SYKES ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

Filed 11/09/04 for the Period Ending 09/30/04

Address	400 NORTH ASHLEY DRIVE TAMPA, FL 33602
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2004

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

For the transition period from ____________________ to ____________________

Commission File No. 0-28274

Sykes Enterprises, Incorporated

(Exact name of Registrant as specified in its charter)

Florida	**56-1383460**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

400 North Ashley Drive, Tampa, FL 33602
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [X] No [ ]

As of October 29, 2004, there were 39,176,624 outstanding shares of common stock.

Sykes Enterprises, Incorporated and Subsidiaries

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements and Report of Independent Registered Public Accounting Firm.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except per share data)

	September 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 82,437	$ 92,085
Receivables, net	82,801	82,415
Prepaid expenses and other current assets	11,771	11,813
Total current assets	177,009	186,313
Property and equipment, net	95,504	107,194
Goodwill, net	5,134	5,085
Deferred charges and other assets	19,758	19,583
	$297,405	$318,175
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 22	$ 87
Accounts payable	12,350	17,706
Accrued employee compensation and benefits	31,938	30,869
Income taxes payable	544	4,921
Other accrued expenses and current liabilities	14,668	14,226
Total current liabilities	59,522	67,809
Deferred grants	21,124	27,369
Deferred revenue	20,688	19,835
Other long-term liabilities	2,299	2,330
Total liabilities	103,633	117,343
Shareholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 43,822 and 43,771 shares issued	438	438
Additional paid-in capital	163,808	163,511
Retained earnings	83,903	81,513
Accumulated other comprehensive loss	(2,891)	(208)
	245,258	245,254
Treasury stock at cost; 4,644 shares and 3,557 shares	(51,486)	(44,422)
Total shareholders' equity	193,772	200,832
	$297,405	$318,175

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(in thousands, except for per share data)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Revenues	$111,507	$119,912	$346,000	$356,147
Operating expenses:				
Direct salaries and related costs	70,578	76,506	227,834	230,370
General and administrative	41,338	39,862	123,929	118,644
Net gain on disposal of property and equipment	(2,874)	(1,736)	(7,009)	(1,548)
Reversal of restructuring and other charges	—	(200)	—	(200)
Total operating expenses	109,042	114,432	344,754	347,266
Income from operations	2,465	5,480	1,246	8,881
Other income (expense):				
Interest, net	117	340	1,376	977
Other	(112)	150	1,731	264
Total other income (expense)	5	490	3,107	1,241
Income before provision for income taxes	2,470	5,970	4,353	10,122
Provision for income taxes	1,398	2,039	1,963	3,450
Net income	$ 1,072	$ 3,931	$ 2,390	$ 6,672
Net income per share:				
Basic	$ 0.03	$ 0.10	$ 0.06	$ 0.17
Diluted	$ 0.03	$ 0.10	$ 0.06	$ 0.17
Weighted average shares:				
Basic	39,189	40,307	39,746	40,341
Diluted	39,259	40,491	39,870	40,426

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
Nine Months Ended September 30, 2003, Three Months Ended December 31, 2003 and
Nine Months Ended September 30, 2004
(Unaudited)

(in thousands)	Common Stock Shares Issued	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2003	43,491	$435	$162,117	$72,208	$(11,101)	$(41,314)	$182,345
Issuance of common stock	131	1	458	—	—	—	459
Purchase of treasury stock	—	—	—	—	—	(1,979)	(1,979)
Comprehensive income	—	—	—	6,672	6,117	—	12,789
Balance at September 30, 2003	43,622	436	162,575	78,880	(4,984)	(43,293)	193,614
Issuance of common stock	149	2	708	—	—	—	710
Purchase of treasury stock	—	—	—	—	—	(1,129)	(1,129)
Tax benefit from exercise of stock options	—	—	228	—	—	—	228
Comprehensive income	—	—	—	2,633	4,776	—	7,409
Balance at December 31, 2003	43,771	438	163,511	81,513	(208)	(44,422)	200,832
Issuance of common stock	51	—	297	—	—	—	297
Purchase of treasury stock	—	—	—	—	—	(7,064)	(7,064)
Comprehensive income (loss):							
Net income for the nine months ended September 30, 2004	—	—	—	2,390	—	—	2,390
Foreign currency translation adjustment	—	—	—	—	(2,049)	—	(2,049)
Less: foreign currency translation gain included in net income (no tax effect)	—	—	—	—	(634)	—	(634)
Comprehensive income (loss)							(293)
Balance at September 30, 2004	**43,822**	**$438**	**$163,808**	**$83,903**	**$ (2,891)**	**$(51,486)**	**$193,772**

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

(in thousands)	2004	2003
Cash flows from operating activities :		
Net income	$ 2,390	$ 6,672
Depreciation and amortization	23,194	22,965
Deferred income tax provision	—	465
Net gain on disposal of property and equipment	(7,009)	(1,548)
Termination costs associated with exit activities	1,684	—
Foreign exchange gain on liquidation of foreign entity	(680)	—
Reversal of restructuring and other charges	—	(200)
Bad debt expense (recoveries)	(206)	397
Changes in assets and liabilities:		
Receivables	(4,284)	(12,472)
Prepaid expenses and other current assets	128	(2,103)
Deferred charges and other assets	(150)	(557)
Accounts payable	(5,352)	(1,418)
Income taxes receivable/ payable	174	7,419
Accrued employee compensation and benefits	1,224	(1,955)
Other accrued expenses and current liabilities	385	(3,106)
Deferred revenue	(940)	(641)
Other long-term liabilities	(348)	2
Net cash provided by operating activities	10,210	13,920
Cash flows from investing activities:		
Capital expenditures	(21,500)	(20,611)
Proceeds from sale of facilities	9,695	2,000
Proceeds from sale of property and equipment	87	31
Other	—	(3)
Net cash used for investing activities	(11,718)	(18,583)
Cash flows from financing activities:		
Paydowns under revolving line of credit agreements	—	(1,600)
Borrowings under revolving line of credit agreements	—	1,600
Payments of long-term debt	(64)	(32)
Proceeds from issuance of stock	297	459
Purchase of treasury stock	(7,064)	(1,979)
Net cash used for financing activities	(6,831)	(1,552)
Effects of exchange rates on cash	(1,309)	4,649
Net decrease in cash and cash equivalents	(9,648)	(1,566)
Cash and cash equivalents – beginning	92,085	79,480
Cash and cash equivalents – ending	$ 82,437	$ 77,914
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 215	$ 383
Income taxes	$ 7,522	$ 7,877

See accompanying notes to condensed consolidated financial statements.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Sykes Enterprises, Incorporated and consolidated subsidiaries ("Sykes" or the "Company") provides outsourced customer contact management solutions and services in the business process outsourcing ("BPO") arena to companies, primarily within the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. Sykes provides flexible, high quality outsourced customer contact management services with an emphasis on inbound technical support and customer service. Utilizing Sykes' integrated onshore/offshore global delivery model, Sykes provides its services through multiple communications channels encompassing phone, e-mail, Web and chat. Sykes complements its outsourced customer contact management services with various enterprise support services in the United States that encompass services for a company's internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, Sykes also provides fulfillment services including multilingual sales order processing via the Internet and phone, inventory control, product delivery and product returns handling. The Company has operations in two geographic regions entitled (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, in which the client base is primarily companies in the United States that are using the Company's services to support their customer management needs; and (2) EMEA, which includes Europe, the Middle East, and Africa.

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. In addition, certain reclassifications have been made for consistent presentation. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for any future quarters or the year ending December 31, 2004. For further information, refer to the consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission ("SEC").

Stock-Based Compensation - The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "*Accounting for Stock-Based Compensation*." Under SFAS No. 123, companies have the option to measure compensation costs for stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "*Accounting for Stock Issued to Employees*" ("APB No. 25"). Under APB No. 25, compensation expense is generally not recognized when both the exercise price is the same as the market price and the number of shares to be issued is set on the date the employee stock option is granted. Since employee stock options are granted on this basis and the Company has chosen to use the intrinsic value method, no compensation expense is recognized for stock option grants.

In accordance with APB No. 25, as discussed in Note 10, Non-Employee Director Fee Plan, the Company applies variable plan accounting for grants of common stock units issued under the 2004 Non-Employee Director Fee Plan and recognizes compensation cost over the vesting period.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies - (continued)

Stock-Based Compensation (continued)

If the Company had elected to recognize compensation expense for the issuance of options to employees of the Company based on the fair value method of accounting prescribed by SFAS No. 123, net income and earnings per share would have been changed to the pro forma amounts as follows (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net Income:				
Net income as reported	$1,072	$3,931	$2,390	$ 6,672
Pro forma reversal of compensation expense due to forfeitures, net of tax	187	—	—	—
Pro forma compensation expense, net of tax	—	(134)	(310)	(1,275)
Pro forma net income	$1,259	$3,797	$2,080	$ 5,397
Net Income Per Share:				
Basic, as reported	$ 0.03	$ 0.10	$ 0.06	$ 0.17
Basic, pro forma	$ 0.03	$ 0.09	$ 0.05	$ 0.13
Diluted, as reported	$ 0.03	$ 0.10	$ 0.06	$ 0.17
Diluted, pro forma	$ 0.03	$ 0.09	$ 0.05	$ 0.13

The pro forma amounts were determined using the Black-Scholes valuation model with the following key assumptions: (i) a discount rate of 2.0% for 2003 (no options were issued in 2004); (ii) a volatility factor of 83.91% for 2003 based upon the average trading price of the Company's common stock since it began trading on the NASDAQ National Market; (iii) no dividend yield; and (iv) an average expected option life of three years in 2003.

Property and Equipment - The carrying value of property and equipment to be held and used is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with SFAS No. 144, " *Accounting for the Impairment or Disposal of Long-Lived Assets* ". An asset is considered to be impaired when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposition does not exceed its carrying amount. The amount of the impairment loss, if any, is measured as the difference between the net book value of the asset and its estimated fair value, which is generally determined based on appraisals or sales prices of comparable assets. Occasionally, the Company redeploys property and equipment from under-utilized centers to other locations to improve capacity utilization if it is determined that the related undiscounted future cash flows in the under-utilized centers would not be sufficient to recover the carrying amount of these assets.

Currently, the Company has closed several customer contact management centers, which are held for sale, and expects it may close additional centers in the future as a result of the client migration of call volumes from the U.S. to the Company's offshore operations, including Latin America and the Asia Pacific Rim, and the overall reduction in customer call volumes in the United States and Europe. As of September 30, 2004, the Company determined that its property and equipment, including those at the previously referenced customer contact management centers, were

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies - (continued)

Property and Equipment (continued)

not impaired. During the nine months ended September 30, 2004, certain assets of these closed centers, with a carrying value of $12.4 million as of September 30, 2004 and included in "Property and equipment, net" in the accompanying Condensed Consolidated Balance Sheet, were reclassified as held for sale. The carrying value of these assets is offset by the related deferred grants of $8.6 million as of September 30, 2004 and included in "Deferred grants" in the accompanying Condensed Consolidated Balance Sheet. Upon reclassification as held for sale, the Company discontinued depreciating these assets and amortizing the related deferred grants. Property and equipment is classified as held for sale in the period in which management commits to a plan to sell the asset, the asset is available for immediate sale in its present condition, an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, it is probable that the asset will be sold in a reasonable period of time, and it is unlikely that significant changes to the plan to sell the asset will be made or that the plan will be withdrawn.

On December 31, 2003, the Company sold the land and building related to its Eveleth, Minnesota facility for $2.3 million, for which the Company received $0.3 million cash and a $2.0 million note receivable, resulting in a net pre-tax gain of $1.7 million recognized over the term of the note using the installment sales method of accounting. Accordingly, the Company recognized $0.2 million of the $1.7 million net pre-tax gain on the sale of the Eveleth facility in 2003 and the remaining $1.5 million in the second quarter of 2004.

On January 15, 2004, the Company sold the land, building and its contents related to its Klamath Falls, Oregon facility for $4.0 million in cash, resulting in a net pre-tax gain of $2.7 million in the first quarter of 2004. The net book value of the facilities of $2.3 million was offset by the related deferred grants of $1.0 million. On March 31, 2004, the Company sold a parcel of land at its Pikeville, Kentucky facility for $0.2 million in cash, resulting in a net pre-tax gain of $0.1 million in the first quarter of 2004. On July 9, 2004, the Company sold the land, building and its contents related to its Hays, Kansas facility for $3.0 million cash, resulting in a net pre-tax gain of $2.8 million in the third quarter of 2004. The net book value of the facilities of $1.5 million was offset by the related deferred grants of $1.3 million.

Accordingly, the net pre-tax gains on the sale of these facilities of $2.8 million related to the Hays facility and $7.1 million related to the Eveleth, Klamath, Pikeville and Hays facilities are included in "Net gain (loss) on disposal of property and equipment" in the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2004, respectively.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies - (continued)

Property and Equipment (continued)

On June 8, 2004, the Company leased the land, building and its contents related to its Manhattan, Kansas facility to an unrelated third party effective August 1, 2004 for a period of 5 years, cancelable by the lessee at the end of each year for varying penalties not exceeding one year's rent. As of September 30, 2004, the leased property consists of the following (in thousands):

	Amount
Building and improvements, net of deferred grants of $2.4 million	$ 78
Equipment, furniture and fixtures	3,911
	3,989
Less accumulated depreciation	(3,781)
	$ 208

Future minimum rental payments, including penalties for failure to renew, to be received on non-cancelable operating leases are contractually due as follows as of September 30, 2004 (in thousands):

Year Ending December 31,	Amount
2004	$131
2005	831
	$962

In September 2004, the facility located in Marianna, Florida experienced significant damage to the building and its contents as a result of Hurricane Ivan. Currently, the Company is working with its property insurance company in assessing the damage and the costs to clean up the facility. The Company believes the losses related to Hurricane Ivan will be recovered through insurance and expects to settle the claim by December 31, 2004. As a result, the Company recognized a receivable from the insurance company of $1.3 million relating to the $0.8 million write-off of the building and most of its contents and the $0.5 million estimated costs to clean up the facility. This $1.3 million receivable, which is included in "Receivables, net" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2004, excludes the net carrying value of equipment totaling $0.4 million that is still being evaluated for damage by the Company. In addition, the insurance company advanced $0.5 million to the Company for out-of-pocket costs related to the hurricane damage. For the three months ended September 30, 2004, out-of-pocket costs totaled $0.1 million. The remaining advance of $0.4 million for out-of-pocket costs and the $0.5 million estimated obligation for clean up costs are included in "Other accrued expenses and current liabilities" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2004.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies - (continued)

Foreign Currency Translation - The assets and liabilities of the Company's foreign subsidiaries, whose functional currency is other than the U.S. Dollar, are translated at the exchange rates in effect on the reporting date, and income and expenses are translated at the weighted average exchange rate during the period. The net effect of translation gains and losses is not included in determining net income, but is included in accumulated other comprehensive income (loss), which is reflected as a separate component of shareholders' equity until the sale or until the complete or substantially complete liquidation of the net investment in the foreign subsidiary. Foreign currency transactional gains and losses are included in determining net income. Such gains and losses are included in other income (expense) in the accompanying Condensed Consolidated Statements of Operations.

Foreign Currency and Derivative Instruments - Periodically, the Company enters into foreign currency forward exchange contracts with financial institutions to protect against currency exchange risks associated with existing assets and liabilities denominated in a foreign currency. These contracts require the Company to exchange currencies in the future at rates agreed upon at the contract's inception. The forward exchange contracts entered into by the Company have been primarily related to the Euro. A foreign currency forward exchange contract acts as an economic hedge as the gains and losses on these contracts typically offset or partially offset gains and losses on the assets, liabilities, and transactions being hedged. The Company does not designate its foreign exchange forward contracts as accounting hedges and does not hold or issue financial instruments for speculative or trading purposes. Foreign exchange forward contracts are accounted for on a mark-to-market basis, with unrealized gains or losses recognized as a component of income in the current period.

Unrealized and realized gains or losses related to foreign exchange forward contracts for the three and nine months ended September 30, 2004 were immaterial.

Recent Accounting Pronouncements – In March 2004, the Financial Accounting Standards Board ("FASB") issued an exposure draft proposing to amend SFAS No. 123 and SFAS No. 95, " *Statement of Cash Flows* " which provide the current guidance on accounting for stock options and related items. The proposed standard would eliminate the choice of accounting for such transactions under APB No. 25 and instead generally require that share-based payments be accounted for using a fair-value based method beginning in 2005. In October 2004, the FASB staff recommended that the proposed standard become effective for fiscal quarters beginning after June 15, 2005. The Company is currently evaluating the impact of this proposed standard on its financial condition, results of operations, and cash flows.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ." EITF 03-1 provides guidance on other-than-temporary impairment evaluations for securities accounted for under SFAS No. 115, " *Accounting for Certain Investments in Debt and Equity Securities* ," and SFAS No. 124, " *Accounting for Certain Investments Held by Not-for-Profit Organizations,* " and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step test to evaluate whether an investment is other-than-temporarily impaired. In September 2004, the FASB delayed the effective date of the recognition and measurement provisions of EITF No. 03-1. However, the disclosure provisions remain effective for fiscal years ending after June 15, 2004. The adoption of the recognition and measurement provisions of EITF No. 03-1 is not expected to have a material impact on the financial condition, results of operations or cash flows of the Company.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies - (continued)

Recent Accounting Pronouncements (continued)

In June 2004, the EITF reached a consensus on Issue No. 02-14, " *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock* ." EITF 02-14 addresses whether the equity method of accounting should be applied to investments when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The effective date of EITF 02-14 is the first reporting period beginning after September 15, 2004. The adoption of EITF No. 02-14 is not expected to have a material impact on the financial condition, results of operations or cash flows of the Company.

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

Note 2 – Liquidation of a Foreign Subsidiary

In April 2004, related to the Company's efforts to realign the EMEA cost structure with current business levels, the Company proposed a liquidation plan to close its operations in Turkey. Accordingly, the Company transferred one remaining contract to other Sykes' subsidiaries and shutdown the operations. In May 2004, the Company substantially completed the liquidation of its net investment in Turkey. As a result, the net effect of the translation gains and losses of $0.7 million was recognized as a gain on liquidation of a foreign entity and included in "Other income" in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2004. Due to the immaterial amounts, the financial data related to the Company's net investment in Turkey has not been classified as discontinued operations.

The Company's net losses from Turkey's operations, excluding the $0.7 million previously mentioned foreign translation gain, were $0.3 million for the nine months ended September 30, 2004 and breakeven for the comparable 2003 period. Turkey's net assets included in the accompanying Condensed Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, were $0.2 million and $0.8 million, respectively.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 3 – Accumulated Other Comprehensive Income (Loss)

The Company presents data in the Condensed Consolidated Statements of Changes in Shareholders' Equity in accordance with SFAS No. 130, "*Reporting Comprehensive Income* ." SFAS No. 130 establishes rules for the reporting of comprehensive income and its components. Total comprehensive (loss) income was $2.8 million and $4.3 million for the three months ended September 30, 2004 and 2003, respectively, and $(0.3) million and $12.8 million for the nine months ended September 30, 2004 and 2003, respectively.

Note 4 – Termination Costs Associated with Exit Activities

During the first quarter of 2004, the Company determined to reduce costs by consolidating and closing two European customer contact management centers in Germany. The plan was substantially completed by the end of the second quarter of 2004. In connection with these closures, the Company terminated 240 employees and accrued over their remaining service period, based on the fair value as of the termination date, an estimated liability for termination costs of $1.7 million. Termination costs of $1.7 million are included in "Direct salaries and related costs" in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2004. Cash payments totaled $0.1 million and $1.7 million during the three and nine month periods ended September 30, 2004, respectively.

Note 5 – Restructuring and Other Charges

2002 Charges

In October 2002, the Company approved a restructuring plan to close and consolidate two U.S. and three European customer contact management centers, to reduce capacity within the European fulfillment operations and to write-off certain specialized e-commerce assets primarily in response to the October 2002 notification of the contractual expiration of two technology client programs in March 2003 with approximate annual revenues of $25.0 million. The restructuring plan was designed to reduce costs and bring the Company's infrastructure in-line with the current business environment. Related to these actions, the Company recorded restructuring and other charges in the fourth quarter of 2002 of $20.8 million primarily for the write-off of certain assets, lease termination and severance costs. In connection with the 2002 restructuring, the Company reduced the number of employees by 470 during 2002 and by 330 during 2003. The plan was substantially completed by the end of 2003.

In connection with the contractual expiration of the two technology client contracts previously reported, the Company also recorded additional depreciation expense of $1.2 million in the fourth quarter of 2002 and $1.3 million in the first quarter of 2003 primarily related to a specialized technology platform which is no longer utilized upon the expiration of the contracts in March 2003.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 5 – Restructuring and Other Charges (continued)

2002 Charges (continued)

The following tables summarize the 2002 plan accrued liability for restructuring and other charges and related activity in 2004 and 2003 (in thousands):

Three Months ended September 30, 2004:	Balance at July 1, 2004	Cash Outlays	Other Non-Cash Changes	Balance at September 30, 2004 (1)
Severance and related costs	$ 106	$ —	$ —	$ 106
Lease termination costs	144	(82)	—	62
Other restructuring costs	434	(30)	—	404
Total	$ 684	$ (112)	$ —	$ 572

Three Months ended September 30, 2003:	Balance at July 1, 2003	Cash Outlays	Other Non-Cash Changes (3)	Balance at September 30, 2003
Severance and related costs	$1,472	$ (440)	$ —	$1,032
Lease termination costs	1,049	(589)	—	460
Other restructuring costs	928	(429)	(23)	476
Total	$3,449	$(1,458)	$(23)	$1,968

Nine Months ended September 30, 2004:	Balance at January 1, 2004	Cash Outlays	Other Non-Cash Changes (2)	Balance at September 30, 2004 (1)
Severance and related costs	$ 106	$ —	$ —	$ 106
Lease termination costs	342	(280)	—	62
Other restructuring costs	545	(150)	9	404
Total	$ 993	$ (430)	$ 9	$ 572

Nine Months ended September 30, 2003:	Balance at January 1, 2003	Cash Outlays	Other Non-Cash Changes (3)	Balance at September 30, 2003
Severance and related costs	$4,696	$(3,664)	$ —	$1,032
Lease termination costs	1,827	(1,367)	—	460
Other restructuring costs	1,852	(1,353)	(23)	476
Total	$8,375	$(6,384)	$(23)	$1,968

(1) Included in “Other accrued expenses and current liabilities” in the accompanying Condensed Consolidated Balance Sheet, except $0.1 million of severance and related costs which is included in “Accrued employee compensation and benefits”.

(2) During 2004, the Company recorded additional severance and related costs associated with the closure of one of the European customer contact management centers.

(3) Reversal of the remaining site closure costs for the Scottsbluff, Nebraska facility sold on September 30, 2003.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 5 – Restructuring and Other Charges (continued)

2001 Charges

In December 2001, in response to the economic slowdown and increasing demand for the Company's offshore capabilities, the Company approved a cost reduction plan designed to improve efficiencies in its core business. As a result of the Company's cost reduction plan, the Company recorded $16.1 million in restructuring, other and impairment charges during the fourth quarter of 2001. This included $14.6 million in charges related to the closure and consolidation of two U.S. customer contact management centers, two U.S. technical staffing offices, one European fulfillment center; the elimination of redundant property, leasehold improvements and equipment; lease termination costs associated with vacated properties and equipment; and severance and related costs. In connection with the fourth quarter 2001 restructuring, the Company reduced the number of employees by 230 during the first quarter of 2002. The restructuring charge also included $1.4 million for future lease obligations related to closed facilities. In connection with this restructuring, the Company also recorded a $1.5 million impairment charge related to the write-off of certain non-performing assets, including software and equipment no longer used by the Company. The plan was completed by the end of 2003.

The following table summarizes the 2001 plan accrued liability for restructuring and other charges and related activity in 2003 (none in the comparable 2004 period) (in thousands):

Three Months ended September 30, 2003:	Balance at July 1, 2003	Cash Outlays	Other Non-Cash Changes (1)	Balance at September 30, 2003
Severance and related costs	$103	$(103)	$ —	$ —
Lease termination costs	40	—	(40)	—
Other restructuring costs	32	(15)	(17)	—
Total	$175	$(118)	$(57)	$ —

Nine Months ended September 30, 2003:	Balance at January 1, 2003	Cash Outlays	Other Non-Cash Changes (1)	Balance at September 30, 2003
Severance and related costs	$153	$(153)	$ —	$ —
Lease termination costs	161	(121)	(40)	—
Other restructuring costs	32	(15)	(17)	—
Total	$346	$(289)	$(57)	$ —

(1) Reversal of certain accruals related to the final settlement of lease termination and other costs.

2000 Charges

The Company recorded restructuring and other charges during the second and fourth quarters of 2000 approximating $30.5 million. The second quarter 2000 restructuring and other charges approximating $9.6 million resulted from the Company's consolidation of several European and one U.S. fulfillment center and the closing or consolidation of six technical staffing offices. Included in the second quarter 2000 restructuring and other charges was a $3.5 million lease termination payment to the Company's former chairman (and majority shareholder) related to the termination of a ten-year operating lease agreement for the use of his private jet. As a result of the second quarter 2000 restructuring, the Company reduced the number of employees by 157 during 2000 and satisfied the remaining lease obligations related to the closed facilities during 2001.

Sykes Enterprises, Incorporated and Subsidiaries
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Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 5 – Restructuring and Other Charges (continued)

2000 Charges (continued)

The Company also announced, after a comprehensive review of operations, its decision to exit certain non-core, lower margin businesses to reduce costs, improve operating efficiencies and focus on its core competencies of technical support, customer service and consulting solutions. As a result, the Company recorded $20.9 million in restructuring and other charges during the fourth quarter of 2000 related to the closure of its U.S. fulfillment operations, the consolidation of its Tampa, Florida technical support center and the exit of its worldwide localization operations. Included in the fourth quarter 2000 restructuring and other charges is a $2.4 million severance payment related to the employment contract of the Company's former President. In connection with the fourth quarter 2000 restructuring, the Company reduced the number of employees by 245 during the first half of 2001 and satisfied a significant portion of the remaining lease obligations related to the closed facilities during 2001.

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

Three Months Ended September 30, 2004:	**Balance at July 1, 2004**	**Cash Outlays**	**Other Non-Cash Changes**	**Balance at September 30, 2004**
Severance and related costs	$343	$(117)	$—	$226[1]
Lease termination costs	—	—	—	—
Total	$343	$(117)	$—	$226

Three Months ended September 30, 2003:	**Balance at July 1, 2003**	**Cash Outlays**	**Other Non-Cash Changes [2]**	**Balance at September 30, 2003**
Severance and related costs	$825	$(107)	$ —	$718
Lease termination costs	120	—	(120)	—
Total	$945	$(107)	$(120)	$718

Nine Months ended September 30, 2004:	**Balance at January 1, 2004**	**Cash Outlays**	**Other Non-Cash Changes**	**Balance at September 30, 2004**
Severance and related costs	$588	$(362)	$—	$226[1]
Lease termination costs	—	—	—	—
Total	$588	$(362)	$—	$226

Nine Months ended September 30, 2003:	**Balance at January 1, 2003**	**Cash Outlays**	**Other Non-Cash Changes [2]**	**Balance at September 30, 2003**
Severance and related costs	$1,053	$(335)	$ —	$718
Lease termination costs	120	—	(120)	—
Total	$1,173	$(335)	$(120)	$718

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

(2) Reversal of accruals related to final settlement of lease termination costs.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 6 – Borrowings

On March 15, 2004, the Company entered into a $50.0 million revolving credit facility with a group of lenders (the “Credit Facility”), which amount is subject to certain borrowing limitations. Pursuant to the terms of the Credit Facility, the amount of $50.0 million may be increased up to a maximum of $100.0 million with the prior written consent of the lenders. The $50.0 million Credit Facility includes a $10.0 million swingline subfacility, a $15.0 million letter of credit subfacility and a $40.0 million multi-currency subfacility.

The Credit Facility, which includes certain financial covenants, may be used for general corporate purposes including strategic acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Credit Facility, including the multi-currency subfacility, accrues interest, at the Company’s option, at (a) the Base Rate (defined as the higher of the lender’s prime rate or the Federal Funds rate plus 0.50%) plus an applicable margin up to 0.50%, or (b) the London Interbank Offered Rate (“LIBOR”) plus an applicable margin up to 2.25%. Borrowings under the swingline subfacility accrue interest at the prime rate plus an applicable margin up to 0.50% and borrowings under the letter of credit subfacility accrue interest at the LIBOR plus an applicable margin up to 2.25%. In addition, a commitment fee of up to 0.50% is charged on the unused portion of the Credit Facility on a quarterly basis. The borrowings under the Credit Facility, which will terminate on March 14, 2007, are secured by a pledge of 65% of the stock of each of the Company’s active direct foreign subsidiaries, or alternatively for any such subsidiary, a pledge of all indebtedness of such subsidiary (and its subsidiaries) to the Company. The Credit Facility prohibits the Company from incurring additional indebtedness, subject to certain specific exclusions. There were no outstanding balances with $50.0 million availability on the Credit Facility as of September 30, 2004.

Note 7 – Income Taxes

The Company’s effective tax rate was 45.1% and 34.1% for the nine months ended September 30, 2004 and 2003, respectively. The Company’s effective tax rate differs from the statutory federal income tax rate of 35.0% primarily due to the effects of requisite valuation allowances, permanent differences, state income taxes and foreign income tax rate differentials (including tax holiday jurisdictions). The American Jobs Creation Act of 2004 (the “Act”) was signed by President Bush on October 22, 2004. The Company is in the process of analyzing the numerous changes and inherent complexities contained in the Act which could significantly impact the financial condition, results of operations or cash flows of the Company; however, no determinations have been made as to the effect of such changes.

Effective June 30, 2004, the Company established a valuation allowance to reduce the deferred tax asset for the 2004 U.S. net operating loss based on the weight of available evidence, both positive and negative. While this increased the Company’s effective tax rate, the effect of the valuation allowance was partially offset by the reversal of certain specific tax reserves no longer considered necessary based on the expiration of certain statutes of limitation and revision of certain tax planning strategies.

Earnings associated with the Company’s investments in its foreign subsidiaries are considered to be permanently invested and no provision has been provided for United States federal and state income taxes on those earnings or translation adjustments.

The U.S. Internal Revenue Service has completed audits of the Company’s U.S. tax returns through July 31, 1999. Certain German subsidiaries of the Company are under examination by the German tax authorities for periods covering 1997 through 2000. Also, certain Canadian subsidiaries of the Company are under examination by the Canadian tax authorities for periods covering 1999 through 2003. In addition, the Company is currently under examination by several states for sales and use taxes and franchise taxes for various periods. In the opinion of management, any liability that may arise from the prior periods as a result of these examinations is not expected to have a material effect on the Company’s financial condition, results of operations or cash flows.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
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Note 7 – Income Taxes (continued)

During the nine months ended September 30, 2004, the Company received a foreign income tax refund of $4.0 million and the related interest income of $0.8 million. The interest income is included in “Other income” in the accompanying Condensed Consolidated Statements of Operations for the nine months ended September 30, 2004.

Note 8 – 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. Options to purchase 2.6 million shares and 2.5 million shares of common stock at various prices for the three and nine month periods ended September 30, 2004, respectively, and 2.6 million shares and 3.0 million shares of common stock for the three and nine months ended September 30, 2003, respectively, were antidilutive and were excluded from the calculation of diluted earnings per share.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Basic:				
Weighted average common shares outstanding	39,189	40,307	39,746	40,341
Diluted:				
Dilutive effect of stock options	70	184	124	85
Total weighted average diluted shares outstanding	39,259	40,491	39,870	40,426

On August 5, 2002, the Company’s Board of Directors authorized the purchase of up to three million shares of its outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the nine months ended September 30, 2004, the Company had repurchased approximately 1.1 million common shares under the 2002 repurchase program at prices ranging between $5.55 and $7.58 per share for a total cost of $7.1 million.

Note 9 – Segment Reporting and Major Clients

The Company operates within two regions, the “Americas” and “EMEA” which represented 61.1% and 38.9%, respectively, of the Company’s consolidated revenues for the three months ended September 30, 2004 and 61.2% and 38.8%, respectively, of the Company’s consolidated revenues for the nine months ended September 30, 2004. In the comparable 2003 periods, the Americas and EMEA regions represented 68.6% and 31.4%, respectively, of the Company’s consolidated revenues for the three months ended September 30, 2003 and 67.1% and 32.9%, respectively, of the Company’s consolidated revenues for the nine months ended September 30, 2003. Each region represents a reportable segment comprised of aggregated regional operating segments, which portray similar economic characteristics. The reportable segments consist of (1) the Americas, which includes the United States, Canada, Latin America, India and the Asia Pacific Rim, and provides outsourced customer contact management solutions (with an emphasis on technical support and customer service) and technical staffing and (2) EMEA, which includes Europe, the Middle East and Africa, and provides outsourced customer contact management solutions (with

Sykes Enterprises, Incorporated and Subsidiaries
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Note 9 – Segment Reporting and Major Clients (continued)

an emphasis on technical support and customer service) and fulfillment services. The sites within Latin America, India and the Asia Pacific Rim are included in the Americas region given the nature of the business and client profile, which is primarily made up of U.S. based companies that are using the Company's services in these locations to support their customer contact management needs.

Information about the Company's reportable segments for the three and nine months ended September 30, 2004 compared to the corresponding prior year periods, is as follows (in thousands):

	Americas	EMEA	Other [1]	Consolidated Total
Three Months Ended September 30, 2004:				
Revenues	$68,165	$43,342		$111,507
Depreciation and amortization	5,443	1,944		7,387
Income (loss) from operations	$ 8,757	$ 2,488	$(8,780)	$ 2,465
Other income			5	5
Provision for income taxes			1,398	1,398
Net income				$ 1,072
Three Months Ended September 30, 2003:				
Revenues	$82,257	$37,655		$119,912
Depreciation and amortization	4,879	1,840		6,719
Income (loss) from operations	$10,464	$ 425	$(5,409)	$ 5,480
Other income			490	490
Provision for income taxes			2,039	2,039
Net income				$ 3,931

	Americas	EMEA	Other [1]	Consolidated Total
Nine Months Ended September 30, 2004:				
Revenues	$211,661	$134,339		$346,000
Depreciation and amortization	16,884	6,310		23,194
Income (loss) from operations	$ 16,869	$ 5,181	$(20,804)	$ 1,246
Other income			3,107	3,107
Provision for income taxes			1,963	1,963
Net income				$ 2,390
Nine Months Ended September 30, 2003:				
Revenues	$239,015	$117,132		$356,147
Depreciation and amortization	16,012	6,953		22,965
Income (loss) from operations	$ 24,859	$ 849	$(16,827)	$ 8,881
Other income			1,241	1,241
Provision for income taxes			3,450	3,450
Net income				$ 6,672

[1] Other items (including corporate costs, other income and expense, and income taxes) are shown for purposes of reconciling to the Company's consolidated totals as shown in the table above for the three and nine months ended September 30, 2004 and 2003. The accounting policies of

the reportable segments are the same as those described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2003. Inter-segment revenues are not material to the Americas and EMEA segment results. The Company evaluates the performance of its geographic segments based on revenue and income (loss) from operations, and does not include segment assets or other income and expense items for management reporting purposes.

Sykes Enterprises, Incorporated and Subsidiaries
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Nine months ended September 30, 2004 and September 30, 2003
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Note 9 – Segment Reporting and Major Clients (continued)

The Americas' revenues included $7.5 million, or 6.7% of consolidated revenues, and $29.8 million, or 8.6% of consolidated revenues, for the three and nine months ended September 30, 2004, respectively, from a leading systems integrator ("Systems Integrator") that represents a major provider of communication services to whom the Company provides various outsourced customer contact management services. Effective May 1, 2003, the Company entered into a subcontractor services agreement (the "Agreement") with the Systems Integrator following the execution of a primary services agreement between the major provider of communication services and the Systems Integrator. Under the terms of the three-year Agreement signed in 2003, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, the Company will continue to provide the products and services necessary to support and assist the Systems Integrator in the management and performance of its primary services agreement. The revenues for the three and nine months ended September 30, 2003, as it relates to this relationship, were $22.1 million, or 18.4% of consolidated revenues and $61.7 million, or 17.3% of consolidated revenues, respectively.

In addition, the Americas' revenues included $7.1 million, or 6.4% of consolidated revenues and $26.3 million, or 7.6% of consolidated revenues, for the three and nine months ended September 30, 2004, respectively, from a leading software and services provider. The services agreement for this provider contains bonuses and penalty provisions depending on service levels and is cancelable with 60 days written notice. In the comparable 2003 periods, this provider represented $15.4 million, or 12.8% of consolidated revenues, and $45.9 million, or 12.9% of consolidated revenues, for the three and nine months ended September 30, 2003, respectively. This includes $15.4 million in revenue from the Americas for the three months ended September 30, 2003 and $45.4 million in revenue from the Americas and $0.5 million in revenue from EMEA for the nine months ended September 30, 2003.

Note 10 – Non-Employee Director Fee Plan

In May 2004, the Board of Directors approved a new Non-Employee Director Fee Plan (the "Plan"), subject to shareholder approval at the 2005 Annual Shareholders' Meeting. The Board of Directors determined that this Plan would replace and supercede the 1996 Non-Employee Director Fee Plan and would be used in lieu of the 2004 Nonemployee Director Stock Option Plan (the "Stock Option Plan"). No options have been awarded under the Stock Option Plan, and none will be awarded if the new Plan is approved by the shareholders at the 2005 annual meeting. The new Plan provides that all new non-employee directors joining the Board will receive a grant of common stock units ("CSUs"), the number of which will be determined by dividing the cash equivalent of $30.0 thousand by an amount equal to 110% of the average closing prices of the Company's common stock for the five days prior to the date of grant. The initial grant of CSUs will generally vest equally over a three-year period. Additionally, the new Plan provides for an annual retainer (initially set at $50.0 thousand) payable to non-employee board members, 25% in cash and 75% to be made in the form of CSUs. The number of CSUs to be granted on an annual basis will be determined by dividing 75% of the cash value of the annual retainer by an amount equal to 105% of the average closing prices of the Company's common stock for the five days prior to the date of grant. The annual grant CSUs will generally vest equally over a two-year period. The vesting day of all CSUs under the new Plan will be the date of the annual shareholders' meeting. Each year on that day, each director will receive a number of shares of the Company's common stock equal to the number of CSUs vesting on that date.

The Company applies variable plan accounting, in accordance with APB No. 25, for grants of CSUs issued under the Plan and recognizes compensation cost over the vesting period. During the nine months ended September 30, 2004, the Board awarded an aggregate of 55.6 thousand CSUs to the non-employee directors totaling $0.3 million with a weighted average fair value of $5.94. Since the new Plan is subject to shareholder approval, the CSUs are not considered to be granted and therefore no compensation cost will be recognized until the shareholders approve the Plan at the 2005 Annual Shareholders' Meeting. At that time, the Company will recognize compensation cost for the CSUs over the vesting periods at the then current market price.

Sykes Enterprises, Incorporated and Subsidiaries
Notes To Condensed Consolidated Financial Statements
Nine months ended September 30, 2004 and September 30, 2003
(Unaudited)

Note 11 – Retirement of Chairman and Majority Shareholder

On August 2, 2004, the Company announced the retirement of its Chairman of the Board of Directors, Chief Executive Officer and majority shareholder, John H. Sykes, the election of Paul L. Whiting as non-executive Chairman of the Board of Directors and the appointment of Charles E. Sykes as Chief Executive Officer of the Company, effective immediately. Upon John Sykes' retirement, the Compensation Committee of the Company's Board of Directors determined that the Company would pay him the salary and benefits due under the terms of his employment agreement through the September 30, 2006 termination date of such agreement. Accordingly, the Company recognized an estimated liability of approximately $2.3 million related to compensation and other benefit costs as of September 30, 2004. This amount is included in "Accrued employee compensation and benefits" in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2004 and "General and administrative" costs in the accompanying Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Sykes Enterprises, Incorporated
Tampa, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Sykes Enterprises, Incorporated and subsidiaries (the "Company") as of September 30, 2004, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2004 and 2003, of changes in shareholders' equity for the nine-month period ended September 30, 2004, the three-month period and year ended December 31, 2003, and the nine-month period ended September 30, 2003, and of cash flows for the nine-month periods ended September 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2003, and the related condensed consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 10, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
Certified Public Accountants

Tampa, Florida
November 8, 2004

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

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

This discussion should be read in conjunction with the condensed consolidated financial statements and notes included elsewhere in this report and the consolidated financial statements and notes in the Sykes Enterprises, Incorporated ("Sykes," "our", "we" or "us") Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission ("SEC").

Our discussion and analysis may contain forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about Sykes, our beliefs, and assumptions made by us. In addition, we may make other written or oral statements, which constitute forward-looking statements, from time to time. Words such as "believe," "estimate," "project," "expect," "intend," "may," "anticipate," "plan," "seek," variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives, or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including those discussed below and elsewhere in this report. Our actual results may differ materially from what is expressed or forecasted in such forward-looking statements, and undue reliance should not be placed on such statements. All forward-looking statements are made as of the date hereof, and we undertake no obligation to update any such forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) the timing of significant orders for our products and services, (ii) variations in the terms and the elements of services offered under our standardized contract including those for future bundled service offerings, (iii) changes in applicable accounting principles or interpretations of such principles, (iv) difficulties or delays in implementing our bundled service offerings, (v) failure to achieve sales, marketing and other objectives, (vi) construction delays or higher than anticipated development costs in connection with new technical and customer contact management centers, (vii) delays in our ability to develop new products and services and market acceptance of new products and services, (viii) rapid technological change, (ix) loss, addition or fluctuation in business levels with significant clients, (x) political, economic and market risks inherent in conducting business abroad, (xi) currency fluctuations, (xii) fluctuations in business conditions and the economy, (xiii) our ability to attract and retain key management personnel, (xiv) our ability to continue the growth of our support service revenues through additional technical and customer contact management centers, (xv) our ability to further penetrate into vertically integrated markets, (xvi) our ability to expand our global presence through internal growth, strategic alliances and selective acquisitions, (xvii) our ability to continue to establish a competitive advantage through sophisticated technological capabilities, (xviii) the ultimate outcome of any lawsuits, (xix) our ability to recognize deferred revenue through delivery of products or satisfactory performance of services, (xx) our dependence on trend toward outsourcing, (xxi) risk of interruption of technical and customer contact management center operations due to such factors as fire and other disasters, power failures, telecommunication failures, unauthorized intrusions, computer viruses and other emergencies, (xxii) the existence of substantial competition, (xxiii) the early termination of contracts by clients, and (xxiv) other important factors which are identified in our most recent Annual Report on Form 10-K, including factors identified under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

Results of Operations

The following table sets forth, for the periods indicated, certain data derived from our Condensed Consolidated Statements of Operations and certain of such data expressed as a percentage of revenues (in thousands, except percentage amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	$111,507	$119,912	$346,000	$356,147
Percentage of revenues	100.0%	100.0%	100.0%	100.0%
Direct salaries and related costs	$ 70,578	$ 76,506	$227,834	$230,370
Percentage of revenues	63.3%	63.8%	65.8%	64.7%
General and administrative expenses	$ 41,338	$ 39,862	$123,929	$118,644
Percentage of revenues	37.1%	33.2%	35.8%	33.3%
Net gain on disposal of property and equipment	$ (2,874)	$ (1,736)	$ (7,009)	$ (1,548)
Percentage of revenues	(2.6)%	(1.5)%	(2.0)%	(0.4)%
Reversal of restructuring and other charges	$ —	$ (200)	$ —	$ (200)
Percentage of revenues	0.0%	(0.1)%	0.0%	(0.1)%
Income from operations	$ 2,465	$ 5,480	$ 1,246	$ 8,881
Percentage of revenues	2.2%	4.6%	0.4%	2.5%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Americas	$ 68,165	$ 82,257	$211,661	$239,015
EMEA	43,342	37,655	134,339	117,132
Consolidated	$111,507	$119,912	$346,000	$356,147

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Revenues

For the three months ended September 30, 2004, we recognized consolidated revenues of $111.5 million, a decrease of $8.4 million, or 7.0%, from $119.9 million of consolidated revenues for the comparable 2003 period.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 61.1%, or $68.2 million, for the three months ended September 30, 2004, compared to 68.6%, or $82.2 million, for the comparable 2003 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 38.9%, or $43.3 million, for the three months ended September 30, 2004, compared to 31.4%, or $37.7 million, for the comparable 2003 period. The decrease in the Americas' revenue of $14.0 million, or 17.0%, for the three months ended September 30, 2004, compared to the same period in 2003, reflected the client-driven migration of call volumes from the United States

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

Results of Operations (continued)

Revenues (continued)

to offshore operations, including Latin America and the Asia Pacific Rim, and the resulting mix-shift in revenues from the United States to offshore (each offshore seat generates roughly half the revenue dollar equivalence of a U.S. seat). The total number of U.S. seats declined to 2,700, or 15% of total worldwide seats, in the third quarter of 2004 from 6,000, or 36% of total seats, in the third quarter of 2003. While the number of offshore seats rose to 10,000, or 56% of total seats, from 5,500, or 34% of total seats over the same corresponding period. In addition to the revenue mix-shift, the revenue decline reflected an overall reduction in U.S. customer call volumes primarily attributable to the decision by certain communications and technology clients to exit dial-up Internet service customer support programs in early 2004. This decrease was partially offset by an increase in revenues from our offshore operations, which represented 30.3% of consolidated revenues for the three months ended September 30, 2004, compared to 17.7% for the comparable 2003 period. We expect this trend of generating more of our revenues from offshore operations to continue in 2004. We anticipate that as our offshore operations grow and become a larger percentage of revenues, the total revenue and revenue growth rate may decline since each offshore seat generates less average revenue per seat than in the United States. While the average offshore revenue per seat is less, the operating margins generated offshore are generally comparable or higher than those in the United States. However, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce in offshore markets.

EMEA revenues increased $5.6 million, or 14.9%, for the three months ended September 30, 2004, compared to the same period in 2003. Similar to recent quarters, EMEA revenues for the third quarter of 2004 experienced a $3.4 million benefit from the stronger Euro compared to the same period in 2003. Excluding this foreign currency benefit, EMEA revenues would have increased $2.2 million compared with last year reflecting an improvement in call volumes. However, the soft European economy continues to present a challenging market environment.

Direct Salaries and Related Costs

Direct salaries and related costs decreased $5.9 million, or 7.7%, to $70.6 million for the three months ended September 30, 2004, from $76.5 million in the comparable 2003 period. As a percentage of revenues, direct salaries and related costs decreased to 63.3% for the three months ended September 30, 2004, from 63.8% for the comparable 2003 period. This decrease was primarily attributable to lower salary costs offshore partially offset by higher telephone costs related to transporting calls offshore, higher staffing and training costs associated with the build-out offshore related to the migration of call volumes offshore and certain duplicative costs as we simultaneously ramp-down U.S. customer contact management centers. The migration offshore was substantially complete at the end of the third quarter of 2004. Although the strengthening Euro positively impacted revenues, it negatively impacted direct salaries and related costs for the three months ended September 30, 2004 by approximately $2.3 million compared to the same period in 2003.

General and Administrative

General and administrative expenses increased $1.4 million, or 3.5%, to $41.3 million for the three months ended September 30, 2004, from $39.9 million in the comparable 2003 period. As a percentage of revenues, general and administrative expenses increased to 37.1% for the three months ended September 30, 2004, from 33.2% for the comparable 2003 period. This increase was primarily attributable to higher compensation costs related to the former chairman's retirement, compliance costs related to the Sarbanes-Oxley Act, lease costs, utilities and maintenance costs associated with expansion of offshore facilities and depreciation, partially offset by lower telephone costs, bad debts and technology related costs. The migration offshore was substantially complete at the end of the third quarter of 2004. Although the strengthening Euro positively impacted revenues, it negatively impacted general and administrative expenses for the three months ended September 30, 2004 by approximately $0.9 million compared to the same period in 2003.

Results of Operations (continued)

Net (Gain) Loss on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $2.9 million for the three months ended September 30, 2004 included a $2.8 million net gain on the sale of our Hays, Kansas facility and a $0.1 million gain on disposal of property and equipment. This compares to a $1.7 million net gain on disposal of property and equipment for the comparable 2003 period, which includes a $1.9 million net gain on the sale of our Scottsbluff, Nebraska facility offset by a $0.2 million loss on disposal of property and equipment.

Reversal of Restructuring and Other Charges

There was no reversal of restructuring and other charges in 2004; however, the reversal of restructuring and other charges of $0.2 million for the three months ended September 30, 2003 includes the reversal of the remaining site closure costs for the Scottsbluff, Nebraska facility sold on September 30, 2003 and the reversal of certain accruals in connection with the 2001 and 2000 restructuring plans related to the final settlement of lease termination and other costs in the third quarter of 2003.

Other Income (Expense)

Other income, net of other expense, was approximately zero for the three months ended September 30, 2004, compared to $0.5 million for the comparable 2003 period. The decrease of $0.5 million was primarily attributable to a $0.2 million decrease in interest earned on cash and cash equivalents net of interest expense, a $0.5 million decrease in foreign currency translation gains net of losses offset by $0.2 million increase in miscellaneous income. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Loss in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

Provision for Income Taxes

The provision for income taxes of $1.4 million for the three months ended September 30, 2004 was based upon pre-tax book income of $2.5 million, compared to the provision for income taxes of $2.0 million for the comparable 2003 period based upon pre-tax book income of $6.0 million. The effective tax rate was 56.6% for the three months ended September 30, 2004 and 34.2% for the comparable 2003 period. This increase in the effective tax rate resulted from a requisite valuation allowance offset of the United States tax loss benefit for the three months ended September 30, 2004, a shift in our mix of earnings within tax jurisdictions and the related effects of permanent differences, state income taxes and foreign income tax rate differentials (including tax holiday jurisdictions).

Net Income

As a result of the foregoing, we reported income from operations for the three months ended September 30, 2004 of $2.5 million, a decrease of $2.9 million from the comparable 2003 period. This decrease was principally attributable to an $8.4 million decrease in revenues, a $1.4 million increase in general and administrative costs and a $0.2 million decrease in the reversal of restructuring and other charges offset by a $5.9 million decrease in direct salaries and related costs and a $1.2 million increase in net gain on disposal of property and equipment, as previously discussed. The $2.9 million decrease in income from operations and a $0.5 million decrease in other income was offset by a $0.6 million lower tax provision, resulting in net income of $1.1 million for the three months ended September 30, 2004, a decline of $2.8 million, compared to the same period in 2003.

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Results of Operations (continued)

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Revenues

For the nine months ended September 30, 2004, we recognized consolidated revenues of $346.0 million, a decrease of $10.1 million, or 2.8%, from $356.1 million of consolidated revenues for the comparable 2003 period.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 61.2%, or $211.7 million, for the nine months ended September 30, 2004, compared to 67.1%, or $239.0 million, for the comparable 2003 period. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 38.8%, or $134.3 million, for the nine months ended September 30, 2004, compared to 32.9%, or $117.1 million, for the comparable 2003 period.

The decrease in the Americas' revenue of $27.3 million, or 11.4%, for the nine months ended September 30, 2004, compared to the same period in 2003, reflected the continued client-driven migration of call volumes from the United States to our offshore operations, including Latin America and the Asia Pacific Rim, the resulting mix-shift in revenues from the United States to offshore (each offshore seat generates roughly half the revenue dollar equivalence of a U.S. seat) and the ramp down of a technology client late in the first quarter of 2003. In addition to the revenue mix-shift, the revenue decline reflected an overall reduction in U.S. customer call volumes primarily attributable to the decision by certain communications and technology clients to exit dial-up Internet service customer support programs in early 2004. This decrease was partially offset by an increase in revenues from our offshore operations, which represented 27.1% of consolidated revenues for the nine months ended September 30, 2004, compared to 15.7% for the comparable 2003 period. We expect this trend of generating more of our revenues from offshore operations to continue in 2004. We anticipate that as our offshore operations grow and become a larger percentage of revenues, the total revenue and revenue growth rate may decline since each offshore seat generates less average revenue per seat than in the United States. While the average offshore revenue per seat is less, the operating margins generated offshore are generally comparable or higher than those in the United States However, our ability to maintain these offshore operating margins longer term is difficult to predict due to potential increased competition for the available workforce in offshore markets.

EMEA revenues increased $17.2 million, or 14.7%, for the nine months ended September 30, 2004, compared to the same period in 2003. Similar to recent quarters, EMEA revenues for 2004 experienced a $12.5 million benefit from the stronger Euro compared to the same period in 2003. Excluding this foreign currency benefit, EMEA revenues would have increased $4.7 million compared with last year reflecting an improvement in call volumes. However, the soft European economy continues to present a challenging market environment. The increase in revenue for the nine months ended September 30, 2004, compared to the same period in 2003, also included the recognition of deferred revenues of $0.8 million related to a former client.

Direct Salaries and Related Costs

Direct salaries and related costs decreased $2.6 million, or 1.1%, to $227.8 million for the nine months ended September 30, 2004, from $230.4 million in the comparable 2003 period. As a percentage of revenues, direct salaries and related costs increased to 65.8% for the nine months ended September 30, 2004, from 64.7% for the comparable 2003 period. This increase was primarily attributable to higher telephone costs related to transporting calls offshore, higher staffing and training costs associated with the build-out offshore related to the migration of call volumes offshore and certain duplicative costs as we simultaneously ramp-down U.S. customer contact management centers, termination costs related to the consolidation of two European customer contact management centers and higher auto tow claim costs due to higher fuel costs and the severe Canada winter associated with our automotive program in Canada. The migration offshore was substantially complete at the end of the third quarter of 2004. Although the strengthening Euro positively impacted revenues, it negatively impacted direct salaries and

Results of Operations (continued)

Direct Salaries and Related Costs (continued)

related costs for the nine months ended September 30, 2004 by approximately $8.4 million compared to the same period in 2003.

General and Administrative

General and administrative expenses increased $5.3 million, or 4.5%, to $123.9 million for the nine months ended September 30, 2004, from $118.6 million in the comparable 2003 period. As a percentage of revenues, general and administrative expenses increased to 35.8% for the nine months ended September 30, 2004, from 33.3% for the comparable 2003 period. This increase was primarily attributable to higher compensation costs related to the former chairman's retirement, compliance costs related to the Sarbanes-Oxley Act partially due to strengthening of the management team, lease costs, utilities and maintenance costs associated with expansion of offshore facilities, partially offset by additional depreciation expense of $1.0 million recognized in the first quarter of 2003 related to the expiration of two technology client contracts, lower insurance costs, bad debts and technology related costs. The migration offshore was substantially complete at the end of the third quarter of 2004. Although the strengthening Euro positively impacted revenues, it negatively impacted general and administrative expenses for the nine months ended September 30, 2004 by approximately $3.6 million compared to the same period in 2003.

Net Gain on Disposal of Property and Equipment

The net gain on disposal of property and equipment of $7.0 million for the nine months ended September 30, 2004 includes a $2.8 million net gain on the sale of our Hays, Kansas facility, a $2.7 million net gain on the sale of our Klamath Falls, Oregon facility, a $0.1 million net gain on the sale of a parcel of land at our Pikeville, Kentucky facility and a $1.5 million net gain on the sale of our Eveleth, Minnesota facility, offset by a $0.1 million loss on disposal of property and equipment. This compares to a $1.6 million net gain on disposal of property and equipment, which includes a $1.9 million net gain on the sale of our Scottsbluff, Nebraska facility offset by a $0.3 million loss on disposal of property and equipment for the comparable 2003 period.

Reversal of Restructuring and Other Charges

There was no reversal of restructuring and other charges in 2004; however, the reversal of restructuring and other charges of $0.2 million for the nine months ended September 30, 2003 includes the reversal of the remaining site closure costs for the Scottsbluff, Nebraska facility sold on September 30, 2003 and the reversal of certain accruals in connection with the 2001 and 2000 restructuring plans related to the final settlement of lease termination and other costs in the third quarter of 2003.

Other Income

Other income was $3.1 million for the nine months ended September 30, 2004, compared to $1.2 million for the comparable 2003 period. The increase of $1.9 million was primarily attributable to a $0.4 million increase in interest earned on cash and cash equivalents, net of interest expense including $0.8 million of interest received on a foreign income tax refund, a $1.3 million increase in foreign currency translation gains, net of losses including $0.7 million related to the liquidation of a foreign entity and a $0.2 million increase in miscellaneous income. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Loss in shareholders' equity in the accompanying Condensed Consolidated Balance Sheets.

Results of Operations (continued)

Provision for Income Taxes

The provision for income taxes of $2.0 million for the nine months ended September 30, 2004 was based upon pre-tax book income of $4.4 million, compared to the provision for income of $3.5 million for the comparable 2003 period based upon pre-tax book income of $10.1 million. The effective tax rate was 45.1% for the nine months ended September 30, 2004 and 34.0% for the comparable 2003 period. This increase in the effective tax rate resulted from a requisite valuation allowance offset of the year-to-date United States tax loss benefit provided during the second and third quarters of 2004 (partially offset by the reversal of certain specific tax contingency reserves), a shift in our mix of earnings within tax jurisdictions and the related effects of permanent differences, state income taxes and foreign income tax rate differentials (including tax holiday jurisdictions).

Net Income

As a result of the foregoing, we reported income from operations for the nine months ended September 30, 2004 of $1.3 million, a decrease of $7.6 million from the comparable 2003 period. This decrease in the income from operations was principally attributable to a $10.1 million decrease in revenues, a $5.3 million increase in general and administrative costs and a $0.2 million decrease in the reversal of restructuring and other charges offset by a $2.6 million decrease in direct salaries and related costs and a $5.4 million increase in net gain on disposal of property and equipment, as previously discussed. The $7.6 million decrease in income from operations was offset by a $1.9 million increase in other income and a $1.5 million lower tax provision, resulting in net income of $2.4 million for the nine months ended September 30, 2004, a decline of $4.3 million, compared to the same period in 2003.

Liquidity and Capital Resources

Our primary sources of liquidity are generally cash flows generated by operating activities and from available borrowings under our revolving credit facilities. We have utilized these capital resources to make capital expenditures associated primarily with our customer contact management services, invest in technology applications and tools to further develop our service offerings and for working capital and other general corporate purposes, including repurchase of our common stock in the open market and to fund possible acquisitions. In future periods, we intend similar uses of these funds.

On August 5, 2002, the Company's Board of Directors authorized the purchase of up to three million shares of its outstanding common stock. A total of 1.6 million shares have been repurchased under this program since inception. The shares are purchased, from time to time, through open market purchases or in negotiated private transactions, and the purchases are based on factors, including but not limited to, the stock price and general market conditions. During the nine months ended September 30, 2004, the Company had repurchased approximately 1.1 million common shares under the 2002 repurchase program at prices ranging between $5.55 and $7.58 per share for a total cost of $7.1 million.

During the nine months ended September 30, 2004, we generated $10.2 million in cash from operating activities and received $0.3 million in cash from issuance of stock and $9.7 million in cash from the sale of facilities, property and equipment. Further, we used $21.5 million in funds for capital expenditures and $7.1 million to repurchase stock in the open market resulting in a $9.7 million decrease in available cash (including the effects of international currency exchange rates on cash of $1.3 million).

Results of Operations (continued)

Liquidity and Capital Resources (continued)

Net cash flows provided by operating activities for the nine months ended September 30, 2004 were $10.2 million, compared to net cash flows provided by operating activities of $13.9 million for the comparable 2003 period. The $3.7 million decrease in net cash flows from operating activities was due to a decrease in net income of $4.3 million, a net decrease in non-cash reconciling items of $5.1 million such as deferred income taxes, net gain on disposal of property and equipment, and foreign exchange gain offset by a net change in assets and liabilities of $5.7 million. This $5.7 million net change was principally a result of a $10.8 million decrease in receivables and other assets and $2.1 million increase in deferred revenue, other payables and accrued liabilities offset by a $7.2 million decrease in income taxes payable.

Capital expenditures, which are generally funded by cash generated from operating activities and borrowings available under our credit facilities, were $21.5 million for the nine months ended September 30, 2004, compared to $20.6 million for the comparable 2003 period, an increase of $0.9 million, which was driven primarily by offshore expansion. During the nine months ended September 30, 2004, approximately 94% of the capital expenditures were the result of investing in new and existing customer contact management centers, primarily offshore, and 6% was expended primarily for maintenance and systems infrastructure. In 2004, we anticipate capital expenditures in the range of $25.0 million to $26.0 million.

One primary source of future cash flows from financing activities is from borrowings under our $50.0 million revolving credit facility (the "Credit Facility"), which amount is subject to certain borrowing limitations. Pursuant to the terms of the Credit Facility, the amount of $50.0 million may be increased up to a maximum of $100.0 million with the prior written consent of the lenders. The $50.0 million Credit Facility includes a $10.0 million swingline subfacility, a $15.0 million letter of credit subfacility and a $40.0 million multi-currency subfacility.

The Credit Facility, which includes certain financial covenants, may be used for general corporate purposes including strategic acquisitions, share repurchases, working capital support, and letters of credit, subject to certain limitations. The Credit Facility, including the multi-currency subfacility, accrues interest, at our option, at (a) the Base Rate (defined as the higher of the lender's prime rate or the Federal Funds rate plus 0.50%) plus an applicable margin up to 0.50%, or (b) the London Interbank Offered Rate ("LIBOR") plus an applicable margin up to 2.25%. Borrowings under the swingline subfacility accrue interest at the prime rate plus an applicable margin up to 0.50% and borrowings under the letter of credit subfacility accrue interest at the LIBOR plus an applicable margin up to 2.25%. In addition, a commitment fee of up to 0.50% is charged on the unused portion of the Credit Facility on a quarterly basis. The borrowings under the Credit Facility, which will terminate on March 14, 2007, are secured by a pledge of 65% of the stock of each of our active direct foreign subsidiaries, or alternatively for any such subsidiary, a pledge of all indebtedness of such subsidiary (and its subsidiaries) to us. The Credit Facility prohibits us from incurring additional indebtedness, subject to certain specific exclusions. There were no outstanding balances with $50.0 million availability on the Credit Facility as of September 30, 2004. At September 30, 2004, we were in compliance with all loan requirements of the Credit Facility. At September 30, 2004, we had $82.4 million in cash, of which approximately $71.0 million was held in international operations and may be subject to additional taxes if repatriated to the United States.

We believe that our current cash levels, accessible funds under our credit facilities and cash flows from future operations will be adequate to meet anticipated working capital needs, future debt repayment requirements (if any), continued expansion objectives, anticipated levels of capital expenditures for the foreseeable future and stock repurchases.

Results of Operations (continued)

Off-Balance Sheet Arrangements and Other

At September 30, 2004, we did not have any material commercial commitments, including guarantees or standby repurchase obligations, or any relationships with unconsolidated entities or financial partnerships, including entities often referred to as structured finance or special purpose entities or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

From time to time, during the normal course of business, we may make certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include: (i) indemnities to vendors and service providers pertaining to claims based on our negligence or willful misconduct and (ii) indemnities involving the accuracy of representations and warranties in certain contracts. In addition, we have agreements whereby we indemnify certain officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer’s or director’s lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We believe the applicable insurance coverage is generally adequate to cover any estimated potential liability under these indemnification agreements. The majority of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and other guarantees in the accompanying Condensed Consolidated Balance Sheets.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires estimations and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of our financial condition and operating results:

- We recognize revenue pursuant to applicable accounting standards, including SEC Staff Accounting Bulletin (“SAB”) No. 101 (SAB 101), *“Revenue Recognition in Financial Statements,”* SAB 104, *“Revenue Recognition”* and the Emerging Issues Task Force (“EITF”) No. 00-21, *“Revenue Arrangements with Multiple Deliverables.”* SAB 101, as amended, and SAB 104 summarize certain of the SEC staff’s views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. EITF No. 00-21 provides further guidance on how to account for multiple element contracts.

  We recognize revenue from services as the services are performed under a fully executed contractual agreement and record estimated reductions to revenue for penalties and holdbacks for failure to meet specified minimum service levels and other performance based contingencies. Royalty revenue is recognized at the time royalties are earned and the remaining revenue is recognized on fixed price contracts using the percentage-of-completion method of accounting, which relies on estimates of total expected revenue and related costs. Revisions to these estimates, which could result in adjustments to fixed price contracts and estimated losses, are recorded in the

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Results of Operations (continued)

Critical Accounting Policies and Estimates (continued)

period when such adjustments or losses are known. Product sales are recognized upon shipment to the customer and satisfaction of all obligations.

We recognize revenue from licenses of our software products and rights when the agreement has been executed, the product or right has been delivered or provided, collectibility is probable and the software license fees or rights are fixed and determinable. If any portion of the license fees or rights is subject to forfeiture, refund or other contractual contingencies, we postpone revenue recognition until these contingencies have been removed. Revenue from support and maintenance activities is recognized ratably over the term of the maintenance period and the unrecognized portion is recorded as deferred revenue.

- Certain contracts to sell our products and services contain multiple elements or non-standard terms and conditions. As a result, we evaluate each contract and a thorough contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, how the price should be allocated among the deliverable elements and the timing of revenue recognition for each element. We recognize revenue for delivered elements only when the fair values of undelivered elements are known, uncertainties regarding client acceptance are resolved, and there are no client-negotiated refund or return rights affecting the revenue recognized for delivered elements. Changes in the allocation of the sales price between deliverable elements might impact the timing of revenue recognition, but would not change the total revenue recognized on the contract.

- We recognize revenue associated with the grants of land and the cash grants for the acquisition of property, buildings and equipment for customer contact management centers over the corresponding useful lives of the related assets. Should the useful lives of these assets change for reasons such as the sale or disposal of the property, the amount of revenue recognized would be adjusted accordingly. Deferred grants totaled $21.1 million as of September 30, 2004. Income from operations includes amortization of the deferred grants of $0.4 million and $1.8 million for the three and nine months ended September 30, 2004, respectively, and $0.7 million and $2.2 million for the three and nine months ended September 30, 2003, respectively.

- We maintain allowances for doubtful accounts of $4.0 million as of September 30, 2004, or 4.9% of trade receivables, for estimated losses arising from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in a reduced ability to make payments, additional allowances may be required which would reduce income from operations.

- We maintain a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence for each respective tax jurisdiction, it is more likely than not that some portion or all of such deferred tax assets will not be realized. Available evidence which is considered in determining the amount of valuation allowance required includes, but is not limited to, our estimate of future taxable income and any applicable tax-planning strategies. As of September 30, 2004, we maintained a valuation allowance in the amount necessary to reduce primarily foreign deferred tax assets, where it was more likely than not that some portion or all of such deferred tax assets will not be realized. In addition, effective June 30, 2004, we established a valuation allowance to reduce the tax benefit of the 2004 U.S. net operating loss. The recoverability of the remaining net deferred tax assets is dependent upon future profitability within each tax jurisdiction. As of September 30, 2004, based on our estimates of future taxable income and any applicable tax-planning strategies within these tax jurisdictions, we believe that it is more likely than not that all of these deferred tax assets will be realized.

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Critical Accounting Policies and Estimates (continued)

- We hold a minority interest in SHPS, Incorporated as a result of the sale of a 93.5% ownership interest in June 2000. We account for the remaining interest at cost, which was $2.1 million as of September 30, 2004. We will record an impairment charge or loss if we believe the investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future.

- We review long-lived assets, which had a carrying value of $100.6 million as of September 30, 2004, including goodwill and property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and at least annually for impairment testing of goodwill. An asset is considered to be impaired when the carrying amount exceeds the fair value. Upon determination that the carrying value of the asset is impaired, we would record an impairment charge or loss to reduce the asset to its fair value. Future adverse changes in market conditions or poor operating results of the underlying investment could result in losses or an inability to recover the carrying value of the investment and, therefore, might require an impairment charge in the future.

- Self-insurance related liabilities of $1.8 million as of September 30, 2004 include estimates for, among other things, projected settlements for known and anticipated claims for worker's compensation and employee health insurance. Key variables in determining such estimates include past claims history, number of covered employees and projected future claims. We periodically evaluate and, if necessary, adjust the estimates based on information currently available. Revisions to these estimates, which could result in adjustments to the liability and additional charges, would be recorded in the period when such adjustments or charges are known.

Recent Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board ("FASB") issued an exposure draft proposing to amend SFAS No. 123 and SFAS No. 95, " *Statement of Cash Flows* " which provide the current guidance on accounting for stock options and related items. The proposed standard would eliminate the choice of accounting for such transactions under APB No. 25 and instead generally require that share-based payments be accounted for using a fair-value based method beginning in 2005. In October 2004, the FASB staff recommended that the proposed standard become effective for fiscal quarters beginning after June 15, 2005. We are currently evaluating the impact of this proposed standard on our financial condition, results of operations, and cash flows.

In March 2004, the EITF reached a consensus on Issue No. 03-1, " *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* ." EITF 03-1 provides guidance on other-than-temporary impairment evaluations for securities accounted for under SFAS No. 115, " *Accounting for Certain Investments in Debt and Equity Securities* ," and SFAS No. 124, " *Accounting for Certain Investments Held by Not-for-Profit Organizations,* " and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step test to evaluate whether an investment is other-than-temporarily impaired. In September 2004, the FASB delayed the effective date of the recognition and measurement provisions of EITF No. 03-1. However, the disclosure provisions remain effective for fiscal years ending after June 15, 2004. The adoption of the recognition and measurement provisions of EITF No. 03-1 is not expected to have a material impact on our financial condition, results of operations or cash flows.

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Recent Accounting Pronouncements (continued)

In June 2004, the EITF reached a consensus on Issue No. 02-14, " *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock* ." EITF 02-14 addresses whether the equity method of accounting should be applied to investments when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The effective date of EITF 02-14 is the first reporting period beginning after September 15, 2004. The adoption of EITF No. 02-14 is not expected to have a material impact on our financial condition, results of operations or cash flows.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency and Interest Rate Risk

Our earnings and cash flows are subject to fluctuations due to changes in non-U.S. currency exchange rates. We are exposed to non-U.S. exchange rate fluctuations as the financial results of non-U.S. subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, those results, when translated, may vary from expectations and adversely impact overall expected profitability. The cumulative translation effects for subsidiaries using functional currencies other than the U.S. dollar are included in accumulated other comprehensive loss in shareholders' equity. Movements in non-U.S. currency exchange rates may affect our competitive position, as exchange rate changes may affect business practices and/or pricing strategies of non-U.S. based competitors. Periodically, we use foreign currency forward contracts to hedge intercompany receivables and payables, and transactions initiated in the United States that are denominated in foreign currency. The principal foreign currency hedged is the Euro using foreign currency forward contracts ranging in periods from one to three months. Foreign exchange forward contracts are accounted for on a mark-to-market basis, with realized and unrealized gains or losses recognized in the current period, as we do not designate our foreign exchange forward contracts as accounting hedges.

Unrealized and realized gains or losses related to foreign exchange forward contracts for the three and nine months ended September 30, 2004 were immaterial.

Our exposure to interest rate risk results from variable debt outstanding from time to time under our revolving credit facility. Based on our level of variable rate debt outstanding during the nine months ended September 30, 2004, a one-point increase in the weighted average interest rate, which generally equals the LIBOR rate plus an applicable margin, would not have had a material impact on our annual interest expense.

At September 30, 2004, we had no debt outstanding at variable interest rates. We have not historically used derivative instruments to manage exposure to changes in interest rates.

Fluctuations in Quarterly Results

For the year ended December 31, 2003, quarterly revenues as a percentage of total consolidated annual revenues were approximately 26%, 25%, 25% and 24%, respectively, for each of the respective quarters of the year. We have experienced and anticipate that in the future we will continue to experience variations in quarterly revenues. The variations are due to the timing of new contracts and renewal of existing contracts, the timing of the expenses incurred to support new business, the timing and frequency of client spending for customer contact management services, non-U.S. currency fluctuations, and the seasonal pattern of customer contact management support and fulfillment services.

Item 4 - Controls and Procedures

As of September 30, 2004, under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a – 15(e) under the Securities Exchange Act of 1934, as amended. We concluded that our disclosure controls and procedures were generally effective as of September 30, 2004, such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in our internal controls over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Part II – OTHER INFORMATION

Item 1 – Legal Proceedings

From time to time, we are involved in legal actions arising in the ordinary course of business. With respect to these matters, we believe that we have adequate legal defenses and/or provided adequate accruals for related costs such that the ultimate outcome will not have a material adverse effect on our future financial position or results of operations.

Item 2 – Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Below is a summary of stock repurchases for the quarter ended September 30, 2004 (in thousands, except average price per share). See Note 8, Earnings Per Share, to the Condensed Consolidated Financial Statements for information regarding our stock repurchase program.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number Of Shares That May Yet Be Purchased Under Plans or Programs
July 1, 2004 – July 31, 2004	48	$7.55	1,644	1,356
August 1, 2004 – August 31, 2004	—	—	1,644	1,356
September 1, 2004 – September 30, 2004	—	—	1,644	1,356

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

Item 6 – Exhibits

Exhibits

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

15 Letter regarding unaudited interim financial information.

31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).

32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.

32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.

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SIGNATURE

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 8, 2004	By: /s/ W. Michael Kipphut
	W. Michael Kipphut Group Executive, Senior Vice President – Finance (Principal Financial and Accounting Officer)

Sykes Enterprises, Incorporated and Subsidiaries
Form 10-Q
For the Quarter Ended September 30, 2004

EXHIBIT INDEX

Exhibit Number	
15	Letter regarding unaudited interim financial information.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. §1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. §1350.

EXHIBIT 15

November 8, 2004

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

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of Sykes Enterprises, Incorporated and subsidiaries for the periods ended September 30, 2004 and 2003, as indicated in our report dated November 8, 2004; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, is incorporated by reference in Registration Statement Nos. 333-23681, 333-76629, 333-88359, and 333-73260 on Forms S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Tampa, Florida

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)

I, Charles E. Sykes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ Charles E. Sykes

Charles E. Sykes, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)

I, W. Michael Kipphut, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sykes Enterprises, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/ W. Michael Kipphut

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Sykes, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2004

By: /s/ Charles E. Sykes

Charles E. Sykes
President and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Sykes Enterprises, Incorporated (the "Company") on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Michael Kipphut, Group Executive, Senior Vice President - Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2004	*By: /s/ W. Michael Kipphut* ----------------------------------- *W. Michael Kipphut* *Group Executive, Senior Vice President - Finance* *(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.