

# SYKES ENTERPRISES INC

## FORM 10-Q (Quarterly Report)

Filed 11/13/96 for the Period Ending 09/29/96

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

# SYKES ENTERPRISES INC

## FORM 10-Q (Quarterly Report)

Filed 11/13/1996 For Period Ending 9/29/1996

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

**FORM 10-Q**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 29, 1996

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from to

*Commission File No. 0-28274*

**SYKES ENTERPRISES, INCORPORATED**

(Exact name of Registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	56-1383460 (I.R.S. Employer Identification No.)
100 North Tampa Street, Suite 3900, Tampa, FL (Address of principal executive office)	33602 (Zip Code)

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

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

Yes  No

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

Common Stock, \$.01 Par Value, 21,833,818 shares as of November 13, 1996

**PART I**

**Item 1 - Financial Statements**

**SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	December 31, 1995	September 29, 1996 (Unaudited)
<b>ASSETS</b>		
Current assets		
Cash	\$ 1,752,978	\$ 2,140,885
Temporary investments	849,502	18,037,559
Receivables, including unbilled	16,744,039	28,874,106
Refundable income taxes	602,197	548,196
Prepaid expenses and other current assets	1,047,955	2,004,851
	-----	-----
Total current assets	20,996,671	51,605,597
Property and equipment, net	24,384,987	31,428,722
Deferred income taxes	11,034	159,000
Deferred charges and other assets	758,651	807,029
	-----	-----
	\$46,151,343	\$84,000,348
	=====	=====
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Current installments of long-term debt	\$ 1,566,645	\$ 22,659
Accounts payable	6,221,965	4,402,452
Accrued employee compensation and benefits	5,849,096	7,045,296
Income taxes payable	186,221	2,087,842
Deferred income taxes	3,366,000	423,955
Other accrued expenses and current liabilities	2,756,561	2,096,739
	-----	-----
Total current liabilities	19,946,488	16,078,943
Long-term debt	8,589,530	292,308
Deferred income taxes	-	1,797,510
Deferred grants	6,751,782	9,939,958
Commitments and contingencies		
Shareholders' equity		
Common stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized; 14,121,819 and 20,026,498 shares issued and outstanding	141,218	200,265
Additional paid-in capital	645,437	45,964,725
Retained earnings	10,008,015	9,659,448
Accumulated foreign currency translation adjustments	68,873	67,191
	-----	-----
Total shareholders' equity	10,863,543	55,891,629
	-----	-----
	\$46,151,343	\$84,000,348
	=====	=====

See accompanying notes to consolidated financial statements

SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
Nine and Three Months Ended October 1, 1995 and September 29, 1996  
(Unaudited)

	Nine Months Ended		Three Months Ended	
	October 1, 1995	September 29, 1996	October 1, 1995	September 29, 1996
Revenues	\$51,314,771	\$81,008,314	\$18,239,498	\$28,541,164
Operating expenses				
Direct salaries and related costs	31,036,531	45,535,823	10,720,903	16,094,991
General and administrative	16,682,626	25,413,533	5,729,539	8,703,953
Total operating expenses	47,719,157	70,949,356	16,450,442	24,798,944
Income from operations	3,595,614	10,058,958	1,789,056	3,742,220
Other income (expense)				
Interest income	26,727	392,807	17,226	271,790
Interest expense	(497,436)	(371,299)	(143,732)	-
Other	(38,418)	68,186	(93,093)	(906)
Total other income (expense)	(509,127)	89,694	(219,599)	270,884
Income before income taxes	3,086,487	10,148,652	1,569,457	4,013,104
Provision for income taxes	1,195,969	3,993,705	622,404	1,561,000
Net income before dividends	1,890,518	6,154,947	947,053	2,452,104
Preferred stock dividends	-	47,343	-	-
Net income applicable to common shareholders	\$ 1,890,518	\$ 6,107,604	\$ 947,053	\$ 2,452,104
Pro forma income data:				
Income before income taxes	\$ 3,086,487	\$10,148,652	\$ 1,569,457	\$ 4,013,104
Pro forma provision for income taxes relating to S Corporation	123,000	67,000	59,000	-
Actual provision for income taxes	1,195,969	3,993,705	622,404	1,561,000
Total provision and pro forma provision for income taxes	1,318,969	4,060,705	681,404	1,561,000
Pro forma net income	1,767,518	6,087,947	888,053	2,452,104
Preferred stock dividend	-	47,343	-	-
Pro forma net income applicable to common shareholders	\$ 1,767,518	\$ 6,040,604	\$ 888,053	\$ 2,452,104
Pro forma net income per common and common equivalent share	\$ 0.10	\$ 0.32	\$ 0.05	\$ 0.12
Weighted average common and common equivalent shares outstanding	16,873,982	19,180,394	16,873,982	21,023,434

See accompanying notes to consolidated financial statements

**SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months Ended October 1, 1995 and September 29, 1996**  
(Unaudited)

	October 1, 1995	September 29, 1996
Cash flows from operating activities:		
Net income	\$ 1,890,518	\$ 6,154,947
Depreciation and amortization	1,872,187	3,715,338
Deferred income taxes	332,698	1,151,891
Gain (loss) on disposal of property and equipment	1,705	(4,826)
Changes in assets and liabilities:		
Receivables, including unbilled	(1,991,900)	(10,130,067)
Refundable income taxes	278,550	54,001
Prepaid expenses and other current assets	(941,743)	(956,896)
Deferred charges and other assets	138,939	(279,905)
Accounts payable	375,060	(1,819,513)
Accrued employee compensation and benefits	859,671	1,196,200
Income taxes payable	(109,076)	(1,352,207)
Other accrued expenses and current liabilities	204,907	(358,284)
	-----	-----
Net cash provided by (used for) operating activities	2,911,516	(2,629,321)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(4,289,299)	(11,206,207)
Proceeds from sales of property and equipment	73,568	168,435
	-----	-----
Net cash used for investing activities	(4,215,731)	(11,037,772)
	-----	-----
Cash flows from financing activities:		
Paydowns under revolving line of credit agreements	(18,953,000)	(20,196,569)
Borrowings under revolving line of credit agreements	20,660,005	19,781,835
Proceeds from grants	397,942	1,708,054
Proceeds from issuance of stock	26,861	39,731,599
Payment of long-term debt	(709,412)	(9,426,473)
Dividends paid	-	(353,707)
	-----	-----
Net cash provided by financing activities	1,422,396	31,244,739
	-----	-----
Adjustment for foreign currency translation	164,514	(1,682)
	-----	-----
Net increase in cash	282,695	17,575,964
	-----	-----
Cash and cash equivalents at beginning of year	2,082,142	2,602,480
	-----	-----
Cash and cash equivalents at end of period	\$ 2,364,837	\$20,178,444
	=====	=====

See accompanying notes to consolidated financial statement

# SYKES ENTERPRISES, INCORPORATED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended October 1, 1995 and September 29, 1996

(Unaudited)

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 29, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the consolidated financial statements and notes thereto as of and for the years ended December 31, 1995 included in the Company's Prospectus dated October 31, 1996 associated with the Company's secondary public offering.

Sykes Enterprises, Incorporated and consolidated subsidiaries (the "Company") provide comprehensive information technology outsourcing services including information technology support services, consisting of technical product support, help desk services and diagnostic software tools, and information technology development services and solutions, consisting of software design, development, integration and implementation and documentation, foreign language translation and localization services. The Company's services are provided to a wide variety of industries.

At September 29, 1996, the entities comprising the consolidated Company included:

Sykes Enterprises, Incorporated  
Sykes Enterprises Incorporated Holdings B.V.

Sykes Enterprises Incorporated of Canada

Sykes Realty, Inc.  
Datasvar Support AB  
DiagSoft, Inc.

Unless otherwise noted, all information in this Form 10-Q has been adjusted to retroactively reflect the three-for-two stock split in the form of a 50% stock dividend to shareholders of record on July 18, 1996, which was reflected on the Nasdaq National Market on July 29, 1996.

### Note 1 - Temporary Investments

Temporary investments consist of investments with original maturities of three months or less. At September 29, 1996, cash in the amount of approximately \$18,038,000 was held in tax free interest bearing investments and approximately \$136,000 was held in an interest bearing account and pledged as collateral with respect to office space leased in Amsterdam, The Netherlands. It is the Company's intention to continue to maintain the Netherlands' investment throughout the term of the lease.

### Note 2 - Income Taxes

In conjunction with the Company's initial public offering, the Company changed its method of accounting for income taxes from the cash method to the accrual method effective with the beginning of the Company's income tax year of August 1, 1995. The corresponding adjustment established approximately \$1.2 million of current income taxes payable and approximately \$1.8 million of noncurrent deferred income taxes of previously classified current deferred income taxes. The approximate \$1.8 million balance associated with the change to the accrual method will become due and payable over a period not to exceed three years.

### Note 3 - Commitments and Contingencies

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

### Note 4 - Earnings Per Share

Primary earnings per share are based on the weighted average number of common shares and common share equivalents outstanding during the periods and assumes, (i) that the redeemable preferred stock was converted at the beginning of each period, or date of issuance, if later, and (ii) that earnings were increased for preferred dividends that would not have been incurred had conversion taken place. Common share equivalents include, when applicable, dilutive stock options using the treasury stock method.

Fully diluted earnings per share assumes, in addition to the above, the additional dilutive effect of stock options.

In July 1996, the Board of Directors of the Company declared a three-for- two stock split of the Company's common stock to be distributed on July 28, 1996 to the Company's shareholders of record at the close of business on July 18, 1996. All applicable share and per share data have been adjusted for the stock split. As a result of the split, 6,368,225 additional shares were issued and additional paid-in capital was reduced by \$63,682.

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

	Nine Months Ended		Three Months Ended	
	October 1, 1995	September 29, 1996	October 1, 1995	September 29, 1996
Primary				
Weighted average				
common				
outstanding	15,951,819	18,190,176	15,951,819	20,026,498
Conversion of				
preferred stock	448,029	201,912	448,029	-
Stock options	474,134	788,306	474,134	996,936
	-----	-----	-----	-----
Total primary	16,873,982	19,180,394	16,873,982	21,023,434
Fully Diluted				
Additional				
dilution of				
stock options	-	44,639	-	38,591
	-----	-----	-----	-----
Total fully	16,873,982	19,225,033	16,873,982	21,062,025
diluted	=====	=====	=====	=====

Fully diluted per share data is not shown since the effect would be antidilutive.

#### Note 5 - Acquisitions and Mergers

On July 16, 1996, the Company acquired Datasvar Support AB ("Datasvar") of Stockholm, Sweden in exchange for 246,819 shares of the Company's common stock as adjusted for the three-for-two stock split. The Company accounted for the acquisition utilizing the pooling-of-interests method of accounting. Datasvar operates two information technology call centers in Sweden serving the Scandinavian region. Datasvar employs 97 employees and had 1995 revenues of approximately \$5.3 million and after-tax earnings of approximately \$1.0 million.

On August 30, 1996, the Company acquired all of the stock of DiagSoft, Inc. ("DiagSoft") in exchange for 675,000 shares of the Company's common stock. The Company accounted for the acquisition utilizing the pooling- of-interests method of accounting. Diagsoft develops and markets diagnostic software applications which will enhance the Company's technology support service. DiagSoft employs 24 employees and had 1995 revenues of approximately \$6.2 million and after-tax loss of approximately \$112,000.

#### Note 6 - Subsequent Events

On November 1, 1996, the Company completed the sale of 1,553,320 shares of common stock, \$0.01 par value, in a secondary public offering. The proceeds will be used to open additional information technology call centers, make additional capital expenditures and for working capital and general corporate purposes, including possible acquisitions.



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

### Financial Condition

Management considers liquidity to be the Company's ability to generate adequate cash to meet its short and long-term business needs. The principal internal source of such cash is the Company's operations while the primary external sources are the issuance of equity securities and credit borrowings.

In May 1996, the Company received proceeds, net of offering expenses, of \$39.7 million from the sale of approximately 3.6 million shares of common stock in its initial public offering (adjusted to reflect the retroactive effect of the three-for-two stock split in the form of a 50% stock dividend to shareholders of record on July 18, 1996). The Company used a portion of these proceeds and approximately \$1.7 million of grants received associated with the opening of two technical call centers, to repay all amounts outstanding under its bank borrowing agreements, fund operating activities and to acquire approximately \$11.2 million of capital expenditures. The capital expenditures, which were comprised primarily of computer and telephone equipment and furniture, were purchased pursuant to the continued growth within the technical support business and the associated increase in call volume capacity within the United States and Europe. The Company has completed construction of its sixth domestic call center and anticipates that the seventh U.S. call center will become operational during the fourth quarter of 1996. Pursuant to contractual terms, the Company will receive a package of incentives associated with this seventh center consistent with those previously obtained. As a result of the continued increase in demand for the Company's consolidated services and the added capacity to be realized from the additional call centers, it is anticipated that capital acquisitions will approximate \$17 million during 1996.

On November 6, 1996, the Company received proceeds, net of offering expenses, in excess of \$67 million from the sale of approximately 1.6 million shares of common stock pursuant to a secondary offering. The Company intends to utilize these proceeds and the balance of the funds available from the initial public offering to make additional capital expenditures associated primarily with its technical support services as identified above, and for working capital and general corporate purposes, including possible acquisitions. Pending any such use, the Company will continue to invest the balance of such funds in short-term, investment grade securities or money market instruments.

For the nine-month period ended September 29, 1996, the Company had negative cash flow from operating activities of approximately \$2.6 million. This was primarily the result of an increase in the Company's accounts receivable (which a significant portion of this increase was collected immediately subsequent to the end of the quarter) associated with organizational growth from increased revenues and the establishment of new clients, and a decrease in accounts payable, primarily in the first calendar quarter, from the payment of uncommonly large fourth quarter 1995 purchases. During the third quarter of 1996, the Company increased its European technical support presence and acquired additional sophisticated information technology capabilities to enhance its technical support services through the acquisitions of Datasvar Support AB and Diagsoft, Inc. ("the acquisitions"). The purchase price for the acquisitions was approximately 922,000 shares of the Company's common stock (as adjusted for the three-for-two stock split), and was accounted for using the pooling-of-interests method of accounting. The Company anticipates that the integration of the acquisitions will require additional financial resources, including the potential for additional capital expenditures as projected above for the 1996 year. However, the Company does not believe the resources required will be significant to the overall operations of the consolidated organization.

The Company believes that the proceeds from its offerings, combined with available funds under its credit facilities and cash flows from current and future operations, will be adequate to meet its capital requirements, including any additional resources required pursuant to the acquisitions, for the foreseeable future.

### Results of Operations

For the nine and three months ended September 29, 1996, the Company posted consolidated revenues of \$81.0 and \$28.5 million, respectively, an increase of \$29.7 and \$10.3 million, respectively, from the comparable periods of the previous year. The 1996 results represent increases of 58% and 56%, respectively, from the 1995 comparable period information. This growth in revenues for each period was primarily the result of a \$29.1 and \$9.7 million, respectively, increase in revenues within technical support services, and occurred primarily from the investments in call centers and capital equipment the Company has made and the resultant increase in call volumes from clients. During September 1996, the Company opened its ninth information technology call center, with four of those having commenced operations in the last twelve months. In addition, during the nine and three months of 1996, the Company recognized an additional revenue increase of \$3.8 and \$1.3 million, respectively, or 16% for each period, from information services and solutions when compared to the same periods of 1995. This increase was primarily the result of increased hours billed to clients and growth within foreign language translation services. These revenue increases were partially offset by a \$3.2 and \$0.7 million reduction in revenues from the Company's strategic decision to phase-out other services provided during the comparable nine and three-month period of 1995.

Direct salaries and related costs increased \$14.5 and \$5.4 million, respectively, or 47% and 50% respectively, for the nine and three-month periods in 1996 from the comparable periods in 1995. As a percentage of revenues, however, direct salaries and related costs decreased to 56% in the 1996 periods from 60% and 59%, respectively, from the nine and three-month periods in 1995. The increase in the amount of direct salaries and related costs were attributable to the addition of personnel to support organizational revenue growth. The decrease as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base, and the change in the Company's mix of business such that technical support service revenues constitute a larger percentage of the Company's consolidated revenues when compared to comparable 1995 results. General and administrative expenses increased \$8.7 and \$3.0 million, or 52%, for the nine and three-month 1996 periods from their respective periods in 1995. As a percentage of revenues, however, general and administrative expenses decreased to 31% and 30% for the nine and three-month periods of 1996, from 33% and 31%, respectively, for the comparable periods of 1995. The increase in

the amount of general and administrative expenses are primarily attributable to the addition of management, sales and administrative personnel to support the Company's growth, and the increase in depreciation and equipment expense associated with facility and capital equipment expenditures incurred primarily in connection with the technical support call centers. The decrease as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base.

Interest income increased in the nine and three-month periods of 1996 from the income producing investments realized pursuant to the balance of funds from the Company's initial public offering, and which also accounts for the reduction in interest expense in the 1996 periods. The increase in other income, or decrease in other expense for the nine and three-month period in 1996 resulted primarily from the recognition of favorable foreign currency translation fluctuations from the comparable 1995 periods.

The provision for income taxes as a percentage of income before income taxes increased during the nine-month period of 1996 and decreased during the three-month 1996 period when contrasted to the comparable 1995 periods. The nine-month 1996 results reflect an increase in the tax provision as a percentage of income before income taxes primarily due to the impacts of nondeductible expenses associated with one of the Company's acquisitions, partially offset by the realization of tax-exempt interest income. During the three-month 1996 period, the provision for income taxes as a percentage of income before income taxes decreased as a result of tax-exempt interest income and the recognition of nondeductible expenses as a lower percentage of a larger income before income tax base as compared to 1995.

## PART II - OTHER INFORMATION

### Item 6 - Exhibit and Reports on Form 8-K

#### (a) Exhibits

The following document is filed as an exhibit to this Report:

27.1 Financial Data Schedule

#### (b) Reports on Form 8-K

A report on Form 8-K, dated July 31, 1996, was filed by the Registrant to disclose requirements under Item 2, Acquisition or Disposition of Assets.

A report on Form 8-K, dated September 16, 1996, was filed by the Registrant to disclose requirements under Item 2, Acquisition or Disposition of Assets.

## SIGNATURES

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

**SYKES ENTERPRISES, INCORPORATED**  
(Registrant)

*Date: November 13, 1996*

*By: /s/Scott J. Bendert  
Scott J. Bendert  
Vice President-Finance  
and Treasurer  
(Principal Financial and  
Accounting Officer)*

SYKES ENTERPRISES, INCORPORATED

FORM 10-Q  
(For the Nine Months Ended September 29, 1996)

EXHIBIT INDEX

EXHIBIT NUMBER		PAGE NUMBER
27.1	Financial Data Schedule . . . . .	15

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY CONSOLIDATED FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 29, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

MULTIPLIER: 1

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	SEP 29 1996
CASH	2,140,885
SECURITIES	18,037,559
RECEIVABLES	29,131,656
ALLOWANCES	257,550
INVENTORY	0
CURRENT ASSETS	51,605,597
PP&E	35,144,060
DEPRECIATION	3,715,338
TOTAL ASSETS	84,100,348
CURRENT LIABILITIES	16,078,973
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	200,265
OTHER SE	55,691,364
TOTAL LIABILITY AND EQUITY	84,000,348
SALES	0
TOTAL REVENUES	81,008,314
CGS	0
TOTAL COSTS	45,535,823
OTHER EXPENSES	25,413,533
LOSS PROVISION	68,186
INTEREST EXPENSE	21,508
INCOME PRETAX	10,148,652
INCOME TAX	3,993,705
INCOME CONTINUING	6,154,947
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	47,343
NET INCOME	6,107,604
EPS PRIMARY	.32
EPS DILUTED	.32

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