

SYKES ENTERPRISES INC

FORM 8-K (Current report filing)

Filed 11/01/00 for the Period Ending 10/30/00

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 8-K (Unscheduled Material Events)

Filed 11/1/2000 For Period Ending 10/30/2000

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 30, 2000

Sykes Enterprises, Incorporated

(Exact name of registrant as specified in its charter)

Florida

(State or other
jurisdiction of
incorporation)

0-28274

(Commission File Number)

56-1383460

(IRS Employer
Identification
No.)

100 N. Tampa Street, Suite 3900, Tampa, Florida 33602
(Address of principal executive offices, including zip code)

(813) 274-1000
(Registrant's telephone number)

Item 5. Other Events

On October 30, 2000, Sykes Enterprises, Incorporated (the "Company") issued a press release announcing its financial results for its third quarter and nine month periods ended September 30, 2000 and its completion of its previously announced accounting review. The press release is filed as Exhibit 99.1 hereto and is incorporated herein by reference.

Item 7. Financial Statements and Exhibits

(c) Exhibits:

99.1 Press release of the Company issued October 30, 2000.

SIGNATURES

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

SYKES ENTERPRISES, INCORPORATED

Date: October 30, 2000

By: /s/ W. Michael Kipphut

*W. Michael Kipphut
Vice President and Chief Financial
Officer*

SYKES ENTERPRISES, INCORPORATED

Exhibit Index to Current Report on Form 8-K

Dated October 30, 2000

Exhibit Number -----	Description -----
(99.1)	Press release of the Company issued October 30, 2000.

FOR IMMEDIATE RELEASE

October 30, 2000

**SYKES ENTERPRISES, INCORPORATED ANNOUNCES THIRD
QUARTER RESULTS AND COMPLETION OF ACCOUNTING REVIEW**

- Total Revenues Increase 12% Year Over Year - - Technical & Customer Support Revenues grew 28% - - Company Restates Previous Financial Results -

TAMPA, FL October 30, 2000 - Sykes Enterprises, Incorporated ("Sykes" or the "Company") (NASDAQ: SYKE), a global leader in providing vertically integrated, technology-based business services and solutions, today announced results for its third quarter and nine month periods ended September 30, 2000. In addition, the Company also announced the completion of its previously announced accounting review.

David L. Grimes, President and Chief Executive Officer of Sykes, stated, "We continue to focus on growing our business and improving our bottom line. We are seeing solid growth in our core technical and customer support services, both domestically and internationally. While we are not satisfied with our third quarter results, the consistent growth in our core business when combined with our strong balance sheet, provides us with the platform to leverage our position as a global competitor in the CRM marketplace, and bring value to our shareholders."

3Q 2000 Financial Results

Third quarter 2000 revenues compared to the same period last year increased 12% to \$137.6 million, excluding SHPS, Incorporated, the healthcare services business Sykes sold on June 30, 2000. The Company incurred a net loss of (\$2.7) million, or (\$0.06) per diluted share compared to net income inclusive of SHPS of \$4.3 million, or \$0.10 per diluted share for the third quarter last year. The Company previously announced on

September 18, 2000 that it expected to report third quarter revenues within the range of \$128 million to \$134 million and a net loss of (\$0.11) to (\$0.08) per diluted share.

The 12% increase in third quarter revenues, when compared to the same period last year, comprised a growth rate of approximately 13% in Business Services and approximately 5% in Business Solutions. The growth in Business Services was driven primarily by organic growth in technical and customer support generated from new and expanded contracts with technology and communications organizations. A solid 28% growth in technical and customer support when compared with the third quarter of last year was offset by a decline in other non-core areas including localization, fulfillment and distribution. On a sequential basis, a 4% increase in technical and customer support revenues over the second quarter of 2000 was offset by declines in other business areas for a total revenue decline of 1%, excluding SHPS.

Total revenues for the third quarter of 2000 would have been approximately 7%, or \$9.8 million, higher if foreign currency rates had remained unchanged from the comparable quarter last year.

The Company's third quarter gross profit margin (revenues less direct costs) improved 140 basis points to 35.8% including SHPS compared with the same period last year. Excluding SHPS, the Company's gross profit margin improved 240 basis points over last year. The increase was attributable to increased revenues, better efficiencies within the Business Services group, specifically technical and customer support, as well as higher margin consulting engagements through the Company's Business Solutions group.

As a percentage of revenue, general and administrative ("G&A") expenses for the third quarter of 2000 increased to 37.9% compared to 28.6% including SHPS, or 27.2% excluding SHPS, for the same period last year. The increase was attributable to several factors including higher bad debt expense, higher professional and legal fees, as well as lower than expected revenues primarily in non-core areas. The third quarter G&A margin also reflects an increase in wages from additional administrative personnel to support Sykes' global operations and higher depreciation expense related to capital expenditures incurred in connection with expansion of its technical and customer support centers.

Nine Months Financial Results

Revenues for the nine months ended September 30, 2000 increased 10% to \$454.7 million compared to \$413.3 million for the same period last year. Excluding SHPS, revenues for the nine months increased 16%. Net income totaled \$10.7 million, or \$0.25 per diluted share, before one-time items, compared to net income of \$19.5 million, or \$0.45 per diluted share for nine months ended September 30, 1999. Including one-time items recorded during the second quarter of 2000, the Company reported net earnings of \$1.40 per diluted share for the nine months. The one-time items consisted of a gain of \$84.0 million (\$59.9 million net of taxes or \$1.43 per diluted share) on the sale of the Company's SHPS unit, a charge in the amount of \$7.8 million (\$4.8 million net of taxes or \$0.11 per diluted share) related to payouts made to SHPS' option holders, and restructuring and other charges of \$9.6 million (\$6.9 million net of taxes or \$0.16 per diluted share).

Balance Sheet & Cash Flow

The Company's balance sheet at quarter end remained strong with a cash balance of \$26.9 million, shareholders' equity of \$207.3 million, and an outstanding debt position totaling \$20.2 million, or 9.8% of shareholders' equity.

During the third quarter, the Company repurchased 1.5 million shares of common stock for approximately \$22 million through open market purchases. The Company has 500,000 shares remaining in the repurchase program previously announced in July 2000.

Restatement of Financial Results

As previously announced, an outside accounting firm was engaged to assist in a detailed review of Sykes' significant revenue contracts since January 1, 1998. The Company conducted the review to ensure that its revenue recognition accounting practices were in compliance with Generally Accepted Accounting Principles including the AICPA's Statement of Position 97-2 "Software Revenue Recognition". As a result of the review of approximately 120 contracts, the Company determined with the assistance of its outside accounting advisors and independent auditors, that the accounting for eight of its client contracts required restatement. The revisions to the Company's revenues and net income were primarily the result of contractual contingencies and prematurely recognized revenues.

The effect of the restatement on the twelve-months ended December 31, 1998, was a downward revision to reported revenues of \$9.4 million and a \$0.14 reduction in diluted earnings per share. Accordingly, the restated financial results for the year ended December 31, 1998 reflect revenues of \$460.1 million and net income of \$2.4 million, or earnings per diluted share of \$0.06 compared to previously reported results of \$469.5 million in revenues and net income of \$8.3 million, or \$0.20 per diluted share.

The restatement to the 1999 financial year, which affected revenues, gross profit and net income, resulted in a cumulative reduction to net income of \$0.1 million while the effect on the quarterly results was more significant as indicated in the attached table. Accordingly, the restated financial results for the year ended December 31, 1999 reflect revenues of \$572.7 million, operating income of \$39.3 million and net income of \$21.9 million, or \$0.51 per diluted share compared to previously reported results of \$575.0 million in revenues, operating income of \$39.5 million and net income of \$22.0 million, or \$.51 per diluted share.

The Company also restated its second quarter of 2000, which reflects a \$0.9 million downward revision to previously reported revenues of \$156.8 million. The adjustments to the second quarter resulted in revenues of \$155.9 million and net income of \$6.7 million, before one-time items, or \$0.16 per diluted share, which represents a \$0.01 reduction in previously reported earnings per diluted share. The accompanying tables to the press release provide the quarterly detail for each of restated financial periods.

The after-tax cumulative effect of the restatements reduced shareholders' equity as of September 30, 2000 by \$6.4 million. As a result of the restatement, the Company has deferred \$1.8 million in previously recognized revenue that will be recognized in the future when the earnings process is complete.

John H. Sykes, Chairman of Sykes, stated, "We have reviewed all of our significant contracts and have reflected all necessary changes in our restated financials. We move forward with a clean slate. With this uncertainty behind us, we want to reassure our investors, customers and strategic partners, that we will continually review our accounting practices and that we are improving controls to appropriately reflect the necessary revenue recognition policies as our business model evolves. As evidenced by the growth in our core business, Sykes' business fundamentals remain strong as we continue to focus on people, process and technology in order to enhance shareholder value."

Business Outlook

The Company currently anticipates fourth quarter results to be within its forecasted range of \$143 million to \$148 million in revenues and net income in the range of \$0.10 to \$0.13 per diluted share.

The Company will conduct a conference call regarding the content of this release today, October 30, 2000, at 5:00 p.m. Eastern Standard Time. Parties interested in participating in this call should dial (800) 450-0788 or (612) 332-0630 five minutes before the scheduled time. A replay will be available from 8:00 p.m. on October 30, 2000 through 12:00 midnight on November 1, 2000 by dialing (800) 475-6701 or (320) 365-3844. The access code is 543651. The conference call will also be webcast on the Internet. Instructions for listening to the call over the Internet are available on the Investors page of the Sykes' website at www.sykes.com. The replay of the webcast will be available at this location for two weeks.

About Sykes Enterprises, Incorporated

Sykes is a global leader in providing vertically integrated, technology-based business solutions and services. Sykes' Business Solutions group provides professional services in e-Commerce, globalization and Customer Relationship Management (CRM) with a focus on business strategy development, solution implementation, web design, development and education, localization and program management. Sykes' Business Services group provides value-added customer support outsourcing including technical support, customer service and fulfillment. These services are delivered through multiple communication channels encompassing web, e-mail and telephony support. Sykes' Solutions and Services combination offers clients value-added end-to-end solutions. Sykes, headquartered in Tampa, FL, has approximately 14,700 employees and currently operates 39 customer interaction centers, five e-commerce fulfillment centers and 17 branch offices throughout the United States, Canada, Europe, Asia, Africa, and Central America. Visit the Sykes web site at <http://www.sykes.com>.

Forward-Looking Statements

The statements contained in this press release that are not purely historical, including statements regarding Sykes' objectives, expectations, hopes, intentions, beliefs or strategies regarding the future, are "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. It is important to note that Sykes' actual results could differ materially from those in such

forward-looking statements, and undue reliance should not be placed on such statements. Among the important factors that could cause such actual results to differ materially are (i) customer resistance to Sykes' standardized contract for future bundled service offerings, (ii) variations in the term and the elements of services offered under Sykes' standardized contract for future bundled service offerings, (iii) changes in applicable accounting principles, (iv) difficulties or delays in implementing Sykes' bundled service offerings, (v) failure to achieve sales, marketing and other objectives to Sykes' strategic alliances, (vi) construction delays of new call centers, (vii) difficulties in managing growth, (viii) rapid technological change, (ix) loss of significant customers, (x) risks inherent in conducting business abroad, (xi) currency fluctuations, (xii) changes in legislation, (xiii) fluctuations in business conditions and the economy, (xiv) Sykes' ability to attract and retain key management personnel, (xv) the marketplace's continued receptivity to Sykes' bundled service offerings, (xvi) Sykes' ability to continue the growth of its support service revenues through additional technical & customer support centers, (xvii) Sykes' ability to further penetrate into vertically integrated markets, (xviii) Sykes' ability to expand its global presence through strategic alliances and selective acquisitions, (xix) Sykes' ability to expand its e-commerce service platform revenues, (xx) Sykes' ability to continue to establish a competitive advantage through sophisticated technological capabilities, (xxi) the ultimate outcome of pending class action lawsuits, and (xxii) other risk factors listed from time to time in Sykes' registration statements and reports as filed with the Securities and Exchange Commission. All forward-looking statements included in this press release are made as of the date hereof, and Sykes undertakes no obligation to update any such forward- looking statements.

For additional information contact:

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(\$'s in thousands, except per share amounts)

(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sept. 30, 1999	Sept. 30, 2000	Sept. 30, 1999	Sept. 30, 2000

	(restated)			
Revenues	\$ 413,309	\$ 454,749	\$ 140,967	\$ 137,570
Direct costs	264,708	289,070	92,523	88,254
General and administrative	114,394	144,429	40,350	52,125
Compensation expense (1)	-	7,836	-	-
Restructuring and other charges (1)	-	9,640	-	-

Income (loss) from operations	34,207	3,774	8,094	(2,809)
Other expense, net	(2,425)	(3,632)	(987)	(1,435)
Gain on sale of equity interest in SHPS (1)	-	84,036	-	-

Income (loss) before provision for income taxes	31,782	84,178	7,107	(4,244)
Provision (benefit) for income taxes	12,309	25,256	2,760	(1,571)

Net income (loss)	\$ 19,473	\$ 58,922	\$ 4,347	\$ (2,673)
	=====			
Net income (loss) per diluted share	\$ 0.45	\$ 1.40	\$ 0.10	\$ (0.06)
Shares outstanding - diluted	42,985	41,997	43,032	41,134

(1) The nine months ended June 30, 2000 included \$7.8 million in compensation expense related to payments made to certain SHPS' option holders as part of the Company's sale of SHPS, \$9.6 million in restructuring and other charges and an \$84.0 million gain on the sale of SHPS. Excluding these one-time items, income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$21.3 million, \$17.6 million, \$10.7 million and \$0.25, respectively.

Sykes Enterprises, Incorporated Condensed Consolidated Balance Sheets

(\$'s in thousands)

	Dec. 31, 1998	Dec. 31, 1999	Sept 30, 2000
	(restated)	(restated)	(unaudited)
Assets			
Current assets	\$ 178,688	\$ 188,135	\$ 172,019
Property and equipment, net	99,177	134,756	156,895
Other noncurrent assets	86,052	96,801	35,492
Total assets	\$ 363,917	\$ 419,692	\$ 364,406
Liabilities & shareholders' equity			
Current liabilities	\$ 91,937	\$ 94,764	\$ 75,961
Noncurrent liabilities	112,879	129,541	81,134
Shareholders' equity	159,101	195,387	207,311
Total liabilities & shareholders' equity	\$ 363,917	\$ 419,692	\$ 364,406

Sykes Enterprises Incorporated Condensed Consolidated Statements of Operation

(\$'s in thousands, except per share amounts)

	Three Months Ended March 31, 2000	Three Months Ended June 30, 2000	Three Months Ended Sept. 30, 2000	Nine Months Ended Sept. 30, 2000
		(restated)		
Revenues	\$ 161,312	\$ 155,867	\$ 137,570	\$ 454,749
Direct costs	102,211	98,605	88,254	289,070
General and administrative	46,915	45,389	52,125	144,429
Compensation expense (1)	-	7,836	-	7,836
Restructuring and other charges (1)	-	9,640	-	9,640
Income (loss) from operations	12,186	(5,603)	(2,809)	3,774
Other expense, net	(1,237)	(960)	(1,435)	(3,632)
Gain on sale of equity interest in SHPS (1)	-	84,036	-	84,036
Income (loss) before provision for income taxes	10,949	77,473	(4,244)	84,178
Provision (benefit) for income taxes	4,248	22,579	(1,571)	25,256
Net income (loss)	\$ 6,701	\$ 54,894	\$ (2,673)	\$ 58,922
Net income (loss) per diluted share	\$ 0.16	\$ 1.30	\$ (0.06)	\$ 1.40
Shares outstanding - diluted	42,902	42,098	41,134	41,997

(1) The quarter ended June 30, 2000 included \$7.8 million in compensation expense related to payments made to certain SHPS' option holders as part of the Company's sale of SHPS, \$9.6 million in restructuring and other charges and an \$84.0 million gain on the sale of SHPS. Excluding these one-time items, income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$11.9 million, \$10.9 million, \$6.7 million and \$0.16, respectively.

Excluding the one-time items referenced above, income from operations, income before provision for income taxes, net income and net income per diluted share for the nine months ended September 30, 2000 as restated would have been approximately \$21.3 million, \$17.6 million, \$10.7 million and \$0.25, respectively.

Sykes Enterprises Incorporated Condensed Consolidated Statements of Income

(\$'s in thousands, except per share amounts)

	Three Months Ended March 31, 1999	Three Months Ended June 30, 1999	Three Months Ended Sept. 30, 1999	Three Months Ended Dec. 31, 1999	Twelve Months Ended Dec. 31, 1999
		(restated)		(restated)	(restated)
Revenues	\$ 136,378	\$ 135,964	\$ 140,967	\$ 159,433	\$ 572,742
Direct costs	83,247	88,938	92,523	105,142	369,850
General and administrative	36,277	37,767	40,350	43,250	157,644
Impairment of long-lived assets (1)	-	-	-	5,979	5,979
Income from operations	16,854	9,259	8,094	5,062	39,269
Other expense, net	(575)	(863)	(987)	(1,092)	(3,517)
Income before provision for income taxes	16,279	8,396	7,107	3,970	35,752
Provision for income taxes	6,300	3,249	2,760	1,541	13,850
Net income	\$ 9,979	\$ 5,147	\$ 4,347	\$ 2,429	\$ 21,902
Net income per diluted share	\$ 0.23	\$ 0.12	\$ 0.10	\$ 0.06	\$ 0.51
Shares outstanding - diluted	42,824	43,097	43,032	43,063	42,995

(1) The quarter ended December 31, 1999 includes \$6.0 million of charges associated with the write-down of software and computer equipment. Exclusive of this charge, income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$11.0 million, \$10.0 million, \$6.1 million and \$0.14, respectively.

For the twelve months ended December 31, 1999, exclusive of the \$6.0 million of charges associated with the write-down of software and income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$45.2 million, \$41.7 million, \$25.6 million and \$0.59, respectively.

(\$'s in thousands, except per share amounts)

	Three Months Ended March 31, 1998	Three Months Ended June 30, 1998	Three Months Ended Sept. 30, 1998	Three Months Ended Dec. 31, 1998	Twelve Months Ended Dec. 31, 1998 (4)
		(restated)	(restated)	(restated)	(restated)
Revenues	\$ 98,088	\$ 100,667	\$ 121,265	\$ 140,082	\$ 460,102
Direct costs	61,160	68,768	72,806	87,068	289,802
General and administrative (2) (3)	26,319	28,789	31,315	36,736	123,159
Acquired in-process R&D (2)	-	-	14,469	-	14,469
Income from operations	10,609	3,110	2,675	16,278	32,672
Other income (expense), net (1) (3)	(3,839)	188	(504)	(8,115)	(12,270)
Income before provision for income taxes	6,770	3,298	2,171	8,163	20,402
Provision for income taxes	3,867	1,237	6,445	6,411	17,960
Net income (loss)	\$ 2,903	\$ 2,061	\$ (4,274)	\$ 1,752	\$ 2,442
Net income (loss) per diluted share	\$ 0.07	\$ 0.05	\$ (0.10)	\$ 0.04	\$ 0.06
Shares outstanding - diluted	42,219	42,220	41,337	42,497	42,288

(1) The quarter ended March 31, 1998 includes \$3.8 million of expense associated with the write-off of acquisition related in-process R&D by a joint venture entity. Exclusive of this charge, income before provision for income taxes, net income and net income per diluted share would have been approximately \$10.6 million, \$6.8 million and \$0.16, respectively.

(2) The quarter ended September 30, 1998, includes \$0.5 million of expense associated with accrued severance costs and \$14.5 million of expense associated with the write-off of acquisition related in-process R&D costs. Exclusive of such charges, income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$17.6 million, \$17.1 million, \$10.6 million and \$0.25, respectively.

(3) The quarter ended December 31, 1998 includes \$1.4 million of one-time merger and related charges associated with acquisitions and \$7.3 million in charges associated with the write-down of marketable securities. Exclusive of such charges, income from operations, income before provision for income taxes, net income and net income per diluted share as restated would have been approximately \$17.7 million, \$16.9 million, \$10.5 million and \$0.25, respectively.

(4) Exclusive of all one-time items referenced above, income from operations, income before provision for income taxes, net income and net income per diluted share as restated for the twelve months ended December 31, 1998, would have been approximately \$49.0 million, \$47.9 million, \$30.0 million and \$0.71, respectively.