SYKES ENTERPRISES INC
Form 10-K/A
December 22, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-K /A**
**(Amendment No. 1)**

þ **Annual Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**
**For the fiscal year ended December 31, 2004**

**Or**

o **Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**
**For The Transition Period From __________To __________**

**Commission File Number 0-28274**
**Sykes Enterprises, Incorporated**
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Florida<br>(State or other jurisdiction of<br>incorporation or organization) | 56-1383460<br>(IRS Employer<br>Identification No.) |
| 400 N. Ashley Drive, Tampa, Florida<br>(Address of principal executive offices) | 33602<br>(Zip Code) |

(813) 274-1000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
**Title of Each Class**
Voting Common Stock $.01 Par Value

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes þ No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant computed by reference to the closing sales price of such shares on the NASDAQ National Market on June 30, 2004, the last business day of the Registrant s most recently completed second fiscal quarter, was $297,417,725.

As of March 2, 2005, there were 39,187,157 outstanding shares of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE:**

| Documents | Form 10-K/A Reference |
|---|---|
| Portions of the Proxy Statement for the year 2005 Annual Meeting of Shareholders | Part III Items 10 14 |

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## EXPLANATORY STATEMENT

On November 11, 2005, Sykes Enterprises, Incorporated (the Company ) determined that certain deferred revenues should be classified as current liabilities rather than long-term liabilities in the Company s Consolidated Financial Statements. The deferred revenues relate to various contracts in the Company s Canadian roadside assistance program for which the Company is prepaid for roadside assistance services that are generally carried out over a twelve-month or longer period. Accordingly, previously issued consolidated financial statements as presented herein have been restated to correct the classification of deferred revenue and the related deferred income taxes.

This Amendment No. 1 on Form 10-K/A which amends and restates the Company s Form 10-K for the year ended December 31, 2004, initially filed with Securities and Exchange Commission (the SEC ) on March 23, 2005 (the Original Filing ), is being filed to reflect the restatement of the consolidated financial statements and other financial information of the Company for the years ended December 31, 2004 and 2003. The Company reclassified $19.0 million and $19.0 million of deferred revenue from long-term liabilities to current liabilities as of December 31, 2004 and 2003, respectively. Additionally, the Company reclassified $3.9 million and $4.5 million of deferred revenue from other accrued expenses and current liabilities to deferred revenue in current liabilities as of December 31, 2004 and 2003, respectively. Finally, the Company reclassified $2.1 million and $1.6 million of the related deferred income taxes from long-term assets to current assets as of December 31, 2004 and 2003, respectively. Net Cash provided by Operating Activities for the years ended December 31, 2004, 2003 and 2002 were not impacted by the corrections of deferred revenue and the related deferred income taxes. However, cash flows in the amounts of $0.5 million and $0.4 million have been reclassified within operating cash flows from Prepaid expenses and other current assets to Deferred charges and other assets for the years ended December 31, 2004 and 2002, respectively, and from Deferred charges and other assets to Prepaid expenses and other current assets for the year ended December 31, 2003 in the amount of $0.6 million. See Note 2 to the consolidated financial statements for further details.

For the convenience of the reader, this Form 10-K/A sets forth the Original Filing in its entirety except for certain exhibits not affected by the restatement. This Form 10-K/A includes such restated consolidated financial statements and related notes thereto for the years ended December 31, 2004, 2003 and 2002 and other information related to such restated consolidated financial statements, including revisions to Item 6 of Part II, Selected Financial Data, Item 9A of Part II, Controls and Procedures, and Item 15 of Part IV, Exhibits and Financial Statement Schedule. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. Pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to include an updated report and consent of the Company s independent registered public accounting firm and certifications re-executed as of the date of this Form 10-K/A from the Company s Chief Executive Officer and Chief Financial Officer. The certifications of the Chief Executive Officer and Chief Financial Officer are included in this Form 10-K/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

Except for the foregoing amended information, this Form 10-K/A continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to the Company after the date of the Original Filing (other than the restatement), and such forward looking statements should be read in their historical context.

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## PART I

## Item 1. Business

### General

Sykes Enterprises, Incorporated and consolidated subsidiaries ( Sykes, our, us or we ) is a global leader in provid outsourced customer contact management solutions and services in the business process outsourcing ( BPO ) arena. We provide an array of sophisticated customer contact management solutions to Fortune 1000 companies and medium sized businesses around the world primarily in the communications, technology/consumer, financial services, healthcare and transportation and leisure industries. We serve our clients through two geographic operating regions: the Americas (United States, Canada, Latin America, India and the Asia Pacific Rim) and EMEA (Europe, Middle East and Africa). Our Americas and EMEA groups primarily provide customer contact outsourcing services with an emphasis on inbound technical support and customer service. These services are delivered through multiple communications channels encompassing phone, e-mail, Web and chat. We also provide various enterprise support services in the United States that encompass services for our client s internal support operations, from technical staffing services to outsourced corporate help desk services. In Europe, we also provide fulfillment services including multilingual sales order processing via the Internet and phone, inventory control, product delivery and product returns handling. Our complete service offering helps our clients acquire, serve, retain and grow relationships with their customers. We have developed an extensive global reach with state-of-the-art customer contact management centers throughout the United States, Canada, Europe, Latin America, Asia and Africa.

Sykes was founded in 1977 in North Carolina and we moved our headquarters to Florida in 1993. In March 1996, we changed our state of incorporation from North Carolina to Florida. Our headquarters are located at 400 North Ashley Drive, 28th Floor, Tampa, Florida 33602, and our telephone number is (813) 274-1000.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as our proxy statements and other materials which are filed with or furnished to the Securities and Exchange Commission ( SEC ) are made available, free of charge, on or through our Internet website at www.sykes.com/investors.asp under the heading Financial Reports SEC Filings, as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

### Industry Overview

According to industry analysts, the outsourced customer contact management solutions market worldwide is estimated to be approximately $51 billion in 2005. Also, the five primary verticals in which we participate communications, technology/consumer, financial services, healthcare and transportation and leisure constitute approximately 80% of the total worldwide market. We believe that growth for outsourced customer contact management solutions and services will be fueled by the trend of global Fortune 1000 companies and medium sized businesses turning to outsourcers to provide high quality, cost-effective, value added customer contact management solutions. Increasingly they are moving towards balanced solutions that consist of a combination of onshore and offshore support.

In today s ever-changing marketplace, companies require innovative customer contact management solutions that allow them to enhance the end user s experience with their products and services, strengthen and enhance company brands, maximize the lifetime value of customers, turn cost centers into profit centers, efficiently and effectively deliver human interaction when customers value it most, and deploy best in-class customer management strategies, processes and technologies.

Global competition, pricing pressures, softness in the global economy and rapid changes in technology are making it increasingly difficult for companies to cost effectively maintain the in-house personnel necessary to handle all of their customer contact management needs. As a result, companies are increasingly turning to outsourcers to perform specialized functions and services in the customer contact management arena. By working in a partnership with outsourcers, companies can ensure that the crucial task of retaining and growing their customer base is addressed without detracting from their competencies. Factors that are influencing companies to outsource customer contact management solutions include the following:

- Increasing importance for companies to focus on customer-facing activities and retain and grow client relationships;
- Growing capital requirements for entrance into new geographic markets offering a lower cost solution;
- Increasing need for companies to focus on core competencies;
- Increasing need for better utilization of internal customer contact management assets and time-to-market response;
- Growing need for consistent multi-site and multi-region support;
- Rapid changes in technology requiring personnel with specialized technical expertise;
- Growing capital requirements for sophisticated technology needed to maintain the necessary infrastructure to provide timely support;
- Increasing need to integrate and continually update complex systems incorporating a variety of hardware and software components spanning a number of technology generations; and
- Extensive and ongoing staff training and associated costs required for maintaining responsive, up-to-date, in-house technical support and customer service solutions.

To address these market factors, we offer a full, global customer contact management solution that focuses on proactively identifying and solving our clients business problems through understanding our clients industries and challenges and recommending solutions. We then can provide consistent support for our clients customers across the globe in most languages leveraging our dynamic, secure communications infrastructure and a global footprint that reaches across 17 countries. This global footprint includes established operations in both onshore and highly strategic offshore geographic markets where companies have access to high quality customer contact management solutions at lower costs compared to other markets.

**Business Strategy**

Our goal is to provide enhanced customer contact management solutions and services in a proactive and responsive manner, acting as a partner in our client s business. Sykes anticipates trends and delivers new ways of growing clients customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions.

Our business strategy encompasses building long-term client relationships, capitalizing on our expert worldwide response team, leveraging our depth of relevant experience, expanding both organically and through acquisitions and diversifying our market reach. The principles of this strategy include the following:

***Build Long-term Client Relationships Through Service Excellence.*** We believe that providing superior, quality service is critical in our clients decisions to outsource and in building long-term relationships with our clients. To ensure service excellence and consistency across each of our centers globally, we implemented an internally developed quality program titled Sykes Standard of Excellence (SSE). This quality certification standard is a compilation of more than 25 years of experience and best practices from industry standards such as the Malcom Baldridge National Quality Award and COPC (Customer Operations Performance Center Inc.). Every customer contact management center strives to meet or exceed the criteria set forth by SSE, which address leadership, hiring and training, performance management down to the agent level, forecasting and scheduling, and the client relationship including continuous improvement, disaster recovery plans and feedback.

***Capitalize on an Expert Worldwide Response Team.*** Companies are demanding a customer contact management solution that is global in nature one of our key strengths. In addition to our network of customer contact management centers throughout North America and Europe, we continue to develop our global delivery model with operations in the Philippines, The Peoples Republic of China, Costa Rica and El Salvador, offering our clients a secure, high quality solution tailored to the needs of their diverse and global markets. These customer contact management centers were added to support the increasing demand for our worldwide customer contact management solutions and are fully integrated through our internally developed digital private Asynchronous Transfer Mode ( ATM ) communications network, which allows for effective call volume management and disaster recovery backup. Our converged voice and data ATM communications network provides a high quality, fault tolerant global network for the transport of Voice Over Internet Protocol communications and fully integrates with emerging Internet Protocol telephony systems as well as traditional Time Domain Multiplexing telephony systems. We continued to expand our global footprint, adding centers in El Salvador in 2004 and Slovakia in 2005. We also expanded our global market reach with the addition of client accounts based in The Peoples Republic of China, South Africa, and Latin America.

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***Maintain a Competitive Advantage Through Our Depth of Relevant Experience in Technology Solutions.*** For more than 25 years, Sykes has been an innovative pioneer in delivering customer contact management solutions. Through this experience, we have become a benchmark for innovation and excellent global solution delivery. We seek to maintain a competitive advantage and differentiation by utilizing technology in new and creative ways to consistently deliver innovative service solutions, ultimately enhancing the client s relationship with its customers and generating revenue growth. This includes knowledge solutions for agents and end customers, automatic call distributors, intelligent call routing and workforce management capabilities based on agent skill and availability, call tracking software, quality management systems and computer-telephony integration (CTI) that enable our customer contact management centers to serve as transparent extensions for our clients, receive telephone calls and data directly from our clients systems, and report detailed information concerning the status and results of our services on a daily basis. We are also continuing to capitalize on sophisticated and specialized technological capabilities, including our current private ATM network that provides us the ability to manage call volumes more efficiently by load balancing calls and data between customer contact management centers over the same network. Our flexible, secure and scalable network infrastructure allows us to rapidly respond to changes in client voice and data traffic and quickly establish support operations for new and existing clients. Through strategic technology relationships, we are able to provide fully integrated communication services encompassing e-mail, chat and Web self-service platforms. In addition, the European deployment of Global Direct, our customer relationship management ( CRM )/ e-commerce application utilized within the fulfillment operations, establishes a platform whereby our clients can manage all customer profile and contact information from every communication channel, making it a viable customer-facing infrastructure solution to support their CRM initiatives.

***Continue to Grow Our Business Organically and through Acquisitions.*** We have grown our customer contact management outsourcing operations utilizing a strategy of both internal growth and external acquisitions. This plan has resulted in an increase from three U.S. customer contact management centers in 1994 to 35 customer contact management centers worldwide as of the end of 2004. Given the fragmented nature of the customer contact management industry, there may be other companies that could bring us certain complementary competencies. Acquisition candidates that can, among other competencies, expand our service offerings, broaden our geographic footprint, allow us access to new technology and are synergistic in nature, will be given consideration. We have and will continue to explore these options upon identification of strategic opportunities.

***Diversify Our Market Reach.*** We market our services on a worldwide basis to Fortune 1000 and medium sized businesses primarily in the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. We built our industry knowledge by initially focusing on software publishers, personal computer manufacturers and peripheral hardware manufacturers within the technology/consumer vertical market, providing us with a competitive advantage in technical support. In 2004, the technology/consumer vertical market represented 36% of our consolidated revenues. Beginning in 1999, our growth strategy targeted the communications vertical market, where we leveraged our technical support capabilities to capitalize on dial-up Internet, broadband Internet, wireless services and related opportunities. Revenues from the communications vertical market represented 32% of our consolidated revenues in 2004, compared to 9% in 1999. In 2001, we began targeting the financial services vertical market recognizing the potential growth this market offered and the added stability this market would provide our revenue mix. We entered into several new relationships with financial services companies in late 2001 and 2002, for which we provide an array of services from credit card inquiries to brokerage account assistance. For 2004, revenues from this vertical market represented 8% of our consolidated revenues, an increase from 6% in 2003, and we expect this market to continue to increase in the future. The healthcare vertical, which is primarily generated from our Canadian operations, represented 7% of our consolidated revenues in 2004 compared to 6% in 2003. While the transportation and leisure vertical market represented 6% of our consolidated revenues in 2004, compared to 5% in 2003, other vertical markets represented 11% of our consolidated revenues in 2004, compared to 7% in 2003. We believe the diversification of our business into focused vertical markets allows for a more predictable, steady revenue stream.

**Services**

We specialize in providing inbound outsourced customer contact management solutions in the BPO arena on a global basis. Our customer contact management services are provided through two operating segments the Americas and EMEA. The Americas region, representing 60.7% of consolidated revenues in 2004, includes the United States, Canada, Latin America and the Asia Pacific Rim. The sites within Latin America and the Asia Pacific Rim are included in the Americas region as they provide a significant service delivery vehicle for U.S. based companies that are utilizing our customer contact management solutions in these locations to support their customer care needs. The EMEA region, representing 39.3% of consolidated revenues in 2004, includes Europe, the Middle East and Africa. The following is a description of our customer contact management solutions:

***Outsourced Customer Contact Management Services.*** Our outsourced customer contact management services represented approximately 93.9% of total 2004 consolidated revenues. Every year, we handle over 100 million customer contacts including phone, e-mail, Web and chat throughout the Americas and EMEA regions. We provide these services utilizing our advanced technology infrastructure, human resource management skills and industry experience. These services include:

- Customer care    Customer care contacts primarily include product information requests, describing product features, activating customer accounts, resolving complaints, handling billing inquiries, changing addresses, claims handling, ordering/reservations, prequalification and warranty management, providing health information and roadside assistance;
- Technical support    Technical support contacts primarily include handling inquiries regarding hardware, software, communications services, communications equipment, Internet access technology and Internet portal usage; and
- Acquisition    Our acquisition services are primarily focused on inbound up-selling/cross-selling of our client s products and services.

We provide these services, primarily inbound customer calls, through our extensive global network of customer contact management centers, where our customer contact agents provide support in over 30 languages. Our technology infrastructure and managed service solutions allow for effective distribution of calls to one or more centers. These technology offerings provide our clients and us with the leading edge tools needed to maximize quality and customer satisfaction while controlling and minimizing costs.

***Fulfillment Services.*** In Europe, we offer fulfillment services that are fully integrated with our customer care and technical support services. Our fulfillment solutions include multilingual sales order processing via the Internet and phone, payment processing, inventory control, product delivery and product returns handling.

***Enterprise Support Services.*** In the United States, we provide a range of enterprise support services including technical staffing services and outsourced corporate help desk solutions.

**Operations**

***Customer Contact Management Centers.*** We operate seventeen stand-alone customer contact management centers in Europe and South Africa, seven centers in the United States, one center in Canada and ten centers offshore, including The Peoples Republic of China, the Philippines, India, Costa Rica and El Salvador.

In an effort to stay ahead of industry off-shoring trends, we opened our first customer contact management centers in the Philippines and Costa Rica over seven years ago. By 2004, we expanded to five centers in the Philippines, two in Costa Rica, one in The People s Republic of China, one in India and one in El Salvador.

Due to shifts in business demand for offshore customer contact management centers, we closed several under-utilized customer contact management centers in the United States in 2004 and 2003. In addition, related to our efforts to reduce costs, we closed two centers in Europe and one center in the Middle East in 2004 and plan to close the center in India in 2005.

We utilize a sophisticated workforce management system to provide efficient scheduling of personnel. Our internally developed digital private communications network complements our workforce by allowing for effective call volume management and disaster recovery backup. Through this network and our dynamic intelligent call routing capabilities, we can rapidly respond to changes in client call volumes and move call volume traffic based on agent availability and skill throughout our network of centers, improving the responsiveness and productivity of our agents. We also can offer cost competitive solutions for taking calls to our offshore locations.

Our sophisticated data warehouse captures and downloads customer contact information for reporting on a daily, real time and historical basis. This data provides our clients with direct visibility into the services that we are providing for them. The data warehouse supplies information for our performance management systems such as our agent scorecarding application, which provides management with the information required for effective management of our operations.

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Our customer contact management centers are protected by a fire extinguishing system, backup generators with significant capacity and 24 hour refueling contracts and short-term battery backups in the event of a power outage, reduced voltage or a power surge. Rerouting of call volumes to other customer contact management centers is also available in the event of a telecommunications failure, natural disaster or other emergency. Security measures are imposed to prevent unauthorized physical access. Software and related data files are backed up daily and stored off site at multiple locations. We carry business interruption insurance covering interruptions that might occur as a result of damage to our business.

***Fulfillment Centers.*** We currently have three fulfillment centers located in Europe. We provide our fulfillment services primarily to certain clients operating in Europe who desire this complementary service in connection with outsourced customer contact management services.

***Enterprise Support Services Offices.*** Our three enterprise support services offices are located in metropolitan areas in the United States to provide a strong recruiting platform for high-end knowledge workers and to establish a local presence to service major accounts.

**Quality Assurance**

We believe that providing consistent high quality service is critical in our clients decisions to outsource and in building long-term relationships with our clients. It is also our belief and commitment that quality is the responsibility of each individual at every level of the organization. To ensure service excellence and continuity across our organization, we have developed an integrated Quality Assurance program consisting of three major components:

- The certification of client accounts and customer contact management centers to the SSE program;
- The application of continuous improvement to all business processes through application of Six Sigma techniques; and
- The application of process audits to all work procedures.

The SSE program is a quality certification standard that was developed based on our more than 25 years of experience, and best practices from industry standards such as the COPC and Support Center Practices (SCP). It defines the requirements across all aspects of the business, and has a well-defined auditing process to ensure compliance and to gain certification.

The application of continuous improvement is established by SSE and is based upon the five-step Six Sigma cycle, which we have tuned to apply specifically to our service industry. All managers are responsible for continuous improvement in their operations.

Process audits are used to verify that client processes and procedures are consistently executed as required by established documentation. Process audits are applicable to all services being provided for the client. Quality monitoring and coaching are also core components of our approach to quality. We utilize industry best practices to ensure that our employees handle customer interactions with the care, accuracy and timeliness needed.

**Sales and Marketing**

Our sales and marketing objective is to leverage our expertise and global presence to develop long-term relationships with existing and potential clients. Our customer contact solutions have been developed to help our clients acquire, retain, and increase the value of their customer relationships. We are implementing marketing and business development plans to increase visibility of our solutions in the vertical markets we serve. We believe that our client base provides excellent opportunities for further marketing and cross-selling of our customer contact management services. Our plans for increasing our visibility include market focused advertising, consultative personal visits with potential and existing clients, participation in market specific trade shows and seminars, speaking engagements, articles and white papers and our website.

Our sales force is composed of business development managers who pursue new business opportunities and strategic account managers that manage and grow relationships with existing accounts. We also have inside customer sales representatives who receive customer inquiries and provide outbound lead generation for the business development managers.

As part of our marketing efforts, we invite potential and existing clients to visit our customer contact management centers, where we can demonstrate the expertise of our skilled staff in partnering to deliver new ways of growing clients customer satisfaction and retention rates, thus profit, through timely, insightful and proven solutions. During these visits, we demonstrate our ability to quickly and effectively support a new client or scale business from an existing client by emphasizing our systematic approach to implementing customer contact solutions throughout the world.

We emphasize account development to strengthen relationships with existing clients. Business development and strategic account managers are generally assigned to markets in their area of expertise in order to develop a complete understanding of each client s particular needs, to form strong client relationships and encourage cross-selling of our other service offerings. We utilize our marketing and sales visibility in the markets to lead our product development efforts to further meet growing market needs.

**Clients**

In 2004, we provided service to hundreds of clients from our locations in the United States, Canada, Latin America, Europe, the Philippines, The Peoples Republic of China, India and South Africa. We market to Fortune 1000 corporations and medium sized businesses primarily within the communications, technology/consumer, financial services, healthcare, and transportation and leisure industries. Revenue by vertical market for 2004, as a percentage of our consolidated revenues, was 36% for technology/consumer, 32% for communications, 8% for financial services, 7% for healthcare, 7% for retail, 6% for transportation and leisure, and 4% for all other vertical markets, including, government-related and utilities. We believe our globally recognized client base presents opportunities for further cross marketing of our services.

For the years ended December 31, 2004 and 2003, total revenues included $36.6 million, or 7.8% of consolidated revenues, and $81.2 million, or 16.9% of consolidated revenues, respectively, from Accenture, a leading systems integrator that represents a major provider of communication services to whom we provide various outsourced customer contact management services. Effective May 1, 2003, we entered into a subcontractor services agreement (the Agreement ) with Accenture following the execution of a primary services agreement between the major provider of communication services and Accenture. The revenues for the year ended December 31, 2002, as it relates to this relationship were $71.6 million, or 15.8% of consolidated revenues. Under the terms of this three-year Agreement, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, we will continue to provide the products and services necessary to support and assist Accenture in the management and performance of its primary services agreement.

In addition, for the years ended December 31, 2004, 2003 and 2002, total revenues included $33.8 million, or 7.3% of consolidated revenues, $58.5 million, or 12.2% of consolidated revenues, and $54.6 million, or 12.1% of consolidated revenues, respectively, from Microsoft Corporation, a major provider of software and related services.

Although no client represented 10% or more of 2004 consolidated revenues, our top ten clients accounted for approximately 45% of our consolidated revenues in 2004. The loss of (or the failure to retain a significant amount of business with) Accenture, Microsoft or any of our other key clients could have a material adverse effect on our performance. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short-term notice. Also, clients may unilaterally reduce their use of our services under our contracts without penalty.

**Competition**

The industry in which we operate is extremely competitive and highly fragmented. While many companies provide customer contact management solutions and services, we believe no one company is dominant in the industry.

In most cases, our principal competition stems from our existing and potential clients in-house customer contact management operations. When it is not the in-house operations of a client, our direct competition includes TeleTech, Sitel, APAC Customer Services, ICT Group, Client Logic, Convergys, West Corporation, Stream, PeopleSupport, EDS, IBM and NCO Group as well as the customer care arm of such companies as Accenture, WIPRO, 24/7, Infosys and SR Teleperformance. There are other numerous and varied providers of such services, including firms specializing in various CRM consulting, other customer management solutions providers niche or large market companies, as well as product distribution companies that provide fulfillment services. Some of these companies possess substantially greater resources, greater name recognition and a more established customer base than we.

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We believe that the most significant competitive factors in the sale of outsourced customer contact management services include service quality, tailored value added service offering, industry experience, advanced technology capabilities, global coverage, reliability, scalability, security and price. As a result of intense competition, outsourced customer contact management solutions and services frequently are subject to pricing pressure. Clients also require outsourcers to be able to provide services in multiple locations. Competition for contracts for many of our services takes the form of competitive bidding in response to requests for proposals.

**Intellectual Property**

We rely upon a combination of contract provisions and trade secret laws to protect the proprietary technology we use at our customer contact management centers and facilities. We also rely on a combination of copyright, trademark and trade secret laws to protect our proprietary software. We attempt to further protect our trade secrets and other proprietary information through agreements with employees and consultants. We do not hold any patents and do not have any patent applications pending. There can be no assurance that the steps we have taken to protect our proprietary technology will be adequate to deter misappropriation of our proprietary rights or third-party development of similar proprietary software. Sykes ®, REAL PEOPLE. REAL SOLUTIONS. ® and Sykes Answerteam ® are our registered service marks. We hold a number of registered trademarks, including ETSC ®, FS PRO ® and FS PRO MARKETPLACE ®.

**Employees**

At January 31, 2005, we had approximately 17,130 employees worldwide, consisting of 15,400 customer contact agents handling technical and customer support inquiries at our centers, 1,440 in management, administration and finance, 120 in enterprise support services, 150 in fulfillment services and 20 in sales and marketing. Our employees, with the exception of approximately 500 employees in Europe, are not represented by a labor union and we have never suffered an interruption of business as a result of a labor dispute. We consider our relations with our employees to be good.

We employ personnel through a continually updated recruiting network. This network includes a seasoned team of recruiters, a company-wide candidate database, Internet/newspaper advertising, candidate referral programs and job fairs. However, demand for qualified professionals with the required language and technical skills may exceed supply, as new skills are needed to keep pace with the requirements of customer engagements. Competition for such personnel is intense and employee turnover in this industry is high.

**Factors Influencing Future Results and Accuracy of Forward Looking Statements**

This report contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about us, 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 may, expects, projects, anticipates, intends, plans, believes, estimates, 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 forward-looking statements, whether as a result of new information, future events or otherwise.

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

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***Dependence on Key Clients***

We derive a substantial portion of our revenues from a few key clients. For the years ended December 31, 2004 and 2003, total revenues included $36.6 million, or 7.8% of consolidated revenues, and $81.2 million, or 16.9% of consolidated revenues, respectively, from Accenture, a leading systems integrator that represents a major provider of communication services to whom we provide various outsourced customer contact management services. Effective May 1, 2003, we entered into a subcontractor services agreement (the Agreement ) with Accenture following the execution of a primary services agreement between the major provider of communication services and Accenture. The revenues for the year ended December 31, 2002, as it relates to this relationship were $71.6 million, or 15.8% of consolidated revenues. Under the terms of this three-year Agreement, which contains penalty provisions for failure to meet minimum service levels and is cancelable with 6 months written notice, we will continue to provide the products and services necessary to support and assist Accenture in the management and performance of its primary services agreement.

In addition, total revenue for the years ended December 31, 2004, 2003 and 2002, includes $33.8 million, or 7.3% of consolidated revenues, $58.5 million, or 12.2% of consolidated revenues and $54.6 million, or 12.1% of consolidated revenues, respectively, from Microsoft Corporation, a major provider of software and related services. Our top ten clients accounted for approximately 45%, 59% and 60%, of consolidated revenue for the years ended December 31, 2004, 2003, and 2002, respectively.

Our loss of, or the failure to retain a significant amount of business with Accenture, Microsoft or any of our other key clients could have a material adverse effect on our business, financial condition and results of operations. Many of our contracts contain penalty provisions for failure to meet minimum service levels and are cancelable by the client at any time or on short-term notice. Also, clients may unilaterally reduce their use of our services under these contracts without penalty. Thus, our contracts with our clients do not ensure that we will generate a minimum level of revenues.

***Risks Associated With International Operations and Expansion***

We intend to continue to pursue growth opportunities in markets outside the United States. At December 31, 2004, our international operations were conducted from 24 customer contact management centers located in Sweden, the Netherlands, Finland, Germany, South Africa, Scotland, India, Ireland, Italy, Hungary, Spain, The Peoples Republic of China and the Philippines. Revenues from these operations for the years ended December 31, 2004, 2003, and 2002, were 59%, 44%, and 39% of consolidated revenues, respectively. We also conduct business from four customer contact management centers located in Canada, Costa Rica and El Salvador. International operations are subject to certain risks common to international activities, such as changes in foreign governmental regulations, tariffs and taxes, import/export license requirements, the imposition of trade barriers, difficulties in staffing and managing international operations, political uncertainties, longer payment cycles, foreign exchange restrictions that could limit the repatriation of earnings, possible greater difficulties in accounts receivable collection, potentially adverse tax consequences, and economic instability. As of December 31, 2004, we had cash balances of approximately $79.0 million held in international operations, which may be subject to additional taxes if repatriated to the United States.

We conduct business in various foreign currencies and are therefore exposed to market risk from changes in foreign currency exchange rates and interest rates, which could impact our results of operations and financial condition. We are also subject to certain exposures arising from the translation and consolidation of the financial results of our foreign subsidiaries. We have, from time to time, taken limited actions, such as using foreign currency forward contracts, to attempt to mitigate our currency exchange exposure. However, there can be no assurance that we will take any actions to mitigate such exposure in the future, and if taken, that such actions will be successful or that future changes in currency exchange rates will not have a material impact on our future operating results. A significant change in the value of the dollar against the currency of one or more countries where we operate may have a material adverse effect on our results.

***Fundamental Shift Towards Global Service Delivery Markets***

Clients are increasingly requiring blended delivery models using a combination of onshore and offshore support. Our offshore delivery locations include The Peoples Republic of China, the Philippines, Costa Rica and El Salvador, and while we have operated in global delivery markets since 1996, there can be no assurance that we will be able to successfully conduct and expand such operations, and a failure to do so could have a material adverse effect on our business, financial condition, and results of operations. The success of our offshore operations will be subject to numerous contingencies, some of which are beyond our control, including general and regional economic conditions, prices for our services, competition, changes in regulation and other risks. In addition, as with all of our operations outside of the United States, we are subject to various additional political, economic, and market uncertainties (See Risks Associated with International Operations and Expansion. ). Additionally, a change in the political environment in the United States or the adoption and enforcement of legislation and regulations curbing the use of offshore customer contact management solutions and services could effectively have a material adverse effect on our business, financial condition and results of operations.

***Existence of Substantial Competition***

The markets for our services on a commoditized basis are highly competitive and subject to rapid change. While many companies provide outsourced customer contact management services, we believe no one company is dominant in the industry. There are numerous and varied providers of our services, including firms specializing in call center operations, temporary staffing and personnel placement, consulting and integration firms, and niche providers of outsourced customer contact management services, many of whom compete in only certain markets. Our competitors include both companies who possess greater resources and name recognition than we do, as well as small niche providers that have few assets and regionalized (local) name recognition instead of global name recognition. In addition to our competitors, many companies who might utilize our services or the services of one of our competitors may utilize in-house personnel to perform such services. Increased competition, our failure to compete successfully, pricing pressures, loss of market share and loss of clients could have a material adverse effect on our business, financial condition and results of operations.

Many of our large clients purchase outsourced customer contact management services from multiple preferred vendors. We have experienced and continue to anticipate significant pricing pressure from these clients in order to remain a preferred vendor. These companies also require vendors to be able to provide services in multiple locations. Although we believe we can effectively meet our clients demands, there can be no assurance that we will be able to compete effectively with other outsourced customer contact management services companies on price. We believe that the most significant competitive factors in the sale of our core services include the standard requirements of quality, tailored value added service offerings, industry experience, global coverage, reliability, scalability, security and price.

***Inability to Attract and Retain Experienced Personnel May Adversely Impact Our Business***

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

***Dependence on Senior Management***

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

***Dependence on Trend Toward Outsourcing***

Our business and growth depend in large part on the industry trend toward outsourced customer contact management services. Outsourcing means that an entity contracts with a third party, such as us, to provide customer contact services rather than perform such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services themselves. A significant change in this trend could have a

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material adverse effect on our business, financial condition and results of operations. Additionally, there can be no assurance that our cross-selling efforts will cause clients to purchase additional services from us or adopt a single-source outsourcing approach.

***Our Strategy of Growing Through Selective Acquisitions and Mergers Involves Potential Risks***

We evaluate opportunities to expand the scope of our services through acquisitions and mergers. We may be unable to identify companies that complement our strategies, and even if we identify a company that complements our strategies, we may be unable to acquire or merge with the company. In addition, a decrease in the price of our common stock could hinder our growth strategy by limiting growth through stock acquisitions.

Our acquisition strategy involves other potential risks. These risks include:

The inability to obtain the capital required to finance potential acquisitions on satisfactory terms;
The diversion of our attention to the integration of the businesses to be acquired;
The risk that the acquired businesses will fail to maintain the quality of services that we have historically provided;
The need to implement financial and other systems and add management resources;
The risk that key employees of the acquired business will leave after the acquisition;
Potential liabilities of the acquired business;
Unforeseen difficulties in the acquired operations;
Adverse short-term effects on our operating results;
Lack of success in assimilating or integrating the operations of acquired businesses within our business;
The dilutive effect of the issuance of additional equity securities;
The impairment of goodwill and other intangible assets involved in any acquisitions;
The businesses we acquire not proving profitable; and
Potentially incurring additional indebtedness.

***Uncertainties Relating to Future Litigation***

We cannot predict whether any material suits, claims, or investigations may arise in the future. Regardless of the outcome of any future actions, claims, or investigations, we may incur substantial defense costs and such actions may cause a diversion of management time and attention. Also, it is possible that we may be required to pay substantial damages or settlement costs which could have a material adverse effect on our financial condition and results of operations.

***Rapid Technological Change***

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

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

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

***Risk of Emergency Interruption of Customer Contact Management Center Operations***

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

***Control By Principal Shareholder and Anti-Takeover Considerations***

As of March 2, 2005, John H. Sykes, our founder and former Chairman of the Board and Chief Executive Officer, beneficially owned approximately 35.0% of our outstanding common stock. As a result, Mr. Sykes will have substantial influence in the election of our directors and in determining the outcome of other matters requiring shareholder approval.

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

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

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

**Executive Officers**

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

| Name | Age | Principal Position |
|---|---|---|
| Charles E. Sykes | 41 | President and Chief Executive Officer |
| W. Michael Kipphut | 51 | Senior Vice President and Chief Financial Officer |
| James C. Hobby | 54 | Senior Vice President, Global Operations |
| Jenna R. Nelson | 41 | Senior Vice President, Human Resources |
| Daniel L. Hernandez | 38 | Senior Vice President, Global Strategy |
| David L. Pearson | 46 | Senior Vice President and Chief Information Officer |
| William N. Rocktoff | 42 | Vice President and Corporate Controller |
| James T. Holder | 46 | Vice President, General Counsel and Corporate Secretary |

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**Charles E. Sykes** joined Sykes in 1986 and was named President and Chief Executive Officer in August 2004. From July 2003 to August 2004, Mr. Sykes was the Chief Operating Officer. From March 2000 to June 2001, Mr. Sykes was Senior Vice President, Marketing and in June 2001 he was appointed to the position of General Manager, Senior Vice President the Americas. From December 1996 to March 2000, he served as Vice President, Sales and held the position of Regional Manager of the Midwest Region for Professional Services from 1992 until 1996. Mr. Charles E. Sykes is the son of Mr. John H. Sykes.

**W. Michael Kipphut, C.P.A.**, joined Sykes in March 2000 as Vice President and Chief Financial Officer and was named Senior Vice President and Chief Financial officer in June 2001. From September 1998 to February 2000, Mr. Kipphut held the position of Vice President and Chief Financial Officer for USA Floral Products, Inc., a publicly held worldwide perishable products distributor. From September 1994 until September 1998, Mr. Kipphut held the position of Vice President and Treasurer for Spalding & Evenflo Companies, Inc., a global manufacturer of consumer products. Previously, Mr. Kipphut held various financial positions including Vice President and Treasurer in his 17 years at Tyler Corporation, a publicly held diversified holding company.

**James C. Hobby** joined Sykes in August 2003 as Senior Vice President, the Americas, overseeing the daily operations, administration and development of Sykes customer care and enterprise support operations throughout North America, Latin America, the Asia Pacific Rim and India and was named Senior Vice President, Global Operations in January 2005. Prior to joining Sykes, Mr. Hobby held several positions at Gateway, Inc., most recently serving as President of Consumer Customer Care since August 1999. From January 1999 to August 1999, Mr. Hobby served as Vice President of European Customer Care for Gateway, Inc. From January 1996 to January 1999, Mr. Hobby served as the Vice President of European Customer Service Centers at American Express. Prior to January 1996, Mr. Hobby held various senior management positions in customer care at FedEx Corporation since 1983, mostly recently serving as Managing Director, European Customer Service Operations.

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

**Daniel L. Hernandez** joined Sykes in October 2003 as Senior Vice President, Global Strategy overseeing marketing, operations strategy and client relations worldwide. Prior to joining Sykes, Mr. Hernandez served as President and CEO of SBC Internet Services, a division of SBC Communications Inc., since March 2000. From February 1998 to March 2000, Mr. Hernandez held the position of Vice President/General Manager, Internet and System Operations at Ameritech Interactive Media Services. Prior to February 1998, Mr. Hernandez held various management positions at U S West Communications since joining the telecommunications provider in 1990.

**David L. Pearson** joined Sykes in February 1997 as Vice President, Engineering and was named Vice President, Technology Systems Management in 2000 and Senior Vice President and Chief Information Officer in August 2004. Prior to Sykes, Mr. Pearson held various engineering and technical management roles over a fifteen year period, including eight years at Compaq Computer Corporation and five years at Texas Instruments.

**William N. Rocktoff, C.P.A**., joined Sykes in August 1997 as Corporate Controller and was named Treasurer and Corporate Controller in December 1999 and Vice President and Corporate Controller in March 2002. From November 1989 to August 1997, Mr. Rocktoff held various financial positions, including Corporate Controller at Kimmins Corporation, a publicly held contracting company.

**James T. Holder, J.D., C.P.A** joined Sykes in December 2000 as General Counsel and was named Corporate Secretary in January 2001 and Vice President in January 2004. From November 1999 until November 2000, Mr. Holder served in a consulting capacity as Special Counsel to Checkers Drive-In Restaurants, Inc., a publicly held restaurant operator and franchisor. From November 1993 until November 1999, Mr. Holder served in various capacities at Checkers including Corporate Secretary, Chief Financial Officer and Senior Vice President and General Counsel.

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## Item 2. Properties

Our principal executive offices are located in Tampa, Florida. This facility currently serves as the headquarters for senior management and the financial, information technology and administrative departments. We believe our existing facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any physical expansion. We operate from time to time in temporary facilities to accommodate growth before new customer contact management centers are available. The following table sets forth additional information concerning our facilities:

| Properties | General Usage | Square Feet | Lease Expiration |
|---|---|---|---|
| ***UNITED STATES LOCATIONS*** | | | |
| Tampa, Florida | Corporate headquarters | 67,645 | June 2010 |
| Ada, Oklahoma | Customer contact management center(1) | 42,000 | Company owned |
| Bismarck, North Dakota | Customer contact management center | 42,000 | Company owned |
| Palatka, Florida | Customer contact management center(1) | 42,000 | Company owned |
| Wise, Virginia | Customer contact management center | 42,000 | Company owned |
| Greeley, Colorado | Customer contact management center (1) | 42,000 | Company owned |
| Manhattan, Kansas | Customer contact management center (2) | 42,000 | Company owned |
| Milton-Freewater, Oregon | Customer contact management center | 42,000 | Company owned |
| Morganfield, Kentucky | Customer contact management center | 42,000 | Company owned |
| Perry County, Kentucky | Customer contact management center (1) | 42,000 | Company owned |
| Minot, North Dakota | Customer contact management center | 42,000 | Company owned |
| Pikeville, Kentucky | Customer contact management center (2) | 42,000 | Company owned |
| Ponca City, Oklahoma | Customer contact management center | 42,000 | Company owned |
| Sterling, Colorado | Customer contact management center | 34,000 | Company owned |
| Cary, North Carolina | Office | 3,400 | March 2006 |
| Poughkeepsie, New York | Office | 1,000 | January 2006 |
| St. Louis, Missouri | Office | 3,751 | September 2024 |

*(1) Closed and held for sale.*

*(2) Closed and leased.*

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| Properties | General Usage | Square Feet | Lease Expiration |
|---|---|---|---|
| ***INTERNATIONAL LOCATIONS*** | | | |
| Amsterdam, The Netherlands | Customer contact management center | 33,000 | September 2009 |
| London, Ontario, Canada | Customer contact management center/Headquarters | 50,000 | Company owned |
| Budapest, Hungary | Customer contact management center | 22,819 | August 2023 |
| Budapest, Hungary | Customer contact management center | 23,895 | June 2005 |
| Edinburgh, Scotland | Customer contact management center/ | 35,870 | October 2019 |
| | Office /Headquarters | 17,830 | March 2006 |
| LaAurora, Heredia, Costa Rica (two) | Customer contact management centers | 131,890 | September 2023 |
| San Salvador, El Salvador | Customer contact management center | 32,600 | November 2023 |
| Toronto, Ontario, Canada | Customer contact management center | 14,600 | December 2006 |
| North Bay, Ontario, Canada | Customer contact management center (3) | 5,571 | March 2005 |
| Sudbury, Ontario, Canada | Customer contact management center (3) | 2,048 | December 2007 |
| Moncton, New Brunswick, Canada | Customer contact management center(3) | 11,331 | February 2009 |
| Barthuste, New Brunswick | Customer contact management center(3) | 1,856 | December 2007 |
| Turku, Finland | Customer contact management center | 12,500 | February 2006 |
| Bochum, Germany | Customer contact management center | 43,226 | July 2006 |
| Pasewalk, Germany | Customer contact management center | 41,900 | March 2007 |
| Wilhelmshaven, Germany (two) | Customer contact management centers | 86,205 | March 2009 |
| Bangalore, India | Customer contact management center (4) | 94,727 | May 2005 |
| Makati City, The Philippines | Customer contact management center | 101,254 | December 2005 |
| | | 136,895 | March 2023 |
| Mandaue City, The Philippines | Customer contact management center | 67,742 | February 2023 |
| Johannesburg, South Africa | Customer contact management center | 98,967 | March 2025 |
| Pasig City, The Philippines | Customer contact management center | 127,448 | December 2023 |
| Quezon City, The Philippines | Customer contact management center | 80,137 | May 2024 |
| Ed, Sweden | Customer contact management center | 44,000 | October 2009 |
| Sveg, Sweden | Customer contact management center | 35,100 | November 2019 |
| Shanghai, The Peoples Republic of China | Customer contact management center | 33,000 | October 2005 |
| Prato, Italy | Customer contact management center | 10,000 | October 2022 |
| Shannon, Ireland | Customer contact management center | 66,000 | April 2013 |
| Lugo, Spain | Customer contact management center | 27,703 | June 2005 |
| La Coruña, Spain | Customer contact management center | 32,290 | December 2024 |
| Kosice, Slovakia | Customer contact management center | 11,193 | December 2024 |
| Galashiels, Scotland | Fulfillment center | 126,700 | Company owned |
| Upplands Vasby, Sweden | Fulfillment center and Sales office | 23,498 | October 2007 |
| Turku, Finland | Fulfillment center | 26,000 | March 2006 |
| Frankfurt, Germany | Sales office | 1,700 | September 2005 |
| Bangalore, India | Technology development services | 1,500 | January 2006 |

*(3)*

*Considered part of the Toronto, Ontario, Canada customer contact management center.*

(4) *Lease assigned effective May 2005.*

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**Item 3. 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 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 4. Submission of Matters to a Vote of Security Holders**

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

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## PART II

### Item 5. Market for the Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Securities

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

| | High | Low |
|---|---|---|
| **Year ended December 31, 2004:** | | |
| Fourth Quarter | **$ 7.20** | **$ 4.51** |
| Third Quarter | **7.66** | **4.43** |
| Second Quarter | **7.71** | **5.34** |
| First Quarter | **10.07** | **5.22** |
| **Year ended December 31, 2003:** | | |
| Fourth Quarter | $ 10.50 | $ 6.70 |
| Third Quarter | 8.29 | 4.57 |
| Second Quarter | 5.30 | 3.75 |
| First Quarter | 4.34 | 2.85 |

Holders of our common stock are entitled to receive dividends out of the funds legally available when and if declared by the Board of Directors. We have not declared or paid any cash dividends on our common stock in the past and do not anticipate paying any cash dividends in the foreseeable future.

As of March 3, 2005, there were 1,320 holders of record of the common stock. We believe that there were 6,111 beneficial owners of our common stock.

Below is a summary of stock repurchases for the quarter ended December 31, 2004 (in thousands, except average price per share). See Note 17, Earnings Per Share, to the 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 |
|---|---|---|---|---|
| October 1, 2004 October 31, 2004 | | | 1,644 | 1,356 |
| November 1, 2004 November 30, 2004 | | | 1,644 | 1,356 |
| December 1, 2004 December 31, 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.

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**Item 6. Selected Financial Data**

The following selected financial data has been derived from our consolidated financial statements, as restated (see Note 2 to the consolidated financial statements). The information below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and our Consolidated Financial Statements and related notes.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| **(In thousands, except per share data)** | **2004** | **2003** | **2002** | **2001** | **2000** |
| ***INCOME STATEMENT DATA* (8)*:*** | | | | | |
| Revenues | **$ 466,713** | $ 480,359 | $ 452,737 | $ 496,722 | $ 603,606 |
| Income (loss) from operations (1,2,3,5,6) | **12,597** | 11,368 | (11,295) | (360) | (12,308) |
| Net income (loss) (1,2,3,4,5,6,7) | **10,814** | 9,305 | (18,631) | 409 | 46,787 |
| Net income (loss) per basic share (1,2,3,4,5,6,7) | **0.27** | 0.23 | (0.46) | 0.01 | 1.13 |
| Net income (loss) per diluted share (1,2,3,4,5,6,7) | **0.27** | 0.23 | (0.46) | 0.01 | 1.13 |
| ***BALANCE SHEET DATA* (8):** | | | | | |
| Total assets | **312,526** | 318,175 | 296,841 | 309,780 | 357,954 |
| Long-term debt, less current installments | | | | | 8,759 |
| Shareholders equity | **210,035** | 200,832 | 182,345 | 191,212 | 195,892 |

*(1) The amounts for 2004 include a $7.1 million net gain on the sale of facilities, a $5.4 million net gain on insurance settlement, a $0.1 million reversal of restructuring and other charges and $0.7 million of charges associated with the impairment of long-lived assets.*

*(2) The amounts for 2003 include a $2.1 million net gain on the sale*

*of facilities and a $0.6 million reversal of restructuring and other charges.*

(3) *The amounts for 2002 include $20.8 million of restructuring and other charges, $1.5 million of charges associated with the impairment of long-lived assets and a $1.6 million net gain on the sale of facilities.*

(4) *The amounts for 2002 include $13.8 million of charges associated with the litigation settlement.*

(5) *The amounts for 2001 include $14.6 million of restructuring and other charges and $1.5 million of charges associated with the impairment of long-lived assets.*

(6) *The amounts for 2000 include $7.8 million of compensation expense related to payments made to certain*

*SHPS, Incorporated ( SHPS ) option holders as part of the sale of a 93.5% ownership interest in SHPS that occurred on June 30, 2000 and $30.5 million of restructuring and other charges.*

*(7) The amounts for 2000 include an $84.0 million gain from the sale of a 93.5% ownership interest in SHPS that occurred on June 30, 2000 and a gain of $0.7 million related to the sale of a small Canadian operation that sold roadside assistance memberships for which we provide customer support.*

*(8) Certain amounts from prior years have been reclassified to conform to the current year s presentation.*

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**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*The following should be read in conjunction with the Consolidated Financial Statements, as restated, and the notes thereto that appear elsewhere in this document. As discussed in the explanatory statement at the front of this report, and also in Note 2 to the consolidated financial statements included herein, we have restated the consolidated balance sheets as of December 31, 2004 and 2003 and the consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002. The following discussion and analysis compares the year ended December 31, 2004 ( 2004 ) to the year ended December 31, 2003 ( 2003 ), and 2003 to the year ended December 31, 2002 ( 2002 ).*

*The following discussion and analysis and other sections of this document contain forward-looking statements that involve risks and uncertainties. Words such as may, expects, projects, anticipates, intends, plans, believes, seeks, estimates, variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives, or goals also are forward-looking statements. Future events and actual results could differ materially from the results reflected in these forward-looking statements, as a result of certain of the factors set forth below and elsewhere in this analysis and in this Form 10-K/A for the year ended December 31, 2004 in Item 1 in the section entitled Factors Influencing Future Results and Accuracy of Forward-Looking Statements.*

**Overview**

We provide outsourced customer contact management solutions and services with an emphasis on inbound technical support and customer service, which represented 93.9% of consolidated revenues in 2004, delivered through multiple communication channels encompassing phone, e-mail, Web and chat. Revenue from technical support and customer service, provided through our customer contact management centers, is recognized as services are rendered. These services are billed on an amount per e-mail, a fee per call, a rate per minute or on a time and material basis. Revenue from fulfillment services is generally billed on a per unit basis.

We also provide a range of enterprise support services for our client s internal support operations, from technical staffing services to outsourced corporate help desk services. Revenues usually are billed on a time and material basis, generally by the minute or hour, and revenues generally are recognized as the services are provided. Revenues from fixed price contracts, generally with terms of less than one year, are recognized using the percentage-of-completion method. A significant majority of our revenue is derived from non-fixed price contracts. We have not experienced material losses due to fixed price contracts and do not anticipate a significant increase in revenue derived from such contracts in the future.

Direct salaries and related costs include direct personnel compensation, statutory and other benefits associated with such personnel and other direct costs associated with providing services to customers. General and administrative expenses include administrative, sales and marketing, occupancy, depreciation and amortization, and other costs.

Recognition of income associated with grants from local or state governments of land and the acquisition of property, buildings and equipment is deferred and recognized as a reduction of depreciation expense included within general and administrative costs over the corresponding useful lives of the related assets. Amounts received in excess of the cost of the building are allocated to equipment and, only after the grants are released from escrow, recognized as a reduction of depreciation expense over the weighted average useful life of the related equipment, which approximates five years. Deferred property and equipment grants, net of amortization, totaled $20.6 million and $27.4 million at December 31, 2004 and 2003, respectively.

The net (gain) loss on disposal of property and equipment includes the net gain on the sale of various facilities in 2004 and 2003 offset by the net loss on the disposal of property and equipment.

The net gain on insurance settlement includes the insurance proceeds received for damage to our Marianna, Florida customer contact management center in September 2004.

Restructuring and other charges (reversals) consist of the following: 2004 and 2003 reversals of certain accruals related to the 2002, 2001 and 2000 restructuring plans; and 2002 charges of $20.8 million related to the closure and consolidation of two U.S. and three European customer contact management centers, capacity reductions within the

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European fulfillment operations, the write-off of certain assets, lease termination and severance and related costs.

Impairment of long-lived assets charges of $0.7 million in 2004 relate to certain property and equipment in Bangalore, India as a result of our plans to migrate the call volumes of the customer contact management services and related operations in India to other facilities in the Asia Pacific region in 2005. As a result of this plan of migration, the Company estimates that during the first quarter of 2005 it will incur charges of approximately $0.3 million as a result of severance and related costs and $0.3 million related to other exit costs. In connection with this migration, the Company expects to redeploy property and equipment located in India totaling approximately $1.9 million to other more strategically-aligned offshore facilities in the Asia Pacific region. The total charges related to the plan of migration are anticipated to be approximately $1.3 million. In 2002, impairment of long-lived assets charges of $1.5 million include the write-off of certain intangible assets associated with a customer contact management agreement for which the level of call volumes fell below anticipated levels.

Other income (expense) consists primarily of interest income, net of interest expense, foreign currency transaction gains and losses, and a $13.8 million charge for the uninsured portion of a litigation settlement and associated legal costs in September 2002. Foreign currency transaction gains and losses generally result from exchange rate fluctuations on intercompany transactions and the revaluation of cash and other current assets that are settled in a currency other than functional currency.

The Company s effective tax rate for the periods presented reflects the effects of foreign taxes, net of foreign income not taxed in the United States, and nondeductible expenses for income tax purposes.

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**Results of Operations**

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain items reflected in our Statements of Operations:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| ***PERCENTAGES OF REVENUES:*** | | | |
| Revenues | **100.0%** | 100.0% | 100.0% |
| Direct salaries and related costs | **64.4** | 64.4 | 63.4 |
| General and administrative | **35.4** | 33.7 | 34.4 |
| Net gain on disposal of property and equipment | **(1.5)** | (0.3) | (0.2) |
| Net gain on insurance settlement | **(1.2)** | | |
| Restructuring and other charges (reversals) | **0.0** | (0.1) | 4.6 |
| Impairment of long-lived assets | **0.2** | | 0.3 |
| Income (loss) from operations | **2.7** | 2.3 | (2.5) |
| Other income (expense) (1) | **0.7** | 0.6 | (2.9) |
| Income (loss) before provision (benefit) for income taxes | **3.4** | 2.9 | (5.4) |
| Provision (benefit) for income taxes | **1.1** | 1.0 | (1.3) |
| Net income (loss) | **2.3%** | 1.9% | (4.1)% |

*(1) Includes litigation settlement of 3.1% in 2002.*

The following table sets forth, for the periods indicated, certain data derived from our Consolidated Statements of Operations (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Revenues | **$ 466,713** | $ 480,359 | $ 452,737 |
| Direct salaries and related costs | **300,600** | 309,489 | 287,141 |
| General and administrative | **165,232** | 161,743 | 155,547 |
| Net gain on disposal of property and equipment | **(6,915)** | (1,595) | (945) |
| Net gain on insurance settlement | **(5,378)** | | |
| Restructuring and other charges (reversals) | **(113)** | (646) | 20,814 |
| Impairment of long-lived assets | **690** | | 1,475 |
| Income (loss) from operations | **12,597** | 11,368 | (11,295) |
| Other income (expense) (2) | **3,264** | 2,588 | (13,151) |
| Income (loss) before (provision) benefit for income taxes | **15,861** | 13,956 | (24,446) |
| Provision (benefit) for income taxes | **5,047** | 4,651 | (5,815) |

| | | | |
|---|---|---|---|
| Net income (loss) | **$ 10,814** | $ 9,305 | $ (18,631) |

*(2) Includes litigation settlement of $13.8 million in 2002.*

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Revenues: | | | |
| Americas | **$ 283,253** | $ 321,195 | $ 299,185 |
| EMEA | **183,460** | 159,164 | 153,552 |
| Consolidated | **$ 466,713** | $ 480,359 | $ 452,737 |

## 2004 Compared to 2003

***Revenues***

During 2004, we recognized consolidated revenues of $466.7 million, a decrease of $13.7 million or 2.9% from $480.4 million of consolidated revenues for 2003.

On a geographic segmentation, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 60.7%, or $ 283.3 million for 2004 compared to 66.9%, or $321.2 million for 2003. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 39.3 %, or $ 183.4 million for 2004 compared to 33.1% or $159.2 million for 2003.

The decrease in Americas revenue of $ 37.9 million, or 11.8%, for 2004, compared to 2003, reflected the client-driven migration of call volumes from the United States to comparable or higher margin 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 27.6% of consolidated revenues for 2004 compared to 16.9% for 2003. We expect this trend of generating more of our revenues from offshore operations to continue in 2005. 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.

The increase in EMEA s revenue of $24.2 million, or 15.3%, for 2004 was primarily related to the strengthening Euro, which positively impacted revenues for 2004 by approximately $16.5 million compared to the Euro in 2003. Excluding this foreign currency benefit, EMEA s revenues would have increased $7.7 million compared with last year reflecting an improvement in certain customer call volumes and higher incentive payments related to quality operating performance. However, the persistent economic sluggishness in our key European markets continues to present challenges for us. The increase in revenue in 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 $8.9 million or 2.9% to $300.6 million for 2004, from $309.5 million in 2003. Excluding the negative foreign currency impact of $11.0 million related to the strengthening Euro in 2004 compared to the Euro in 2003, direct salaries and related costs decreased $19.9 million compared with last year. This decrease was due to lower direct and indirect salaries and related benefits primarily attributable to an overall reduction in U.S. customer call volumes. This decrease was offset by 1) higher telephone costs related to transporting calls offshore, 2) higher staffing and training costs associated with the ramp-up offshore and certain duplicative costs as we simultaneously ramped-down U.S. customer contact management centers, 3) termination costs related to the consolidation of two European customer contact management centers and 4) higher claim costs associated with our automotive program in Canada related to higher fuel costs and the severe Canada winter. The migration offshore was substantially complete at the end of the third quarter of 2004. As a percentage of revenues, direct salaries and related costs was 64.4% in both 2004 and 2003.

***General and Administrative***

General and administrative expenses increased $3.5 million or 2.2% to $165.2 million for 2004, from $161.7 million in 2003. Excluding the negative foreign currency impact of $4.6 million related to the strengthening Euro in 2004 compared to the Euro in 2003, general and administrative expenses decreased $1.1 million compared with last year. This decrease was principally attributable to a decrease in depreciation expense of $1.0 million related to the 2003 expiration of two technology client contracts, lower insurance costs, technology related costs and bad debts. This decrease was partially offset by 1) higher compliance costs of $3.3 million related to the Sarbanes-Oxley

Act, 2) compensation costs of $1.7 million related to the former chairman s retirement and 3) lease and utilities costs associated with expansion of offshore facilities. As a percentage of revenues, general and administrative expenses increased to 35.4% in 2004 from 33.7% in 2003.

***Net Gain on Disposal of Property and Equipment***

The net gain on disposal of property and equipment of $6.9 million for 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 $0.2 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 (closed in connection with the 2002 restructuring plan) and a $0.2 million portion of the net gain related to the installment sale of our Eveleth, Minnesota facility offset by a $0.5 million loss on disposal of property and equipment.

***Net Gain on Insurance Settlement***

In September 2004, the building and contents of our customer contact management center located in Marianna, Florida was severely damaged by Hurricane Ivan. Upon settlement with the insurer in December 2004, we recognized a net gain of $5.4 million after write-off of the property and equipment, which had a net book value of $3.4 million, net of the related deferred grants of $2.2 million. We also received an insurance recovery for business interruption during 2004 and recognized $0.1 million and $0.2 million, respectively, as a reduction to Direct salaries and related costs and General and administrative costs in the accompanying Consolidated Statement of Operations for the year ended December 31, 2004. In December 2004, we reached an agreement with the City of Marianna to donate the underlying land to the city with $0.1 million to assist with the site demolition and clean up of the property with no further obligation of the Company.

***Reversal of Restructuring and Other Charges***

In 2004, restructuring and other charges included a $0.1 million reversal of certain charges related to the remaining lease termination and closure costs for two European customer contact management centers and one European fulfillment center.

In 2003, restructuring and other charges included a $0.6 million reversal of certain charges related to the final termination settlements for the closure of two of our European customer contact management centers and one European fulfillment center, the remaining site closure costs for our Galashiels, Scotland print facility and our Scottsbluff, Nebraska facility, which were both sold in 2003, offset by additional accruals related to the final settlement of certain lease termination and site closure costs.

***Impairment of Long-Lived Assets***

During 2004, we recorded a charge for impairment of long-lived assets of $0.7 million related to certain property and equipment in Bangalore, India as a result of our plans to migrate the call volumes of the customer contact management services and related operations in India to other facilities in the Asia Pacific region in 2005.

***Other Income and Expense***

Other income increased $0.7 million to $3.3 million for 2004, from $2.6 million in 2003. This increase 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, and a $0.6 million increase in other miscellaneous income offset by a $0.3 million decrease in foreign currency translation gains, net of losses including $0.7 million related to the liquidation of a foreign entity. Other income excludes the effects of cumulative translation effects included in Accumulated Other Comprehensive Loss in shareholders equity in the accompanying Consolidated Balance Sheets.

***Provision (Benefit) for Income Taxes***

The 2004 provision for income taxes of $5.1 million was based upon pre-tax book income of $15.9 million, compared to the 2003 provision for income taxes of $4.7 million based upon a pre-tax book income of $14.0 million. The $0.4 million change was primarily attributable to the $1.9 million change in pre-tax book income.

The effective tax rate was 31.8% for 2004 and 33.3% for 2003. This decrease in the effective tax rate resulted from 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) offset by a requisite valuation allowance for the year-to-date United States tax loss benefit provided during the second, third and fourth quarters of 2004 (partially reduced by the reversal of certain specific tax contingency reserves).

***Net Income (Loss)***

As a result of the foregoing, we reported income from operations for 2004 of $12.6 million, an increase of $1.2 million from 2003. This increase was principally attributable to an $8.9 million decrease in direct salaries and related costs, a $5.3 million increase in net gain on disposal of property and equipment and a $5.4 million net gain on insurance settlement offset by a $13.7 million decrease in revenues, a $3.5 million increase in general and administrative costs, a $0.7 million increase in impairment of long-lived assets and a $0.5 million decrease in reversals of restructuring and other charges, as previously discussed. The $1.2 million increase in income from operations and an increase in other income of $0.7 million were offset by a $0.4 million higher tax provision, resulting in net income of $10.8 million for 2004, an increase of $1.5 million compared to 2003.

**2003 Compared to 2002**

**Revenues**

During 2003, we recorded consolidated revenues of $480.4 million, an increase of $27.7 million or 6.1% from $452.7 million of consolidated revenues for 2002.

On a geographic segmentation basis, revenues from the Americas region, including the United States, Canada, Latin America, India and the Asia Pacific Rim, represented 66.9%, or $321.2 million for 2003 compared to 66.1%, or $299.2 million for 2002. Revenues from the EMEA region, including Europe, the Middle East and Africa, represented 33.1%, or $159.2 million for 2003 compared to 33.9% or $153.5 million for 2002.

The increase in Americas revenue of $22.0 million, or 7.4%, for 2003 was primarily attributable to an increase in revenues from our offshore operations, including Latin America, India and the Asia Pacific Rim, resulting from the continued acceleration in demand for a lower cost customer contact management solution as well as further diversification into new vertical markets. These offshore operations represented 16.9% of consolidated revenues for 2003 compared to 9.7% for 2002. We expect this trend of generating more of our revenues from offshore operations to continue into 2004. The increase in the Americas revenue was partially offset by the overall reduction in customer call volumes resulting from the economic downturn and the phasing out of two U.S. based original equipment manufacturer ( OEM ) technology clients. 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 the average revenue per seat generated offshore is less than it is in North America and Europe. While the average offshore revenue per seat is less, the operating margins generated offshore are generally comparable or higher than those in North America and Europe. 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.

The increase in EMEA s revenue of $5.7 million, or 3.7%, for 2003 was primarily related to the strengthening Euro, which positively impacted revenues for 2003 by approximately $26.2 million compared to the Euro in 2002. Without this foreign currency benefit, EMEA s revenues would have declined $20.5 million compared with last year due to the continued softness in customer call volumes resulting from the weak European economy.

**Direct Salaries and Related Costs**

Direct salaries and related costs increased $22.4 million or 7.8% to $309.5 million for 2003, from $287.1 million in 2002. As a percentage of revenues, direct salaries and related costs increased to 64.4% in 2003 from 63.4% for 2002. This increase was primarily attributable to an increase in staffing and training costs associated with the ramp-up of new business in our offshore operations, lower call volumes in the United States and Europe and lower margin European centers that were closed in the first quarter of 2003 in connection with our 2002 restructuring plan. Although the strengthening Euro positively impacted revenues, it increased direct salaries and related costs for 2003 by approximately $17.1 million compared to the Euro in 2002.

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**General and Administrative**

General and administrative expenses increased $6.2 million or 4.0% to $161.8 million for 2003, from $155.6 million in 2002. As a percentage of revenues, general and administrative expenses decreased to 33.7% in 2003 from 34.4% in 2002. This decrease was principally attributable to lower depreciation and bad debt expense partially offset by higher insurance and compliance costs as well as higher lease, travel, training, utilities and maintenance costs associated with the expansion of offshore facilities and certain duplicative operating costs related to the call volumes migrating offshore. Similar to the negative effect on direct salaries and related costs, the strengthening Euro also increased general and administrative expenses for 2003 by approximately $8.7 million compared to the Euro in 2002.

**Net Gain on Disposal of Property and Equipment**

The net gain on disposal of property and equipment of $1.6 million for 2003 included a $1.9 million net gain on the sale of our Scottsbluff, Nebraska facility (which was closed in connection with the 2002 restructuring plan) and a $0.2 million portion of the net gain related to the installment sale of our Eveleth, Minnesota facility offset by a $0.5 million loss on disposal of property and equipment. This compares to a $1.0 million net gain on disposal of property and equipment for 2002, which included a $1.8 million net gain on the sale of one of our Bismarck, North Dakota facilities offset by a $0.2 million net loss on the sale of certain assets of the print facility in Galashiels, Scotland and a $0.6 million loss on disposal of property and equipment.

**Restructuring and Other Charges (Reversals)**

In 2003, restructuring and other charges included a $0.6 million reversal of certain charges related to the final termination settlements for the closure of two of our European customer contact management centers and one European fulfillment center, the remaining site closure costs for our Galashiels, Scotland print facility and our Scottsbluff, Nebraska facility, which were both sold in 2003, offset by additional accruals related to the final settlement of certain lease termination and site closure costs.

In 2002, restructuring and other charges included a $20.8 million charge related to the write-off of certain assets, lease terminations and severance costs, related to the closure and consolidation of two U.S. and three European customer contact management centers, capacity reductions within the European fulfillment operations and the elimination of 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 our infrastructure in-line with the current business environment.

**Impairment of Long-Lived Assets**

During 2002, we recorded a charge for impairment of long-lived assets of $1.5 million related to the write-off of certain intangible assets associated with a customer contact management agreement for which the level of call volumes fell below anticipated levels.

**Other Income and Expense**

Other income was $2.6 million for 2003, compared to other expense of $13.2 million for 2002. This change of $15.8 million was primarily attributable to a $13.8 million charge for the uninsured portion of a class action settlement in 2002, a $0.8 million increase in interest earned on cash and cash equivalents net of interest expense and a $1.2 increase in foreign currency translation gains net of losses and other miscellaneous income.

**Provision (Benefit) for Income Taxes**

The 2003 tax provision of $4.7 million was based upon pre-tax book income of $14.0 million, whereas the 2002 tax benefit of $5.8 million was based upon a pretax book loss of $24.4 million. The $10.5 million change was primarily attributable to the $38.4 million change in pre-tax book income. The increase in the effective tax rate for 2003 resulted from a shift in our mix of earnings within tax jurisdictions and the related effects of permanent differences, state income taxes, varying foreign income tax rates (including tax holiday jurisdictions) and requisite valuation allowances.

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**Net Income (Loss)**

As a result of the foregoing, income from operations for 2003 was $11.4 million, an increase of $22.6 million from 2002. As previously discussed, this increase was principally attributable to a $27.7 million increase in revenues, a $0.6 million increase in net gain on disposal of property and equipment, a $21.4 million decrease in restructuring and other charges and a $1.5 million decrease in impairment of long-lived assets offset by a $22.4 million increase in direct salaries and related costs and a $6.2 million increase in general and administrative costs. The $22.6 million increase in income from operations and an increase in other income of $15.8 million were offset by a $10.5 million higher tax provision resulting in net income of $9.3 million for 2003, an increase of $27.9 million compared to 2002.

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**Quarterly Results**

The following information presents our unaudited quarterly operating results for 2004 and 2003. The data has been prepared on a basis consistent with the Consolidated Financial Statements, as restated, included elsewhere in this Form 10-K/A, and include all adjustments, consisting of normal recurring accruals that we consider necessary for a fair presentation thereof.

**(In thousands, except per share data)**

| | **12/31/04** | **9/30/04** | **06/30/04** | **03/31/04** | 12/31/03 | 9/30/03 | 06/30/03 | 03/31/03 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **$ 120,713** | **$ 111,507** | **$ 113,450** | **$ 121,043** | $ 124,212 | $ 119,912 | $ 118,949 | $ 117,286 |
| Direct salaries and related costs | **72,766** | **70,578** | **73,867** | **83,389** | 79,119 | 76,506 | 76,508 | 77,356 |
| General and administrative[1] | **41,303** | **41,338** | **41,315** | **41,276** | 43,099 | 39,862 | 38,875 | 39,907 |
| Net (gain) loss on disposal of property and equipment[2,3] | **94** | **(2,874)** | **(1,394)** | **(2,741)** | (47) | (1,736) | 107 | 81 |
| Net gain on insurance settlement[4] | **(5,378)** | | | | | | | |
| Restructuring and other charges (reversals) [5] | **(113)** | | | | (446) | (200) | | |
| Impairment of long-lived assets[6] | **690** | | | | | | | |
| Income (loss) from operations | **11,351** | **2,465** | **(338)** | **(881)** | 2,487 | 5,480 | 3,459 | (58) |
| Other income (expense)[3] | **157** | **5** | **1,893** | **1,209** | 1,347 | 490 | 408 | 343 |
| Income (loss) before provision (benefit) for income taxes | **11,508** | **2,470** | **1,555** | **328** | 3,834 | 5,970 | 3,867 | 285 |
| Provision (benefit) for income taxes | **3,084** | **1,398** | **481** | **84** | 1,201 | 2,039 | 1,314 | 97 |
| Net income (loss) | **$ 8,424** | **$ 1,072** | **$ 1,074** | **$ 244** | $ 2,633 | $ 3,931 | $ 2,553 | $ 188 |
| Net income (loss) per basic share[7] | **$ 0.21** | **$ 0.03** | **$ 0.03** | **$ 0.01** | $ 0.07 | $ 0.10 | $ 0.06 | $ 0.00 |
| | **39,197** | **39,189** | **39,882** | **40,216** | 40,184 | 40,307 | 40,350 | 40,368 |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total weighted average basic shares | | | | | | | | | | | | | | | | |
| Net income (loss) per diluted share(7) | **$** | **0.21** | **$** | **0.03** | **$** | **0.03** | **$** | **0.01** | $ | 0.07 | $ | 0.10 | $ | 0.06 | $ | 0.00 |
| Total weighted average diluted shares | | **39,304** | | **39,259** | | **39,998** | | **40,388** | | 40,445 | | 40,491 | | 40,424 | | 40,371 |

*(1) The quarter ended September 30, 2004 includes a $2.3 million estimated compensation accrual related to the Chairman s retirement and the quarter ended December 31, 2004 includes a $0.6 million reversal of part of this accrual related to life insurance premiu*