

APAC CUSTOMER SERVICE INC

Form 10-Q

August 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2005

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 0-26786

APAC Customer Services, Inc.

(Exact name of registrant as specified in its charter)

Illinois
(State or other jurisdiction
of incorporation or organization)

36-2777140
(I.R.S. Employer
Identification No.)

Six Parkway North, Deerfield, Illinois 60015

(Address of Principal Executive Offices, Zip Code)

Registrant's telephone number, including area code: **(847) 374-4980**

Indicate by check mark whether 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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

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

Yes No

There were 49,454,654 common shares, \$0.01 par value per share, outstanding as of August 10, 2005.

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Part I. Financial Information

Item 1. Consolidated Condensed Financial Statements

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Consolidated Condensed Balance Sheets

(Unaudited)

(In thousands, except per share data)

	July 3, 2005	January 2, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 865	\$ 271
Accounts receivable, net	32,146	41,002
Other current assets	10,280	11,253
Total current assets	43,291	52,526
Property and equipment, net	24,722	24,214
Goodwill	23,876	23,876
Other intangible assets, net	11,515	12,688
Deferred taxes	11,087	5,748
Other assets	625	481
Total assets	\$ 115,116	\$ 119,533
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 4,988	\$ 313
Accounts payable	3,034	3,544
Income taxes payable	17,253	16,629
Accrued payroll and related items	13,305	15,048
Accrued liabilities	8,525	8,481
Total current liabilities	47,105	44,015
Long-term debt, less current maturities		
Other liabilities	1,221	1,355
Commitments and contingencies		
Shareholders' equity		
Common shares, \$0.01 par value; 200,000,000 shares authorized; 49,695,699 shares issued at July 3, 2005, and January 2, 2005	497	497
Additional paid-in capital	99,598	99,598
Accumulated deficit	(32,307)	(24,912)
Accumulated other comprehensive loss	(151)	(173)
Treasury shares: 241,045 shares, at cost at July 3, 2005, and January 2, 2005	(847)	(847)
Total shareholders' equity	66,790	74,163
Total liabilities and shareholders' equity	\$ 115,116	\$ 119,533

See notes to consolidated condensed financial statements

APAC Customer Services, Inc. and Subsidiaries

Consolidated Condensed Statements of Operations

(Unaudited)

(In thousands, except share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 3, 2005	June 27, 2004	July 3, 2005	June 27, 2004
Net revenue	\$ 58,159	\$ 68,006	\$ 123,833	\$ 139,410
Cost of services	55,335	58,496	114,309	118,626
Gross Profit	2,824	9,510	9,524	20,784
Operating expenses:				
Selling, general and administrative expenses	9,111	9,682	18,972	20,501
Restructuring and other charges	860	999	1,137	1,850
Asset impairment charges	124	124	124	2,234
Total operating expenses	10,095	10,805	20,233	24,585
Operating loss	(7,271)	(1,295)	(10,709)	(3,801)
Interest expense (income), net	457	(63)	639	97
Loss before income taxes	(7,728)	(1,232)	(11,348)	(3,898)
Income tax benefit	(2,715)	(468)	(3,953)	(1,481)
Net loss	\$ (5,013)	\$ (764)	\$ (7,395)	\$ (2,417)
Net loss per share:				
Basic	\$ (0.10)	\$ (0.02)	\$ (0.15)	\$ (0.05)
Diluted	\$ (0.10)	\$ (0.02)	\$ (0.15)	\$ (0.05)
Weighted average number of shares outstanding:				
Basic	49,455	49,454	49,455	49,451
Diluted	49,455	49,454	49,455	49,451

See notes to consolidated condensed financial statements.

APAC Customer Services, Inc. and Subsidiaries

Consolidated Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Twenty-Six Weeks Ended	
	July 3, 2005	June 27, 2004
Operating activities:		
Net loss	\$ (7,395)	\$ (2,417)
Depreciation and amortization	5,950	5,423
Non-cash restructuring charges	22	190
Asset impairment charges	124	2,200
Deferred income taxes	(4,235)	32
Change in operating assets and liabilities	7,237	(2,277)
Net cash provided by operating activities	1,703	3,151
Investing activities:		
Purchases of property and equipment, net of disposals	(5,307)	(4,227)
Net cash used by investing activities	(5,307)	(4,227)
Financing activities:		
Borrowings under revolving credit facility	4,882	
Payments on long-term debt	(207)	(192)
Financing costs	(477)	
Stock and warrant transactions		24
Net cash provided (used) by financing activities	4,198	(168)
Net change in cash and cash equivalents	594	(1,244)
Cash and cash equivalents:		
Beginning balance	271	11,428
Ending balance	\$ 865	\$ 10,184

See notes to consolidated condensed financial statements

APAC Customer Services, Inc. and Subsidiaries

Notes to Consolidated Condensed Financial Statements

(Unaudited)

(Dollars in thousands, except as otherwise indicated)

1. Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of APAC Customer Services, Inc. and its subsidiaries (collectively, the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the thirteen and twenty-six week periods ended July 3, 2005, are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2006. The balance sheet at January 2, 2005, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For additional information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended January 2, 2005. Copies of the Company's filings are available on a web site maintained by the SEC at <http://www.sec.gov>.

The Company has sustained significant losses in fiscal 2004 and in the first six months of fiscal 2005. In particular, the Company incurred a net loss of \$7.4 million for the first six months of fiscal 2005, compared to a net loss of \$2.4 million for the same period in fiscal 2004, and an overall net loss of \$6.5 million for the fiscal year ended January 2, 2005. In an effort to return the Company to profitability, the Company has initiated a restructuring plan to exit virtually all of its outbound customer acquisition business, close over half of its Customer Interaction Centers, eliminate 400 salaried positions and pursue other operational improvements as discussed in Note 11. To facilitate its restructuring plan, the Company entered into a waiver and amendment to its credit agreement with LaSalle Bank on July 27, 2005, which is described in Note 8. The Company expects that its cash balances, cash flows from future operations and available borrowings under its credit facility will be sufficient to meet normal operating needs, fund any planned capital expenditures, fund any expenditures related to the Company's restructuring plan and repay debt obligations payable during fiscal 2005. However, a significant change in operating cash flow or in the implementation of the Company's restructuring plan could negatively impact the Company's ability to meet its cash requirement needs and comply with the covenants in the Credit Agreement.

2. Accrued Liabilities

The components of other accrued liabilities included in the consolidated condensed balance sheets are as follows:

July 3, 2005	January 2, 2005
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