 was \$44.8 million compared to \$78.8 million for 1999. The decrease in the average debt balance is principally due to the repayment of debt from the proceeds generated from the sale of SHPS, partially offset by increases in debt from capital expenditures and the Company's repurchase of 3.0 million shares of its common stock during 2000 that are being held as treasury shares.

On June 30, 2000, the Company sold 93.5% of its ownership interest in SHPS for \$165.5 million cash. The sale of SHPS resulted in a gain for financial accounting purposes of \$84.0 million (\$59.9 million net of taxes).

**Income Taxes.** The provision for income taxes increased \$7.3 million to \$21.2 million for 2000 from \$13.9 million for the comparable period in 1999. The increase in the provision for income taxes was primarily attributable to the gain associated with the sale of SHPS, partially offset by the compensation expense associated with the exercise of options and the restructuring and other charges that were incurred during 2000. The Company's effective tax rate exclusive of the gain and one-time items was 38.7% for 2000 compared to 38.7% for the comparable 1999 period.

**Net Income.** As a result of the foregoing, inclusive of one-time items identified above, net income increased to \$45.6 million in 2000 from \$21.9 million in 1999. Exclusive of one-time items, including a gain of \$84.0 million for the sale of SHPS, \$7.8 million related to payouts made to SHPS' options holders and \$30.5 million in restructuring and other charges, net income for 2000 would have been \$13.8 million.

## **1999 COMPARED TO 1998**

**Revenues.** Revenues increased \$112.6 million, or 24.5%, to \$572.7 million in 1999 from \$460.1 million in 1998. Exclusive of SHPS, revenues increased \$66.5 million, or 15.3%, to \$499.8 million from \$433.3 million in 1998. The growth in revenues reflected an increase of \$133.3 million, or 34.3% in Business Services' revenues (\$87.1 million, or 24.0%, exclusive of SHPS) and a decrease of \$20.6 million in Business Solutions' revenues.

The increase in Business Services' revenues for 1999 was primarily attributable to an increase in the number of technical and customer support centers providing services throughout the period and the resulting increase in e-mail requests and telephony call volumes from clients. The new support centers were required as a result of continued growth of technical and customer support services from both e-mail and telephony support services. During 1999, the Company opened three domestic and four international technical and customer support centers, significantly expanded an additional four international centers and announced the construction of an additional five domestic centers. An increase in distribution and fulfillment services revenue was attributable to the Company's e-commerce initiatives in 1999.

The decrease in Business Solutions' revenues for 1999 was attributable to a decline in hours billed to customers for consulting services, partially offset by an increase in the average bill rate, the sale of the Company's Manufacturing and Distribution operation, and to a decline in worldwide translation and localization services due to a delay in the commencement of certain projects when compared to 1998.

**Direct Salaries and Related Costs.** Direct salaries and related costs increased \$80.0 million, or 27.6%, to \$369.8 million in 1999 from \$289.8 million in 1998. As a percentage of revenues, direct salaries and related costs increased to 64.6% in 1999 from 63.0% in the comparable 1998 year. The increase was primarily attributable to the addition of personnel to support revenue growth and associated employee benefit and training costs.

**General and Administrative.** General and administrative expenses increased \$40.5 million, or 32.9%, to \$163.6 million in 1999, inclusive of a \$6.0 million one-time charge associated with the impairment of long-lived assets. As a percentage of revenues and inclusive of the one-time charge, general and administrative expenses increased to 28.5% in 1999 from 26.8% in 1998. The increase in the amount of general and administrative expenses was primarily attributable to a \$17.7 million increase in salaries and benefits, a \$9.6 million increase in depreciation expense associated with facility and capital equipment expenditures incurred in connection with the expansion of the Company's technical and customer support centers and distribution and fulfillment services, the \$6.0 million one-time charge associated with the impairment of long-lived assets, and to a \$4.3 million increase in amortization expense, primarily associated with goodwill incurred as part of the SHPS acquisition. General and administrative expenses, exclusive of the \$6.0 million charge associated with the impairment of long-lived assets, increased \$34.5 million, or 28.0%, to \$157.6 million in 1999, or 27.5% of revenue.

**Impairment of Long-Lived Assets.** 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 1998.

**Other Expense.** Other expense was \$3.5 million during 1999 compared to \$12.3 million during 1998. The other expense balance for 1998 is inclusive of a \$3.9 million loss from joint venture and a \$7.3 million write-down of a marketable security. The 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 were recorded as other expense. The increase in other expense for 1999 exclusive of the loss from the joint venture and the write-down of a marketable security was primarily attributable to an increase in the Company's debt position as a result of the acquisition of SHPS completed during 1998.

**Income Taxes.** The provision for income taxes decreased \$4.1 million, or 22.8%, to \$13.9 million during 1999 from \$18.0 million during 1998. The dollar decrease was attributable to a lower amount of income before provision for income taxes, exclusive of one-time charges. Sykes' effective tax rate decreased to 38.7% during 1999, versus 88.0% for 1998. The effective tax rate for 1998 was affected by approximately \$14.5 million of non-deductible charges associated with the write-off of in-process research and development costs.

**Net Income.** As a result of the foregoing, net income inclusive of the one-time charge identified above increased to \$21.9 million in 1999 from \$2.4 million in 1998. Net income for 1999, exclusive of the \$6.0 million charge associated with the impairment of long-lived assets would have been \$25.6 million.

## QUARTERLY RESULTS

The following information presents unaudited quarterly operating results for the Company for 2000 and 1999. The data has been prepared by the Company on a basis consistent with the Consolidated Financial Statements included elsewhere in this Form 10-K, and include all adjustments, consisting of normal recurring accruals, that the Company considers necessary for a fair presentation thereof. The operating results for the quarters ended September 30, 2000, June 30, 2000 and March 31, 2000 have been adjusted to give effect to the change in the Company's method of accounting for revenue recognition. These operating results are not necessarily indicative of the Company's future performance.

	12/31/00	9/30/00	6/30/00	3/31/00	12/31/99	9/30/99	6/30/99	3/31/99
	-----	-----	-----	-----	-----	-----	-----	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)								
AS ADJUSTED FOR SAB 101, EFFECTIVE								
JANUARY 1, 2000								
Revenues.....	\$148,144	\$136,954	\$155,798	\$162,710	\$159,433	\$140,967	\$135,964	\$136,378
Direct salaries and related costs....	94,003	87,940	98,422	101,871	105,142	92,523	88,938	83,247
General and administrative(1).....	48,609	52,064	47,787	46,914	49,229	40,350	37,767	36,277
Compensation expense associated with exercise of options.....	--	--	7,836	--	--	--	--	--
Restructuring and other charges.....	20,828	--	9,640	--	--	--	--	--
Income (loss) from operations.....	(15,296)	(3,050)	(7,887)	13,925	5,062	8,094	9,259	16,854
Other income (expense)(2).....	800	(1,434)	83,076	(1,237)	(1,092)	(987)	(863)	(575)
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle...	(14,496)	(4,484)	75,189	12,688	3,970	7,107	8,396	16,279
Provision for income taxes.....	(3,765)	(1,660)	21,693	4,923	1,540	2,761	3,249	6,300
Income (loss) before cumulative effect of change in accounting principle...	(10,731)	(2,824)	53,496	7,765	2,430	4,346	5,147	9,979
Cumulative effect of change in accounting principle, net of income taxes of \$1.3 million.....	--	--	--	(2,068)	--	--	--	--
Net income (loss).....	\$(10,731)	\$(2,824)	\$53,496	\$5,697	\$2,430	\$4,346	\$5,147	\$9,979
Net income (loss) per basic share:								
Income (loss) before cumulative effect of change in accounting principle.....	\$ (0.27)	\$ (0.07)	\$ 1.27	\$ 0.18	\$ 0.06	\$ 0.10	\$ 0.12	\$ 0.24
Cumulative effect of change in accounting principle.....	--	--	--	(0.05)	--	--	--	--
Net income (loss) per basic share...	\$ (0.27)	\$ (0.07)	\$ 1.27	\$ 0.13	\$ 0.06	\$ 0.10	\$ 0.12	\$ 0.24
Total weighted average basic shares.....	40,373	41,134	42,031	42,606	42,356	42,281	42,083	41,459
Net income (loss) per diluted share:								
Income (loss) before cumulative effect of change in accounting principle.....	\$ (0.27)	\$ (0.07)	\$ 1.27	\$ 0.18	\$ 0.06	\$ 0.10	\$ 0.12	\$ 0.23
Cumulative effect of change in accounting principle.....	--	--	--	(0.05)	--	--	--	--
Net income (loss) per diluted share.....	\$ (0.27)	\$ (0.07)	\$ 1.27	\$ 0.13	\$ 0.06	\$ 0.10	\$ 0.12	\$ 0.23
Total weighted average diluted shares.....	40,373	41,134	42,098	42,902	43,063	43,032	43,097	42,824
AS PREVIOUSLY REPORTED								
Revenues.....	\$148,144	\$137,570	\$155,867	\$161,312	\$159,433	\$140,967	\$135,964	\$136,378
Direct salaries and related costs....	94,003	88,254	98,606	102,211	105,142	92,523	88,938	83,247
General and administrative(1).....	48,609	52,124	45,389	46,915	49,229	40,350	37,767	36,277
Compensation expense associated with exercise of options.....	--	--	7,836	--	--	--	--	--
Restructuring and other charges.....	20,828	--	9,640	--	--	--	--	--
Income (loss) from operations.....	(15,296)	(2,808)	(5,604)	12,186	5,062	8,094	9,259	16,854
Other income (expense)(2).....	800	(1,434)	83,076	(1,237)	(1,092)	(987)	(863)	(575)

Income (loss) before provision for income taxes.	(14,496)	(4,242)	77,472	10,949	3,970	7,107	8,396	16,279
Provision for income taxes.....	(3,765)	(1,569)	22,579	4,248	1,540	2,761	3,249	6,300
Net income (loss).....	\$(10,731)	\$(2,673)	\$54,893	\$6,701	\$2,430	\$4,346	\$5,147	\$9,979
Net income (loss) per basic share.....	\$(0.27)	\$(0.07)	\$1.27	\$0.18	\$0.06	\$0.10	\$0.12	\$0.24
Total weighted average basic shares.....	40,373	41,134	42,031	42,606	42,356	42,281	42,083	41,459
Net income (loss) per diluted share....	\$(0.27)	\$(0.06)	\$1.30	\$0.16	\$0.06	\$0.10	\$0.12	\$0.23
Total weighted average diluted shares.....	40,373	41,134	42,098	42,902	43,063	43,032	43,097	42,824

(1) The quarter ended December 31, 1999 includes \$6.0 million of charges associated with the write-down of software and computer equipment.

(2) The quarter ended June 30, 2000 includes an \$84.0 million gain associated with the sale of SHPS.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are cash flows from operations and available borrowings under its credit facilities. The Company has utilized its capital resources to make capital expenditures associated primarily with its technical and customer support services, invest in technology applications and tools to further develop the Company's service offerings, repurchase its shares in the open market, and for working capital and general corporate purposes. In future periods, the Company intends similar uses of any such funds, including possible additional acquisitions.

During 2000, the Company generated \$23.3 million in cash from operating activities. The Company utilized these funds as well as \$159.8 million of cash generated from the sale of 93.5% of its equity interest in SHPS, \$8.4 million in proceeds from grants and \$3.2 million from issuance of Company stock to pay down approximately \$74.4 million in debt, invest \$72.3 million in capital expenditures and to purchase \$40.6 million of the Company's common stock. The purchase of the shares of the Company's common stock was in connection with stock repurchase programs announced in February 2000 and July 2000.

The Company's capital expenditures for the year ended December 31, 2000 were \$72.3 million, which are generally funded by cash generated from operating activities and borrowings available under its credit facilities. Approximately 58% of the capital expenditures were the result of investing in new and existing technical and customer support centers, 37% was expended for systems infrastructure, and 5% of the capital expenditures were SHPS related prior to its June 30, 2000 sale.

On May 2, 2000, the Company amended and restated its existing syndicated credit facility with a syndicate of lenders (the "Amended Credit Facility"). Pursuant to the terms of the Amended Credit Facility, the amount of the Company's revolving credit facility was maintained at \$150.0 million. The \$150.0 million Amended Credit Facility includes a \$10.0 million swingline loan to be used for working capital purposes. In addition, the Company amended and restated its \$15.0 million multi-currency credit facility that provides for multi-currency lending. Borrowings under the Amended Credit Facility bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a Euro rate plus an applicable margin of up to 1.75%. Borrowings under the \$10.0 million swingline loan bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a Quoted Rate for swingline loans. Borrowings under the \$15.0 million multi-currency facility bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a quoted Euro rate for swingline loans. The Company paid aggregate financing fees of approximately \$0.3 million, which have been deferred and are being amortized over the term of the Amended Credit Facility. In addition, a commitment fee up to 0.375% will be charged on the unused portion of the Amended Credit Facility on a quarterly basis. The Amended Credit Facility matures on February 28, 2003, and the multi-currency facility matures on February 28, 2002. At December 31, 2000, the Company had approximately \$156.2 million of availability under its credit facilities.

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

### **IMPACT OF YEAR 2000**

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 compliant. During September 1999, the Company completed its remediation and testing of its systems. As a result of those planning and implementation efforts, the Company experienced no significant disruptions in critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. Sykes is not aware of any material problems resulting from Year 2000 issues, either with its products and services, its internal systems, or those products and services of third parties. Sykes will continue to monitor its critical computer applications and those of its suppliers and vendors to ensure that any delayed Year 2000 matters that may arise are addressed promptly.

### **IMPACT OF NEW ACCOUNTING STANDARDS**

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative financial instruments and requires recognition of derivatives in the statement of financial position to be measured at fair value. Gains or losses resulting from changes in the value of derivatives would be accounted for depending on the intended use of the derivative and whether it qualifies for hedge accounting. This statement is effective for financial statements beginning in 2001. The Company is currently studying the future effects of adopting this statement. However, due to our limited use of derivative financial instruments, adoption of Statement No. 133 is not expected to have a significant effect on our financial position or results of operation.

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's earnings and cash flows are subject to fluctuations due to changes in non-U.S. currency exchange rates. The Company is exposed to non-U.S. exchange rate fluctuations as the financial results of non-U.S. subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact overall expected profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar are included in accumulated other comprehensive income in shareholders' equity. Movements in non-U.S. 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 non-U.S. exchange derivative instruments to manage its exposure to changes in non-U.S. currency exchange rates.

The Company's exposure to interest rate risk results from its variable rate debt outstanding under its credit facilities. At December 31, 2000, the Company had \$8.9 million in debt outstanding at variable interest rates, which is generally equal to the Eurodollar rate plus an applicable margin. Based on the Company's level of variable rate debt during 2000, a one-point increase in the weighted average interest rate would increase the Company's annual interest expense by approximately \$0.5 million. Under its current policy, the Company does not use derivative instruments to manage its exposure to changes in interest rates.

## **REPORT OF INDEPENDENT AUDITORS**

### **Board of Directors and Stockholders Sykes Enterprises, Incorporated**

We have audited the accompanying consolidated balance sheets of Sykes Enterprises, Incorporated as of December 31, 2000 and 1999, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sykes Enterprises, Incorporated as of December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1, the Company changed its method of accounting for certain grants and revenues.

**Ernst & Young LLP**

Tampa, Florida  
February 15, 2001

**SYKES ENTERPRISES, INCORPORATED**

**CONSOLIDATED BALANCE SHEETS**

	DECEMBER 31, 2000	DECEMBER 31, 1999
	-----	-----
	IN THOUSANDS (EXCEPT PER SHARE DATA)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 30,141	\$ 31,001
Restricted cash.....	--	15,109
Receivables.....	135,609	126,477
Prepaid expenses and other current assets.....	17,679	15,252
	-----	-----
Total current assets.....	183,429	187,839
Property and equipment, net.....	151,842	134,756
Marketable securities.....	--	200
Intangible assets, net.....	8,861	76,831
Deferred charges and other assets.....	13,212	19,770
	-----	-----
	\$357,344	\$419,396
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt.....	\$ 100	\$ 3,236
Accounts payable.....	34,636	37,410
Income taxes payable.....	5,502	932
Accrued employee compensation and benefits.....	32,746	24,206
Customer deposits.....	--	11,821
Other accrued expenses and current liabilities.....	17,481	17,159
	-----	-----
Total current liabilities.....	90,465	94,764
Long-term debt.....	8,759	80,053
Deferred grants.....	30,143	21,199
Deferred revenue.....	31,072	26,593
Other long-term liabilities.....	8	1,400
	-----	-----
Total liabilities.....	160,447	224,009
	-----	-----
Commitments and contingencies (Note 15)		
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; 43,084 and 42,734 issued.....	431	427
Additional paid-in capital.....	159,696	155,023
Retained earnings.....	91,435	45,797
Accumulated other comprehensive income.....	(14,082)	(5,860)
	-----	-----
Total shareholders' equity.....	237,480	195,387
Treasury stock at cost; 2,981 shares (none in 1999).....	(40,583)	--
	-----	-----
Total shareholders' equity.....	196,897	195,387
	-----	-----
	\$357,344	\$419,396
	=====	=====

See accompanying notes to consolidated financial statements.

**SYKES ENTERPRISES, INCORPORATED**

**CONSOLIDATED STATEMENTS OF INCOME**

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	IN THOUSANDS	(EXCEPT PER	SHARE DATA)
Revenues.....	\$603,606	\$572,742	\$460,102
Operating expenses:			
Direct salaries and related costs.....	382,236	369,850	289,802
General and administrative.....	195,374	157,644	123,159
Compensation expense associated with exercise of options.....	7,836	--	--
Restructuring and other charges.....	30,468	--	--
Impairment of long-lived assets.....	--	5,979	--
Acquired in-process research and development.....	--	--	14,469
Total operating expenses.....	615,914	533,473	427,430
Income (loss) from operations.....	(12,308)	39,269	32,672
Other income (expense):			
Interest, net.....	(2,942)	(3,669)	(959)
Gain on sale of equity interest in SHPS.....	84,036	--	--
Loss from joint venture.....	--	--	(3,947)
Write-down of marketable securities.....	--	--	(7,335)
Other.....	111	152	(29)
Total other income (expense).....	81,205	(3,517)	(12,270)
Income before provision for income taxes and cumulative effect of change in accounting principle.....	68,897	35,752	20,402
Provision for income taxes:			
Current.....	24,794	20,387	25,592
Deferred.....	(3,603)	(6,537)	(7,632)
Total provision for income taxes.....	21,191	13,850	17,960
Income before cumulative effect of change in accounting principle.....	47,706	21,902	2,442
Cumulative effect of change in accounting principle, net of income taxes of \$1.3 million.....	(2,068)	--	--
Net income.....	\$ 45,638	\$ 21,902	\$ 2,442
Net income per basic share:			
Income before cumulative effect of change in accounting principle.....	\$ 1.15	\$ 0.52	\$ 0.06
Cumulative effect of change in accounting principle.....	(0.05)	--	--
Net income per basic share.....	\$ 1.10	\$ 0.52	\$ 0.06
Weighted average shares outstanding -- basic.....	41,518	42,045	41,258
Net income per diluted share:			
Income before cumulative effect of change in accounting principle.....	\$ 1.15	\$ 0.51	\$ 0.06
Cumulative effect of change in accounting principle.....	(0.05)	--	--
Net income per diluted share.....	\$ 1.10	\$ 0.51	\$ 0.06
Weighted average shares outstanding -- diluted.....	41,645	42,995	42,288
Pro forma amounts assuming accounting change is applied retroactively:			
Net income.....	\$ 47,706	\$ 20,286	\$ 1,981
Net income per basic share.....	\$ 1.15	\$ 0.48	\$ 0.05
Net income per diluted share.....	\$ 1.15	\$ 0.47	\$ 0.05

See accompanying notes to consolidated financial statements.

**SYKES ENTERPRISES, INCORPORATED CONSOLIDATED**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER	TREASURY STOCK	TOTAL
	SHARES	AMOUNT			COMPREHENSIVE INCOME		
				(IN THOUSANDS)			
Balance at January 1, 1998.....	41,120	\$411	\$133,592	\$22,151	\$ (3,594)	\$ --	\$152,560
Issuance of common stock.....	332	3	1,074	--	--	--	1,077
Tax effect of non-qualified exercise of stock options.....	--	--	1,534	--	--	--	1,534
Distributions.....	--	--	--	(698)	--	--	(698)
Net income.....	--	--	--	2,442	--	--	2,442
Recognition of write-down on marketable securities.....	--	--	--	--	735	--	735
Foreign currency translation adjustment.....	--	--	--	--	1,452	--	1,452
Comprehensive income.....							4,629
Balance at December 31, 1998.....	41,452	414	136,200	23,895	(1,407)	--	159,102
Issuance of common stock.....	1,282	13	11,371	--	--	--	11,384
Tax effect of non-qualified exercise of stock options.....	--	--	7,452	--	--	--	7,452
Net income.....	--	--	--	21,902	--	--	21,902
Foreign currency translation adjustment.....	--	--	--	--	(4,453)	--	(4,453)
Comprehensive income.....							17,449
Balance at December 31, 1999.....	42,734	427	155,023	45,797	(5,860)	--	195,387
Issuance of common stock.....	350	4	3,208	--	--	--	3,212
Tax effect of non-qualified exercise of stock options.....	--	--	1,465	--	--	--	1,465
Purchase of treasury stock.....	--	--	--	--	--	(40,583)	(40,583)
Net income.....	--	--	--	45,638	--	--	45,638
Foreign currency translation adjustment.....	--	--	--	--	(8,222)	--	(8,222)
Comprehensive income.....							37,416
Balance at December 31, 2000.....	43,084	\$431	\$159,696	\$91,435	\$(14,082)	\$(40,583)	\$196,897

See accompanying notes to consolidated financial statements.

**SYKES ENTERPRISES, INCORPORATED**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(IN THOUSANDS)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income.....	\$ 45,638	\$ 21,902	\$ 2,442
Depreciation and amortization.....	36,829	35,338	21,831
Impairment of long-lived assets.....	--	5,979	--
Cumulative effect of accounting change, net of tax.....	2,068	--	--
Gain on sale of equity interest in SHPS, Incorporated.....	(84,036)	--	--
Acquired in-process research and development costs.....	--	--	14,469
Write-down of intangible assets.....	6,000	--	--
Write-down of marketable securities.....	--	--	7,335
Deferred income taxes.....	(3,603)	(6,537)	(7,632)
(Gain) loss on disposal of property and equipment.....	13,275	15	(525)
Changes in assets and liabilities:			
Receivables.....	(30,515)	(16,762)	(25,588)
Prepaid expenses and other current assets.....	3,761	1,599	(2,912)
Intangible assets.....	926	(1,113)	(738)
Deferred charges and other assets.....	3,154	(1,638)	(1,033)
Accounts payable.....	(3,487)	5,246	2,841
Income taxes payable.....	7,480	(2,166)	--
Accrued employee compensation and benefits.....	11,744	4,508	7,270
Customer deposits.....	10,921	(3,176)	11,373
Other accrued expenses and current liabilities.....	1,250	(36)	6,090
Deferred revenue.....	3,314	9,386	5,954
Other long-term liabilities.....	(1,392)	(1,268)	(48)
Net cash provided by operating activities.....	23,327	51,277	41,129
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures.....	(72,334)	(66,657)	(37,293)
Investment in joint venture.....	--	--	(10,723)
Acquisition of businesses.....	--	(8,346)	(28,131)
Proceeds from sale of equity interest in SHPS, Incorporated.....	159,776	--	--
Proceeds from sale of marketable securities.....	--	--	1,000
Proceeds from sale of property and equipment.....	--	191	3,462
Net cash provided by (used for) investing activities.....	87,442	(74,812)	(71,685)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Paydowns under revolving line of credit agreements.....	(198,301)	(84,540)	(16,932)
Borrowings under revolving line of credit agreements.....	124,607	88,398	93,810
Payments of long-term debt.....	(1,103)	--	(89,688)
Borrowings under long-term debt.....	367	--	--
Proceeds from issuance of stock.....	3,212	11,084	1,077
Proceeds from grants.....	8,394	7,698	2,575
Purchase of treasury stock.....	(40,583)	--	--
Distributions.....	--	--	(698)
Net cash provided by (used for) financing activities.....	(103,407)	22,640	(9,856)
Adjustments for foreign currency translation.....	(8,222)	(4,453)	1,452
Net decrease in cash and cash equivalents.....	(860)	(5,348)	(38,960)
CASH AND CASH EQUIVALENTS -- BEGINNING.....	31,001	36,349	75,309
CASH AND CASH EQUIVALENTS -- ENDING.....	\$ 30,141	\$ 31,001	\$ 36,349
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest.....	\$ 4,254	\$ 6,809	\$ 1,553
Income taxes.....	\$ 17,130	\$ 22,426	\$ 13,402

See accompanying notes to consolidated financial statements.

# SYKES ENTERPRISES, INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sykes Enterprises, Incorporated and consolidated subsidiaries (the "Company" or "Sykes") provides outsourced customer management solutions and services. Sykes' Business Solutions group provides professional services in e-commerce and customer relationship management (CRM) with a focus on business strategy development, project management, business process redesign, change management, knowledge management, education, training and web development. Sykes' Business Services group provides customer care outsourcing services with an emphasis on technical support and customer service. These services are delivered through multiple communication channels encompassing phone, e-mail, web and chat. Sykes' Business Solutions and Business Services combination offers clients value-added end-to-end solutions. The Company's services are provided to customers on a worldwide basis primarily within the technology, communications and financial services markets.

### NOTE 1. SUMMARY OF ACCOUNTING POLICIES

**Principles of Consolidation.** The consolidated financial statements include the accounts of Sykes and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

**Use of Estimates.** The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates; however, management does not believe these differences would have a material effect on operating results.

**Recognition of Revenue.** The Company primarily recognizes its revenue from services as those services are performed under a fully executed contractual agreement. 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. Adjustments to fixed price contracts and estimated losses, if any, 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.

The Company recognizes revenue from software and contractually provided rights in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2" ("SOP 98-4"), Statement of Position 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"), and Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Revenue is recognized from licenses of the Company's 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. Contracts that provide for multiple elements are accounted for pursuant to the above standards. If any portion of the license fees or rights is subject to forfeiture, refund or other contractual contingencies, the Company will postpone revenue recognition until these contingencies have been removed. Sykes generally accounts for consulting services separate from software license fees for those multi-element arrangements where consulting services are a separate element and are not essential to the customer's functionality requirements and there is vendor-specific objective evidence of fair value for these services. 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.

**Accounting Change for Revenue Recognition.** During the fourth quarter of 2000, the Company adopted SAB 101, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. Based on criteria established by SAB 101, adopted retroactive to January 1, 2000, the Company modified its accounting treatment for the recognition of

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

revenue as it related to two revenue sources. First, recognition of grants in excess of building costs received for the development of new technical and customer support centers will be deferred until the funds are released from escrow by the local or state government, which generally coincides with completion of the construction of the facility and training of the staff. Previously, recognition of this excess grant income as a reduction of general and administrative costs began when the funds were placed in escrow at the beginning of the construction of the facility. Second, revenues that were recognized as services were performed and as the related fees became collectible under agreements between the Company and its customers will be deferred until either a final contract or purchase order has been fully executed.

The cumulative effect of change on prior years resulted in a charge to income of \$2.1 million (net of income taxes of \$1.3 million) or \$0.05 per diluted share, which is included in income for the year ended December 31, 2000. The effect of these changes for the year ended December 31, 2000 was to increase income before cumulative effect of the change in accounting principle by \$0.2 million or less than \$0.01 per diluted share. The pro forma amounts presented in the income statement were presented as if the change in accounting principle had been made retroactively to prior periods.

The following unaudited table summarizes the amounts included in the cumulative effect adjustment as of January 1, 2000 that the Company recognized in 2000 for each of the three-month periods ended (in thousands):

	INCREASE (DECREASE)			
	MARCH 31, 2000	JUNE 30, 2000	SEPTEMBER 30, 2000	DECEMBER 31, 2000
	-----			
			(UNAUDITED)	
Revenues.....	\$1,499	\$ --	\$ --	\$ --
Operating expenses.....	(342)	(184)	(373)	(315)
	-----	-----	-----	-----
Income before provision for income taxes...	1,841	184	373	315
Provision for income taxes.....	713	71	144	122
	-----	-----	-----	-----
Net Income.....	\$1,128	\$ 113	\$ 229	\$ 193
	=====	=====	=====	=====

**Cash and Cash Equivalents.** Cash and cash equivalents consist of highly liquid short-term investments classified as available for sale as defined under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Cash in the amount of approximately \$9.8 million and \$7.3 million was held in taxable interest bearing investments at December 31, 2000 and 1999, respectively, which are classified as available for sale and have an average maturity of approximately 30 days.

**Restricted Cash.** The financial statements include restricted cash, which is held in conjunction with deposits by customers at December 31, 1999. Included in current liabilities at December 31, 1999 is the related payable.

**Property and Equipment.** Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Improvements to leased premises are amortized over the shorter of the related lease term or the useful lives of the improvements. Cost and related accumulated depreciation on assets retired or disposed of are removed from the accounts and any gains or losses resulting therefrom are credited or charged to income. Depreciation expense was approximately \$35.4 million, \$30.6 million and \$21.0 million, for the years ended December 31, 2000, 1999 and 1998, respectively. Property and equipment includes approximately \$40.0 thousand and \$2.0 million of additions included in accounts payable at December 31, 2000 and 1999, respectively. Accordingly, these non-cash transactions have been excluded from the accompanying consolidated statements of cash flows for the years ended December 31, 2000 and 1999, respectively.

## SYKES ENTERPRISES, INCORPORATED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During 1999 and 1998, the Company capitalized certain costs incurred to internally develop software upon the establishment of technological feasibility. Costs incurred prior to the establishment of technological feasibility were expensed as incurred. Capitalized internally developed software costs, net of accumulated amortization, were approximately \$1.6 million and \$2.9 million at December 31, 2000 and 1999, respectively.

Land received from various local and state governmental agencies under grants is recorded at fair value at date of grant. During the years ended December 31, 2000, 1999 and 1998, the Company recorded approximately \$1.3 million, \$1.1 million and \$0.3 million, respectively, in land acquisitions as a result of such grants. Accordingly, these non-cash transactions have been excluded from the accompanying Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.

Investment in Joint Venture. The Company had a 50% interest in a joint venture (SHPS) that was accounted for using the equity method of accounting. Accordingly, the Company recorded its proportionate share of the gains and losses of the joint venture in the results of operations for the first eight months of 1998. Effective September 1, 1998, the Company acquired the remaining 50% equity interest in this joint venture (See Note 2).

Intangible Assets. Intangible assets primarily consist of the excess of costs over fair market value of the net assets of the acquired business of \$8.7 million and \$65.5 million at December 31, 2000 and 1999, respectively, net of accumulated amortization of \$4.7 million and \$17.6 million, respectively. Also included in intangible assets are existing technologies and covenants not to compete arising from business acquisitions of \$0.2 million and \$11.3 million at December 31, 2000 and 1999, respectively, net of accumulated amortization of \$0.7 million and \$5.1 million, respectively. The intangible assets are stated at cost and are being amortized on a straight-line basis over periods ranging from 10 to 20 years for the excess of costs over fair value of the net assets of the acquired business, and two to five years for the existing technologies and covenants not to compete. Amortization expense was approximately \$4.0 million, \$6.0 million and \$1.7 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Impairment of Long-lived Assets. The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of property and equipment is measured by comparison of its carrying amount to undiscounted future net cash flows the property and equipment are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the property and equipment exceeds its fair market value, as determined by discounted cash flows. Sykes assesses the recoverability of goodwill by determining whether the unamortized goodwill balance can be recovered through undiscounted future results of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future results using a discount rate reflecting the Company's average cost of funds. During 1999, the Company recorded an impairment loss of approximately \$6.0 million related to software and computer equipment.

Income Taxes. Sykes uses the asset and liability method of accounting for income taxes. Deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

Deferred Grants. Grants for land and the acquisition of buildings, property and equipment are deferred and recognized as a reduction to general and administrative costs over the corresponding useful lives of the related assets. Amortization of the property and equipment grants that is included in income was approximately \$2.6 million, \$1.3 million and \$0.8 million for the years ended December 31, 2000, 1999 and 1998, respectively. There are no significant contingencies associated with the grants that would impact the Company's ability to utilize assets received in association with the grants.

## SYKES ENTERPRISES, INCORPORATED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred Revenue. The Company invoices certain contracts in advance. The deferred revenue is earned over the life of the respective contract, which range from six months to three years.

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

Fair Value of Financial Instruments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- Cash, accounts receivable and accounts payable. The carrying amount reported in the balance sheet for cash, accounts receivable and accounts payable approximates their fair value.

- Long-term Debt. The fair value of the Company's long-term debt, including the current portion thereof, is estimated based on the quoted market price for the same or similar types of borrowing arrangements. The carrying value of the Company's long-term debt approximates fair value because the debt bears variable interest rates.

Non-monetary Transaction. During 1998, the Company sold a software license in exchange for convertible preferred stock in a privately held corporation ("Kyrus"). The convertible preferred stock has a fair market value of \$5.5 million, which represented the sales price recorded by the Company (See Note 15). The cost of this security is included in the Consolidated Balance Sheet under the caption "Deferred charges and other assets" at December 31, 2000 and 1999, respectively.

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, 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 not material for any period presented.

Recent Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities and requires the Company to recognize all derivatives as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value would be accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. This statement is effective for financial statements beginning in 2001. Sykes does not anticipate that the adoption of this SFAS No. 133 will have a significant effect on its results of operations or financial position.

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

#### **NOTE 2. ACQUISITIONS AND DISPOSITIONS**

On August 20, 1999, the Company acquired all of the common stock of CompuHelpline, Inc., (d/b/a PC Answer) for approximately \$340 thousand consisting of \$40 thousand of cash and approximately 12 thousand shares of the Company's common 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

## SYKES ENTERPRISES, INCORPORATED

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

Effective August 31, 1999, the Company acquired all of the common stock of Acer Servicios de Informacion Sociedad Anonima ("AIS") of Heredia, Costa Rica for \$6.0 million in cash. AIS operated an information technology call center that provided 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 of AIS are not material to the Company's consolidated operations.

Effective October 12, 1999, the Company acquired the AnswerExpress Support Suite for \$2.5 million in cash. 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 of AnswerExpress are not material to the Company's consolidated operations.

Effective September 1, 1998, the Company acquired the remaining 50% of the outstanding common stock of SHPS, Incorporated ("SHPS") for \$28.1 million plus the assumption of SHPS' debt. The transaction was accounted for under the purchase method of accounting and accordingly, the results of operations for the period September 1, 1998 to December 31, 1998, have been included in the accompanying financial statements. The unaudited pro forma combined historical results, as if SHPS had been acquired on January 1, 1998, are estimated to be revenues of \$491.8 million, net loss of \$11.5 million and basic and diluted loss per share of \$0.27 for the year ended December 31, 1998. The purchase price was allocated to the assets and liabilities of SHPS based on fair values at the date of acquisition. In connection with the acquisition of SHPS, the Company determined the acquired in-process technology had no present or future technological feasibility. Accordingly, the Company recorded a charge for the amount of the purchase price allocated to the acquired in-process research and development of \$14.5 million. This charge is reflected in the accompanying Consolidated Statement of Income for the year ended December 31, 1998.

On June 30, 2000, the Company sold 93.5% of its ownership interest in SHPS for approximately \$165.5 million cash. The cash proceeds reflected in the Statement of Cash Flows for 2000 is net of approximately \$0.7 million used to retire other debt and approximately \$5.0 million of cash recorded on SHPS' balance sheet on the date of the sale. The sale of SHPS resulted in a gain for financial reporting purposes of approximately \$84.0 million (\$59.9 million net of taxes). The Consolidated Statement of Income for 2000 includes the results of SHPS through June 30, 2000, its disposition date. SHPS generated revenue and income from operations during 2000 of \$35.7 million and \$1.7 million, respectively, for the year ended December 31, 2000 compared to \$73.0 million and \$5.9 million for the year ended 1999, exclusive of compensation expense associated with the exercise of options.

#### **NOTE 3. CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. With the exception of \$5.5 million of convertible preferred stock, included in other assets, the Company's credit concentrations are limited due to the wide variety of customers and markets in which the Company's services are sold.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**NOTE 4. RECEIVABLES**

Receivables consist of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Trade accounts receivable.....	\$135,380	\$110,551
Unbilled accounts receivable.....	983	9,470
Notes from officers.....	412	542
Other.....	6,094	8,354
	-----	-----
	142,869	128,917
Less allowance for doubtful accounts.....	7,260	2,440
	-----	-----
	\$135,609	\$126,477
	=====	=====

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Land.....	\$ 6,365	\$ 5,114
Buildings and leasehold improvements.....	54,132	41,171
Equipment, furniture and fixtures.....	178,630	172,270
Capitalized software development costs.....	1,644	2,896
Transportation equipment.....	135	448
Construction in progress.....	12,188	16,291
	-----	-----
	253,094	238,190
Less accumulated depreciation.....	101,252	103,434
	-----	-----
	\$151,842	\$134,756
	=====	=====

**NOTE 6. MARKETABLE SECURITIES**

During 1997, the Company purchased SystemSoft Corp. common stock in conjunction with a strategic technology exchange agreement between the parties that had an original cost basis of \$8.0 million. In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the investment is classified as available-for-sale securities. During 1998, the Company wrote-down its investment in SystemSoft Corp. by approximately \$7.3 million due to a significant reduction in its market value, which was determined to be other than temporary. The remaining investment was written off in 2000.

**NOTE 7. DEFERRED CHARGES AND OTHER ASSETS**

Deferred charges and other assets consist of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Convertible preferred stock.....	\$ 5,500	\$ 5,500
Non-current deferred tax asset, net.....	4,301	10,352
Other.....	3,411	3,918
	-----	-----
	\$13,212	\$19,770
	=====	=====

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**NOTE 8. ACCRUED EMPLOYEE COMPENSATION AND BENEFITS**

Accrued employee compensation and benefits consist of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Accrued compensation.....	\$22,650	\$12,763
Accrued employment taxes.....	2,762	7,229
Accrued vacation.....	4,012	2,742
Other.....	3,322	1,472
	-----	-----
	\$32,746	\$24,206
	=====	=====

**NOTE 9. OTHER ACCRUED EXPENSES AND CURRENT LIABILITIES**

Other accrued expenses and current liabilities consist of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Deferred revenue, current.....	\$ 2,655	\$ 3,839
Accrued roadside assistance claim costs.....	2,161	1,427
Accrued telephone charges.....	2,093	2,213
Accrued legal and professional fees .....	1,490	811
Accrued interest.....	56	213
Other.....	9,026	8,656
	-----	-----
	\$17,481	\$17,159
	=====	=====

**NOTE 10. LONG-TERM DEBT**

Long-term debt consists of the following (in thousands):

	DECEMBER 31,	
	2000	1999
Syndicated credit facility, \$150.0 million maximum, due February 2003, interest payable quarterly, the facility is guaranteed by a pledge of 66% of common stock of certain subsidiaries.....	\$ --	\$80,000
Syndicated multi-currency credit facility, \$15.0 million maximum, due February 2002, interest payable in accordance with the terms of the individual promissory notes outstanding; the facility is guaranteed by a pledge of 66% of common stock of certain subsidiaries.....	8,759	2,284
Notes payable and capital leases, principal and interest payable in monthly installments through December 2002, interest at varying rates up to prime plus 1 percent, collateralized by certain equipment.....	100	1,005
	-----	-----
Total debt.....	8,859	83,289
Less current portion.....	100	3,236
	-----	-----
Long-term debt.....	\$8,759	\$80,053
	=====	=====

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Principal maturities of total debt as of December 31, 2000 are as follows (in thousands):

YEAR	TOTAL AMOUNT
----	-----
2001.....	\$ 100
2002.....	8,759
	-----
	\$8,859
	=====

On May 2, 2000, the Company amended and restated its existing syndicated credit facility with a syndicate of lenders (the "Amended Credit Facility"). Pursuant to the terms of the Amended Credit Facility, the amount of the Company's revolving credit facility was maintained at \$150.0 million. The \$150.0 million Amended Credit Facility includes a \$10.0 million swingline loan to be used for working capital purposes. In addition, the Company amended and restated its \$15.0 million multi-currency credit facility that provides for multi-currency lending. Borrowings under the Amended Credit Facility bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a Euro rate plus an applicable margin of up to 1.75%. Borrowings under the \$10.0 million swingline loan bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a Quoted Rate for swingline loans. Borrowings under the \$15.0 million multi-currency facility bear interest, at the Company's option, at (a) the lender's base rate plus an applicable margin of up to 0.25% or (b) a quoted Euro rate for swingline loans. The Company paid aggregate financing fees of approximately \$0.3 million, which have been deferred and are being amortized over the term of the Amended Credit Facility. In addition, a commitment fee up to 0.375% will be charged on the unused portion of the Amended Credit Facility on a quarterly basis. The Amended Credit Facility matures on February 28, 2003, and the multi-currency facility matures on February 28, 2002. Borrowings under the Amended Credit Facility are guaranteed by certain of the Company's subsidiaries as evidenced by a pledge of 66% of the respective subsidiary's common stock. Under the terms of the Amended Credit Facility, the Company is required to maintain certain financial ratios and other financial and non-financial conditions. The Amended Credit Facility prohibits, without the consent of the syndicated lenders, the Company from incurring additional indebtedness, limits certain investments, advances or loans and restricts substantial asset sales, capital expenditures and cash dividends. At December 31, 2000, the Company was in compliance with all loan requirements.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Sykes presents data in the 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. The components of other accumulated comprehensive income are as follows (in thousands):

	UNREALIZED LOSS ON SECURITIES	FOREIGN CURRENCY TRANSLATION	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
	-----	-----	-----
Balance at January 1, 1998.....	\$ (735)	\$ (2,859)	\$ (3,594)
Foreign currency translation adjustment.....	--	1,452	1,452
Unrealized loss on securities.....	(6,600)	--	(6,600)
Less: Reclassification adjustment for loss realized in net income.....	7,335	--	7,335
	-----	-----	-----
Balance at December 31, 1998.....	--	(1,407)	(1,407)
Foreign currency translation adjustment.....	--	(4,453)	(4,453)
	-----	-----	-----
Balance at December 31, 1999.....	--	(5,860)	(5,860)
Foreign currency translation adjustment.....	--	(8,222)	(8,222)
	-----	-----	-----
Balance at December 31, 2000.....	\$ --	\$ (14,082)	\$ (14,082)
	=====	=====	=====

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 12. INCOME TAXES**

The components of income before provision for income taxes are as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
Domestic.....	\$43,797	\$17,048	\$ 4,009
Foreign.....	25,100	18,704	16,393
	-----	-----	-----
Total income before income taxes.....	\$68,897	\$35,752	\$20,402
	=====	=====	=====

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Provision for income taxes consists of the following (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Current:			
Federal.....	\$14,507	\$ 6,856	\$14,365
State.....	2,412	1,225	2,338
Foreign.....	7,875	12,306	8,889
Total current provision for income taxes.....	24,794	20,387	25,592
Deferred:			
Federal.....	(4,306)	(348)	(5,120)
State.....	(716)	(296)	(855)
Foreign.....	1,419	(5,893)	(1,657)
Total deferred provision for income taxes.....	(3,603)	(6,537)	(7,632)
Total provision for income taxes.....	\$21,191	\$13,850	\$17,960
	=====	=====	=====

The components of the net deferred tax asset (liability) are as follows (in thousands):

	DECEMBER 31,	
	2000	1999
Domestic current:		
Deferred tax asset:		
Accrued expenses.....	\$10,225	\$ 1,589
Deferred compensation.....	--	96
Bad debt reserve.....	1,543	700
Valuation allowance.....	(1,819)	--
Other.....	11	8
Total current deferred tax asset.....	9,960	2,393
Deferred tax liability:		
Prepaid expenses.....	(240)	(290)
Other.....	(925)	(925)
Total current deferred tax liability.....	(1,165)	(1,215)
Net domestic current deferred tax asset.....	8,795	1,178
Foreign current:		
Deferred tax asset:		
Net operating loss carry-forward.....	1,815	1,470
Valuation allowance.....	(1,815)	(1,240)
Total foreign current deferred tax asset.....	--	230
Net current deferred tax asset, included in prepaid expenses and other current assets.....	\$ 8,795	\$ 1,408
	=====	=====

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

	DECEMBER 31,	
	2000	1999
	-----	-----
Domestic non-current:		
Deferred tax asset:		
Unrealized loss on security.....	\$ 1,736	\$ 3,009
Intangible assets.....	920	5,171
Deferred revenue.....	--	1,736
Net operating loss carry-forward.....	83	83
Valuation allowance.....	(348)	(2,894)
Other.....	519	265
	-----	-----
Total non-current deferred tax asset.....	2,910	7,370
	-----	-----
Deferred tax liability:		
Property and equipment.....	(2,477)	(1,188)
Intangible assets.....	--	(1,919)
Other.....	(734)	--
	-----	-----
Total non-current deferred tax liability.....	(3,211)	(3,107)
	-----	-----
Net domestic non-current deferred tax asset (liability).....	(301)	4,263
	-----	-----
Foreign non-current:		
Deferred tax asset:		
Intangible assets.....	1,312	4,058
Deferred revenue.....	5,628	3,391
	-----	-----
Total non-current deferred tax asset.....	6,940	7,449
	-----	-----
Deferred tax liability:		
Property and equipment.....	(1,342)	(866)
Untaxed reserve.....	(996)	(494)
	-----	-----
Total non-current deferred tax liability.....	(2,338)	(1,360)
	-----	-----
Net foreign non-current deferred tax asset.....	4,602	6,089
	-----	-----
Net non-current deferred tax asset, included in deferred charges and other assets.....	\$ 4,301	\$10,352
	=====	=====

The Company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings amounted to approximately \$59.5 million at December 31, 2000, excluding amounts, which, if remitted, generally would result in minimal additional U.S. income taxes because of available foreign tax credits. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately \$7.5 million would have been required.

At December 31, 2000, the Company's French subsidiary had an operating loss carryforward of approximately \$4.2 million that expires through the year 2006.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The following summarizes the principal differences between income taxes at the federal statutory rate and the effective income tax amounts reflected in the financial statements (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Statutory tax.....	\$24,113	\$12,513	\$ 7,141
State income taxes, net of federal tax benefit.....	877	604	669
Effect of foreign income not subject to federal and state income tax.....	(3,017)	9	(162)
In-process research and development.....	--	--	5,064
Valuation on unrealized loss on marketable security.....	(2,546)	--	3,000
Valuation on net operating loss carry-forward.....	3,412	430	704
Non-deductible amortization.....	410	514	63
Loss from joint venture.....	--	--	1,382
Foreign taxes, net of foreign income not taxed in the United States.....	5,647	(1,468)	(565)
Tax basis difference on sale of equity interest in SHPS, Incorporated.....	(7,280)	--	--
Permanent differences.....	296	440	359
Other.....	(721)	808	305
	-----	-----	-----
Total provision for income taxes.....	\$21,191	\$13,850	\$17,960
	=====	=====	=====

The Company is currently under examination by the Internal Revenue Service for the tax years ended July 31, 1999 and 1998. In the opinion of management, any liability that may arise from the prior period as a result of the examination will not have a material effect on the Company's financial condition, results of operations, or cash flows.

**NOTE 13. RESTRUCTURING AND OTHER CHARGES**

The Company recorded restructuring and other charges during the second and fourth quarters of 2000 totaling \$30.5 million. Related to the second quarter restructuring and other charges totaling \$9.6 million, the Company consolidated several European and one U.S. distribution and fulfillment center and closed or consolidated six professional services offices. As a result of the second quarter restructuring, the Company reduced the number of employees by 157 during 2000 and expects the remaining lease obligations related to the closed facilities to be completed by June 2001. Included in the second quarter restructuring and other charges is a \$3.5 million lease termination payment related to the corporate aircraft.

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 and distribution operations, the consolidation of its Tampa, Florida technical support center into its Charlotte, North Carolina center and the exit of its worldwide localization operations. In connection with the fourth quarter restructuring, the Company plans to reduce the number of employees by 250. The Company expects to substantially complete the workforce reduction by March 2001 and any remaining lease obligations related to the closed facilities by December 2001. Included in the restructuring and other charges is a \$2.4 million severance payment related to the employment contract of the Company's former President.

The Company estimates it may achieve up to approximately \$12.0 million in annualized savings related to the closed operations included in the second and fourth quarter restructurings.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The major components of restructuring and other charges for the year ended December 31, 2000 are as follows (in thousands):

	RESTRUCTURING	OTHER	TOTAL
	-----	-----	-----
Severance and related costs.....	\$ 1,614	\$2,360	\$ 3,974
Lease termination costs.....	1,765	3,639	5,404
Write-down of property and equipment.....	14,088	103	14,191
Write-down of intangible assets.....	6,086	--	6,086
Other.....	813	--	813
	-----	-----	-----
	\$24,366	\$6,102	\$30,468
	=====	=====	=====

A summary of the restructuring and other charges activity is as follows (in thousands):

	RESTRUCTURING	OTHER	TOTAL
	-----	-----	-----
Balance established in 2000.....	\$ 24,366	\$ 6,102	\$ 30,468
Reduction in workforce cash outflows.....	(912)	--	(912)
Lease termination cash payments.....	(477)	(3,639)	(4,116)
Non-cash write-down and reserve of property and equipment.....	(14,088)	(103)	(14,191)
Non-cash write-down and reserve of intangible assets.....	(6086)	--	(6,086)
Other cash outflows.....	(95)	--	(95)
	-----	-----	-----
Balance remaining at December 31, 2000.....	\$ 2,708	\$ 2,360	\$ 5,068
	=====	=====	=====

**NOTE 14. 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.

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

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
Basic:			
Weighted average common shares outstanding.....	41,518	42,045	41,258
Total weighted average basic shares outstanding...	41,518	42,045	41,258
Diluted:			
Dilutive effect of stock options.....	127	950	1,030
Total weighted average diluted shares outstanding.....	41,645	42,995	42,288
	=====	=====	=====

**NOTE 15. COMMITMENTS AND CONTINGENCIES**

The Company leases certain equipment and buildings under operating leases having terms ranging from one to twenty-two years. The building leases contain up to two five-year renewal options. Rental expense under operating leases for the years ended December 31, 2000, 1999 and 1998 was approximately \$17.4 million, \$16.7 million, and \$11.2 million, respectively.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The following is a schedule of future minimum rental payments under operating leases having a remaining non-cancelable term in excess of one year subsequent to December 31, 2000 (in thousands):

YEAR	TOTAL AMOUNT
----	-----
2001.....	\$10,826
2002.....	7,706
2003.....	5,600
2004.....	3,724
2005.....	2,510
Thereafter.....	23,374
	-----
Total minimum payments required.....	\$53,740
	=====

The Company is aware of sixteen purported class action lawsuits that have been filed against Sykes and certain of its officers alleging violations of federal securities laws. All of the actions have been consolidated into one case which is pending in the United States District Court for the Middle District of Florida. The plaintiffs purport to assert claims on behalf of a class of purchasers of Sykes common stock during the period from July 27, 1998 through September 18, 2000. The consolidated action claims violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Among other things, the consolidated action alleges that during 2000, 1999 and 1998, the Company and certain of its officers made materially false statements concerning the Company's financial condition and its future prospects. The consolidated complaint also claims that certain of the Company's quarterly financial statements during 1999 and 1998 were not prepared in accordance with generally accepted accounting principles. The consolidated action seeks compensatory and other damages, and costs and expenses associated with the litigation. The Company believes these claims are without merit and intends to defend the actions vigorously.

The Company is also aware of a lawsuit filed by Kyrus that asserts functionality issues associated with software that Kyrus had licensed from the Company. At the time of the software license, the Company and Kyrus entered into an agreement which provided for a return of a portion of the convertible preferred stock transferred to the Company in consideration of the license in the event that revenues generated by Kyrus from the software did not reach agreed upon levels. In this lawsuit, Kyrus claims that revenues from the software did not meet the minimum levels agreed upon and that Kyrus is therefore entitled to a return of the convertible preferred stock having a fair value of \$4.5 million at the time of the software license. The Company has not recorded the convertible preferred stock subject to the contingency in the accompanying Consolidated Balance Sheets as of December 31, 2000 and 1999. Therefore, in the event the Company is required to return the preferred stock to Kyrus, the return will not impact the Company's financial position or results of operations. This litigation is currently pending in the Court of Common Pleas for Greenville County, South Carolina. This lawsuit is in the very early stages and formal discovery has not yet begun. The Company intends to vigorously defend this lawsuit.

Although the Company intends to vigorously defend these lawsuits, it cannot predict their outcome or the impact they may have on the Company. The Company also cannot predict whether any other suits, claims, or investigations may arise in the future based on the same claims. The outcome of any of these lawsuits or any future lawsuits, claims, or investigations relating to the same subject matter may have a material adverse impact on the Company's financial condition and results of operations.

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.

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

**NOTE 16. EMPLOYEE BENEFIT PLAN**

The Company maintains a 401(k) plan covering defined employees who meet established eligibility requirements. Under the original plan provisions, the Company matched 25% of participant contributions to a maximum matching amount of 1% of participant compensation. During 1997, the Company increased the 401(k) matching provision to 50% of participating contributions to a maximum matching amount of 2% of participant compensation. The Company contribution was approximately \$0.9 million, \$0.8 million and \$0.6 million for the years ended December 31, 2000, 1999 and 1998, respectively. In addition, two of the Company's subsidiaries maintained separate defined contribution plans, one of which was merged into the Company's 401(k) plan effective January 1, 1998 and the second one was terminated with the Company's sale of SHPS, Incorporated. The combined contributions made to these plans were approximately \$0.2 million, \$0.1 million, and \$0.2 million for the years ended December 31, 2000, 1999 and 1998, respectively.

**NOTE 17. STOCK OPTIONS**

1996 Employee Stock Option Plan. The Company's 1996 Employee Stock Option Plan (the "Employee Plan") permits the granting of incentive or non-qualified stock options to purchase up to approximately 2.625 million shares of the Company's common stock at not less than the fair value at the time the options are granted. All options granted under the Employee Plan expire if not exercised by the tenth anniversary of their grant date with the exception of outstanding options converted pursuant to the acquisition of McQueen consistent with pooling-of-interests rules and expire five years from grant date. Certain other officers and employees hold options to purchase additional shares of common stock at a range of \$0.03 to \$30.76 per share that vest ratably over the three-year period following the date of grant, except for approximately 360 thousand options associated with the outstanding options from the acquisition of McQueen which are immediately exercisable. Transactions related to the 1996 Employee Stock Option Plan are summarized as follows (in thousands):

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at January 1, 1998.....	1,374	\$16.67
(Exercisable: 391 at \$11.02)		
Granted.....	682	\$21.46
Exercised.....	(329)	\$ 3.14
Expired or terminated.....	(313)	\$23.91
	-----	
Outstanding at December 31, 1998.....	1,414	\$20.05
(Exercisable: 344 at \$19.49)		
Granted.....	860	\$23.50
Exercised.....	(677)	\$17.71
Expired or terminated.....	(320)	\$22.70
	-----	
Outstanding at December 31, 1999.....	1,277	\$22.90
(Exercisable: 365 at \$20.99)		
Granted.....	373	\$18.84
Exercised.....	(75)	\$21.18
Expired or terminated.....	(933)	\$21.21
	-----	
Outstanding at December 31, 2000.....	642	\$23.19
	=====	
(Exercisable: 326 at \$23.66)		
Options available for future grant.....	712	
	=====	

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The following table further summarizes information about the 1996 Employee Stock Option Plan at December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DEC. 31, 2000 (IN THOUSANDS)	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DEC. 31, 2000 (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.03 to \$ 1.24	1	2.0	\$ 0.90	1	\$ 0.90
\$ 8.00	8	5.3	\$ 8.00	8	\$ 8.00
\$13.23 to \$30.76	633	8.0	\$23.44	317	\$24.16
	---			---	
Total	642	7.9	\$23.19	326	\$23.66
	===			===	

1996 Non-Employee Director Stock Option Plan. The Company's 1996 Non-Employee Director Stock Option Plan (the "Non-Employee Plan") permits the granting of non-qualified stock options to purchase up to 431 thousand shares of the Company's common stock to members of the Board of Directors who are not employees of the Company. Each outside director will receive options to purchase 5 thousand shares of common stock on the first day of each calendar year. Also, on the date on which a new outside director is first elected or appointed, he or she automatically will be granted options to purchase 5 thousand shares of common stock. All options granted will have an exercise price equal to the then fair market value of the common stock. All options granted under the Non-Employee Plan expire if not exercised by the tenth anniversary of their grant date.

Transactions related to the 1996 Non-Employee Director Stock Option Plan are summarized as follows (in thousands):

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 1998..... (Exercisable: none)	73	\$16.56
Granted.....	40	\$20.44
Exercised.....	(7)	\$ 8.00
Expired or terminated.....	--	\$ --
	---	
Outstanding at December 31, 1998..... (Exercisable: 39 at \$16.67)	106	\$18.53
Granted.....	35	\$23.81
Exercised.....	(8)	\$ 8.00
Expired or terminated.....	--	\$ --
	---	
Outstanding at December 31, 1999..... (Exercisable: 66 at \$18.79)	133	\$20.58
Granted.....	67	\$15.01
Exercised.....	(15)	\$19.03
Expired or terminated.....	(5)	\$23.81
	---	
Outstanding at December 31, 2000.....	180	\$18.53
	===	
(Exercisable: 81 at \$19.90)		
Options available for future grant.....	195	
	===	

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The following table further summarizes information about the 1996 Non-Employee Director Stock Option Plan at December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DEC. 31, 2000	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DEC. 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	-----	-----	-----	-----
	(IN THOUSANDS)			(IN THOUSANDS)	
\$ 4.48	15	9.8	\$ 4.48	--	\$ --
\$ 8.00	12	5.3	\$ 8.00	13	\$ 8.00
\$13.53	8	9.5	\$13.53	--	\$ --
\$18.39	5	7.2	\$18.39	3	\$18.39
\$18.76	45	9.3	\$18.76	--	\$ --
\$20.74	30	7.3	\$20.74	20	\$20.74
\$22.23	30	6.4	\$22.23	30	\$22.23
\$23.81	30	8.3	\$23.81	10	\$23.81
\$25.42	5	6.4	\$25.42	5	\$25.42
	---			--	
Total	180	8.0	\$18.53	81	\$19.90
	===			==	

1997 Management Incentive Stock Option Plan. The Company's 1997 Management Incentive Stock Option Plan (the "Management Incentive Plan") permits the granting of non-qualified stock options to purchase up to approximately 4.0 million shares of the Company's common stock at not less than the fair value at the time the options are granted. At December 31, 2000, 1999 and 1998, no options granted were exercisable. All options granted under the Management Incentive Plan expire if not exercised by the tenth anniversary of their grant date.

Transactions related to the 1997 Management Incentive Stock Option Plan are summarized as follows (in thousands):

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at January 1, 1998.....	--	\$ --
Granted.....	770	\$21.19
Exercised.....	--	\$ --
Expired or terminated.....	--	\$ --
	-----	
Outstanding at December 31, 1998.....	770	\$21.19
Granted.....	155	\$29.96
Exercised.....	--	\$ --
Expired or terminated.....	(405)	\$20.00
	-----	
Outstanding at December 31, 1999.....	520	\$24.73
Granted.....	1,594	\$18.29
Exercised.....	--	\$ --
Expired or terminated.....	(526)	\$20.83
	-----	
Outstanding at December 31, 2000.....	1,588	\$19.56
	=====	
Options available for future grant.....	2,412	
	=====	

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

The following table further summarizes information about the 1997 Management Incentive Stock Option Plan at December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DEC. 31, 2000	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DEC. 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS)			(IN THOUSANDS)	
\$16.24	60	9.2	\$16.24	--	\$ --
\$18.00	1,163	9.2	\$18.00	--	\$ --
\$18.93	20	7.7	\$18.93	--	\$ --
\$19.88	50	7.9	\$19.88	--	\$ --
\$20.00	70	7.3	\$20.00	--	\$ --
\$23.50	40	8.7	\$23.50	--	\$ --
\$26.58	30	8.0	\$26.58	--	\$ --
\$29.21	80	8.4	\$29.21	--	\$ --
\$30.76	75	8.1	\$30.76	--	\$ --
	-----			-----	
Total	1,588	8.9	\$19.56	--	\$ --
	=====			=====	

2000 Stock Option Plan. The Company's 2000 Stock Option Plan (the "2000 Plan") permits the granting of incentive stock options to purchase up to 4.0 million shares of the Company's common stock to certain employees of the Company at not less than the fair market value at the time the options are granted. All options granted under the 2000 Plan expire if not exercised by a fixed expiration date, which is no later than the tenth anniversary of their grant date.

Transactions related to the 2000 Plan are summarized as follows (in thousands):

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at January 1, 2000.....	--	\$ --
Granted.....	1,081	\$ 6.85
Exercised.....	--	\$ --
Expired or terminated.....	(16)	\$13.46
	-----	
Outstanding at December 31, 2000.....	1,065	\$ 6.75
	=====	
Exercisable: None		
Options available for future grant.....	2,935	
	=====	

The following table further summarizes information about the 2000 Stock Option Plan at December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DEC. 31, 2000	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DEC. 31, 2000	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS)			(IN THOUSANDS)	
\$ 4.05	715	9.8	\$ 4.05	--	\$ --
\$ 4.32 to \$ 5.94	65	9.9	\$ 4.95	--	\$ --
\$11.28 to \$14.31	271	9.6	\$13.68	--	\$ --
\$17.68 to \$20.17	14	9.4	\$18.92	--	\$ --
	-----			-----	
Total	1,065	9.8	\$ 6.75	--	\$ --
	=====			=====	

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Employee Stock Purchase Plan. Sykes' Employee Stock Purchase Plan (the "ESPP") allows eligible employee participants to purchase shares of the Company's common stock at a discount through payroll deductions. The ESPP, which qualifies under Code Section 423 of the Internal Revenue Code of 1986, was adopted by the Company's Board of Directors on April 1, 1999 and approved by the shareholders. Pursuant to the ESPP, Sykes reserved 1.0 million shares of its common stock for issuance.

Under the ESPP, eligible employees may purchase the Company common stock at 87.5% of the market price on the last day of the offering period. The maximum each employee may purchase within an offering period shall not exceed \$6.25 thousand in market value of Company common stock. The Company will typically have four three-month offering periods each year.

The weighted average fair value share price of the purchase rights granted under the ESPP during the year ended December 31, 2000 was \$7.29. For the years ended December 31, 2000 and 1999, 85 thousand and 16 thousand, respectively, of such shares were purchased and 899 thousand shares remain available for future issuance.

The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Therefore, no compensation expense has been recognized for stock options granted at fair market value under its plans.

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

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Net income as reported.....	\$45,638	\$21,902	\$ 2,442
Pro forma net income (loss) as prescribed by SFAS 123.....	\$40,580	\$14,459	\$(3,339)
Net income per diluted share as reported.....	\$ 1.10	\$ 0.51	\$ 0.06
Pro forma net income (loss) per diluted share as prescribed by SFAS 123.....	\$ 0.97	\$ 0.34	\$ (0.08)

The pro forma amounts were determined using the Black-Scholes valuation model with the following key assumptions: (i) a discount rate of 6.2 percent for 2000, a discount rate of 6.1 percent for 1999, and a discount rate of 6.0 percent for 1998; (ii) a volatility factor of 82.67 percent 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 five years (three years for the ESPP) for 2000 and an average expected option life of four years (two years for the ESPP) for 1999 and 1998. In addition, the pro forma amount for 2000 and 1999 includes approximately \$189 thousand and \$88 thousand, respectively, related to purchase discounts offered under the ESPP (none for 1998).

**NOTE 18. SEGMENTS AND GEOGRAPHIC INFORMATION**

On June 13, 2000, the Company announced its initiatives to strategically focus its operations into two business segments entitled Business Services and Business Solutions. These segments are consistent with the Company's management of these businesses and generally reflect its financial reporting structure and operating focus. The Business Services group represents approximately 91% of the Company's consolidated revenue for 2000 and is comprised of the Company's technical and customer support and distribution and fulfillment segments. These services are delivered through multiple communication channels encompassing phone, e-mail, web, and chat. The Business Solutions group, which represents approximately 9% of the Company's consolidated revenue for 2000, provides professional services in e-commerce and customer

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

relationship management (CRM) with a focus on business strategy development, project management, business process redesign, change management, knowledge management, education, training and web development.

The following table presents information about the Company's reportable segments, as revised to reflect the change from a single segment in 1999 and 1998 to two (2) segments (in thousands):

	BUSINESS SERVICES(2)	BUSINESS SOLUTIONS	OTHER(1)	CONSOLIDATED TOTAL
	-----	-----	-----	-----
For the Year Ended December 31, 2000:				
Revenue.....	\$550,920	\$52,686	\$ --	\$603,606
Depreciation and amortization.....	\$ 35,828	\$ 1,001	\$ --	\$ 36,829
Income (loss) from operations, before compensation expense associated with exercise of options and restructuring and other charges.....	\$ 26,522	\$ (526)	\$ --	\$ 25,996
Compensation expense associated with exercise of options.....			(7,836)	(7,836)
Restructuring and other charges.....			(30,468)	(30,468)
Other income (expense).....			81,205	81,205
Provision for income taxes....			(21,191)	(21,191)
Cumulative effect of change in accounting principle.....			(2,068)	(2,068)
Net income.....				----- \$ 45,638 =====
For the Year Ended December 31, 1999:				
Revenue.....	\$521,967	\$50,775	\$ --	\$572,742
Depreciation and amortization.....	\$ 34,609	\$ 729	\$ --	\$ 35,338
Income (loss) from operations, before impairment of long-lived assets.....	\$ 46,618	\$(1,370)	\$ --	\$ 45,248
Impairment of long-lived assets.....			(5,979)	(5,979)
Other income (expense).....			(3,517)	(3,517)
Provision for income taxes....			(13,850)	(13,850)
Net income.....				----- \$ 21,902 =====

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

	BUSINESS SERVICES(2)	BUSINESS SOLUTIONS	OTHER(1)	CONSOLIDATED TOTAL
	-----	-----	-----	-----
For the Year Ended December 31, 1998:				
Revenue.....	\$388,746	\$71,356	\$ --	\$460,102
Depreciation and amortization.....	\$ 20,972	\$ 859	\$ --	\$ 21,831
Income from operations, before acquired in-process research and development...	\$ 43,748	\$ 3,393	\$ --	\$ 47,141
Acquired in-process research and development.....			(14,469)	(14,469)
Other income (expense).....			(12,270)	(12,270)
Provision for income taxes....			(17,960)	(17,960)
				-----
Net income.....				\$ 2,442
				=====

(1) Other items are shown for purposes of reconciling to the Company's consolidated totals as shown in the table above for the three years ended December 31, 2000. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. Inter-segment revenues are not material to the Business Services and Business Solutions segment results. Total assets are not disclosed since they are not identified and reported by segment to the Company's management.

(2) Business Services revenue includes \$35.7 million, \$73.0 million and \$26.8 million for the years ended December 31, 2000, 1999 and 1998, respectively, from SHPS, Incorporated, a previously wholly-owned subsidiary of the Company, which was sold in June 2000.

No single customer accounted for 10% of consolidated revenues for the years ended December 31, 2000, 1999, and 1998.

Information about the Company's operations by geographic location is as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	-----	-----	-----
Revenue:			
Americas.....	\$390,268	\$391,341	\$295,729
International.....	213,338	181,401	164,373
	-----	-----	-----
	\$603,606	\$572,742	\$460,102
	=====	=====	=====
Income before provision for income taxes:			
Americas.....	\$ 56,087	\$ 21,325	\$ 6,506
International.....	12,810	14,427	13,896
	-----	-----	-----
	\$ 68,897	\$ 35,752	\$ 20,402
	=====	=====	=====
Total assets:			
Americas.....	\$221,133	\$300,755	\$259,542
International.....	136,211	118,641	102,256
	-----	-----	-----
	\$357,344	\$419,396	\$361,798
	=====	=====	=====

**NOTE 19. RELATED PARTY TRANSACTIONS**

During 2000, the Company terminated its ten-year operating lease agreement with the Company's Chairman (and majority shareholder) for its corporate aircraft and paid a lease termination fee of \$3.5 million. This lease termination payment is included in restructuring and other charges in the accompanying

**SYKES ENTERPRISES, INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**

Consolidated Statement of Income for the year ended December 31, 2000. After the lease termination, the Company paid the Chairman (and majority shareholder) \$213 thousand for the use of the corporate aircraft in 2000. The lease expense for each of the years ended December 31, 2000, 1999 and 1998, exclusive of lease termination payments, was \$0.3 million, \$0.6 million, and \$0.6 million, respectively.

During the period from September 1, 2000 through December 31, 2000, the Company also paid a company, in which the Chairman (and majority shareholder) has an 80% equity interest, \$247 thousand for management and site development services.

A member of the board of directors of the Company received broker commissions from the Company's 401(k) investment firm of \$25 thousand for each of the years ended December 31, 2000, 1999, and 1998, respectively, and insurance commissions for the placement of the Company's various corporate insurance programs of \$75 thousand for each of the years ended December 31, 2000 and 1999, respectively (none in 1998).

**EXHIBIT 21.1**

**SYKES ENTERPRISES, INCORPORATED  
LIST OF SUBSIDIARIES**

As of December 31, 2000, the Registrant directly or indirectly owned the following subsidiaries. Certain subsidiaries, which in the aggregate do not constitute significant subsidiaries, may be omitted.

Sykes Realty, Inc.	United States
Sykes Financial Services, Inc.	United States
Sykes Enterprises Delaware, Inc.	United States
Sykes Enterprises -- South Africa, Inc.	United States
Sykes Enterprises Incorporated, S.L	Spain
Sykes Enterprises of Canada, Inc.	Canada
Sykes Latin America, S.A.	Costa Rica
SEI Technical Services, Ltd.	United Kingdom
CompuHelpline	United States
McQueen International Incorporated	United States
Sykes E-Commerce, Incorporated	United States
Sykes Enterprises Incorporated Holdings B.V	The Netherlands
Sykes Enterprises Incorporated BV	The Netherlands
Sykes Enterprises Istanbul Limited Sirket	Turkey
Sykes Information Technology China (Shanghai) Co. Ltd.	Peoples Republic of China
Sykes Enterprises Italy S.r.L	Italy
Sykes Enterprises, Inc. Kft. Budapest	Hungary
Sykes Central Europe Kft	Hungary
Sykes Datasvar Support AB	Sweden
Twin Point AB	Sweden
Sykes Holdings of Belgium B.V.B.A	Belgium
Sykes Belgium N.V. (f/k/a Translation, Fulfillment & Communication, N.V. ("Traffic"))	Belgium
Sykes Enterprises GmbH	Germany
Sykes Enterprises Support Services B.V. & Co. KG	The Netherlands
Sykes Enterprises Verwaltungs und Management GmbH	Germany
Sykes Verwaltungsgesellschaft mgH	Germany
Sykes Enterprises Management GmbH	Germany
Sykes Enterprises Verwaltungs und Beteiligungsgellschaft mbH	Germany
Sykes Enterprises Bochum GmbH & Co. KG	Germany
Sykes Enterprises Wilhemsclaven GmbH & Co. KG	Germany
TST Tele Service Team, GmbH	Germany
T.O.P. Teleshopping, GmbH	Germany
Sykes Enterprises Esslingen GmbH & Co. KG	Germany
Sykes Enterprises Hamburg Hannover GmbH & Co. KG	Germany
McQueen International Limited	Scotland
McQueen Europe Limited	Scotland
Sykes Netherlands B.V	The Netherlands
McQueen Skandinavian AB	Sweden
McQueen International B.V	The Netherlands
Sykes Asia Inc.	The Philippines
Sykes France S.A. (f/k/a McQueen France S.A.)	France
Sykes Europe Limited	Scotland
McQueen Graphics Limited	Scotland
Link Network Limited	Scotland
Printsoft Limited	Scotland
McQueen ESOT Trustees Limited	Scotland
McQueen Direct Limited	Scotland
McQueen Integrated Manufacturing Services Limited	Scotland
Sykes Canada Corporation (f/k/a Oracle Service Networks Corporation)	Canada
Clinidata Corporation (f/k/a Health Information Company of Canada, Inc.)	
1145575 Ontario Ltd.	Canada
248 Pall Mall (London) Inc.	Canada
Station Park Fitness Club Inc.	Canada

## CONSENT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
Sykes Enterprises, Incorporated

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Sykes Enterprises, Incorporated of our report dated February 15, 2001, included in the 2000 Annual Report to Shareholders of Sykes Enterprises, Incorporated.

Our audits also included the financial statement schedule of Sykes Enterprises, Incorporated listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-23681) pertaining to the Sykes Enterprises, Incorporated 1996 Employee Stock Option Plan, 1996 Non-Employee Director Stock Option Plan and 1996 Non-Employee Directors' Fee Plan, in the Registration Statement (Form S-8 No. 333-76629) pertaining to the Sykes Enterprises, Incorporated 1997 Management Incentive Stock Option Plan and in the Registration Statement (Form S-8 No. 333-88359) pertaining to the Sykes Enterprises, Incorporated 1999 Employee Stock Purchase Plan of our report dated February 15, 2001, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Sykes Enterprises, Incorporated.

*Tampa, Florida*

*/s/ Ernst & Young LLP*

*March 23, 2001*

---

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | **EDGAR Online, Inc.**