

CONVERGYS CORP
Form 10-Q
August 01, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2011

OR

.. **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 1-14379

CONVERGYS CORPORATION

(Exact name of registrant as specified in its charter)

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Incorporated under the laws of the State of Ohio

201 East Fourth Street, Cincinnati, Ohio 45202

I.R.S. Employer Identification Number 31-1598292

Telephone - Area Code (513) 723-7000

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

At June 30, 2011, there were 120,009,383 common shares, without par value, outstanding, excluding amounts held in Treasury of 64,866,472.

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CONVERGYS CORPORATION

Form 10-Q

For the Period Ended

June 30, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 551.6	\$ 528.2	\$ 1,096.2	\$ 1,074.2
Costs and Expenses:				
Cost of providing services and products sold	346.4	319.4	685.1	641.4
Selling, general and administrative	130.6	141.0	262.4	299.6
Research and development costs	13.0	14.1	26.5	29.2
Depreciation	21.1	25.7	42.3	51.3
Amortization	2.4	2.6	4.8	5.2
Restructuring charges		17.6		17.6
Total costs and expenses	513.5	520.4	1,021.1	1,044.3
Operating Income	38.1	7.8	75.1	29.9
Earnings from Cellular Partnerships, net	10.0	11.7	20.2	25.0
Other income (expense), net	0.2	(1.7)	7.8	6.6
Interest expense	(4.3)	(5.4)	(8.9)	(11.1)
Income before Income Taxes	44.0	12.4	94.2	50.4
Income tax expense	12.3	1.2	27.6	13.6
Income from Continuing Operations, net of tax	31.7	11.2	66.6	36.8
Income from Discontinued Operations, net of tax		16.2		25.9
Net Income	\$ 31.7	\$ 27.4	\$ 66.6	\$ 62.7
Other Comprehensive Income (Loss), net of tax:				
Foreign currency translation adjustments	(1.5)	11.0	4.7	9.1
Unrealized loss on hedging activities	(1.5)	(10.9)	(3.3)	(1.1)
Total other comprehensive (loss) income	(3.0)	0.1	1.4	8.0
Total Comprehensive Income	\$ 28.7	\$ 27.5	\$ 68.0	\$ 70.7
Basic Earnings Per Common Share:				
Continuing operations	\$ 0.26	\$ 0.09	0.55	\$ 0.30
Discontinued operations		0.13		0.21
Basic Earnings per Common Share	\$ 0.26	\$ 0.22	\$ 0.55	\$ 0.51

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Diluted Earnings Per Common Share:

Continuing operations	\$ 0.26	\$ 0.09	\$ 0.53	\$ 0.29
Discontinued operations		0.13		\$ 0.21

Diluted Earnings per Common Share	\$ 0.26	\$ 0.22	\$ 0.53	\$ 0.50
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Weighted Average Common Shares Outstanding:

Basic	120.7	123.9	121.4	123.6
Diluted	124.1	126.0	124.8	126.0

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(In Millions)	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 181.3	\$ 186.1
Receivables, net of allowances of \$11.8 and \$11.0	359.7	371.6
Deferred income tax assets	42.7	40.9
Prepaid expenses	42.4	38.3
Other current assets	54.0	56.8
Current assets held for sale	11.8	11.8
Total current assets	691.9	705.5
Property and equipment, net	341.5	347.6
Goodwill, net	820.7	820.5
Other intangibles, net	34.9	40.1
Investment in Cellular Partnerships	66.1	64.3
Deferred income tax assets	36.6	38.1
Other assets	124.3	109.2
Total Assets	\$ 2,116.0	\$ 2,125.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Debt and capital lease obligations maturing within one year	\$ 51.3	\$ 91.0
Payables, deferred revenue and other current liabilities	357.0	380.2
Total current liabilities	408.3	471.2
Long-term debt and capital lease obligations	121.5	119.3
Deferred income tax liabilities	96.8	76.4
Accrued pension liability	125.7	129.6
Other long-term liabilities	139.0	144.7
Total liabilities	891.3	941.2
Shareholders' Equity		
Preferred shares without par value, 5.0 authorized; none outstanding		
Common shares without par value, 500.0 authorized; 184.9 and 184.2 issued, 120.0 and 122.1 outstanding, as of June 30, 2011 and December 31, 2010, respectively	1,103.9	1,094.5
Treasury stock 64.9 and 62.1 as of June 30, 2011 and December 31, 2010, respectively	(1,094.0)	(1,060.2)
Retained earnings	1,228.7	1,165.1
Accumulated other comprehensive loss	(13.9)	(15.3)
Total shareholders' equity	1,224.7	1,184.1
Total Liabilities and Shareholders' Equity	\$ 2,116.0	\$ 2,125.3

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Millions)	Six Months Ended June 30,	
	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 66.6	\$ 62.7
Income from discontinued operations		25.9
Income from continuing operations	66.6	36.8
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	47.1	56.5
Gain on sale of business, net of deferred tax expense of \$2.7	(4.3)	
Deferred income tax expense	15.8	(1.5)
Earnings from Cellular Partnerships, net	(20.2)	