

CONVERGYS CORP  
Form 10-K  
February 28, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

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

For the fiscal year ended December 31, 2013

Commissions file number 1-14379

CONVERGYS CORPORATION

An Ohio  
Corporation  
201 East Fourth Street, Cincinnati, Ohio 45202  
Telephone Number (513) 723-7000

I.R.S. Employer  
No. 31-1598292

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares (no par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes No ☒

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 (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) 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. ☒

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 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 ☒

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The aggregate market value of the voting shares held by non-affiliates of the registrant was \$1,808,245,231, computed by reference to the closing sale price of the stock on the New York Stock Exchange on June 30, 2013, the last business day of the registrant's most recently completed second fiscal quarter.

At January 31, 2014, there were 100,777,834 common shares outstanding, excluding amounts held in treasury of 88,166,404.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Shareholders to be held on April 24, 2014 are incorporated by reference into Part III of this report.

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## SAFE HARBOR STATEMENT AND PART I, ITEM 1. BUSINESS

### Private Securities

### Litigation Reform Act of 1995

### Safe Harbor Cautionary Statement

This report and the documents incorporated by reference contain “forward-looking” statements, as defined in the Private Securities Litigation Reform Act of 1995, that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs and expectations of Convergys Corporation (the Company or Convergys), are forward-looking statements and will contain words such as “believes,” “expects,” “intends,” “could,” “should,” “will,” “plans,” “anticipates” and other similar words. These statements discuss projections and expectations; and, therefore, actual results may differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they were made. The Company has no current intention to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Important factors that may affect these forward-looking statements include, but are not limited to: the behavior of financial markets including fluctuations in interest or exchange rates; continued volatility and deterioration of the capital markets; the impact of regulation and regulatory, investigative, and legal actions; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; future financial performance of major industries which we serve; the loss of a significant client or significant business from a client; difficulties in completing a contract or implementing its provisions; and numerous other matters of national, regional, and global scale including those of the political, economic, business, and competitive nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. The “Risk Factors” set forth in Part I, Item 1A of this report could also cause actual results to differ materially from the forward-looking statements.

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Convergys Corporation (we, the Company or Convergys) is a global leader in customer management, focused on bringing value to its clients through every customer interaction. Over half of the Fortune 50 companies trust Convergys to care for their most important asset: their customers. The Company's business model allows us to deliver consistent, quality service, at the scale and in the geographies that meet our clients' business needs. The Company leverages its breadth and depth of capabilities to help leading companies create quality customer experiences across multiple channels, while increasing revenue and reducing their cost to serve. Convergys is uniquely positioned as a well capitalized leader in our market and is able to invest in the services, technology, and analytics that matter to our clients and their customers.

Convergys was formed as an Ohio corporation in 1998. The Company maintains an internet website at [www.convergys.com](http://www.convergys.com). Information about the Company is available on the website, free of charge, including the annual report filed on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). The Company's website and the information contained therein are not considered as being incorporated into this Annual Report. You may read and copy any materials the Company files with the SEC at the SEC's public reference room at 100 F Street NE, Washington, DC 20549. The public may obtain information about the

operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's website is [www.sec.gov](http://www.sec.gov).

The Company has a Code of Business Conduct that applies to all employees as well as our Board of Directors; a Financial Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and certain other management and senior employees; and Governance Principles for our Board of Directors.

The Code of Business Conduct, Financial Code of Ethics and Governance Principles, as well as the charters for the Audit Committee, Finance Committee, Compensation and Benefits Committee and Governance and Nominating Committee of our Board of Directors, are posted on our website at [www.convergys.com](http://www.convergys.com). The Company will post on our website any amendments to, or waivers of, the

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Code of Business Conduct and Financial Code of Ethics. Copies of these documents also will be provided free of charge upon written request directed to Investor Relations, Convergys Corporation, 201 East Fourth Street, Cincinnati, Ohio 45202.

## OUR BUSINESS

Convergys is a global leader in customer management. Our talented and dedicated team serves leading brands in industries such as communications, retail, healthcare, technology, financial services, and government. Convergys is passionate about delivering world class customer service each and every day. We understand that our clients have individual business needs and that customer service in an increasingly multi-channel environment can be complicated.

Convergys handles more than 4 billion customer contacts per year. We have approximately 84,000 employees in over 75 locations across the globe and in our work-at-home environment. We provide multilingual, multichannel customer care with a global service delivery infrastructure. Our clients benefit from our worldwide workforce located in various parts of the world, including the United States, Canada, the Philippines, Malaysia, India, Costa Rica, Colombia and the U.K. During 2013, Convergys acquired New Zealand based Datacom's contact center operations with facilities in Kuala Lumpur, Malaysia and Manila, Philippines. The acquisition added 15 Asian languages to Convergys' language capabilities and approximately 1,000 employees, working in three Southeast Asia contact centers.

Our 30+ years of experience and unique mix of agents, analytics and technology allow us to expertly guide our clients as they balance their priorities to grow revenue, improve customer satisfaction, and reduce costs. Our agents provide a full range of contact center services delivered via phone, email and chat. We provide solutions across the customer lifecycle, including:

- Customer Service
- Customer Retention
- Technical Support
- Business-to-Consumer Sales
- Complex Device Support
- Business-to-Business Sales and Account Management
- Back Office
- Collections
- Quality Assurance
- Direct Response

Our innovative contact center technology solutions include:

- Multichannel Interaction Solutions (Intelligent Self-Service, Voice, Chat, Email, and Knowledge Management)
- Cross-Channel Integration Framework
- Real-Time Decisioning Engine
- Intelligent Notifications
- Campaign Management
- Personalized Care
- Personalized Selling
- Agent Productivity
- Retention
- Credits

More than 400 professionals deliver data-driven insights to improve the customer experience through analytics and consulting solutions, including:

Post-Contact Surveys  
Relational Loyalty Research  
Segmentation and Profiling  
Repeat Call Analysis  
Agent Path Analysis  
Customer Interaction Assessment  
Chat Optimization  
Integrated Contact Center Analytics

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The geographic information included in Item 8, Note 17 of the Notes to Consolidated Financial Statements, is incorporated by reference in partial response to this Item 1.

## STRATEGY

Convergys' strategy is to build on its leading position in a large global market by investing in what matters most to its clients and leveraging its strong financial position to drive sustainable growth and value creation.

### Build on a Leading Market Position to Grow With Loyal and Expanding Client Base

Convergys is a leader in the large, global customer management business process outsourcing (BPO) market. The Company's primary focus is on growth with U.S. multinational corporations in the communications, financial services, technology and other vertical markets. The U.S. market is the largest customer management market and continues to project growth. As a leader in the U.S. market, Convergys will continue to compete for additional market share by expanding with existing clients and further penetrating under-served verticals through pursuit of new logos.

### Capitalize on Industry Trends by Investing in Quality, Capability and Clients

Several trends play to Convergys' strengths, including increasing call complexity, full life-cycle services, vendor consolidation and off-shore delivery. To capitalize on these trends, the Company invests in a combination of global quality delivery, comprehensive solutions and close client engagement.

#### Increasing Call Complexity

The nature of customer calls is becoming increasingly complex. As technology becomes more complicated, customer calls to troubleshoot this technology also become increasingly complicated. Convergys invests in its global operating model to ensure the right talent is trained and supported by the right tools to handle these complex calls in a quality manner, at scale, regardless of location.

#### Full Life-Cycle Services

Client strategies for customer service change rapidly. Increasingly clients want to work with partners that offer a breadth and depth of capabilities and the flexibility to make rapid adjustments to the services they provide to their customers. To meet these changing client needs, Convergys invests in comprehensive solutions consisting of services, technology and analytics that support the full life-cycle of contact types including customer acquisition, service, sales, retention and collections.

#### Vendor Consolidation

Increasingly, clients seek to drive efficiencies and a consistent customer experience by concentrating outsourced operations with a smaller number of strategic partners. Convergys invests in account management to ensure close client engagement in order to better understand unique client needs, consistently deliver the right mix of solutions and quickly ramp programs when consolidating volume from other vendors.

#### Off-shore Delivery

Clients demand contact center services from multiple geographies. Convergys invests in global capacity to provide the right services in the right geographies to drive the quality delivery and value our clients demand.

### Leverage Financial Strength to Invest in Strategic Growth, Return Capital to Investors

Convergys is a well-capitalized market leader that generates strong operating cash flow which allows it to both invest in strategic growth and return capital to investors. The Company follows a disciplined capital deployment strategy through selective pursuit of acquisitions, focusing on diversity of clients, capabilities and countries and the return of capital to investors through opportunistic share repurchases and a quarterly dividend.

## CLIENTS

We derive significant revenues from AT&T Inc. (AT&T), our largest client. Revenues from AT&T were 20.9%, 23.1% and 23.4% of our consolidated revenues for 2013, 2012 and 2011, respectively. We also derive significant revenues from the DIRECTV Group, Inc. (DIRECTV) and Comcast Corporation (Comcast). Revenues from DIRECTV were 12.5%, 12.3% and 11.8% of our consolidated revenues for 2013, 2012 and 2011, respectively, while revenues from Comcast were 12.4%, 12.4% and 12.0%, respectively, for the same periods.

We focus on developing long-term, strategic relationships with large companies in customer-intensive industries. We focus on these types of clients because of the complexity of services required, the anticipated growth of their market segments and their increasing need for more cost-effective customer management services.

## OPERATIONS

We operate over 75 contact centers averaging approximately 70,000 square feet per center. We have approximately 49,000 production workstations and provide service 24 hours a day, 365 days a year. Under our global operating model, our contact centers are located in various parts of the world including the United States, the Philippines, India, Costa Rica, Colombia, Canada and the U.K. New contact centers are established to accommodate anticipated growth in business or in response to a specific customer need.

Our contact centers employ a broad range of technology including digital switching, intelligent call routing and tracking, proprietary workforce management systems, case management tools, proprietary software systems, computer telephony integration, interactive voice response, advanced speech recognition, web-based tools and relational database management systems. This technology enables us to improve our call, web and e-mail handling and personnel scheduling, thereby increasing our efficiency and enhancing the quality of the services we deliver to our clients and their customers. With this technology, we are able to respond to changes in client call volumes and move call volume traffic based on agent availability. Additionally, we use this technology to collect information concerning the contacts, including number, response time, duration and results of the contact. This information is reported to the client on a periodic basis for purposes of monitoring quality of service and accuracy of the related billing.

We operate two primary data centers, one in Orlando, Florida, and the other in Cincinnati, Ohio, comprising, in total, approximately 170,000 square feet of space. Our technologically advanced data centers provide 24 hours a day, 365 days a year availability (with redundant power and communication feeds and emergency power back-up) and are designed to withstand most natural disasters.

The capacity of our data center and contact center operations, coupled with the scalability of our customer management solutions, enable us to meet initial and ongoing needs of large-scale and rapidly growing companies and government entities. By employing the scale and efficiencies of common application platforms, we are able to provide client-specific enhancements and modifications without incurring many of the costs of a full custom application. This allows us to be in a position to be a value-added provider of customer support products and services.

## TECHNOLOGY, RESEARCH AND DEVELOPMENT

We will continue to emphasize the design, development and deployment of scalable customer management solutions. Our success depends, in part, on our advanced technology used in the delivery of services to clients. As a result, we continue to invest in the enhancement and development of our contact center technology.

Our intellectual property consists primarily of business methods and software systems. To protect our proprietary rights, we rely primarily on a combination of U.S. and foreign copyright, trade secret and trademark laws; confidentiality agreements with employees and third parties and protective contractual provisions such as those contained in licenses and other agreements with consultants, suppliers, strategic partners and clients.

We own 155 patents which protect our technology and business methods that we use both to manage our internal systems and processes effectively and give us competitive advantages in developing innovative technologies to provide customer management services to our clients. The first of these patents was issued in September 1995, while the most recent patent was granted January 28, 2014. These patents generally have a life of 20 years. Additional applications for U.S. patents currently are pending.

Our name and logo are protected by their historic use and by trademarks and service marks that are registered or pending in the U.S. Patent and Trademark Office and under the laws of more than 50 foreign countries.

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## EMPLOYEES

As of December 31, 2013, we employed approximately 84,000 employees in over 75 locations across the globe and in our work-at-home environment. Our clients benefit from our worldwide workforce located in the United States, Canada, the Philippines, Malaysia, India, Costa Rica, Colombia and the U.K.

## COMPETITION

The market in which we operate is competitive. Our competitors include other customer management companies, such as SITEL Corp., Sykes Enterprises Inc., Teleperformance, TeleTech Holdings Inc., and West Corporation. In addition, niche providers or new entrants can enter the market by developing new systems or services that could impact our business.

## ITEM 1A. RISK FACTORS

General economic and market conditions may adversely affect our business, results of operations and financial condition.

Our results of operations are affected directly by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets that they serve. Future economic slowdowns in some markets, particularly in the United States, may cause reductions in spending by our clients, which may result in reductions in the growth of new business as well as reductions in existing business. There can be no assurance that the effects of such slowdowns will not adversely impact our results of operations and financial condition.

If our clients are not successful, or the trend towards outsourcing does not continue, the amount of business that our clients outsource and the prices that they are willing to pay for such services may diminish and could adversely affect our business.

Our revenues depend on the success of our clients. If our clients or their specific programs are not successful, the amount of business that they outsource may be diminished. There can be no assurance that the level of revenues generated by such contracts will meet expectations. A reduction in the amount of business we receive from our clients could result in stranded capacity and costs. In addition, we may face pricing pressure from clients, which could negatively affect our operating results.

Growth of our revenues depends, in large part, on the trend toward outsourcing. Outsourcing involves companies contracting with a third party, such as Convergys, to provide customer management services rather than performing such services in-house. There can be no assurance that this trend will continue, as organizations may elect to perform such services in-house. A significant change in this trend could have a material adverse effect on our financial condition and results of operations.

A large portion of our revenue is generated from a limited number of clients, and the loss of significant work from one or more of our clients could adversely affect our business.

Our three largest clients, as discussed under the section above titled "Clients," collectively represented 45.8% of our revenues for 2013. While we typically have multiple work orders and/or contracts with our largest customers which would not all terminate at the same time, the loss of one or more of the larger work orders or contracts with one of our largest clients could adversely affect our business, results of operations and financial condition if the lost revenues were not replaced with profitable revenues from that client or other clients.

Our business is substantially dependent on the condition of the global communications industry.

Approximately 60% of our revenue in 2013 was received from customers operating in the global communications industry. The global communications industry in the past has experienced significant fluctuations in growth rates and capital investment, and it is impossible to predict its future performance. Our revenues and earnings could be adversely affected by general weakness or a slowdown in the communications industry.

Our failure to successfully acquire and integrate businesses could cause our business to suffer.

We have made, and in the future may make, acquisitions of or investments in companies, technologies or products in existing, related or new markets. Business combinations, acquisitions and investments involve numerous risks that vary depending on their scale and nature, including risks associated with:

- diversion of management's attention from other operational matters;
- the failure of acquired businesses to meet or exceed expected returns;

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- ineffective integration of operations, systems, technologies, or employees, which can affect the ability to realize anticipated synergies or other benefits;
- failure to attract, retain and motivate key employees;
- the potential impact of the announcement or consummation of a proposed transaction on relationships with third parties;
- potential changes in our credit rating, which could adversely impact the Company's access to and cost of capital;
- reductions in cash balances and/or increase in debt obligations to finance activities associated with a transaction, which reduce the availability of cash flow for general corporate or other purposes;
- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where we have not historically conducted business;
- challenges associated with managing new, more diverse and more widespread operations, projects and people, and providing services to new industries;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, anti-corruption, human resource, or other policies or practices;
- unknown, underestimated and/or undisclosed commitments or liabilities; and
- inappropriate scale of acquired entities' critical resources or facilities for business needs.

The occurrence of any of these risk could have a material adverse effect on our business, results of operations, financial condition or cash flows, particularly in the case of a larger acquisition or several concurrent acquisitions.

We process, transmit and store personally identifiable information and unauthorized access to or the unintended release of this information could result in a claim for damage or loss of business and create unfavorable publicity.

We process, transmit and store personally identifiable information, both in our role as a service provider and as an employer. This information may include social security numbers, financial and health information, as well as other personal information. As a result, we are subject to certain contractual terms, as well as federal, state and foreign laws and regulations, designed to protect personally identifiable information. While we take measures to protect the security and privacy of this information and to prevent unauthorized access, it is possible that our security controls over personal data and other practices we follow may not prevent the improper access to or disclosure of personally identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or customer data, whether through system failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for clients, whether by our employees or third parties, could result in negative publicity, legal liability and damage to our reputation, business, results of operations and financial condition.

Interruption of our data centers and contact centers could have a materially adverse effect on our business.

In the event that we experience a temporary or permanent interruption at one or more of our data or contact centers, through natural disaster, casualty, operating malfunction, cyber attack, sabotage or other causes, we may be unable to provide the data services we are contractually obligated to deliver. This could result in us being required to pay contractual damages to some clients or to allow some clients to terminate or renegotiate their contracts. Notwithstanding disaster recovery and business continuity plans and precautions instituted to protect our clients and us from events that could interrupt delivery of services (including property and business interruption insurance that we maintain), there is no guarantee that such interruptions would not result in a prolonged interruption in our ability to provide support services to our clients or that such precautions would adequately compensate us for any losses we may incur as a result of such interruptions.

Natural events, war, terrorist attacks, other civil disturbances and epidemics could disrupt our operations or lead to economic weakness in the countries in which we operate, resulting in a decrease of our revenues, earnings and cash flow.

Natural events (such as floods and earthquakes), war, terrorist attacks and epidemics of contagious illness could disrupt our operations in the U.S. and abroad and could lead to economic weakness in the countries in which they occur. We have substantial operations in countries such as the Philippines that have been subject to severe natural events, such as earthquakes and floods, in the past. Such disruptions could cause service interruptions or reduce the quality level of the services that we provide, resulting in a reduction of our revenues, earnings and cash flow and the payment of contractual penalties to our customers. These events may also cause our clients to reconsider their use of our services.

Our ability to deliver our services is at risk if the technology and network equipment that we rely upon is not maintained or upgraded in a timely manner.

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Technology is a critical foundation in our service delivery. We utilize and deploy internally developed and third party software solutions across various hardware environments. We operate an extensive internal voice and data network that links our global sites together in a multi-hub model that enables the rerouting of traffic. Also, we rely on multiple public communication channels for connectivity to our clients. Our clients are highly dependent upon the high availability and uncompromised security of our systems. These systems are subject to the risk of an extended interruption or outage due to many factors, such as system failures, acts of nature and intentional, unauthorized attacks from third parties. Accordingly, maintenance of and investment in these foundational components are critical to our success. If the reliability of our technology or network operations falls below required service levels, or a systemic fault affects the organization broadly, we may be obligated to pay performance penalties to our customers, and our business from existing and potential clients may be jeopardized and cause our revenue and cash flow to decrease.

Our earnings are affected by changes in foreign currency.

Our business serves an increasing number of its U.S.-based clients using contact center capacity in the Philippines, India, Latin America and Canada. More than half of our approximately 84,000 employees are located outside the United States. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred by Convergys to render services under these contracts is denominated in Philippine pesos, Indian rupees, Canadian dollars or Colombian pesos, which represents a foreign exchange exposure to the Company. We enter into forward exchange contracts and options to limit potential foreign currency exposure. If the U.S. dollar weakens the operating expenses of these contact centers, translated into U.S. dollars, increase. It is intended that the increase in operating expenses will be partially offset by gains realized through the settlement of the hedged instruments. As the derivative instruments that limit our potential foreign currency exposures are entered into over a period of several years, the overall impact to earnings will be determined by both the timing of the derivative instruments and the movement of the U.S. dollar. In addition to the impact on our operating expenses that support dollar-denominated contracts, changes in foreign currency impact the results of our international business units that are located outside of North America.

The cash we hold may be subject to counterparty credit risk and we may not be able to repatriate to the U.S. cash held in foreign accounts without paying taxes.

While we continuously monitor the creditworthiness of the institutions holding our cash, the recent global economic and credit crisis has weakened the creditworthiness of many financial institutions. If one or more of the institutions holding our cash were to experience cash flow problems or were to become subject to insolvency proceedings, we may not be able to recover some or all of our deposited cash. As of December 31, 2013, approximately 40% of our cash and short term investments balance of \$663.7 million was held in accounts outside of the United States, most of which would be subject to additional taxes if repatriated to the United States.

In addition, the counterparties to our hedge transactions are financial institutions or affiliates of financial institutions, and we are subject to risks that these counterparties become insolvent and fail to perform their financial obligations under these hedge transactions. Our hedging exposure to counterparty credit risk is not secured by any collateral.

We may not be able to predict our future tax liabilities. If we become subject to increased levels of taxation or if tax contingencies are resolved adversely, our results of operations and financial condition could be adversely affected.

Due to the international nature of our operations, we are subject to the complex and varying tax laws and rules of several foreign jurisdictions. We may not be able to predict the amount of future tax liabilities to which we may become subject due to some of these complexities if our positions are challenged by local tax authorities. Any increase in the amount of taxation incurred as a result of challenges to our tax filing positions or due to legislative or regulatory changes could result in a material adverse effect on our business, results of operations and financial condition. We are



subject to tax audits, including issues related to transfer pricing, in the United States and other jurisdictions. We have material tax-related contingent liabilities that are difficult to predict or quantify. While we believe that our current tax provisions are reasonable and appropriate, we cannot be assured that these items will be settled for the amounts accrued or that additional exposures will not be identified in the future or that additional tax reserves will not be provided for any such exposures.

Our results of operations could be adversely affected by litigation and other commitments and contingencies.

The Company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, commercial, tax and patent infringement claims. Unfavorable outcomes in pending litigation, or in future litigation, could negatively affect us.

In the ordinary course of business, we may make certain commitments, including representations, warranties and indemnities relating to current and past operations and divested businesses, and issue guarantees of third party obligations. The amounts of such commitments can only be estimated, and the actual amounts may differ materially from our estimates.

If we were required to make payments as a result of any of these matters and they exceed the amounts accrued, this could adversely affect our business, results of operations and financial condition.

We are susceptible to business and political risks from international operations that could result in reduced revenues or earnings.

We operate a global business and have facilities located throughout North and South America, Europe and the Asia-Pacific region. In addition, as North American companies require additional off-shore customer management outsourcing capacity, we expect to continue international expansion through start-up operations and acquisitions. Expansion of our existing international operations and entry into additional countries will require management attention and financial resources. There are certain risks inherent in conducting business internationally including: exposure to currency fluctuations, longer payment cycles, greater difficulties in accounts receivable collection, difficulties in complying with a variety of laws in these jurisdictions, changes in legal or regulatory requirements, difficulties in staffing and managing foreign operations, inflation, political instability, compliance with anti-bribery and anti-corruption legislation and potentially adverse tax consequences. To the extent that we are adversely affected by these risks, our business could be adversely affected and our revenues and/or earnings could be reduced.

Our business is subject to many regulatory requirements, and current or future regulation could significantly increase our cost of doing business.

Our business is subject to many laws and regulatory requirements in the United States and the foreign countries in which we operate, covering such matters as labor relations, health care requirements, trade restrictions, tariffs, taxation, sanctions, data privacy, consumer protection, internal and disclosure control obligations, governmental affairs and immigration. In the U.S., as well as several of the other countries in which we operate, some of our services must comply with various laws and regulations regarding the method and timing of placing outbound telephone calls and the recording or monitoring of telephone calls. Many of these regulations, including those related to data privacy, are frequently changing and sometimes conflict among the various jurisdictions and countries in which we provide services. Violations of these laws and regulations, some of which can be conflicting, could result in liability for damages, fines, criminal prosecution, unfavorable publicity and restrictions on our ability to operate. Our failure to adhere to or successfully implement processes in response to changing regulatory requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, results of operations and financial condition.

Because a substantial portion of our operating costs consist of labor costs, changes in governmental regulations (particularly in the foreign jurisdictions in which we operate) relating to wages, healthcare and healthcare reform and other benefits or employment taxes could have a material adverse effect on our business, results of operations or financial condition.

In addition, there has been political discussion and debate related to worldwide competitive sourcing, labor-related legislation and information-flow restrictions, particularly from the United States to off-shore locations. Federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from outsourcing services outside of the U.S. Future legislation, if enacted, could have an adverse effect on our business, results of operations and financial condition.

Our business performance and growth plans may be negatively affected if we are unable to effectively manage changes in the application and use of technology.

The utilization of technology in our industry has and will continue to increase rapidly. Our future success depends, in part, upon our ability to develop and implement technology solutions that anticipate and keep pace with continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely and cost-effective basis, and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies in our business requires us to incur significant expenses. If we cannot offer new technologies as quickly as our competitors or if our competitors develop more cost-effective technologies, it could have a material adverse effect on our ability to obtain and complete customer engagements. Also, if customer preferences for technology disproportionately outpace other interaction preferences, it could have a material adverse impact on our revenue profile and growth plans.

Defects or errors within our software could adversely affect our business.

Design defects or software errors may delay software introductions or reduce the satisfaction level of clients and may have a materially adverse effect on our business and results of operations. Our software is highly complex and may, from time to time, contain design defects or software errors that may be difficult to detect and/or correct. Because both our clients and we use our software to perform critical business functions, design defects, software errors or other potential problems within or outside of our control may arise from the use of our software. It may also result in financial or other damages to our clients, for which we may be held responsible. Although our license agreements with our clients may often contain provisions designed to limit our exposure to potential claims and liabilities arising from client problems, these provisions may not effectively protect us against such claims in all cases and in all jurisdictions. Claims and liabilities arising from client problems could result in monetary damages to us and could cause damage to our reputation, adversely affecting our business, results of operations and financial condition.

If we do not effectively manage our capacity, our results of operations could be adversely affected.

Our ability to profit from the global trend toward outsourcing depends largely on how effectively we manage our contact center capacity. In order to create the additional capacity necessary to accommodate new or expanded outsourcing projects, we may need to open new contact centers. The opening or expansion of a contact center may result, at least in the short-term, in idle capacity until we fully implement the new or expanded program. The usage of home agents could help mitigate this risk. We periodically assess the expected long-term capacity utilization of our contact centers. As a result, we may, if deemed necessary, consolidate, close or partially close under-performing contact centers to maintain or improve targeted utilization and margins. There can be no guarantee that we will be able to achieve or maintain optimal utilization of our contact center capacity.

We also may experience short-term and/or longer-term fluctuations in client demand for services performed in one or more of our contact centers. Short-term downward fluctuations may result in less than optimal site utilization for a period of time. Longer-term downward fluctuations may result in site closures. As a result, we may not achieve or maintain targeted site utilization levels, or site utilization levels may decrease over certain periods, and our profitability may suffer as a result.

A large portion of our accounts receivable is payable by a limited number of clients and the inability of any of these clients to pay its accounts receivable could adversely affect our business.

Because a large portion of our revenue is generated from a limited number of clients, we often carry significant accounts receivable balances from those clients. While we closely monitor these balances, if a significant client were financially unable or unwilling, for any reason, to pay our accounts receivable, our income and cash flow would decrease. We also have several important clients that are in industries that have been severely impacted by the current global economic slowdown. In addition, our income could be materially impacted by a number of small clients declaring bankruptcy within a short period of time.

We may incur material restructuring charges in the future.

In the past, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. We continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce, and operating facilities. In addition, changing industry and market conditions may dictate strategic decisions to restructure some business units and discontinue others. As a result, there is a risk, which is increased during economic downturns and with expanded global operations, that we may incur material restructuring charges in the future.

We may incur additional non-cash goodwill impairment charges in the future.

As described in Note 6 of the Notes to Consolidated Financial Statements, we test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicates the carrying value of goodwill may no longer be recoverable. There can be no assurances that we will not incur impairment charges in the future, particularly in the event of a prolonged economic slowdown.

Our controls and procedures may not prevent or detect all errors or acts of fraud.

Any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of controls must consider the benefits of controls relative to their costs. Controls cannot assure that no judgments in decision-making will be faulty or that breakdowns will not occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. While controls are designed with the intent of providing reasonable assurance of the effectiveness of the controls, such design is also based in

part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected, and we could lose investor confidence in the accuracy and completeness of our financial reports and other disclosures, which could have an adverse effect on our stock price.

The markets in which we operate include a large number of service providers and are highly competitive.

Many of our competitors are expanding the services they offer in an attempt to gain additional business. In addition, new competitors, alliances among competitors or competitors' mergers could result in significant market share gain. Some of our competitors may have or may develop a lower cost structure, adopt more aggressive pricing policies or provide services that gain greater market acceptance than the services that we offer or develop. Large and well-capitalized competitors may be able to better respond to the need for technological changes faster, price their services more aggressively, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share. Our customers routinely negotiate for better pricing, and in order to respond to increased competition and pricing pressure, we may be required to lower our pricing structure, which would have an adverse effect on our revenues and profit margin.

Client consolidations could result in a loss of clients and adversely affect our business.

We serve clients in industries that have experienced a significant level of consolidation. We cannot assure that additional consolidations will not occur in which our clients acquire additional businesses or are acquired themselves. Such consolidations may result in the termination of an existing client contract, which could have an adverse effect on our business, results of operations and financial condition.

Our success is subject to the terms of our client contracts.

Most of our client contracts do not have minimum volume requirements, and the profitability of each client contract or work order may fluctuate, sometimes significantly, throughout various stages of the program. Certain contracts have performance-related bonus and/or penalty provisions which provide that the client may be required to pay us a bonus, or we may be required to issue the client a credit, based upon our meeting, or failing to meet, agreed-upon service levels and performance metrics. Our objective is to sign multi-year contracts with our clients; however, our contracts generally allow our client to terminate the contract for convenience or to reduce the amount of our services. We cannot be assured that our clients will not terminate their contracts before their scheduled expiration date, that the volume of services for these programs will not be reduced or that we will be able to avoid penalties or earn performance bonuses. In addition, we cannot be assured that each client contract will be profitable for us or that we will be able to terminate unprofitable contracts without incurring significant liabilities.

If we are unable to hire or retain qualified personnel in certain areas of our business, our ability to execute our business plans in those areas could be impaired and revenues could decrease.

We employ approximately 84,000 employees worldwide. At times, we have experienced difficulties in hiring personnel with the desired levels of training or experience. Additionally, in regard to the labor-intensive business of the Company, quality service depends on our ability to retain employees and control personnel turnover. Any increase in the employee turnover rate could increase recruiting and training costs and could decrease operating effectiveness and productivity. We may not be able to continue to hire, train and retain a sufficient number of qualified personnel to adequately staff new client projects.

The volatility of our stock price may result in loss of investment.

The trading price of our common shares has been and may continue to be subject to substantial 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 or divestitures, strategic partnerships or new product offerings, and changes in financial estimates and recommendations by securities analysts could cause the market price of our common shares to fluctuate substantially in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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None.

## ITEM 2. PROPERTIES

Our principal executive offices are located at 201 East Fourth Street, Cincinnati, Ohio 45202, and the telephone number at that address is (513) 723-7000. We own office facilities in Jacksonville, Florida, Pueblo, Colorado, Ogden, Utah and Orlando, Florida.

We lease space for our corporate headquarters, offices, data centers and contact centers. Domestic facilities are located in Arizona, Colorado, Florida, Georgia, Idaho, Kansas, Kentucky, Louisiana, Missouri, Nebraska, New Mexico, North Carolina, Ohio, Oklahoma, Tennessee, Texas, Utah, Virginia and Wisconsin. International facilities are located in Brazil, Canada, China, Colombia, Costa Rica, England, Germany, India, Indonesia, Malaysia, Netherlands, the Philippines, Singapore, South Africa, and the United Arab Emirates. Upon the expiration or termination of any such leases, we believe we could obtain comparable office space.

We also lease some of the computer hardware, computer software and office equipment necessary to conduct our business. In addition, we own computer, communications equipment, software and leasehold improvements. We depreciate these assets using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of their estimated useful life or the term of the associated lease.

We believe that our facilities and equipment are adequate and have sufficient productive capacity to meet our current needs.

## ITEM 3. LEGAL PROCEEDINGS

The information required by Item 3 is included in Note 11 of the Notes to Consolidated Financial Statements of this Form 10-K.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



## ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following information responds in part to the provisions of Part III, Item 10.

As of February 28, 2014, our Executive Officers were:

Name	Age	Title
Andrea J. Ayers <sup>(a)</sup>	50	President and Chief Executive Officer
Andre S. Valentine	50	Chief Financial Officer
Claudia L. Cline	60	Senior Vice President and General Counsel
Christine Timmins Barry	49	Senior Vice President of Global Operations

(a) Member of the Board of Directors

Officers are appointed annually, but are removable at the discretion of the Board of Directors.

ANDREA J. AYERS, President and Chief Executive Officer since November 2012; President and Chief Operating Officer, Customer Management since November 2010; President, Customer Management since April 2008; President, Relationship Technology Management, 2007-2008; President, Government and New Markets, 2005-2007.

ANDRE S. VALENTINE, Chief Financial Officer since August 2012; Senior Vice President of Finance, Customer Management, 2010-2012 and 2002-2009; Senior Vice President, Controller, 2009-2010; Vice President, Controller, 1998-2002.

CLAUDIA L. CLINE, Senior Vice President and General Counsel since September 2012; Customer Management General Counsel, 2011 - 2012; Senior Vice President Workforce Management and Development, 2008 - 2011.

CHRISTINE TIMMINS BARRY, Senior Vice President of Global Operations since December 2012; Senior Vice President Customer Management Global Operations, 2011 - 2012; Senior Vice President, Customer Management Operations of the Americas, 2009 - 2011; Senior Vice President Global Operations, Human Resource Management, 2008 - 2009.

## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Convergys Corporation's common shares, no par value, are listed on the New York Stock Exchange under the symbol "CVG." As of January 31, 2014, there were 8,271 holders of record of the 100,777,834 common shares of Convergys, excluding amounts held in Treasury (188,944,238 outstanding common shares of Convergys, of which 88,166,404 were held in Treasury).

The high, low and closing prices of our common shares for each quarter in 2013 and 2012 are listed below:

Quarter	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
2013				
High	\$17.05	\$18.66	\$19.91	\$21.40
Low	15.05	15.56	17.16	18.12
Close	17.03	17.43	18.75	21.05
2012				
High	\$14.23	\$14.82	\$16.55	\$17.42

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Low	12.13	12.40	14.33	14.68
Close	13.35	14.77	15.67	16.41

During 2012 and 2013, the Company's Board of Directors approved, and the Company paid, the following dividends per common share:

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Announcement Date	Record Date	Dividend Amount	Payment Date
May 8, 2012	June 22, 2012	\$0.05	July 6, 2012
July 26, 2012	September 21, 2012	\$0.05	October 5, 2012
October 23, 2012	December 21, 2012	\$0.05	January 4, 2013
February 7, 2013	March 22, 2013	\$0.06	April 5, 2013
April 30, 2013	June 21, 2013	\$0.06	July 5, 2013
July 30, 2013	September 20, 2013	\$0.06	October 4, 2013
November 6, 2013	December 27, 2013	\$0.06	January 10, 2014

On February 5, 2014, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.06 per common share to be paid on April 4, 2014 to shareholders of record as of March 21, 2014.

The Board expects that future cash dividends will be paid on a quarterly basis. However, any decision to pay future cash dividends will be subject to Board approval, and will depend on the Company's future earnings, cash flow, financial condition, financial covenants and other relevant factors.

We repurchased 6.7 million of our common shares for \$119.0 million during 2013, as summarized in the following table:

	Shares repurchased	Average price per share
January 2013	14,000	\$16.53
February 2013	1,265,171	16.51
March 2013	847,474	16.85
April 2013	1,487,158	16.40
May 2013	34,309	17.04
June 2013	16,152	18.11
July 2013	4,675	19.12
August 2013	773,386	19.27
September 2013	1,321,223	18.46
October 2013	782,500	19.24
November 2013	200,237	19.63
December 2013	22	20.73
Total	6,746,307	\$17.64

In February 2013, our Board of Directors approved an increase in the remaining authorized share repurchases to \$250.0 million in the aggregate. At December 31, 2013, the Company had the authority to repurchase up to an incremental \$133.3 million of outstanding common shares. The timing and terms of any future transactions depend on a number of considerations including market conditions and our liquidity and limits that may be applicable under the covenants in our credit agreement.

#### Performance Graph

The following Performance Graph compares, for the period from December 31, 2008 through December 31, 2013, the percentage change of the cumulative total shareholder return on the Company's common shares with the cumulative total return of the S&P 500 Stock Index, a Peer Group.

	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Convergys Corporation	\$100	\$168	\$205	\$199	\$258	\$336
S&P 500	\$100	\$126	\$146	\$149	\$172	\$228
Peer Group	\$100	\$147	\$144	\$105	\$138	\$216

The Peer Group consists of Sykes Enterprises Inc., Teleperformance and Teletech Holdings Inc.

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ITEM 6. SELECTED FINANCIAL DATA

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(Amounts in millions except per share amounts)	2013	2012	2011	2010	2009
<b>RESULTS OF OPERATIONS</b>					
Revenues	\$2,046.1	\$2,005.0	\$1,933.2	\$1,863.3	\$1,986.7
Costs and Expenses <sup>(1) (2)</sup>	1,908.7	1,966.4	1,823.1	2,017.2	1,942.6
Operating Income (loss)	137.4	38.6	110.1	(153.9)	)44.1
Earnings and gain from Cellular Partnerships, net	—	—	285.2	47.2	41.0
Other income (expense), net	5.1	4.3	9.8	8.9	(17.2)
Interest expense	(11.5)	)(13.6	)(16.1	)(19.5	)(28.9)
Income (loss) before Income Taxes	131.0	29.3	389.0	(117.3)	)39.0
Income tax expense (benefit) <sup>(3)</sup>	72.5	1.1	106.5	(7.5)	)(1.9)
Income (loss) from Continuing Operations, net of tax	58.5	28.2	282.5	(109.8)	)40.9
Income (loss) from discontinued operations <sup>(4)</sup>	2.4	72.4	52.3	56.6	(118.2)
Net Income (Loss)	\$60.9	\$100.6	\$334.8	\$(53.2)	\$(77.3)
<b>Basic Earnings (Loss) Per Common Share:</b>					
Continuing Operations	\$0.57	\$0.25	\$2.35	\$(0.89)	)\$0.33
Discontinued Operations	0.02	0.65	0.44	0.46	(0.96)
Basic Earnings (Loss) Per Common Share	\$0.59	\$0.90	\$2.79	\$(0.43)	\$(0.63)
<b>Diluted Earnings (Loss) Per Common Share:</b>					
Continuing Operations	\$0.54	\$0.24	\$2.30	\$(0.89)	)\$0.33
Discontinued Operations	0.02	0.62	0.42	0.46	(0.95)
Net Diluted Earnings (Loss) Per Common Share	\$0.56	\$0.86	\$2.72	\$(0.43)	\$(0.62)
<b>Weighted Average Common Shares Outstanding:</b>					
Basic	103.3	112.2	120.2	123.1	122.8
Diluted	109.2	117.1	122.9	123.1	124.9
<b>FINANCIAL POSITION</b>					
Total Assets	\$1,956.7	\$2,037.9	\$2,330.8	\$2,125.3	\$2,605.8
Total debt and capital lease obligations	61.1	60.6	127.1	210.2	465.9
Shareholders' Equity	1,289.6	1,371.9	1,411.5	1,184.1	1,206.4
<b>OTHER DATA</b>					
<b>Net cash flows provided by operating activities</b>					
Operating activities of continuing operations	\$208.4	\$103.9	\$161.4	\$179.2	\$268.4
Operating activities of discontinued operations	1.6	9.1	35.2	15.0	36.3
	\$210.0	\$113.0	\$196.6	\$194.2	\$304.7
<b>Net cash flows (used in) provided by investing activities</b>					
Investing activities of continuing operations	\$(36.6)	)(162.7	)(235.6	\$(63.0)	)(63.1)
Investing activities of discontinued operations	1.0	425.3	(13.5)	)63.7	(14.9)
	\$(35.6)	)(262.6	\$222.1	\$0.7	\$(78.0)
<b>Net cash flows (used in) provided by financing activities</b>					
Financing activities of continuing operations	\$(148.3)	)(242.6	)(183.0	)(336.9	)(133.4)
	—	(0.1)	)—	(3.6)	)(1.6)

Financing activities of discontinued  
operations

	\$(148.3	)\$(242.7	)\$(183.0	)\$(340.5	)\$(135.0	)
Free cash flow <sup>(5)</sup>	\$146.2	\$8.4	\$108.3	\$127.9	\$229.8	
EBITDA <sup>(6)</sup>	\$233.3	\$131.6	\$488.8	\$(2.5	)\$168.1	

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Costs and expenses include restructuring charges of \$5.4, \$11.6, \$1.2, \$28.7 and \$12.9 in 2013, 2012, 2011, 2010 (1) and 2009, respectively, asset impairment charges of \$1.5, \$88.6 and \$181.1 in 2013, 2012 and 2010, respectively, and net pension and other post employment benefit plan charges of \$13.1 and \$4.1 in 2013 and 2012, respectively. Costs and expenses also include \$8.8, \$23.6, \$28.4 and \$38.6 in 2012, 2011, 2010 and 2009, respectively, of certain costs previously allocated to the Information Management segment, and \$9.1 and \$32.1 in 2010 and 2009, (2) respectively, of certain costs previously allocated to the HR Management segment, that do not qualify as discontinued operations and are reported as costs from continuing operations. The Company took actions to reduce these costs and earned transition service revenues, resulting from services being provided to the buyers subsequent to completion of the sale of Information Management and HR Management, to offset these costs.

(3) Income tax expense in 2013 includes \$46.4 of expense to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's foreign subsidiaries.

(4) Discontinued operations includes the historical financial results of the Information Management business and the HR Management line of business, excluding certain costs referred to in note 2, above, that did not meet the criteria for such presentation.

Free cash flow is not defined under accounting principles generally accepted in United States (U.S. GAAP) and is calculated as cash flows from operations less capital expenditures (net of proceeds from disposal). The Company uses free cash flow to assess the financial performance of the Company. Convergys' Management believes that free cash flow is useful to investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations, such as investment in the Company's existing businesses. Further, free cash flow facilitates Management's ability to strengthen the Company's balance sheet, to repay the Company's debt obligations and to repurchase the Company's common shares. Limitations associated with the use of free cash flow (5) include that it does not represent the residual cash flow available for discretionary expenditures as it does not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by using both the non-GAAP measure, free cash flow, and the GAAP measure, cash from operating activities, in its evaluation of performance. There are no material purposes for which we use this non-GAAP measure beyond the purposes described above. For more detail and a reconciliation of cash flows from operations to free cash flows, see the "Financial Condition, Liquidity and Capital Resources" section in Part II, Item 7 of this report.

EBITDA is not defined under U.S. GAAP and is calculated as income from continuing operations plus tax expense, interest expense, depreciation and amortization. The Company uses EBITDA to monitor and evaluate the performance of the business and believes the presentation of this measure will enhance the investors' ability to analyze trends in the business and evaluate the Company's underlying performance relative to other companies in the industry. The Company also utilizes EBITDA in the calculations for certain employee incentive compensation plans. EBITDA should not be considered in isolation or as a substitute for income from continuing operations, net (6) of tax or other income statement data prepared in accordance with U.S. GAAP and our presentation of EBITDA may not be comparable to similarly-titled measures used by other companies. Management uses the non-GAAP measure, EBITDA, and the U.S. GAAP measure, income from continuing operations, net of tax, in evaluation of its underlying performance. There are no material purposes for which we use the non-GAAP measure beyond the purposes described above. The non-GAAP measure should be considered supplemental in nature and should not be considered in isolation or be construed as being more important than comparable GAAP measures. For more detail and reconciliation of income from continuing operations, net of tax, to EBITDA, see the "Financial Condition, Liquidity and Capital Resources" section in Part II, Item 7 of this report.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Amounts in millions except per share amounts)

### BACKGROUND

Convergys Corporation (we, the Company or Convergys) is a global leader in customer management, focused on bringing value to our clients through every customer interaction. Over half of the Fortune 50 companies trust us to care for their most important asset: their customers. Our business model allows us to deliver consistent, quality service, at the scale and in the geographies that meet our clients' business needs and pro-actively partner to solve client business challenges through our account management model. We leverage our breadth and depth of capabilities to help leading companies create quality customer experiences across multiple channels, while increasing revenue and reducing their cost to serve.

#### Operations and Structure

Prior to May 2012, we had two reportable segments, Customer Management and Information Management. In March 2012, we signed a definitive agreement to sell the Information Management business to NEC Corporation for \$449.0 in cash. The sale closed in May 2012, for which we received \$462.6 in cash, including working capital adjustments. As a result of the sale of the Information Management business, the operating results and assets and liabilities related to Information Management have been reflected as discontinued operations for all periods presented. The total gain on the sale of the Information Management business amounted to \$99.8 pretax, and \$16.2 net of taxes at December 31, 2012. During 2013, we recorded an additional gain of \$2.4, net of tax, as certain contingencies and tax positions were settled or adjusted.

As a result of the change in classification of the Information Management business to discontinued operations, the change in our Chief Executive Officer in the fourth quarter of 2012, and in order to reflect the internal financial reporting structure and operating focus of our new management team and chief operating decision maker, we report operating results and assets and liabilities as a single segment on a consolidated basis. Segment information for previous periods has been reclassified to conform to the current reporting structure.

On April 30, 2013, we acquired New Zealand-based Datacom's contact center operations with facilities in Kuala Lumpur, Malaysia and Manila, Philippines for \$20.0 AUD (approximately \$20.0 USD). The acquisition added 15 Asian languages to Convergys' language capabilities and approximately 1,000 employees, working in three Southeast Asia contact centers, to Convergys' global operations.

Convergys delivers more than 4 billion customer contacts per year. We have approximately 84,000 employees in over 75 locations across the globe and in our work-at-home environment. We provide multilingual, multichannel customer care with a global service delivery infrastructure that operates 24 hours a day, 365 days a year. Our clients benefit from our worldwide workforce located in the United States, Canada, the Philippines, Malaysia, India, Costa Rica, Colombia and the U.K.

Agent-related revenues, which account for approximately 91% of revenues for 2013, are typically recognized as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. Remaining revenues are derived from the sale of premise-based and hosted automated self-care and technology solutions and provision of professional services. Revenues from the sale of these solutions and provision of services are typically recognized as services are provided over the duration of the contract using contractual rates.

#### Merger Agreement

On January 6, 2014, the Company and its wholly-owned subsidiary, Comet Merger Co. ("Merger Sub") entered into an Agreement and Plan of Merger (the "Merger Agreement") with SGS Holdings, Inc. ("Stream") and, for limited purposes, other Sellers listed in the Merger Agreement. In accordance with the Merger Agreement, Merger Sub will merge with and into Stream, with Stream surviving the Merger as a wholly-owned subsidiary of the Company. Stream is a global business process outsource provider specializing in customer relationship management, including technical support, customer care and sales, for Fortune 1000 companies. Stream has over 40,000 employees capable of supporting over 35 languages across approximately 56 service centers in 22 countries.

The Board of Directors of each of the Company and Stream have approved the Merger. The Company has received a copy of an irrevocable written consent executed by holders of 100% of the currently outstanding shares of common stock of Stream, adopting the Merger Agreement and the anticipated transactions.

The aggregate purchase price of \$820.0 will be subject to an adjustment following the closing based on actual levels of Stream's cash, debt and working capital at closing. The Company expects this transaction to close during the first quarter of 2014. During 2013, the Company recognized \$46.4 of tax expense to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's foreign subsidiaries, reflecting management's plans to repatriate undistributed earnings of the Company's foreign subsidiaries to contribute funding to our announced acquisition of Stream.

## RESULTS OF OPERATIONS

### Revenues

	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11	
Revenues:						
Communications	\$1,218.0	\$1,205.4	1	\$1,147.6	5	
Technology	198.6	172.7	15	170.0	2	
Financial Services	179.9	203.3	(12	) 208.0	(2	)
Other	449.6	423.6	6	407.6	4	
Total Revenues	\$2,046.1	\$2,005.0	2	\$1,933.2	4	

### 2013 vs. 2012

Consolidated revenues for 2013 were \$2,046.1, a 2% increase from \$2,005.0 in 2012. Revenue related to the acquired Datacom operations contributed less than half of the growth in the current year. Revenues from communications clients increased 1% from 2012, reflecting volume increases and new programs with several existing clients, partially offset by a volume decrease with our largest client. Revenues from technology clients increased 15% from 2012 primarily due to volume increases, new programs with existing clients and contributions from the Datacom operations. Revenues from financial services clients decreased 12% from 2012, primarily reflecting program completion with one client. Other revenues, which are comprised of clients outside the Company's three largest industries, increased 6% from 2012 due to volume increases, new programs with existing and new clients, partially offset by a program completion with one client. Other revenues for 2013 and 2012 also include \$17.1 and \$13.8, respectively, of transition services revenues earned under agreements with NEC Corporation related to the sale of the Information Management business. The transition services agreements vary in duration up to 24 months depending on the type of service provided, and our expectation is that we will substantially eliminate the underlying costs as the transition services are completed.

### 2012 vs. 2011

Consolidated revenues for 2012 were \$2,005.0 compared to \$1,933.2 in 2011. Revenues from communications clients increased 5% from 2011, reflecting volume increases with several large clients. Revenues from technology clients increased 2% from 2011 due to volume increases from existing and new clients partially offset by program completions with one client. Revenues from financial services clients decreased 2% from 2011, primarily reflecting program completions, including client migrations from legacy technology offerings, partially offset by revenue from a new client. Other revenues, which are comprised of clients outside the Company's three largest industries, increased 4% from 2011 due to volume increases and new programs with existing clients, partially offset by program completions. Other revenues for 2012 also include \$13.8 of transition services revenues earned under agreements with NEC Corporation related to the sale of the Information Management business. The transition services agreements vary in duration up to 24 months depending on the type of service provided, and our expectation is that we will substantially eliminate the underlying costs as the transition services are completed. Other revenues for 2011 also include \$14.4 of transition services revenue earned under agreements with NorthgateArinso that expired in 2011.

related to the sale of the HR Management business.

#### Operating Costs and Expenses

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	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Operating Costs:					
Cost of providing services and products sold	\$1,335.1	\$1,289.5	4	\$1,240.4	4
Selling, general and administrative	467.7	477.2	(2	) 483.8	(1 )
Research and development costs	8.2	10.8	(24	) 14.0	(23 )
Depreciation	85.5	82.4	4	76.3	8
Amortization	5.3	6.3	(16	) 7.4	(15 )
Restructuring	5.4	11.6	(53	) 1.2	NM
Asset impairments and other	1.5	88.6	NM	—	NM
Total costs and expenses	\$1,908.7	\$1,966.4	(3	) \$1,823.1	8

2013 vs. 2012

Consolidated total operating costs and expenses for 2013 of \$1,908.7 decreased 3% from \$1,966.4, primarily due to the \$88.6 non-cash impairment charge during 2012 consisting of \$46.0 for goodwill of the Customer Interaction Technology reporting unit and \$42.6 for the impairment of certain facilities classified as held for sale. The Company recorded an additional impairment charge of \$1.5 during 2013 to reduce the carrying value of certain facilities to estimated fair value less cost to sell.

Costs of providing services and products sold increased 4% from \$1,289.5 in 2012 to \$1,335.1 in 2013. As a percentage of revenues, the cost of providing services and products sold was 65.3% in 2013 compared to 64.3% in the prior year. This increase was primarily due to the timing of certain program ramps in the current year. Selling, general and administrative expenses of \$467.7 decreased 2% from the prior year. As a percentage of revenues, selling, general and administrative cost was 22.9% in 2013 compared to 23.8% in 2012. Expense for 2013 includes the \$13.1 net pension and other post employment benefit plan charges, restructuring charges of \$5.4 and \$2.7 of transaction expenses associated with the anticipated acquisition of Stream. Expense in 2012 included \$11.6 in restructuring charges, \$4.1 of pension and other post employment benefit plan charges and \$8.8 of certain legacy costs associated with the Information Management business that did not qualify for discontinued operations treatment. Excluding these items in both years, the decrease in selling, general and administrative expense was primarily due to cost reductions previously taken along with continued efforts to control costs. Research and development costs of \$8.2 decreased \$2.6 from 2012 due to reductions in headcount. Depreciation expense of \$85.5 increased \$3.1 from the prior year reflecting the increase in capital expenditures throughout 2012 to support increased capacity. Amortization expense of \$5.3 decreased \$1.0 due to completion of the amortization of certain definite lived intangible assets.

2012 vs. 2011

Consolidated total operating costs and expenses for 2012 of \$1,966.4 increased 8% from \$1,823.1 in 2011, primarily due to \$88.6 non-cash impairment charges, consisting of \$46.0 for the impairment of goodwill in the Customer Interaction Technology (CIT) reporting unit, and \$42.6 for the impairment of certain facilities classified as held for sale. We also recognized \$11.6 in restructuring charges and net \$4.1 pension and other post employment benefit plan charges during 2012 as a result of changes in the executive management team, and a high level of pension-related payments due to the sale of the Information Management business and completion of the corporate simplification process. Operating results for 2011 include \$5 of insurance recoveries in excess of costs incurred, partially offset by the impact of a client bankruptcy.

As discussed previously, in May 2012 we completed the sale of the Information Management business and, accordingly, the operating results are presented within discontinued operations. Accounting rules require certain costs previously allocated to the Information Management business to be included in continuing operations. These costs were \$8.8 in 2012 compared with \$23.6 in 2011. These amounts are included within selling, general and administrative expenses within continuing operations.

As a percentage of revenues, the cost of providing services and products sold was 64.3% in 2012 compared to 64.2% in the prior year. Selling, general and administrative expenses of \$477.2 decreased 1% from the prior year.

As a percentage of revenues, selling, general and administrative expenses were 23.8% in 2012 compared to 25.0% in 2011 as a result of cost reductions previously taken, continued efforts to control costs, and the Information Management related costs discussed above, partially offset by net pension and other post employment benefit plan charges in 2012 and net insurance recoveries in 2011. Research and development costs of \$10.8 decreased \$3.2 from 2011 due to reductions in headcount. Depreciation expense of \$82.4 increased \$6.1 from the prior year reflecting an increase in capital expenditures related to increased capacity.

We recorded \$11.6 of restructuring charges in 2012, reflecting the change in the Company's executive management team and further corporate simplification. Additionally, we initiated an incremental restructuring plan in 2011 resulting in a \$1.2 severance charge largely to reduce headcount and align resources to future business needs. See additional information under the "Restructuring Charges" heading below for the 2012 and 2011 plans.

#### Operating Income and Adjusted Operating Income (a non-GAAP measure)

In order to assess the underlying operational performance of the continuing operations of the business and to have a basis to compare underlying results to prior and future periods, we provide the non-GAAP measures, Adjusted Operating Income and Adjusted Operating Margin, in the table below. For the years ended December 31, 2013, 2012 and 2011 Adjusted Operating Income and Adjusted Operating Margin exclude the following:

1. Transaction expenses of \$2.7 in 2013 associated with Convergys' anticipated acquisition of Stream. These expenses related to fees paid for third-party consulting services;
2. Net impairment charge of \$1.5 in 2013 related to the adjustment of two facilities held for sale to their fair values less costs to sell as discussed in Note 6 of the Notes to Consolidated Financial Statement, as well as asset impairment charges of \$88.6 in 2012, including \$46.0 for impairment of goodwill of the CIT reporting unit and \$42.6 for impairment of facilities classified as held for sale;
3. Net pension and other post employment benefit charges as discussed in Note 9 of the Notes to Consolidated Financial Statements consisting of 2013 non-cash pension settlement charges of \$13.4 and settlement gain of \$0.3 related to the Executive Deferred Compensation Plan, as well as a net charge of \$4.1 in 2012, resulting from \$4.1 of curtailment credits from pension and other post employment benefit plans, \$1.4 of post-retirement benefit costs related to the changes in the executive management team, and a \$6.8 pension settlement charge due to elevated payouts as a result of the sale of the Information Management business, and;
4. Restructuring charges resulting from the sale of the Information Management business of \$6.4 as discussed in Note 8 of the Notes to Consolidated Financial Statements in 2012;
5. Certain costs previously allocated to the Information Management business that are now included in continuing operations as discussed below and in more detail in Note 3 of the Notes to Consolidated Financial Statements (these costs were \$8.8 and \$23.6 in 2012 and 2011, respectively).

Adjustments for these items are relevant in evaluating the overall performance of the business. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for this limitation by using both the non-GAAP measures and the GAAP measures in its evaluation of performance. There are no material purposes for which we use these non-GAAP measures beyond those described above. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Operating Income	\$137.4	\$38.6	NM	\$110.1	(65 )
Operating Margin	6.7	% 1.9	%	5.7	%
Acquisition related expenses	2.7	—	NM	—	—
Restructuring	—	6.4	NM	—	NM
Asset impairments and other	1.5	88.6	NM	—	NM
Net pension and other post employment benefit plan charges	13.1	4.1	NM	—	NM
Information Management costs not qualifying as Discontinued Operations	—	8.8	NM	23.6	(63 )
	\$154.7	\$146.5	6	\$133.7	10

Adjusted Operating Income (a non-GAAP measure)

Adjusted Operating Margin	7.6	% 7.3	%	6.9	%
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2013 vs. 2012

Consolidated Convergys operating income was \$137.4 in 2013 compared to operating income of \$38.6 in 2012. Excluding the impacts of items discussed above, consolidated adjusted operating income for 2013 was \$154.7 compared to \$146.5 in 2012.

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## 2012 vs. 2011

Consolidated Convergys operating income was \$38.6 in 2012 compared to \$110.1 in 2011. Excluding the impacts of the items discussed above, consolidated adjusted operating income for 2012 was \$146.5 compared to \$133.7 in 2011.

## Non-Operating Items

	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Operating Income	\$137.4	\$38.6	NM	\$110.1	(65 )
Earnings and gain from Cellular Partnerships, net	—	—	—	285.2	NM
Other income, net	5.1	4.3	19	9.8	(56 )
Interest expense	(11.5	)(13.6	)(15	)(16.1	)(16 )
Income before Income Taxes	\$131.0	\$29.3	NM	\$389.0	(92 )

## 2013 vs. 2012

Other income of \$5.1 in 2013 increased from \$4.3 in 2012 primarily due to an increase in interest income. Interest expense of \$11.5 improved from \$13.6 in the prior year reflecting a lower level of average debt outstanding during 2013 as well as the incremental interest expense of \$1.1 related to the purchase of the Orlando facility during 2012.

## 2012 vs. 2011

Consolidated results for 2011 include a pre-tax gain of \$265.0, \$171.8 net of tax, from the sale of our investment in the Cellular Partnerships, comprised of our 33.8% interest in Cincinnati SMSA Limited Partnership and our 45.0% interest in the Cincinnati SMSA Tower Holdings, LLC, to AT&T, the general partner and a limited partner in both partnerships. Upon the close of the sale on July 1, 2011, we received cash proceeds of \$320. We recorded income from our investment in the Cellular Partnerships of \$20.2 in 2011 prior to the sale.

Other income of \$4.3 in 2012 was due to income from our short-term investments and foreign exchange transaction gains. Other income of \$9.8 in 2011 was primarily due to a pre-tax gain of \$7.0 on the sale of the Finance and Accounting line of business and foreign exchange transaction gains. The foreign exchange gains and losses arise from transactions denominated in a currency other than the functional currency. As discussed in further detail in the section titled "Market Risk," we periodically enter into forward exchange contracts to protect the Company against these foreign currency exposures. The gains and losses from these forward exchange contracts related to balance sheet positions are reported within other income (expense), net. Interest expense of \$13.6 includes \$1.1 of incremental interest expense related to the purchase of the Orlando facility which was partially offset by the lower level of debt outstanding throughout 2012.

## Income Taxes

	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Income before Income Taxes	\$131.0	\$29.3	NM	\$389.0	(92 )
Income tax expense	72.5	1.1	NM	106.5	(99 )
Income from Continuing Operations, net of tax	\$58.5	\$28.2	NM	\$282.5	(90 )

## 2013 vs. 2012

Our effective tax rate on net income from continuing operations was 55.3% in 2013 compared to 3.8% in 2012. The higher effective tax rate in the current year is primarily due to additional tax expense of \$46.4 to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's foreign subsidiaries, reflecting management's plans to repatriate undistributed earnings of the Company's foreign subsidiaries to contribute funding to our announced acquisition of SGS Holdings, Inc. The higher income tax rate in 2013 was also impacted by a shift in the geographical mix of worldwide

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income. The lower effective tax rate in 2012 was primarily due to geographical mix of worldwide income and the impact of internal restructurings.

#### 2012 vs. 2011

Our effective tax rate on net income from continuing operations was 3.8% in 2012 compared to 27.4% in 2011. The lower effective tax rate in 2012 was primarily due to geographic mix of worldwide income and the impact of internal restructurings. Prior year tax expense includes \$93.2 expense from the sale of our interests in the Cellular Partnerships and \$17.0 of net tax benefits from international transactions and certain other discrete items.

Prior to March 31, 2011, we were under a tax holiday in India. The impact of the expiration of this holiday was mitigated by expansion in other jurisdictions with lower tax rates. See Note 14 of the Notes to Consolidated Financial Statements for further discussion related to effective tax rates.

Net Income from Continuing Operations; Earnings per Diluted Share from Continuing Operations; Adjusted Net Income from Continuing Operations; Adjusted Earnings per Diluted Share from Continuing Operations (non-GAAP measures)

In order to assess the underlying operational performance of the continuing operations of the business, we provide non-GAAP measures in the tables below that exclude, in addition to the operating charges discussed above, the following:

1. Tax expense of \$46.4 in 2013 to record the deferred tax liability associated with a change in classification for a portion of undistributed earnings of the Company's foreign subsidiaries;
2. The gain on the sale of our interests in the Cellular Partnerships of \$265.0 in 2011;
3. The gain on the sale of the Finance and Accounting outsourcing line of business of \$7.0 in 2011, reported within other income, net;
4. For comparability to current period results, income from our investment in the Cellular Partnerships of \$20.2 for 2011;
5. Net tax benefits from international transactions, including certain discrete items, of \$6.7 and \$17.0 in 2012 and 2011, respectively, and;
6. Incremental interest expense of \$1.1 related to the purchase of the Orlando facility for 2012

We use income from continuing operations, net of tax and earnings per share data excluding the above items to assess the underlying operational performance of the continuing operations of the business for the year and to have a basis to compare underlying results to prior and future periods. Adjustments for these items are relevant in evaluating the overall performance of the business. Limitations associated with the use of these non-GAAP measures include that these measures do not present all of the amounts associated with our results as determined in accordance with GAAP. Management compensates for these limitations by using the non-GAAP measures, income from continuing operations, net of tax and diluted earnings per share excluding these items, and the GAAP measures, income from continuing operations, net of tax and diluted earnings per share, in its evaluation of performance. There are no material purposes for which we use these non-GAAP measures beyond those described above.

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	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Income from Continuing Operations, net of tax	\$58.5	\$28.2	NM	\$282.5	(90 )
Total operating charges from above, net of tax	11.9	84.5	NM	15.7	NM
Tax provision related to unremitted foreign earnings	46.4	—	NM	—	—
Earnings from Cellular Partnerships of \$20.2, net of tax	—	—	—	(13.1 )	NM
Gain on sale of interests in Cellular Partnerships of \$265.0, net of tax	—	—	—	(171.8 )	NM
Gain on sale of F&A line of business of \$7.0, net of tax	—	—	—	(4.3 )	NM
Debt reduction costs of \$1.1, net of tax	—	0.7	NM	—	NM
Adjustment of tax to normalized rate	—	(6.7 )	NM	(17.0 )	(61 )
Adjusted income from Continuing Operations, net of tax (a non-GAAP measure)	\$116.8	\$106.7	9	\$92.0	16
	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Diluted Earnings per Common Share:					
Continuing Operations	\$0.54	\$0.24	NM	\$2.30	(90 )
Impact of net charges above included in Continuing Operations, net of tax	0.53	0.67	(21 )	(1.55 )	NM
Adjusted diluted earnings per common share from Continuing Operations (a non-GAAP measure)	\$1.07	\$0.91	18	\$0.75	21

2013 vs. 2012

Income from continuing operations, net of tax for 2013 was \$58.5 compared to \$28.2 in 2012, while income from continuing operations per diluted share for 2013 was \$0.54 compared to \$0.24 in 2012. Excluding the items discussed above, adjusted income from continuing operations, net of tax for 2013 was \$116.8, or \$1.07 per diluted share, compared to \$106.7, or \$0.91 per diluted share for 2012.

2012 vs. 2011

Income from continuing operations, net of tax for 2012 was \$28.2 compared to \$282.5 in 2011, while income from continuing operations per diluted share for 2012 was \$0.24 compared to \$2.30 in 2011. Excluding the items discussed above, adjusted income from continuing operations, net of tax for 2012 was \$106.7, or \$0.91 per diluted share, compared to \$92.0, or \$0.75 per diluted share for 2011.

Results of Discontinued Operations, Results of Discontinued Operations per Diluted Share, Net Income and Net Income per Diluted Share

	2013	2012	% Change 13 vs. 12	2011	% Change 12 vs. 11
Income from Continuing Operations, net of tax	\$58.5	\$28.2	NM	\$282.5	(90 )
Income from Discontinued Operations, net of tax (benefit) expense of (\$8.8), \$51.1 and \$5.9	2.4	72.4	(97 )	52.3	38
Net Income	\$60.9	\$100.6	(39 )	\$334.8	NM

Diluted Earnings Per Common Share:

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Continuing Operations	\$0.54	\$0.24	NM	\$2.30	(90	)
Discontinued Operations	0.02	0.62	(97	)0.42	48	
Net Diluted Earnings Per Common Share	\$0.56	\$0.86	(35	)\$2.72	NM	

2013 vs. 2012

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The \$2.4 income from discontinued operations, net of tax, recognized in 2013 reflects the additional gain on sale of the Information Management business as certain contingencies and tax positions were settled or adjusted. The \$72.4 income from discontinued operations, net of tax, recognized in 2012 reflects income before tax of \$23.7 from operating activities of the Information Management business prior to the sale, net tax benefits from operations of divested benefits of \$32.5, and a \$16.2 gain, net of \$83.6 of tax, on the sale of the Information Management business. Income from discontinued operations, net of tax, per diluted share for 2013 and 2012 was \$0.02 and \$0.62, respectively.

Including the results of discontinued operations, 2013 net income and diluted earnings per share were \$60.9 and \$0.56, respectively, compared to \$100.6 and \$0.86, respectively, in 2012.

#### 2012 vs. 2011

The results from discontinued operations reflect the operating results of the Information Management business as well as tax benefits associated with changes in uncertain tax positions related to other previously divested businesses. Revenues from discontinued operations were \$128.8 and \$328.8 in 2012 and 2011, respectively. The \$72.4 income from discontinued operations, net of tax, recognized in 2012 reflects income before tax of \$23.7 from operating activities of the Information Management business prior to the sale, net tax benefits from operations of divested benefits of \$32.5, and a \$16.2 gain, net of \$83.6 of tax, on the sale of the Information Management business. The results of operations for 2011 include a \$6.5 tax benefit related to the HR Management business sold in 2010. Income from discontinued operations, net of tax, per diluted share for 2012 and 2011 was \$0.62 and \$0.42, respectively.

Including the results of discontinued operations, 2012 net income and diluted earnings per share were \$100.6 and \$0.86, respectively, compared to \$334.8 and \$2.72, respectively, in 2011.

#### EBITDA and Adjusted EBITDA (non-GAAP measures)

Management uses EBITDA and adjusted EBITDA and the GAAP measure, income from continuing operations, net of tax, to monitor and evaluate the underlying performance of the business and believes the presentation of these measures will enhance investors' ability to analyze trends in the business and evaluate our underlying performance relative to other companies in the industry. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for income from continuing operations, net of tax, or other income statement data prepared in accordance with GAAP and our presentation of EBITDA and adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. There are no material purposes for which we use these non-GAAP measures beyond the purposes described above. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

	2013	2012	2011	
Income (Loss) from Continuing Operations, net of tax	\$58.5	\$28.2	\$282.5	
Depreciation and Amortization	90.8	88.7	83.7	
Interest expense	11.5	13.6	16.1	
Income tax expense	72.5	1.1	106.5	
EBITDA (a non-GAAP measure)	233.3	131.6	488.8	
Acquisition related expenses	2.7	—	—	
Asset impairments and other	1.5	88.6	—	
Earnings from investment in Cellular Partnerships, net	—	—	(20.2)	)
Gain on sale of interests in Cellular Partnerships	—	—	(265.0)	)
Gain on sale of Finance and Accounting outsourcing line of business	—	—	(7.0)	)
Restructuring	—	6.4	—	
	—	8.8	23.6	

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Information Management related costs not qualifying as Discontinued  
Operations

Net pension and other post employment benefit plan charges	13.1	4.1	—	
Adjusted EBITDA (a non-GAAP measure)	\$250.6	\$239.5	\$220.2	
Adjusted EBITDA Margin	12.2	% 11.9	% 11.4	%

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## RESTRUCTURING CHARGES

As discussed in Note 8 of the Notes to Consolidated Financial Statements, we recorded the following restructuring charges:

### 2013 Restructuring

During 2013, the Company recorded a severance charge of \$4.3, impacting approximately 800 employees. These actions were initiated to continue the Company's efforts to refine its operating model and reduce costs. The severance charge is expected to be substantially paid in cash by June 30, 2014. The total remaining liability under this severance-related restructuring plan, which is included within Payables and other current liabilities on the Company's Consolidated Balance Sheets was \$2.3 as of December 31, 2013. The Company also recorded other restructuring expense of \$1.1 during 2013.

### 2012 Restructuring

During 2012, the Company recorded restructuring charges of \$11.6, consisting of \$11.4 of severance-related charges and \$0.2 of facility-related charges, as described below. The \$11.4 of severance-related charges impacted approximately 100 professional employees and reflect the change in the Company's executive management team and realignment of Corporate overhead as a result of the sale of the Information Management business. These severance-related charges were fully paid in cash by December 31, 2013, pursuant to the Company's severance policies. As of December 31, 2012, the remaining liability under this severance-related restructuring plan, which was included within Payables and other current liabilities on the Company's Consolidated Balance Sheets was \$5.2. This amount was fully settled during 2013.

### 2011 Restructuring

During 2011, we initiated operational changes that resulted in severance costs of \$1.2 largely to reduce headcount and align resources to future business needs. Severance actions impacted approximately 50 professional employees worldwide and charges were largely paid in cash pursuant to our existing severance policy and employment agreements. These actions were substantially completed by the end of 2011. The liability under this plan was fully settled at December 31, 2012.

### Savings from Restructuring Plans

The 2013 and 2012 severance actions resulted in cost reductions in excess of \$16 and \$10, respectively, on an annualized basis. The impact of these benefits is spread across our operating expenses, primarily within the selling, general and administrative expense caption of our Consolidated Statements of Income. The severance actions also resulted in cash savings of approximately \$16 and \$10, respectively, on an annualized basis. The impact on liquidity was not material for either plan.

### Facilities Restructuring

Our facilities restructuring reserves are equal to the estimated future costs associated with the facilities, net of proceeds from any probable future sublease agreements. We use estimates, based on consultation with our real estate advisers, to determine the proceeds from any future sublease agreements. We continue to evaluate these estimates in assessing the facilities abandonment liability. The remaining liability for previously exited facilities, which is included within Payables and other current liabilities on the Company's Consolidated Balance Sheets was less than \$0.1 as of December 31, 2013 and \$0.3 as of December 31, 2012.

## CLIENT CONCENTRATION



During 2013, our three largest clients accounted for 45.8% of our consolidated revenues, compared to 47.8% and 47.2% in 2012 and 2011, respectively. AT&T, our largest client, accounted for 20.9% of our consolidated revenues in 2013 compared to 23.1% and 23.4% in 2012 and 2011, respectively. DIRECTV and Comcast are our second and third largest clients. Revenues from DIRECTV were 12.5% of our consolidated revenues in 2013 compared to 12.3% and 11.8% in 2012 and 2011, respectively. Revenues from Comcast were 12.4% of our consolidated revenues in 2013 compared to 12.4% and 12.0% in 2012 and 2011, respectively. Volumes under certain of our long-term arrangements are earned under multiple contracts with these clients and are subject to variation based on, among other things, general economic conditions, client outsourcing trends and seasonal patterns in our clients' businesses.

## BUSINESS OUTLOOK

Convergys expectations for 2014 include:

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Highly accretive contributions to revenue and earnings from Stream once the acquisition closes;  
 Organic revenue and earnings improvement approximately similar to the two percent revenue growth and 30-basis point adjusted EBITDA margin expansion in 2013.

Convergys plans to provide 2014 guidance, including Stream, in due course after the acquisition closes.

Not included in this outlook are acquisition related impacts such as transaction costs, integration costs, intangible amortization and tax items associated with cash repatriation. Also not included are the impacts of any future share repurchase activities or non-cash pension settlement charges.

## FINANCIAL CONDITION, LIQUIDITY AND CAPTIAL RESOURCES

### Liquidity and Cash Flows

We intend to use existing cash and the net cash generated from ongoing operations to fund operations, invest in the business, make required debt payments and pay dividends at the discretion of the Board of Directors for the next twelve months. We also believe available borrowings under existing credit facilities will provide additional ability to invest in the business. As of December 31, 2013, approximately 40% of our cash and short term investments balance of \$663.7 million was held in accounts outside of the United States, most of which would be subject to additional taxes if repatriated to the United States.

Cash flows from operating activities generally provide us with a significant source of funding for our investing and financing activities. Cash flows for 2013, 2012, and 2011 were as follows:

	2013	2012	2011
Net cash flows from operating activities			
Operating activities of continuing operations	\$208.4	\$103.9	\$161.4
Operating activities of discontinued operations	1.6	9.1	35.2
	\$210.0	\$113.0	\$196.6
Net cash flows provided by (used in) investing activities			
Investing activities of continuing operations	\$(36.6)	\$(162.7)	\$(235.6)
Investing activities of discontinued operations	1.0	425.3	(13.5)
	\$(35.6)	\$262.6	\$222.1
Net cash flows used in financing activities			
Financing activities of continuing operations	\$(148.3)	\$(242.6)	\$(183.0)
Financing activities of discontinued operations	—	(0.1)	—
	\$(148.3)	\$(242.7)	\$(183.0)

Cash flows from operating activities totaled \$210.0 in 2013, compared to \$113.0 in 2012, and \$196.6 in 2011. Cash flows provided by continuing operations for 2013 was \$208.4 compared to \$103.9 and \$161.4 in 2012 and 2011, respectively. The increase in the current year was primarily the result of higher operating income from continuing operations in 2013, combined with cash payments for income taxes during 2012 of \$40 related to the completion of the sale of the Information Management business, \$35 of cash payments made in 2012 to reduce long-term liabilities and approximately \$20 of tax payments made in 2012 related to prior year internal restructurings. Excluding the impact of discontinued operations, the decrease from 2011 to 2012 was primarily the result of approximately \$35 of cash payments to reduce long-term liabilities, included within the change in other assets and liabilities in the Consolidated Statement of Cash Flows, and cash payments for income taxes of approximately \$40 related to the completion of the sale of the Information Management business, and approximately \$20 associated with prior year internal restructurings, included within the change in payables and other current liabilities in the Consolidated Statement of Cash Flows, partially offset by higher operating income from continuing operations excluding asset

impairment charges as well as the timing of working capital requirements. Cash flows provided by discontinued operations for 2013 were \$1.6 compared to \$9.1 and \$35.2 in 2012 and 2011, respectively.

Cash flows used in investing activities were \$35.6 during 2013, which included \$1.0 provided by discontinued operations, \$63.8 of capital expenditures and \$175.3 of purchases of short-term investments and \$16.4 used for acquisitions, partially offset by \$48.0

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of proceeds from the disposition of assets and \$170.9 in proceeds from the maturity of short-term investments. Cash flows provided by investing activities were \$262.6 in 2012, which included \$425.3 provided by discontinued operations as a result of the sale of the Information Management business, partially offset by \$98.4 of capital expenditures and \$64.3 of purchases of short-term investments, net of maturity of short-term investments. Cash flow provided by investing activities were \$222.1 in 2011, which included \$13.5 used in discontinued operations, and cash proceeds of \$320.0 from the sale of the Cellular Partnership interests, \$3.1 from the sale of assets, and \$10.0 from the sale of the Finance and Accounting outsourcing line of business, partially offset by \$74.8 of capital expenditures and \$22.7 of purchases of investment securities.

Cash flows used in financing activities were \$148.3 during 2013, \$242.7 during 2012 and \$183.0 in 2011. During 2013, we repurchased 7.0 shares of the Company's common stock for \$122.6, paid \$23.8 in cash dividends and repaid \$5.9 on outstanding borrowings. These items were partially offset by \$2.8 received from exercise of stock options and \$1.2 from excess tax benefits from share-based compensation arrangements. The impact of shares repurchased in 2013 includes approximately 0.3 shares of the Company's common stock settled for \$3.6 in cash that were purchased in 2012 and settled in 2013. During 2012, we repurchased 12.0 shares of the Company's common stock for \$180.8, repaid \$66.5 on our outstanding borrowings, and paid \$11.2 in cash dividends, partially offset by \$10.9 received from exercise of stock options and \$5.0 from excess tax benefits from share-based compensation arrangements. The impact of shares repurchased on our cash flows used in financing activities in 2012 does not include approximately 0.3 shares of the Company's common stock settled for \$3.6 in cash subsequent to year end. During 2011, we repurchased 7.7 of our common shares for \$96.8 and repaid \$86.0 on our outstanding borrowings.

As of December 31, 2013, our credit ratings and outlook are as follows:

	Long-Term Debt	Outlook
Moody's	Ba1	Stable
Standard and Poor's	BB+	Stable

In February 2014, both Moody's and Standard and Poor's reaffirmed these ratings. Our credit ratings and outlook could impact our ability to raise capital in the future as well as increase borrowing costs.

#### Free Cash Flow (a non-GAAP measure)

We use free cash flow, a non-GAAP measure, to assess the financial performance of the Company. We define free cash flow as cash flows from operating activities less capital expenditures. A reconciliation of the GAAP measure, net cash provided by operating activities, to the non-GAAP measure, free cash flow, is as follows:

Computation of Free Cash Flows:	2013	2012	2011
Net cash flow from operations	\$210.0	\$113.0	\$196.6
Capital expenditures, net of proceeds from disposal of assets	(63.8)	(104.6)	(88.3)
Free Cash Flows (a non-GAAP measure)	\$146.2	\$8.4	\$108.3

Free cash flows, as defined above, were \$146.2, \$8.4, and \$108.3 for 2013, 2012 and 2011, respectively. The increase in free cash flow of \$137.8 from 2012 to 2013 was due to higher cash generated from operating activities, explained above, and decreased capital expenditures during 2013. The decrease in free cash flow of \$99.9 from 2011 to 2012 was due to lower cash generated from operating activities and increased capital expenditures during 2012.

We believe that free cash flow is useful to investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations, such as investment in the Company's existing businesses. Further, free cash flow facilitates management's ability to strengthen the Company's balance sheet, repay the Company's debt obligations, pay quarterly dividends and repurchase the Company's common shares. Limitations

associated with the use of free cash flow include that it does not represent the residual cash flow available for discretionary expenditures as it does not incorporate certain cash payments including payments made on capital lease obligations or cash payments for business acquisitions. Management compensates for these limitations by utilizing both the non-GAAP measures, free cash flow, and the GAAP measure, net cash flows from operating activities, in its evaluation of performance. There are no material purposes for which we use these non-GAAP measures beyond the purposes described above.

#### Capital Resources, Off-Balance Sheet Arrangements and Contractual Commitments

At December 31, 2013, total capitalization was \$1,350.7, consisting of \$61.1 of short-term and long-term debt and capital lease obligations and \$1,289.6 of equity. At December 31, 2012, total capitalization was \$1,432.5, consisting of \$60.6 of short-term and long-term debt and capital lease obligations and \$1,371.9 of equity. The total debt-to-capital ratio at December 31, 2013 was 4.5%, which compares to 4.2% at December 31, 2012.

On March 11, 2011, the Company entered into a \$300 Four-Year Competitive Advance and Revolving Credit Facility Agreement (the 2011 Credit Facility). The 2011 Credit Facility replaced the Company's \$400 Five-Year Competitive Advance and Revolving Credit Facility (the Prior Credit Facility), dated as of October 20, 2006 and as amended subsequently, among Convergys and a group of financial institutions. In connection with Convergys' entry into the 2011 Credit Facility, Convergys terminated the Prior Credit Facility.

Convergys has two borrowing options available under the 2011 Credit Facility: (i) a competitive advance option which will be provided on an uncommitted competitive advance basis through an auction mechanism and (ii) a revolving credit option which will be provided on a committed basis. Under each option, amounts borrowed and repaid may be re-borrowed subject to availability. The 2011 Credit Facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA ratios (as defined in the 2011 Credit Facility). The Company's interest coverage ratio cannot be less than 4.00 to 1.00 as determined on a rolling four quarter basis. The Company's debt-to-EBITDA ratio cannot be greater than 3.00 to 1.00 until December 31, 2012 and 2.75 to 1.00 after December 31, 2012. The 2011 Credit Facility also contains customary representations and warranties. In the event of default, the lenders may terminate the commitments and declare the amounts outstanding, and all accrued interest, immediately due and payable. The maturity date of the 2011 Credit Facility is March 11, 2015 except that upon satisfaction of certain conditions, Convergys may extend the maturity date by one year twice during the term. Convergys pays an annual facility fee regardless of utilization. At December 31, 2013, the facility was undrawn. The Company was in compliance with all covenants at December 31, 2013.

In the fourth quarter of 2009, the Company announced an offer to exchange one-thousand twenty dollars in principal amount of its 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) for each one-thousand dollars in principal amount of its 4.875% Unsecured Senior Notes (4.875% Senior Notes) due December 15, 2009. We issued a total of \$125.0 aggregate principal amount of the 2029 Convertible Debentures in exchange for \$122.5 of the 4.875% Senior Notes. The entire balance of the 2029 Convertible Debentures was outstanding as of December 31, 2013 and December 31, 2012.

During June 2011, the Company extended the terms of an asset securitization facility collateralized by accounts receivable of certain of the Company's subsidiaries, with a purchase limit of \$150.0 expiring in June 2014. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary. The asset securitization facility does not qualify for sale treatment under the authoritative guidance for the accounting for transfers and servicing of financial assets and extinguishments of liabilities. Accordingly, the accounts receivable and related debt obligation will remain on our Consolidated Balance Sheets. At December 31, 2013 and December 31, 2012, the facility was undrawn. In January 2014, the Company entered into an amendment to extend the term of this facility to January 6, 2017, subject to certain limitations and extensions, and other amendments.

The Company leased an office complex in Orlando, Florida, under a five-year capital lease that began on June 30, 2010. During 2012, we exercised our option to purchase this leased office facility by discharging the related lease financing obligation in the principal amount of \$55.0. Total capital lease obligations subsequent to the purchase were \$1.6 and \$2.2 at December 31, 2013 and 2012, respectively, compared to \$58.7 at December 31, 2011.

During 2013, we repurchased 6.7 of our common shares for \$119.0 pursuant to outstanding authorizations. The timing and terms of any future transactions depend on a number of considerations including future earnings, cash flow, financial condition, financial covenants and other relevant factors. In February 2013, our Board of Directors approved

an increase in remaining authorized share repurchases to \$250.0 in the aggregate.

The following summarizes our contractual obligations at December 31, 2013, and the effect such obligations are expected to have on liquidity and cash flows in future periods:

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Contractual Obligations	Total	Less Than 1 Year	1-3 Years	After 3 Years
Debt and capital lease obligations <sup>(1)</sup>	\$126.6	\$0.9	\$0.7	\$125.0
Debt interest <sup>(2)</sup>	113.6	7.2	21.6	84.8
Operating leases <sup>(3)</sup>	202.7	57.0	106.6	39.1
Pension contributions <sup>(4)</sup>	21.0	—	21.0	—
Unrecognized tax benefits <sup>(5)</sup>	—	—	—	—
Total	\$463.9	\$65.1	\$149.9	\$248.9

(1) See Note 7 of the Notes to Consolidated Financial Statements for further information.

(2) This includes interest expense on fixed rate debt and capital lease obligations. This includes only the cash payable component of interest expense in our 2029 Convertible Debentures.

(3) See Note 11 of the Notes to Consolidated Financial Statements for further information.

The Company met ERISA funding requirements for 2014 with contributions of \$10.0 and \$20.0 to the cash balance pension plan during 2013 and 2012, respectively. Estimates for 2014 and beyond assume a 6.75% return on assets and Moving Ahead for Progress in the 21st Century Act (MAP-21) interest rates. Actual cash payments may vary based upon actual performance.

(4) Unrecognized tax benefits of \$52.1 are excluded from this table as the uncertainty related to the amount and period of any cash settlement prevents the Company from making a reasonably reliable estimate.

At December 31, 2013, we had outstanding letters of credit of approximately \$39.3, bond obligations of approximately \$1.6 related to performance and payment guarantees, and \$30.0 related to performance and payment guarantees for our former HR Management line of business. Upon completion of the sale of the HR Management business, we continue to be responsible for these bond obligations. Although NorthgateArinso is obligated to indemnify the Company for any and all losses, costs, liabilities and expenses incurred related to these performance bonds, the Company maintains a liability of approximately \$0.6. We believe that any guarantee obligation that may arise related to performance and payment guarantees of continuing operations will not be material. The guarantee for this bond obligation expires in August 2016. We also have purchase commitments with telecommunications providers of approximately \$14.8 for 2014.

During 2012 and 2013, our Board of Directors approved, and the Company has paid, the following dividends per common share:

Announcement Date	Record Date	Dividend Amount	Payment Date
May 8, 2012	June 22, 2012	\$0.05	July 6, 2012
July 26, 2012	September 21, 2012	\$0.05	October 5, 2012
October 23, 2012	December 21, 2012	\$0.05	January 4, 2013
February 7, 2013	March 22, 2013	\$0.06	April 5, 2013
April 30, 2013	June 21, 2013	\$0.06	July 5, 2013
July 30, 2013	September 20, 2013	\$0.06	October 4, 2013
November 6, 2013	December 27, 2013	\$0.06	January 10, 2014

On February 5, 2014, we announced that our Board of Directors declared a quarterly cash dividend of \$0.06 per common share to be paid on April 4, 2014 to shareholders of record as of March 21, 2014.

The Board expects that future cash dividends will be paid on a quarterly basis. However, any decision to pay future cash dividends will be subject to Board approval, and will depend on our future earnings, cash flow, financial condition, financial covenants and other relevant factors. We intend to continue to use cash dividends as a means of returning capital to our shareholders, subject to our ongoing review and determinations that cash dividends are in the



best interests of our shareholders.

## MARKET RISK

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. Our risk management strategy includes

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the use of derivative instruments to reduce the effects on our operating results and cash flows from fluctuations caused by volatility in currency exchange and interest rates. In using derivative financial instruments to hedge exposures to changes in exchange rates and interest rates, we expose ourselves to counterparty credit risk. We manage exposure to counterparty credit risk by entering into derivative financial instruments with investment grade-rated institutions that can be expected to perform fully under the terms of the agreements and by diversifying the number of financial institutions with which we enter into such agreements.

#### Interest Rate Risk

At December 31, 2013, all of our debt instruments were fixed rate borrowings with an outstanding amount of \$61.1. We had no variable rate borrowings at December 31, 2013.

#### Foreign Currency Exchange Rate Risk

We serve many of our U.S.-based clients using contact center capacity in the Philippines, India, Canada, and Colombia. Although the contracts with these clients are typically priced in U.S. dollars, a substantial portion of the costs incurred to render services under these contracts are denominated in Philippine pesos (PHP), Indian rupees (INR), Canadian dollars (CAD) or Colombian pesos (COP), which represents a foreign exchange exposure. Beginning in 2011, we entered into a contract with a client priced in Australian dollars (AUD). As of December 31, 2013, we have hedged a portion of our exposure related to the anticipated cash flow requirements denominated in these foreign currencies by entering into forward exchange contracts and options with several financial institutions to acquire a total of PHP 31,479.0 at a fixed price of \$732.9 at various dates through December 2016, INR 11,006.0 at a fixed price of \$181.2 at various dates through December 2016, CAD \$20.9 at a fixed price of \$20.1 at various dates through December 2015 and COP 20,100.0 at a fixed price of \$10.5 at various dates through December 2014, and to sell a total of AUD 20.3 at a fixed price of \$20.7 at various dates through September 2014. The fair value of these derivative instruments as of December 31, 2013 is presented in Note 13 of the Notes to Consolidated Financial Statements. The potential loss in fair value at December 31, 2013 for such contracts resulting from a hypothetical 10% adverse change in currency exchange rates between the U.S. dollar and the currencies above is approximately \$92.4. This loss would be substantially mitigated by corresponding gains on the underlying exposures.

Other foreign currency exposures arise from transactions denominated in a currency other than the functional currency. We periodically enter into forward exchange contracts that are not designated as hedges. The purpose of these derivative instruments is to protect the Company against foreign currency exposure pertaining to receivables, payables and intercompany transactions that are denominated in currencies different from the functional currencies of the Company or the respective subsidiaries. As of December 31, 2013, the fair value of these derivatives was immaterial to the Consolidated Financial Statements.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our Financial Statements in conformity with accounting principles generally accepted in the United States. Our significant accounting policies are disclosed in Note 2 of Notes to Consolidated Financial Statements. The preparation of Financial Statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts and related disclosures. On an ongoing basis, we evaluate our estimates and judgments in these areas based on historical experience and other relevant factors. Our estimates as of the date of the Financial Statements reflect our best judgment giving consideration to all currently available facts and circumstances. As such, these estimates may require adjustment in the future, as additional facts become known or as circumstances change.

We have identified below the accounting policies and estimates that we believe are most critical in compiling our statements of financial condition and operating results. We have reviewed these critical accounting policies and estimates and related disclosures with the Audit Committee of our Board of Directors.

#### Goodwill

The Company has recorded on its Consolidated Balance Sheets goodwill of \$589.4 and \$577.7 at December 31, 2013 and 2012, respectively. During the second quarter of 2012, we recognized a \$46.0 goodwill impairment charge related to the Customer Interaction Technology (CIT) reporting unit. Completion of the sale of the Information Management business qualified as a triggering event for an interim assessment of goodwill impairment for the Company's Information Management and CIT reporting units at June 30, 2012. Based upon the purchase price for the Information Management business, the triggering event did not indicate an impairment of the Information Management reporting unit. The sale of the Information Management business impacted the sale of certain products developed by the CIT reporting unit and co-marketed by CIT and the Information Management business. Due in part to this transition, the fair value of the CIT reporting unit was determined to be less than its carrying value.

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Goodwill is allocated to the reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition, but instead becomes identified with a reporting unit as a whole. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit. As of December 31, 2013, the Company operated in one core business segment as discussed in Note 17 of Notes to Consolidated Financial Statements.

Goodwill impairment testing is performed at the reporting unit level, one level below the business segment. As disclosed in Note 6 of Notes to Consolidated Financial Statements, we test goodwill for impairment annually as of October 1 and at other times if events have occurred or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable, such as a significant adverse change in the business climate, a decision to sell or dispose of all or a significant portion of a reporting unit or a significant decline in the Company's stock price.

For 2013, the Company tested goodwill for the Customer Management – Agent Services reporting unit. As a result of the impairment of the CIT goodwill in the second quarter of 2012, only the Customer Management - Agent Services reporting unit has goodwill at October 1, 2013 and December 31, 2013.

The Company first assesses a range of qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and services, regulatory and political developments, entity specific factors such as strategies and financial performance, when evaluating potential impairment for goodwill. If, after completing such assessment, it is determined more likely than not that the fair value of a reporting unit is less than its carrying value, we proceed to a two-step impairment test.

The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit (Step 1). If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If the carrying amount of the reporting unit exceeds the fair value, there is an indication of potential impairment and a second step of testing is performed to measure the amount of the impairment, if any, for that reporting unit.

When required, the second step compares the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of the net assets and identifiable intangibles as if the reporting unit were being acquired. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. An impairment charge recognized cannot exceed the amount of goodwill allocated to a reporting unit and cannot be reversed subsequently even if the fair value of the reporting unit recovers.

Fair value of the reporting unit is determined using a combination of the market approach and the income approach. Under the market approach, fair value is based on revenue and earnings multiples for guideline public companies in the reporting unit's peer group. The market approach requires significant judgment regarding the selection of guideline companies. Under the income approach, fair value is dependent on the present value of net cash flows to be derived from the ownership. The income approach requires significant judgment including estimates about future cash flows and discount rates. The forecasted cash flows are based upon the Company's long-term strategic business plan, and a terminal value is used to estimate the operating segment's cash flows beyond this plan. The discount rate represents the weighted-average cost of capital, which is an estimate of the overall after-tax rate of return required by equity and debt market participants of a business enterprise. Both the market and income approaches require the use of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the timing of expected future cash flows. Discount rate assumptions are based upon an assessment of the risk inherent in the future cash flows.

The most recent annual impairment test performed as of October 1, 2013, indicated that the fair value of the Customer Management - Agent Services reporting unit was substantially in excess of its carrying value. Despite that excess, however, future impairment charges could still be required if a divestiture decision were made or other significant economic events occurred with respect to the reporting unit. Subsequent to our October 1, 2013 annual impairment test, no indications of an impairment were identified.

#### Other Intangible Assets

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At December 31, 2013, we had a carrying value of \$30.7 of other intangible assets, net of amortization, consisting of \$10.3 in software, which is classified in property, plant and equipment on the Consolidated Balance Sheets, and \$20.4 in customer relationships. As amortizable intangible assets, the Company evaluates the intangible assets for recoverability on an annual basis or if events or circumstances indicate a possible inability to recover their carrying amounts, by comparing estimates of undiscounted future cash flows to the carrying values of the related assets. Based on the results of testing, no impairment charges were recognized in 2013.

#### Property, Plant and Equipment

The cost of property, plant and equipment is depreciated by the straight-line method over the estimated useful lives of the assets. The Company reviews property, plant and equipment asset groups for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company monitors these changes and events on at least a quarterly basis. Examples of events or changes in circumstances could include, but are not limited to, a prolonged economic downturn, current period operating or cash flow losses combined with a history of losses or a forecast of continuing losses associated with the use of an asset group, or a current expectation that an asset group will be sold or disposed of before the end of its previously estimated useful life. Recoverability is based upon projections of anticipated future undiscounted cash flows associated with the use and eventual disposal of the property, plant and equipment asset groups, as well as specific appraisals in certain instances. Reviews occur at the lowest level for which identifiable cash flows are largely independent of cash flows associated with other property, plant and equipment asset groups. If the future undiscounted cash flows result in a value that is less than the carrying value, then the long-lived asset is considered impaired and a loss is recognized based on the amount by which the carrying amount exceeds the estimated fair value. Various factors that the Company uses in determining the impact of these assessments include the expected useful lives of long-lived assets and our ability to realize any undiscounted cash flows in excess of the carrying amounts of such asset groups, and are affected primarily by changes in the expected use of the assets, changes in technology or development of alternative assets, changes in economic conditions, changes in operating performance and changes in expected future cash flows. As judgment is involved in determining the fair value of property, plant and equipment asset groups, there is risk that the carrying value of these assets may require adjustment in future periods.

During the second quarter of 2012, we committed to a plan to sell our Corporate office facilities in Cincinnati, Ohio. Accordingly, the property met the criteria to be classified as "Held-for-Sale" and was required to be measured at the lower of its carrying value or fair value less costs to sell. We determined the fair value was less than its carrying amount; therefore we recognized an impairment loss of \$42.6 (\$27.0 after tax) included in the asset impairment caption in the accompanying Consolidated Statements of Income. During 2013, we committed to sell an additional facility in Dallas, Texas which also resulted in "Held-for-Sale" classification. As of December 31, 2013 we recognized net impairment losses of \$1.5 to adjust both facilities to fair value less costs to sell at the date of sale to a third-party buyer. Fair value and cost to sell estimates were based on corroborative market data. We completed the sale of both facilities in July 2013 resulting in cash collections of \$47.6.

#### Income Taxes

The provision for income taxes includes income taxes paid, currently payable or receivable, and those deferred. Under U.S. GAAP, the Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are expected to be settled or realized.

The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical pre-tax and taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning

strategies. Projected future taxable income is based on expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company's tax methods of accounting.

The Company also reviews its tax activities and evaluates uncertain tax positions using a two-step approach. The first step is to evaluate the tax position for recognition by determining whether the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit, which is the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company's policy is to recognize interest and penalties accrued on unrecognized tax benefits as part of income tax expense. Significant judgment is required in determining our liability for uncertain tax positions. The application of tax laws

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and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be significantly different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities. We believe that we make a reasonable effort to ensure accuracy in our judgments and estimates.

#### Restructuring Charges

We recognize liabilities for a cost associated with an exit or disposal activity measured initially at fair value only when the liability is incurred. During the last three years, we recorded restructuring charges related to reductions in headcount and facility closures. As of December 31, 2013, we had a remaining restructuring accrual of \$2.3, related to the 2013 restructuring charge. This amount is expected to be fully paid out during 2014.

#### Other

We have made certain other estimates that, while not involving the same degree of judgment, are important to understanding our financial statements. These estimates are in the areas of measuring our obligations related to our defined benefit plans and self-insurance accruals.

#### NEW ACCOUNTING PRONOUNCEMENTS

For a discussion and analysis of recently issued accounting pronouncements and its impact on Convergys, see Note 2 of Notes to Consolidated Financial Statements.



ITEM 7A. AND 8.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A is included in Item 7 of this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Beginning on page 38 are the Consolidated Financial Statements with applicable notes and the related Report of Independent Registered Public Accounting Firm, the supplementary financial information specified by Item 302 of Regulation S-K and Financial Statement Schedule II – Valuation and Qualifying Accruals.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Convergys Corporation

We have audited the accompanying consolidated balance sheets of Convergys Corporation as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Table of Contents at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Convergys Corporation at December 31, 2013 and 2012, and the consolidated results of its operations and its consolidated cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Convergys Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 28, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Cincinnati, Ohio  
February 28, 2014

## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in millions except per share amounts)	Year Ended December 31,		
	2013	2012	2011
Revenues	\$2,046.1	\$2,005.0	\$1,933.2
Costs and Expenses:			
Cost of providing services and products sold <sup>(1)</sup>	1,335.1	1,289.5	1,240.4
Selling, general and administrative	467.7	477.2	483.8
Research and development costs	8.2	10.8	14.0
Depreciation	85.5	82.4	76.3
Amortization	5.3	6.3	7.4
Restructuring charges	5.4	11.6	1.2
Asset impairment charges and other	1.5	88.6	—
Total costs and expenses	1,908.7	1,966.4	1,823.1
Operating Income	137.4	38.6	110.1
Earnings and gain from Cellular Partnerships, net	—	—	285.2
Other income, net	5.1	4.3	9.8
Interest expense	(11.5)	(13.6)	(16.1)
Income before Income Taxes	131.0	29.3	389.0
Income tax expense	72.5	1.1	106.5
Income from Continuing Operations, net of tax	58.5	28.2	282.5
Income from Discontinued Operations, net of tax	2.4	72.4	52.3
Net Income	\$60.9	\$100.6	\$334.8
Basic Earnings per Common Share:			
Continuing Operations	\$0.57	\$0.25	\$2.35
Discontinued Operations	0.02	0.65	0.44
Basic Earnings per Common Share	\$0.59	\$0.90	\$2.79
Diluted Earnings per Common Share:			
Continuing Operations	\$0.54	\$0.24	\$2.30
Discontinued Operations	0.02	0.62	0.42
Diluted Earnings per Common Share	\$0.56	\$0.86	\$2.72
Weighted Average Common Shares Outstanding:			
Basic	103.3	112.2	120.2
Diluted	109.2	117.1	122.9
Cash dividends declared per share	\$0.24	\$0.15	\$—

(1) Exclusive of depreciation and amortization, with the exception of amortization of deferred charges.

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)	Year Ended December 31,		
	2013	2012	2011
Net Income	\$60.9	\$100.6	\$334.8
Other Comprehensive (Loss) Income, net of tax:			
Foreign currency translation adjustments	(1.3	)22.3	(3.9 )
Change related to pension liability (net of tax (expense) benefit of (\$17.1), (\$0.6) and \$6.7)	26.2	1.0	(7.3 )
Unrealized (loss) gain on hedging activities (net of reclassification adjustments and net of tax benefit (expense) of \$21.4, (\$8.1) and \$13.0)	(33.9	)12.9	(20.2 )
Total other comprehensive (loss) income	(9.0	)36.2	(31.4 )
Total Comprehensive Income	\$51.9	\$136.8	\$303.4

The accompanying notes are an integral part of the Consolidated Financial Statements.



## CONSOLIDATED BALANCE SHEETS

(Amounts in millions)	At December 31,	
	2013	2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$580.8	\$554.7
Short term investments	82.9	83.8
Receivables, net of allowances of \$5.3 and \$5.9	319.8	319.8
Deferred income tax assets	6.2	8.9
Prepaid expenses	25.2	33.2
Other current assets	45.5	65.6
Current assets held-for-sale	—	34.6
Total current assets	1,060.4	1,100.6
Property and equipment, net	246.4	279.2
Goodwill	589.4	577.7
Other intangibles, net	20.4	18.9
Deferred income tax assets	8.9	19.2
Other assets	31.2	42.3
Total Assets	\$1,956.7	\$2,037.9
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Debt and capital lease obligations maturing within one year	\$0.9	\$0.7
Payables and other current liabilities	291.7	285.8
Total current liabilities	292.6	286.5
Long-term debt and capital lease obligations	60.2	59.9
Deferred income tax liabilities	150.8	136.5
Accrued pension liabilities	73.7	109.2
Other long-term liabilities	89.8	73.9
Total liabilities	667.1	666.0
Shareholders' Equity:		
Preferred shares—without par value, 5.0 authorized; none outstanding	—	—
Common shares—without par value, 500.0 authorized; 188.9 and 187.5 issued, 100.8 and 105.9 outstanding, as of December 31, 2013 and December 31, 2012, respectively	1,139.9	1,133.0
Treasury stock—88.2 shares in 2013 and 81.6 in 2012	(1,445.6)	(1,329.2)
Retained earnings	1,614.8	1,578.6
Accumulated other comprehensive loss	(19.5)	(10.5)
Total shareholders' equity	1,289.6	1,371.9
Total Liabilities and Shareholders' Equity	\$1,956.7	\$2,037.9

The accompanying notes are an integral part of the Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)	Year Ended December 31,		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$60.9	\$100.6	\$334.8
Income from discontinued operations, net of tax	2.4	72.4	52.3
Income from continuing operations, net of tax	58.5	28.2	282.5
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	90.8	88.7	83.7
Gain on sale of interests in the Cellular Partnerships	—	—	(265.0)
Gain on sale of business	—	—	(7.0)
Asset impairment charges and other	1.5	88.6	—
Deferred income tax expense (benefit)	63.9	(4.2)	) 15.5
Earnings from Cellular Partnerships, net	—	—	(20.2)
Distributions from Cellular Partnerships	—	—	30.7
Stock compensation expense	13.4	20.2	14.8
Changes in assets and liabilities:			
Change in receivables	4.5	(14.1)	) (27.1)
Change in other current assets	10.3	(23.4)	) 5.2
Change in deferred charges, net	1.3	1.4	(6.1)
Change in other assets and liabilities	(3.6)	) (28.2)	) 51.9
Change in payables and other current liabilities	(32.1)	) (56.5)	) 6.5
Other, net	(0.1)	) 3.2	(4.0)
Net cash provided by operating activities of continuing operations	208.4	103.9	161.4
Net cash provided by operating activities of discontinued operations	1.6	9.1	35.2
Net cash provided by operating activities	210.0	113.0	196.6
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(63.8)	) (98.4)	) (74.8)
Proceeds from sale of interests in the Cellular Partnerships	—	—	320.0
Proceeds from disposition of assets	48.0	—	3.1
Proceeds from disposition of business	—	—	10.0
Purchase of investment securities	—	—	(22.7)
Purchase of short-term investments	(175.3)	) (83.3)	) —
Proceeds from maturity of short-term investments	170.9	19.0	—
Acquisitions, net of cash acquired	(16.4)	) —	—
Net cash (used in) provided by investing activities of continuing operations	(36.6)	) (162.7)	) 235.6
Net cash provided by (used in) investing activities of discontinued operations	1.0	425.3	(13.5)
Net cash (used in) provided by investing activities	(35.6)	) 262.6	222.1
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of credit facilities and other debt, net	(5.9)	) (66.5)	) (86.0)
Repurchase of common shares	(122.6)	) (180.8)	) (96.8)
Proceeds from exercise of stock options	2.8	10.9	3.0
Payments of dividends	(23.8)	) (11.2)	) —
Excess tax benefit from share-based payment arrangements	1.2	5.0	—
Other, net	—	—	(3.2)
Net cash used in financing activities of continuing operations	(148.3)	) (242.6)	) (183.0)

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Net cash used in financing activities of discontinued operations	—	(0.1	)—	
Net cash used in financing activities	(148.3	)(242.7	)(183.0	)
Net increase in cash and cash equivalents	26.1	132.9	235.7	
Cash and cash equivalents at beginning of period	554.7	421.8	186.1	
Cash and cash equivalents at end of period	\$580.8	\$554.7	\$421.8	

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SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$11.2	\$13.7	\$16.7
Income taxes (refunded)/paid, net	\$(5.7	)\$68.2	\$20.6

The accompanying notes are an integral part of the Consolidated Financial Statements.

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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions)	Number of Common Shares	Common Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
Balance at December 31, 2010	184.2	\$1,094.5	\$(1,060.2	)\$1,165.1	\$(15.3	)\$1,184.1	
Issuance of common shares	0.8					—	
Treasury shares issued for share-based plans, net			7.9	(4.4	)	3.5	
Tax related to share-based arrangements, net of excess tax benefits		(1.9	)			(1.9	)
Proceeds from exercise of stock options		3.0				3.0	
Repurchase of common shares			(96.8	)		(96.8	)
Net income				334.8		334.8	
Other comprehensive loss					(31.4	)(31.4	)
Amortization of stock-based compensation		16.2				16.2	
Balance at December 31, 2011	185.0	1,111.8	(1,149.1	)1,495.5	(46.7	)1,411.5	
Issuance of common shares	2.5					—	
Treasury shares issued for share-based plans, net			4.3	(1.0	)	3.3	
Tax related to share-based arrangements, net of excess tax benefits		(14.6	)			(14.6	)
Proceeds from exercise of stock options		10.9				10.9	
Repurchase of common shares			(184.4	)		(184.4	)
Net income				100.6		100.6	
Other comprehensive income					36.2	36.2	
Cash dividends declared				(16.5	)	(16.5	)
Amortization of stock-based compensation		24.9				24.9	
Balance at December 31, 2012	187.5	1,133.0	(1,329.2	)1,578.6	(10.5	)1,371.9	
Issuance of common shares	1.4					—	
Treasury shares issued for share-based plans, net		0.1	2.6			2.7	
Tax related to share-based arrangements, net of excess tax benefits		(9.4	)			(9.4	)
		2.8					

Proceeds from exercise of  
stock options