

SYKES ENTERPRISES INC

FORM 10-Q (Quarterly Report)

Filed 05/14/96 for the Period Ending 03/31/96

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

SYKES ENTERPRISES INC

FORM 10-Q (Quarterly Report)

Filed 5/14/1996 For Period Ending 3/31/1996

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1996

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

For the transition period from to *Commission File No. 0-28274*

SYKES ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

56-1383460

(IRS Employer Identification Number)

100 North Tampa Street, Suite 3900, Tampa, FL 33602
(Address of principal executive office) (Zip Code)

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

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

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

Common Stock, \$.01 Par Value, 12,736,454 shares as of May 3, 1996

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

**SYKES ENTERPRISES, INCORPORATED
COMBINED BALANCE SHEETS**

	December 31, 1995	March 31, 1996 (Unaudited)	Pro Forma March 31, 1996 (Unaudited)
ASSETS			

CURRENT ASSETS			
Cash and cash equivalents	\$ 1,232,836	\$ 1,985,620	\$ 1,985,620
Receivables, including unbilled	15,010,853	18,879,752	18,879,752
Refundable income taxes	602,197	574,343	574,343
Prepaid expenses and other current assets	366,275	747,745	747,745
	-----	-----	-----
Total current assets	17,212,161	22,187,460	22,187,460
PROPERTY AND EQUIPMENT, NET	23,220,780	25,708,659	25,708,659
DEFERRED INCOME TAXES	177,000	159,000	126,000
DEFERRED CHARGES AND OTHER ASSETS	732,558	587,083	587,083
	-----	-----	-----
	\$41,342,499	\$48,642,202	\$48,609,202
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			

CURRENT LIABILITIES			
Current installments of long-term debt	\$ 1,245,204	\$ 1,646,570	\$ 1,646,570
Accounts payable	5,345,980	3,978,648	3,978,648
Accrued employee compensation and benefits	5,659,517	4,590,119	4,590,119
Income taxes payable	-	1,236,212	1,236,212
Deferred income taxes	3,366,000	283,080	283,080
Other accrued expenses and current liabilities	1,102,107	1,169,339	1,939,339
	-----	-----	-----
Total current liabilities	16,718,808	12,903,968	13,673,968
LONG-TERM DEBT	8,180,916	14,727,277	14,727,277
DEFERRED INCOME TAXES	-	1,823,568	1,823,568
DEFERRED GRANTS	6,326,341	7,953,456	7,953,456
REDEEMABLE PREFERRED STOCK	-	5,376,352	-
SHAREHOLDERS' EQUITY			
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, \$1.00 par value, 100,000 shares authorized; 1,000 shares issued and outstanding	1,000	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized; 8,800,000 and 10,318,686 shares issued and outstanding	-	88,000	103,187
Additional paid-in capital	350,000	-	5,373,365
Retained earnings	9,798,316	5,585,340	4,770,140
Accumulated foreign currency translation adjustments	(32,882)	184,241	184,241
	-----	-----	-----
Total shareholders' equity	10,116,434	5,857,581	10,430,933
	-----	-----	-----
	\$41,342,499	\$48,642,202	\$48,609,202
	=====	=====	=====

See accompanying notes to combined financial statements

SYKES ENTERPRISES, INCORPORATED
COMBINED STATEMENTS OF INCOME
Three Months Ended April 2, 1995 and March 31, 1996
(Unaudited)

	April 2, 1995	March 31, 1996

REVENUES	\$13,591,983	\$22,252,211
	-----	-----
OPERATING EXPENSES		
Direct salaries and related costs	9,275,185	13,633,755
General and administrative	3,809,163	6,699,023
	-----	-----
Total operating expenses	13,084,348	20,332,778
	-----	-----
INCOME FROM OPERATIONS	507,635	1,919,433
	-----	-----
OTHER INCOME (EXPENSE)		
Interest	(160,718)	(296,431)
Other	119,827	4,144
	-----	-----
Total other expense	(40,891)	(292,287)
	-----	-----
INCOME BEFORE INCOME TAXES	466,744	1,627,146
PROVISION FOR INCOME TAXES	194,000	639,000
	-----	-----
NET INCOME	272,744	988,146
PREFERRED STOCK DIVIDENDS	-	23,671
	-----	-----
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 272,744	\$ 964,475
	=====	=====
PRO FORMA INCOME DATA		
Income before income taxes	\$ 466,744	\$ 1,627,146
Pro forma provision for income taxes relating to S Corporation	26,000	44,000
Actual provision for income taxes	194,000	639,000
	-----	-----
Total provision and pro forma provision for income taxes	220,000	683,000
	-----	-----
Pro forma net income	246,744	944,146
Preferred stock dividends	-	23,671
	-----	-----
Pro forma net income applicable to common shareholders	\$ 246,744	\$ 920,475
	=====	=====
Pro forma net income per share	\$ 0.03	\$ 0.09
	=====	=====
Weighted average common and common equivalent shares outstanding	10,634,775	10,634,775
	=====	=====

See accompanying notes to combined financial statements

SYKES ENTERPRISES, INCORPORATED
COMBINED STATEMENTS OF CASH FLOWS
Three Months Ended April 2, 1995 and March 31, 1996
(Unaudited)

	April 2, 1995	March 31, 1996
<hr style="border-top: 1px dashed black;"/>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 272,744	\$ 988,146
Depreciation and amortization	252,666	971,963
Gain on disposal of property and equipment	(59,440)	(990)
Change in assets and liabilities:		
Receivables, including unbilled	(1,362,076)	(3,868,900)
Refundable income taxes	(33,814)	27,854
Prepaid expenses and other current assets	(377,765)	(381,470)
Deferred charges and other assets	86,731	92,646
Accounts payable	84,857	(1,680,869)
Accrued employee compensation and benefits	65,522	(843,629)
Income taxes payable	-	1,236,212
Deferred income taxes	(203,668)	(1,241,352)
Other accrued expenses and current liabilities	23,654	67,232
	-----	-----
Net cash used for operating activities	(1,250,589)	(4,633,157)
	-----	-----
CASH FLOWS FOR INVESTING ACTIVITIES		
Capital expenditures	(596,759)	(3,645,563)
Proceeds from sale of property and equipment	82,076	140,990
	-----	-----
Net cash used for investing activities	(514,683)	(3,504,573)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Paydowns under revolving line of credit agreements	(5,427,341)	(7,345,109)
Borrowings under revolving line of credit agreements	7,523,342	14,685,327
Proceeds from grants	-	1,725,665
Payment of long-term debt	(160,342)	(392,492)
	-----	-----
Net cash provided by financing activities	1,935,659	8,673,391
	-----	-----
Adjustment for foreign currency translation	7,095	217,123
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	177,482	752,784
CASH AND CASH EQUIVALENTS - BEGINNING	763,226	1,232,836
	-----	-----
CASH AND CASH EQUIVALENTS - ENDING	\$ 940,708	\$ 1,985,620
	=====	=====

See accompanying notes to combined financial statements

SYKES ENTERPRISES, INCORPORATED

NOTES TO COMBINED FINANCIAL STATEMENTS

Three Months Ended April 2, 1995 and March 31, 1996

(Unaudited)

The accompanying unaudited condensed combined financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles as of and for the years ended December 31, 1995, for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. For further information, refer to the combined financial statements and notes thereto as of and for the years ended December 31, 1995 included in the Company's Form S-1 Registration Statement and Prospectus dated March 27, 1996 associated with the Company's initial public offering.

Sykes Enterprises, Incorporated and combined affiliates (the "Company") provide comprehensive information technology outsourcing services including information technology support services, consisting of technical product support and help desk services, and information technology development services and solutions, consisting of software design, development, integration and implementation and documentation, foreign language translation and localization services.

At March 31, 1996, the entities comprising the combined Company included:

Sykes Enterprises, Incorporated Sykes Enterprises Incorporated Holdings B.V., formed in June 1994 Sykes Enterprises Incorporated of Canada, formed in January 1992 Sykes Realty, Inc., formed in August 1994

NOTE 1 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments with original maturities of three months or less. At March 31, 1996, cash in the amount of \$140,314 was held in an interest bearing account and pledged as collateral with respect to office space leased in Amsterdam, The Netherlands. It is the Company's intention to continue to maintain this investment throughout the term of the lease.

NOTE 2 - INCOME TAXES

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

SYKES ENTERPRISES, INCORPORATED
NOTES TO COMBINED FINANCIAL STATEMENTS
Three Months Ended April 2, 1995 and March 31, 1996
(Unaudited)

NOTE 3 - COMMITMENTS AND CONTINGENCIES

The Company has pledged certain assets as collateral on mortgage loans made to the Company's majority shareholder. Total loans outstanding at March 31, 1996 were approximately \$5,145,000. On May 10, 1996, the Company's majority shareholder repaid all outstanding loans for which certain assets were pledged thereby releasing all such liens on those assets.

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

NOTE 4 - REDEEMABLE PREFERRED STOCK

In connection with an agreement entered into in February 1996, the Company's majority shareholder transferred all the newly issued shares of the Company's outstanding preferred stock and all of the outstanding non-voting common stock to a related party. The redeemable preferred stock consists of 3,600 shares of \$.01 par value 7.5% cumulative preferred stock (stated value of \$1,000 per share, and a redemption amount of \$5,376,352). The preferred stock accrues dividends at a rate of 7.5% on the stated value, of which approximately \$24,000 was accrued at March 31, 1996. Effective immediately prior to the initial public offering, the preferred stock and non-voting common stock were automatically converted into 738,686 shares of common stock. These converted shares were sold in the initial public offering.

NOTE 5 - STOCK OPTIONS

In March 1996, the Company's 1996 Employee Stock Option Plan was adopted and provides for the grant of incentive or nonqualified stock options to purchase up to 700,000 shares of common stock. Upon completion of the initial public offering, certain employees of the Company were granted options to purchase a total of 263,213 shares of common stock at \$18.00 per share, except for 93,263 shares with an exercise price as follows: (i) 33 1/3% of such shares at \$18.00 per share; (ii) 33 1/3 of such shares at \$17.00 per share; and (iii) 33 1/3% of such shares at \$15.00 per share.

In March 1996, the Company's 1996 Non-Employee Director Stock Option Plan was adopted and provides for the grant of nonqualified stock options to purchase up to 200,000 shares of common stock with an exercise price equal to the fair market value of the common stock on the date of grant to members of the Board of Directors who are not employees of the Company. Each outside director was granted options to purchase 5,000 shares of common stock upon completion of the offering. Thereafter, on the date on which a new outside director is first elected or appointed, he or she shall automatically be granted options to purchase 5,000 shares of common stock. Each outside director also shall be granted options to purchase 5,000 shares of common stock annually on the day following the annual meeting of shareholders.

SYKES ENTERPRISES, INCORPORATED
NOTES TO COMBINED FINANCIAL STATEMENTS
Three Months Ended April 2, 1995 and March 31, 1996
(Unaudited)

NOTE 6 - PRO FORMA DISCLOSURES

On May 3, 1996, the Company completed the sale of 2,417,768 shares of common stock, \$.01 par value in the initial public offering. Immediately prior to the offering, Sykes Realty, Inc. merged with a newly formed wholly-owned subsidiary of Sykes Enterprises, Incorporated. Sykes Realty, Inc. was the surviving entity pursuant to this merger. The Company issued 1,220,000 shares of common stock to the sole shareholder of Sykes Realty, Inc. as a result of the merger involving Sykes Realty, Inc.

Pro Forma Income Taxes - The Company and its combined affiliates are either taxed as C corporations or taxed as an S corporation under the provisions of the Internal Revenue Code. The taxable income of the S corporation is included in the individual income tax return of the Company's major shareholder for federal income tax purposes.

The Company utilizes the asset and liability method of accounting for deferred income taxes for its combined affiliates that are taxed as C corporations. Under this method, deferred tax assets and liabilities are established based on the differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Prior to the offering, the Company's affiliate that had elected to be taxed as an S corporation terminated its S corporation election and accordingly became subject to federal and state income taxes. Upon termination of the S corporation election, deferred income taxes reflecting the tax effect of temporary differences between the Company's financial statements and tax bases of certain assets and liabilities became a net liability of the Company and will be reflected on the combined balance sheet with a corresponding non-recurring expense in the combined statement of income in the quarter in which the S corporation election is terminated. The amount of such deferred tax liability computed using the asset and liability method of accounting for deferred income taxes was approximately \$33,000 at December 31, 1995 and March 31, 1996.

Pro Forma Net Income Per Share - In March 1996, the Company was a North Carolina corporation and amended its articles of incorporation to authorize the issuance of up to 10,000 shares of \$1,000 par value per share preferred stock and a stock split of 95-to-1 stock split of all outstanding common stock. Subsequent to the amendment and stock split, the Company changed its state of incorporation from North Carolina to Florida and changed the authorized number of shares of common stock from 100,000 to 50,000,000. As part of the change of the state of incorporation, each share of common stock of the North Carolina corporation was exchanged for 88 shares of common stock of the Company. All applicable share and per share amounts in the accompanying financial statements have been retroactively adjusted to reflect these events.

SYKES ENTERPRISES, INCORPORATED
NOTES TO COMBINED FINANCIAL STATEMENTS
Three Months Ended April 2, 1995 and March 31, 1996
(Unaudited)

Weighted average common shares outstanding includes the common share equivalents assuming an initial public offering price of \$18.00 per share for purposes of applying the treasury stock method for determining common stock equivalents. In addition, the calculation includes certain preferred stock issued that were converted to common stock immediately prior to the closing of and sold in the initial public offering. Such shares were deemed outstanding for all periods presented.

Pro Forma Shareholders' Equity - The Company's presentation of unaudited pro forma shareholders' equity at March 31, 1996 reflects the items noted in Pro Forma Net Income Per Share above, as well as the effect on historical retained earnings of a distribution to the Company's majority shareholder of \$770,000 attributable to previously taxed earnings and the recording of the deferred tax liability of \$33,000 referred to above as if the S corporation election had terminated immediately prior to that date, but does not give effect to the proceeds of the initial public offering.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

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

During the three month period ended March 31, 1996, the Company funded changes in working capital and the purchase of approximately \$3.6 million of capital equipment from an approximate \$6.9 million increase in debt borrowings and \$1.7 million receipt of grants associated with the opening of the Company's sixth technical call center. The capital expenditures, which were comprised primarily of computer and telephone equipment and furniture, were purchased pursuant to the continued growth within the technical support business and the associated increase in call volume capacity within the United States and Europe. As a result of the increased demand for the Company's services, it is anticipated that 1996 capital acquisitions will approximate \$16 million, including the construction of two additional technical call centers.

On May 3, 1996, the Company received proceeds, net of offering expenses, in excess of \$39 million from the sale of 2,417,768 shares of common stock in an initial public offering. The Company used approximately \$16.8 million of these proceeds to repay all amounts outstanding under its bank borrowing agreements, and intends to utilize the balance of the proceeds to make additional capital expenditures associated with its technical support services, and for general corporate purposes, including possible acquisitions. Currently, the Company has no arrangements or understandings with respect to any acquisition, although it continues to monitor acquisition opportunities. Pending any such use, the Company plans to invest the proceeds in short-term, investment grade securities or money market instruments.

The Company believes that the proceeds from its initial public offering, combined with available funds under its credit facilities and cash flows from current and future operations, will be adequate to meet its capital requirements for the foreseeable future.

RESULTS OF OPERATIONS

For the three months ended March 31, 1996, the Company posted revenues of approximately \$22.3 million, an increase of approximately \$8.7 million, or 64%, from the comparable period of the previous year. This growth in revenues was the result of an approximate \$9.1 million increase in revenues within technical support services, and occurred primarily from the investments in call centers and capital equipment the Company has made and the resultant increase in call volumes from clients. During February 1996, the Company opened its sixth call center in addition to the two new call centers opened in the fourth quarter of 1995. In addition, during the three months of 1996, the Company recognized an additional revenue increase of approximately \$1.3 million,

or 18%, in information services and solutions when compared to the first quarter of 1995. This increase was primarily the result of increased hours billed to clients and growth in providing foreign language translation services. These revenue increases were partially offset by a \$1.7 million reduction in revenues from the Company's strategic decision to phase-out other services provided during the comparable three month period of 1995.

Direct salaries and related costs increased approximately \$4.4 million, or 47%, in the three month period in 1996 from the comparable period in 1995. As a percentage of revenues, however, direct salaries and related costs decreased to approximately 61% in the 1996 quarter from approximately 68% from the same quarter in 1995. The increase in the amount of direct salaries and related costs was attributable to the addition of personnel to support revenue growth. The decrease as a percentage of revenues resulted from economies of scale associated with spreading costs over a larger revenue base.

General and administrative expenses increased approximately \$2.9 million, or 76%, in the 1996 period from the same period in 1995. The increase in the amount of general and administrative expenses was primarily attributable to the addition of management, sales and administrative personnel to support the Company's growth, and the increase in depreciation expense associated with facility and capital equipment expenditures incurred primarily in connection with the technical support call centers.

Interest expense in the 1996 period increased from the comparable 1995 period and was attributable to the significantly higher levels of borrowings associated with the funding requirements associated with the technical support expansion. It is anticipated that interest expense, in the foreseeable future, will be minimal or eliminated subsequent to the receipt and use of proceeds from the sale of common stock from the initial public offering as described above. The decrease in other income in 1996 resulted from the recognition of favorable foreign currency translation fluctuations in 1995.

The provision for income taxes as a percentage of income before income taxes decreased during the 1996 period when contrasted to the comparable 1995 period due to the recognition of nondeductible expenses over a larger income before income tax base in 1996 as compared to 1995.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibits

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

27.1 Financial Data Schedule (for SEC use only)

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the quarter ended March 31, 1996.

SYKES ENTERPRISE, INCORPORATED

FORM 10-Q

SIGNATURES

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

SYKES ENTERPRISES, INCORPORATED
(Registrant)

Date: May 13, 1996

By: /s/Scott J. Bendert

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

SYKES ENTERPRISES, INCORPORATED

FORM 10-Q
(For the Quarter Ended March 31, 1996)

EXHIBIT INDEX

EXHIBIT NUMBER		PAGE NUMBER
27.1	Financial Data Schedule (for SEC use only)	14

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FORM 10-Q.

MULTIPLIER: 1

CURRENCY: U.S. DOLLARS

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	MAR 31 1996
EXCHANGE RATE	1
CASH	1,985,620
SECURITIES	0
RECEIVABLES	18,575,851
ALLOWANCES	132,816
INVENTORY	0
CURRENT ASSETS	22,187,460
PP&E	33,217,983
DEPRECIATION	7,509,324
TOTAL ASSETS	48,642,202
CURRENT LIABILITIES	12,903,968
BONDS	14,727,277
PREFERRED MANDATORY	5,376,352
PREFERRED	0
COMMON	88,000
OTHER SE	5,769,581
TOTAL LIABILITY AND EQUITY	48,642,202
SALES	0
TOTAL REVENUES	22,252,211
CGS	0
TOTAL COSTS	13,633,755
OTHER EXPENSES	6,699,023
LOSS PROVISION	49,417
INTEREST EXPENSE	296,431
INCOME PRETAX	1,627,146
INCOME TAX	683,000
INCOME CONTINUING	944,146
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	944,146
EPS PRIMARY	.09
EPS DILUTED	.09

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