

CONVERGYS CORP
Form 10-Q
November 08, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____.

Commission File Number 1-14379

CONVERGYS CORPORATION

(Exact name of registrant as specified in its charter)

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Incorporated under the laws of the State of Ohio

201 East Fourth Street, Cincinnati, Ohio 45202

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

Telephone - Area Code (513) 723-7000

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

At October 31, 2010, there were 121,829,960 common shares, without par value, outstanding, excluding amounts held in Treasury of 62,229,692.

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CONVERGYS CORPORATION

Form 10-Q

For the Period Ended

September 30, 2010

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In millions, except per share amounts)	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
Revenues	\$ 556.0	\$ 590.8	\$ 1,630.2	\$ 1,825.0
Costs and Expenses:				
Cost of providing services and products sold	341.1	356.1	982.5	1,100.7
Selling, general and administrative	140.6	149.3	440.2	457.7
Research and development costs	13.1	18.7	42.3	58.2
Depreciation	24.1	27.9	75.4	83.8
Amortization	2.4	2.9	7.6	8.5
Restructuring charges		9.1	17.6	9.1
Total costs and expenses	521.3	564.0	1,565.6	1,718.0
Operating Income	34.7	26.8	64.6	107.0
Equity in Earnings of Cellular Partnerships	11.9	10.2	36.9	31.7
Other Income (expense), net	1.3	(1.0)	7.9	(10.9)
Interest Expense	(4.1)	(7.4)	(15.2)	(21.1)
Income before Income Taxes	43.8	28.6	94.2	106.7
Income tax expense (benefit)	8.8	(1.6)	22.4	19.0
Income from Continuing Operations, net of tax	35.0	30.2	71.8	87.7
Income (loss) from Discontinued Operations, net of tax	(6.2)	(116.2)	19.7	(206.6)
Net Income (loss)	\$ 28.8	\$ (86.0)	\$ 91.5	\$ (118.9)
Other Comprehensive Income (Loss), net of tax:				
Foreign currency translation adjustments	3.5	(5.4)	12.6	21.1
Unrealized gain on hedging activities	20.6	13.5	19.5	36.1
Total other comprehensive income	24.1	8.1	32.1	57.2
Total Comprehensive Income (Loss)	\$ 52.9	\$ (77.9)	\$ 123.6	\$ (61.7)
Basic Earnings (Loss) Per Common Share:				
Continuing operations	\$ 0.28	\$ 0.25	0.58	\$ 0.71
Discontinued operations	(0.05)	(0.95)	0.16	(1.68)

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Basic Earnings (Loss) per Common Share	\$ 0.23	\$ (0.70)	\$ 0.74	\$ (0.97)
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Diluted Earnings (Loss) Per Common Share:

Continuing operations	\$ 0.28	\$ 0.24	\$ 0.57	\$ 0.70
Discontinued operations	(0.05)	(0.93)	0.16	\$ (1.65)

Diluted Earnings (Loss) per Common Share	\$ 0.23	\$ (0.69)	\$ 0.73	\$ (0.95)
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Weighted Average Common Shares Outstanding:

Basic	123.2	122.9	123.5	122.7
Diluted	125.4	125.4	125.8	124.8

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(In Millions)	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 154.7	\$ 331.7
Receivables, net of allowances of \$9.4 and \$13.1	354.4	384.3
Deferred income tax benefits	40.4	51.3
Prepaid expenses	31.8	39.0
Other current assets	61.5	110.2
Current assets - held for sale		41.4
Total current assets	642.8	957.9
Property and equipment, net	376.1	350.5
Goodwill, net	986.7	979.3
Other intangibles, net	42.6	49.6
Investment in Cellular Partnerships	58.9	52.7
Other assets	134.3	112.4
Other assets - held for sale		111.2
Total Assets	\$ 2,241.4	\$ 2,613.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Debt and capital lease obligations maturing within one year	\$ 72.6	\$ 405.2
Payables, deferred revenue and other current liabilities	360.7	435.4
Current liabilities - held for sale		48.5
Total current liabilities	433.3	889.1
Long-term debt and capital lease obligations	119.0	64.4
Deferred income tax liability	94.0	48.6
Accrued pension liability	123.7	130.5
Other long-term liabilities	157.9	188.7
Other liabilities - held for sale		85.9
Total liabilities	927.9	1,407.2
Shareholders' Equity		
Preferred shares - without par value, 5.0 authorized; none outstanding		
Common shares - without par value, 500.0 authorized; 184.0 and 183.3 issued, 121.8 and 123.1 outstanding, as of September 30, 2010 and December 31, 2009, respectively	1,053.7	1,048.1
Additional paid-in capital	36.0	36.0
Treasury stock - 62.2 and 60.2 as of September 30, 2010 and December 31, 2009, respectively	(1,061.8)	(1,042.0)
Retained earnings	1,310.5	1,221.3
Accumulated other comprehensive loss	(24.9)	(57.0)
Total shareholders' equity	1,313.5	1,206.4
Total Liabilities and Shareholders' Equity	\$ 2,241.4	\$ 2,613.6

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Millions)	Nine Months Ended September 30,	
	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income (loss)	\$ 91.5	\$ (118.9)
Income (loss) from discontinued operations	19.7	(206.6)
Income from continuing operations	71.8	87.7
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	83.0	92.3
Deferred income tax (benefit) expense	(0.1)	15.6
Equity in earnings of Cellular Partnerships	(36.9)	(31.7)
Distributions from Cellular Partnerships	30.7	29.6
Stock compensation expense	12.7	12.3
Changes in assets and liabilities:		
Change in receivables	29.7	94.4
Change in other current assets	60.1	28.6
Change in deferred charges, net	(14.6)	(12.2)
Change in other assets and liabilities	5.8	75.3
Change in payables and other current liabilities	(59.4)	(16.3)
Net cash provided by operating activities of continuing operations	182.8	375.6
Net cash used in operating activities of discontinued operations	(22.9)	(154.3)
Net cash provided by operating activities	159.9	221.3
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital expenditures	(48.5)	(56.3)
Acquisitions	(3.3)	(3.1)
Net cash used in investing activities of continuing operations	(51.8)	(59.4)
Net cash provided by (used in) investing activities of discontinued operations	74.2	(3.5)
Net cash provided by (used in) investing activities	22.4	(62.9)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Repayments of debt, net	(334.4)	(59.4)
Purchase of treasury shares	(24.9)	
Net cash used in financing activities of continuing operations	(359.3)	(59.4)
Net cash used in financing activities of discontinued operations		(2.7)
Net cash used in financing activities	(359.3)	(62.1)
Net (decrease) increase in cash and cash equivalents	(177.0)	96.3
Cash and cash equivalents at beginning of period	331.7	240.0

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Cash and cash equivalents at end of period	\$ 154.7	\$ 336.3
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See Notes to Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions Except Per Share Amounts)

(Unaudited)

(1) BACKGROUND AND BASIS OF PRESENTATION

Convergys Corporation (the Company or Convergys) is a global leader in relationship management. The Company provides solutions that drive value from the relationships its clients have with their customers. Convergys turns these everyday interactions into a source of profit and strategic advantage for the Company's clients. For over 25 years, the Company's unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients to enhance their relationship with customers.

Historically, the Company had three reportable segments, Customer Management, Information Management and Human Resources Management (HR Management). In March 2010, Convergys signed a definitive agreement to sell its HR Management line of business for approximately \$85 in cash at closing and \$15 in cash over three years. The sale substantially closed on June 1, 2010, for which the Company received approximately \$80 in cash as well as a zero coupon note in the principal amount of \$15. The sale of certain additional foreign locations in the third quarter of 2010 resulted in receipt of approximately \$1 in cash. The sale of remaining other foreign locations is expected to close in the fourth quarter of 2010 and result in an additional \$4 of cash received and final settlement of working capital adjustments is expected to result in cash payments by Convergys of approximately \$7. In connection with and at the time of the substantial completion of the sale, the Company made cash payments of \$28.2 to settle certain obligations of the HR Management business, the impact of which is included in cash flows from operating activities of discontinued operations. In connection with the sale of the HR Management line of business, the Company reorganized its reportable segments into two segments: Customer Management, which provides agent-assisted services, self-service, and intelligent technology care solutions, and Information Management, which provides business support system (BSS) solutions. See Note 17 for information about these segments.

As a result of the sale of the HR Management line of business, the operating results and assets and liabilities related to HR Management have been reflected as discontinued operations for all periods presented. Unless otherwise noted, amounts in these Notes to Condensed Consolidated Financial Statements exclude amounts attributable to discontinued operations. For the periods prior to June 2010, certain costs that had previously been allocated to the HR Management segment are now included in continuing operations. These costs were \$7.8 in the third quarter of 2009 and \$9.1 and \$24.2 for the nine months ended September 30, 2010 and 2009, respectively, and are reflected in Corporate and Other. Beginning June 1, 2010, the Company began earning transition services revenues for services provided to the buyer under agreements lasting from three to eighteen months, largely. These revenues are reflected in Corporate and Other and largely offset the related costs described above. The Company has taken and continues to take actions to reduce these costs.

Certain balances in prior years have been reclassified to conform to current year presentation, including cash flow distributions related to the Company's investments in the Cellular Partnerships. As the Company has received distributions from the Partnerships in excess of its initial investment, these amounts are now classified as cash flows from operating activities as they more appropriately represent return on investment rather than return of investment capital. This reclassification increased and decreased previously reported cash flows from operating activities and investing activities by \$29.6, respectively, for the nine month period ended September 30, 2009. See Note 5 for additional information about the Cellular Partnerships. In addition, at June 30, 2010, the Company reclassified a lease related to an office complex in Orlando, Florida as a capital lease. See Note 9 for additional information.

These Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting in the United States pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments necessary for a fair presentation of the results of operations, financial position and cash flows for each period shown. All adjustments are of a normal and recurring nature. Certain information and footnote disclosures normally included in Financial Statements prepared in accordance with generally accepted accounting principles in the United States have been condensed or omitted. Interim Consolidated Financial Statements are not necessarily indicative of the financial position or operating results for an entire year. These interim Consolidated Financial Statements should be read in conjunction with the audited Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 26, 2010 and Form 10-K/A (Amendment No. 1) for the year ended December 31, 2009 filed on August 6, 2010 and the Current Report on Form 8-K, filed August 6, 2010.

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The Company files annual, quarterly, current reports and proxy statements with the SEC. These filings are available to the public over the Internet on the SEC's website at <http://www.sec.gov> and on the Company's website at <http://www.convergys.com>. You may also read and copy any document we file with the SEC at its public reference facilities in Washington, D.C. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You can also inspect reports, proxy statements and other information about Convergys at the offices of the NYSE Euronext, 11 Wall Street, New

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York, New York 10005.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) (ASU 2009-13) and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (ASU 2009-14). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2009-13 and ASU 2009-14 on the Company's consolidated results of operations and financial condition.

In April 2010, the FASB issued ASU 2010-13, Compensation - Stock Compensation: Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, (amendments to FASB ASC Topic 718, Stock Compensation) (ASU 2010-13). ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that it is not market, performance or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. The amendment of ASC Topic 718 is effective for interim and fiscal years beginning on or after December 15, 2010. Adoption will not impact the Company's current accounting for stock-based compensation.

(3) DISCONTINUED OPERATIONS

In March 2010, the Company signed a definitive agreement to sell its HR Management line of business and, in June 2010, the Company substantially completed the sale of this business to NorthgateArinso, the Human Resource division of Northgate Information Solutions Limited, for approximately \$93, net of approximately \$7 of post-closing working capital adjustments. The consideration received at the closing consisted of approximately \$80 in cash and a zero coupon note issued by NorthgateArinso in the principal amount of \$15. The note is payable in increments of \$5 on the second anniversary of closing and \$10 on the third anniversary of closing. The completion of the sale of certain foreign operations during the third quarter of 2010 resulted in receipt of an additional \$1 in cash. The sale of the remaining foreign HR Management operations is expected to close in the fourth quarter of 2010 and result in an additional \$4 of cash received and an additional gain of approximately \$2, net of tax. Final settlement of working capital adjustments is expected to result in cash payments by Convergys of approximately \$7 during the fourth quarter of 2010. In connection with and at the time of the completion of the sale in June 2010, the Company made cash payments of \$28.2 for certain obligations of the HR Management business, the impact of which is included in cash flows from operating activities of discontinued operations.

The gain on the sale of HR Management amounted to \$33.1 pretax and \$3.7 after tax at September 30, 2010. The sale of HR Management was a taxable transaction that resulted in \$29.4 being recorded for the combined federal, state and foreign income tax obligation. The gain on sale included the elimination of \$67.1 of goodwill and intangible assets. Subsequent adjustments have been made to the gain on this divestiture as certain post-closing and working capital adjustments were determined and the sales of certain HR Management foreign operations closed. Additional adjustments may be made as additional post-closing adjustments are determined and the sales of remaining foreign HR Management operations are completed in the fourth quarter of 2010.

As a result of the sale of the HR Management line of business, the operating results and assets and liabilities related to HR Management have been reflected as discontinued operations for all periods presented. For the periods prior to June 2010, certain costs that had previously been allocated to the HR Management segment are now included in continuing operations. These costs were \$7.8 in the third quarter of 2009 and \$9.1 and \$24.2 for the nine months ended September 30, 2010 and 2009, respectively, and are reflected in Corporate and Other. Beginning June 1, 2010, the Company began earning transition services revenues for services provided to the buyer under agreements lasting from three to eighteen months, largely. Through the end of the third quarter, the Company earned \$15.3 in revenue under these transition services agreements subsequent to the close of the sale. These revenues are reflected in Corporate and Other and largely offset the related costs described above. The Company has taken and continues to take actions to reduce these costs.

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The results of the HR Management business included in discontinued operations for the three and nine months ended September 30, 2010 and 2009, respectively, are summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	\$ 0.2	\$ 174.6	\$ 107.2	\$ 317.8
Income (loss) before tax - Operations	(0.1)	(116.7)	25.4	(229.1)
Gain (loss) on disposition	(4.9)		33.1	
Income (loss) before income taxes	(5.0)	(116.7)	58.5	(229.1)
Income tax (expense) benefit:				
Expense (benefit) related to operations	2.0	(0.5)	9.4	(22.5)
Expense (benefit) related to gain (loss) on disposition	(0.8)		29.4	
Income (Loss) from discontinued operations, net of tax	\$ (6.2)	\$ (116.2)	\$ 19.7	\$ (206.6)

The major classes of assets and liabilities that were included as part of the HR Management business and presented during these periods as held for sale were as follows:

	September 30, 2010	December 31, 2009
Assets:		
Current assets	\$	\$ 41.4
Property and equipment, net		17.2
Other assets		94.0
Total assets	\$	\$ 152.6
Liabilities:		
Current liabilities	\$	\$ 48.5
Other liabilities		85.9
Total liabilities	\$	\$ 134.4

Cash flows generated from the discontinued operations are presented separately in the Company's consolidated statements of cash flows.

At September 30, 2010, the Company had outstanding performance bond obligations of approximately \$39 related to performance and payment guarantees for the Company's former HR Management line of business. Upon completion of the sale of the HR Management business, the Company continues to be responsible for these bond obligations. As NorthgateArinso is an unrelated third party, the Company accounts for these performance bond obligations under the guidance of ASC 460-10. As part of the gain on disposition the Company recognized a liability equal to the present value of probability weighted cash flows of potential outcomes, a level 3 fair value measurement. Although NorthgateArinso is obligated to indemnify the Company for any and all losses, costs, liabilities and expenses incurred related to these performance bonds, as of September 30, 2010 the Company maintains a liability of approximately \$1 for these obligations.

(4) EARNINGS (LOSS) PER SHARE AND SHAREHOLDERS' EQUITY

Earnings (Loss) per Share

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The following is a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per share (EPS) computations:

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		Continuing Operations		Discontinued Operations	Total	
		Per Share	Per Share	Income	Per Share	Per Share
	Shares	Income	Amount	(Loss)	Amount	Share Amount
Three Months Ended September 30, 2010						
Basic EPS	123.2	\$ 35.0	\$ 0.28	\$ (6.2)	\$ (0.05)	\$ 0.23
Effect of dilutive securities:						
Stock-based compensation arrangements	2.2					
Diluted EPS	125.4	\$ 35.0	\$ 0.28	\$ (6.2)	\$ (0.05)	\$ 0.23
Nine Months Ended September 30, 2010						
Basic EPS	123.5	\$ 71.8	\$ 0.58	\$ 19.7	\$ 0.16	\$ 0.74
Effect of dilutive securities:						
Stock-based compensation arrangements	2.3		(0.01)			(0.01)
Diluted EPS	125.8	\$ 71.8	\$ 0.57	\$ 19.7	\$ 0.16	\$ 0.73
Three Months Ended September 30, 2009						
Basic EPS	122.9	\$ 30.2	\$ 0.25	\$ (116.2)	\$ (0.95)	\$ (0.70)
Effect of dilutive securities:						
Stock-based compensation arrangements	2.5		(0.01)		0.02	0.01
Diluted EPS	125.4	\$ 30.2	\$ 0.24	\$ (116.2)	\$ (0.93)	\$ (0.69)
Nine Months Ended September 30, 2009						
Basic EPS	122.7	\$ 87.7	\$ 0.71	\$ (206.6)	\$ (1.68)	\$ (0.97)
Effect of dilutive securities:						
Stock-based compensation arrangements	2.1		(0.01)		0.03	0.02
Diluted EPS	124.8	\$ 87.7	\$ 0.70	\$ (206.6)	\$ (1.65)	\$ (0.95)

The diluted EPS calculation for the three and nine months ended September 30, 2010 excludes the effect of 5.8 million outstanding stock options, and the three and nine months ended September 30, 2009 excludes the effect of 7.9 million outstanding stock options because their effect is anti-dilutive. As described more fully in Note 9, the Company issued approximately \$125.0 aggregate principal amount of 5.75% Junior Subordinated Convertible Debentures due 2029 (2029 Convertible Debentures). The 2029 Convertible Debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion price of approximately \$12.07 per share, or 82.82 shares per one thousand in principal amount of debentures. There was no dilution related to the 2029 Convertible Debentures for the three and nine months ended September 30, 2010.

Shareholders' Equity

There were 2.4 million shares repurchased during the three and nine months ended September 30, 2010 at an average price of \$10.15 per share for total proceeds of \$24.9. As of September 30, 2010, the Company has the authority to repurchase 4.6 million additional common shares pursuant to current authorizations.

(5) INVESTMENT IN CELLULAR PARTNERSHIP

The Company's 33.8% limited partnership interest in the Cincinnati SMSA Limited Partnership qualifies as significant under the Securities and Exchange Commission Regulation S-X, Article 1, Rule 1-02(w). Unaudited income statement information reported by the Cincinnati SMSA Limited Partnership, a provider of wireless communications in central and southwestern Ohio and northern Kentucky, is presented in the following table, along with a summary of the amounts recorded in the Company's consolidated financial statements. The Company accounts for its interest in the Cellular Partnership under the equity method of accounting. Under Rule 3-09 of Regulation S-X, the Company filed audited financial statements for Cincinnati SMSA Limited Partnership for the year ended December 31, 2009 with a Form 10-K/A on August 6, 2010.

Since the Cellular Partnership was organized as a limited partnership, the partners are responsible for income taxes applicable to their share of taxable income generated by the Cellular Partnership. The net income of the Cincinnati SMSA Limited Partnership reflected in the following table does not include any provision for income taxes incurred by the partners.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$ 171.4	\$ 150.9	\$ 484.7	\$ 436.9
Income from operations	35.0	29.8	109.4	92.5
Net income	34.2	29.6	106.4	92.1
EBITDA	45.0	38.7	139.1	118.1

EBITDA is defined as Net Income before interest, income taxes, depreciation and amortization.

The Company's equity in earnings of equity method investees for the three and nine month periods ended September 30, 2010 and 2009, respectively, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Convergys equity in earnings of Cincinnati SMSA Limited Partnership	\$ 11.6	\$ 9.9	\$ 36.1	\$ 30.9
Convergys equity in earnings of other equity method investees	0.3	0.3	0.8	0.8
Total equity in earnings of cellular partnerships	\$ 11.9	\$ 10.2	\$ 36.9	\$ 31.7

(6) EMPLOYEE BENEFIT PLANS

The Company sponsors a defined benefit pension plan, which includes both a qualified and non-qualified portion, for eligible employees (the Cash Balance Plan). The Company also sponsors a non-qualified, unfunded executive deferred compensation plan and a supplemental, non-qualified, unfunded plan for certain senior executive officers.

Components of pension cost for the Cash Balance Plan are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest cost on projected benefit obligation	\$ 2.8	\$ 2.9	\$ 8.6	\$ 9.0
Expected return on plan assets	(3.1)	(2.6)	(9.2)	(7.8)
Amortization and deferrals - net	1.2	1.1	3.5	4.4
Pension cost	\$ 0.9	\$ 1.4	\$ 2.9	\$ 5.6

The Company contributed \$7.4 to fund the Cash Balance Plan during the first nine months of 2010 and expects to contribute approximately \$2 during the remainder of 2010. As a result of the sale of the HR Management business, prior restructuring actions and payments made to other retirees, projected benefit payments made through the end of 2010 are expected to result in a settlement charge during the fourth quarter of 2010. The Company anticipates a settlement charge in the range of \$6 to \$8.

Components of pension cost for the unfunded executive pension plans are as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
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	2010	2009	2010	2009
Service cost	\$	\$ 0.3	\$ 0.7	\$ 1.1
Interest cost on projected benefit obligation	0.5	0.5	1.5	1.5
Curtailment loss			2.3	
Settlement loss	1.4		1.4	
Amortization and deferrals - net		(0.3)	(0.1)	(0.5)
Pension cost	\$ 1.9	\$ 0.5	\$ 5.8	\$ 2.1

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The Company recognized a \$2.3 curtailment loss during the first quarter of 2010 related to the termination of the employment of the President and Chief Executive Officer of the Company. The Company also recognized a settlement loss related to this transition of \$1.4 during the third quarter of 2010 upon payment of benefits under the unfunded executive pension plan.

Pension costs for the Cash Balance Plan and unfunded executive plan related to discontinued operations included in the tables above for the nine months ended September 30, 2010 and 2009 were not significant.

(7) RESTRUCTURING**2010 Restructuring**

During the second quarter of 2010, the Company initiated a restructuring plan and incurred a total charge of \$17.6 consisting of \$10.8 of severance-related charges and \$6.8 of facility-related charges. The \$10.8 of severance-related charges were comprised of \$8.5 at Customer Management, largely to reduce headcount and align resources to future business needs, and \$2.3 at Corporate to further streamline operations due to the sale of the HR Management line of business. The severance charge of \$10.8 will largely be paid in cash pursuant to the Company's existing severance policy and employment agreements. These actions will affect approximately 700 professional employees and approximately 1,000 contact center agents worldwide and are expected to be mostly completed by the end of 2010. The facility-related charge of \$6.8 relates to lease rent accruals for properties that have closed as the result of consolidating facilities and shifting capacity. The charge is equal to the future costs associated with the facility, net of proceeds from any probable future sublease agreements. The fair value measurement utilized internal discounted cash flows, which is a Level 3 input. The Company used estimates, based on consultation with the Company's real estate advisors, to determine the proceeds from any future sublease agreements. The Company will continue to evaluate these estimates in recording the facilities abandonment charge. Consequently, there may be additional reversals or charges relating to these facility closures in the future. At September 30, 2010, the facility-related restructuring reserve had an outstanding balance of \$4.7, which will be paid during 2010 and 2011 until the leases expire.

Restructuring liability activity for the 2010 plans, the balance of which is included within Payables, deferred revenue and other current liabilities on the Company's balance sheets, consisted of the following:

	2010
Severance charge	\$ 10.8
Facility charge	6.8
Retained liability of discontinued operations	0.2
Severance payments	(7.1)
Facility payments	(2.1)
Balance at September 30, 2010	\$ 8.6

2009 Restructuring

During 2009, the Company initiated restructuring plans of \$43.3 to reduce headcount and align resources to future business needs. The severance actions are expected to be mostly completed by December 31, 2010. The facility-related charge relates to lease rent accruals for properties that have closed as the result of consolidating facilities, consistent with the methodology discussed in connection with the 2010 restructuring. At September 30, 2010, this facility-related restructuring reserve had an outstanding balance of \$12.2, which will be paid over several years until the leases expire.

Restructuring liability activity for the 2009 plans, the balance of which is included within Payables, deferred revenue and other current liabilities on the Company's balance sheets, consisted of the following:

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	2010
Balance at January 1	\$ 36.3
Severance charge	
Facility charge	
Severance payments	(16.2)
Facility payments, net of currency adjustments	(3.8)
Balance at September 30	\$ 16.3

Table of Contents**(8) STOCK-BASED COMPENSATION PLANS**

The Company's operating results for the three and nine months ended September 30, 2010 included long-term incentive plan expense of \$3.5 and \$13.0, respectively, compared to \$2.0 and \$12.2, respectively, for the same periods in 2009. Long-term incentive plan expense included expense related to discontinued operations for these periods of \$0.0 and \$0.9, respectively, compared to \$0.3 and \$1.7 for the same periods in 2009. Long-term incentive plan expense includes: (a) incentive plan expense that is paid in cash based on relative shareholder return and (b) stock compensation expense. Stock compensation expense for the three and nine months ended September 30, 2010 was \$3.4 and \$13.6, respectively, compared to \$4.8 and \$14.0, respectively, for the same periods in 2009.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2010 is presented below:

Shares in Millions Except Per Share Amounts	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Weighted Average Fair Value at Date of Grant (per share)
Outstanding and exercisable at January 1, 2010	7.9	\$ 32.21	1.4	\$ 13.28
Granted	0.3	10.88		
Exercised				
Forfeited/cancelled	(2.4)	31.08		
Outstanding and exercisable at September 30, 2010	5.8	\$ 31.65	1.3	\$ 12.20

The stock options granted during 2010 were fully vested at the time they were granted, resulting in stock compensation expense of \$1.1 in the first nine months of 2010.

Restricted Stock Awards

During the nine months ended September 30, 2010, the Company granted 2.1 million shares of restricted stock units at a weighted-average fair value of \$11.49. Included in the above were 0.8 million shares of performance-based restricted stock units granted at the fair value of \$11.37 per share that vest upon the Company's satisfaction of certain financial conditions (relative shareholder return versus the S&P 500 return) as of December 31, 2012. During the nine months ended September 30, 2009, the Company granted 2.8 million shares of restricted stock units at a weighted average fair value of \$7.68. Included in the above were 1.8 million shares of performance-based restricted stock units granted at the fair value of \$7.37 per share that vest upon the Company's satisfaction of certain financial performance conditions (relative shareholder return versus the S&P 500 return) as of December 31, 2011.

The Company used a Monte Carlo simulation model to estimate the fair value for performance-based restricted stock units issued during 2010 and 2009. The assumptions used in this model for the awards are noted in the table below. Expected volatilities for the 2010 performance awards are based on historical volatility and daily returns for the three-year period ended January 1, 2010 of the Company's stock and S&P 500 companies. The total stock return for the Company over the performance period is based on comparing Convergys' average closing price from the fourth quarter of 2009 with the average expected closing price for the fourth quarter of 2012. For the 2010 performance awards, the total stock return of the S&P 500 companies is computed by comparing the average closing price of the S&P 500 companies from the fourth quarter of 2009 with the average expected closing price for the fourth quarter of 2012. The risk-free interest rate for the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

	September 30, 2010	September 30, 2009
Expected volatility	56.0%	52.8%
Expected term (in years)	3.0	3.0
Risk-free interest rate	1.4%	1.2%

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The total compensation cost related to non-vested restricted stock and restricted stock units not yet recognized as of September 30, 2010 was approximately \$23, which is expected to be recognized over a weighted average of 1.5 years. Changes to non-vested time-based and performance-based restricted stock and restricted stock units for the three months ended September 30, 2010 were as follows:

Table of Contents*Time-based Restricted Stock Units*

Shares in Millions Except Per Share Amounts	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2009	1.9	\$ 14.99
Granted	1.3	11.57
Vested	(0.8)	21.91
Forfeited	(0.2)	10.77
Non-vested at September 30, 2010	2.2	\$ 10.54

Performance-based Restricted Stock Units

Shares in Millions Except Per Share Amounts	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2009	3.0	\$ 10.45
Granted	0.8	11.37
Vested	(0.2)	7.39
Forfeited	(1.2)	12.02
Non-vested at September 30, 2010	2.4	\$ 9.77

(9) DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consists of the following:

	September 30, 2010	December 31, 2009
Revolving credit facility	\$	\$ 400.0
2029 Convertible Debentures	56.6	56.3
Capital Lease Obligations	57.7	3.6
A/R Securitization	68.0	
Other	9.3	9.7
Total debt	191.6	469.6
Less current maturities	72.6	405.2
Long-term debt	\$ 119.0	\$ 64.4

At September 30, 2010, the Company has not drawn any of the \$400.0 available under our \$400 Five-Year Competitive Advance and Revolving Credit Facility. The Company repaid \$300.0 previously drawn under this facility during the first quarter of 2010 and \$100.0 during the second quarter of 2010. The facility was fully drawn as of December 31, 2009. The maturity date of the Revolving Credit Facility Agreement is October 20, 2011. The Company's credit facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA ratios (as defined in the Credit Facility Agreement). The Company's interest coverage ratio, defined as the ratio of EBITDA to consolidated interest expense, cannot be less than 4.00 to 1.00 as determined on a rolling four quarter basis. The Company's debt-to-EBITDA

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ratio cannot be greater than 3.25 to 1.0 for any measured period. The Company was in compliance with all covenants at September 30, 2010.

The 2029 Convertible Debentures are convertible, subject to certain conditions, into shares of the Company's common stock at an initial conversion price of approximately \$12.07 per share, or 82.82 shares of the Company's common stock per one thousand dollars in principal amount of debentures. Upon conversion, the Company will pay cash up to the aggregate principal amount of the converted 2029 Convertible Debentures and settle the remainder of the conversion value of the debentures in cash or stock at the Company's option. The conversion rate will be subject to adjustment for certain events outlined in the indenture governing the debenture (the Indenture). The conversion rate will increase for a holder who elects to convert the debenture in connection with certain share exchanges, mergers or consolidations involving the Company, as described in the Indenture. The 2029 Convertible Debentures, which pay a fixed rate of interest semi-annually, have a contingent interest component that will require the Company to pay interest based on the trading price of the debentures exceeding a specified threshold at specified times, commencing on September 15, 2019, as outlined in the Indenture. The maximum amount of contingent interest that will accrue is 0.75% per annum of the average trading price of the debentures during the periods specified in the Indenture. The fair value of this embedded derivative was not significant at September 30, 2010.

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The Company leased an office complex in Orlando, Florida, under an agreement that expired in June 2010 (the Orlando lease). The Orlando lease was historically accounted for as an operating lease. Pursuant to the terms of the lease, on October 8, 2009 the Company was required to provide notice to the Lessor of its intention to either purchase the property for \$65.0 or arrange to have the office complex sold to a third party (the terms of the lease provided the Lessor with a residual value guarantee from the Company of up to \$55.0). Although continuing to pursue a refinancing of the Orlando lease, on October 8, 2009 the Company legally elected the purchase option under the required notification provision of the lease agreement.

The election to purchase is considered a contract modification requiring reassessment of the classification of the lease under applicable accounting principles. Because of the Company's effective election of the purchase option in October 2009, the lease should have been reclassified as a capital lease instead of an operating lease at that time. The impact of the reclassification as a capital lease on previously issued financial statements is not material. At June 30, 2010, the Company recorded a capital lease obligation and property of \$55.0 related to this facility, coincident with the completion of the refinancing of the lease discussed below.

On June 30, 2010, the Company refinanced this lease arrangement. As part of the refinancing, the Company paid approximately \$10.0 to reduce the principal under the prior facility related to the residual value guarantee referenced above, such amount having been previously accrued. The new facility provides for a new lease period of five years. Upon termination or expiration of the new facility, the Company is required to either purchase the property for \$55.0 or arrange to have the office complex sold to a third party (the terms of the lease provide the Lessor with a residual value guarantee from the Company of up to \$47.0). Total scheduled lease payments during the term are currently estimated to be approximately \$10.

Including the \$55.0 obligation for the Orlando facility, total capital lease obligations were \$57.7 and \$3.6 at September 30, 2010 and December 31, 2009, respectively. Other debt of \$9.3 and \$9.7 at September 30, 2010 and December 31, 2009, respectively, consisted of miscellaneous domestic and international borrowings.

At September 30, 2010, future minimum payments of the Company's debt arrangements are as follows:

Remainder of 2010 and 2011	\$ 73.2
2012	0.8
2013	
2014	6.0
2015	55.0
Thereafter	125.0
Total	\$ 260.0

(10) COMMITMENTS AND CONTINGENCIES**Commitments**

At September 30, 2010, the Company had outstanding letters of credit of approximately \$32 and other bond obligations of approximately \$2 related to performance and payment guarantees. The Company believes that any guarantee obligation that may arise will not be material. The Company also has purchase commitments with telecommunications providers of approximately \$5 for the remainder of 2010.

Contingencies

The Company from time to time is involved in various loss contingencies, including tax and legal contingencies that arise in the ordinary course of business. The Company accrues for a loss contingency when it is probable that a liability has been incurred and the amount of such loss can be reasonably estimated. At this time, the Company believes that the results of any such contingencies, either individually or in the aggregate, will not have a materially adverse effect on the Company's results of operations or financial condition. However, the outcome of any litigation cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a materially adverse impact on the

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Company's results of operations or financial condition in the future. At September 30, 2010, the Company believes it is adequately reserved for all legal contingencies.

Several related class action lawsuits were filed in the United States District Court for the Northern District of Texas in 2001 on behalf of purchasers of common stock of Intervoice, Inc. (Intervoice) during the period from October 12, 1999 through June 6, 2000 (the Class Period). Plaintiffs filed claims, which were consolidated into one proceeding under Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 against Intervoice (a subsidiary of the Company since 2008) as well as certain named former officers and directors of Intervoice on behalf of the alleged class members. In the complaint, plaintiffs claim that Intervoice and the

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named former officers and directors issued false and misleading statements during the Class Period concerning the financial condition of Intervoice, the results of a merger with another company and the alleged future business projections of Intervoice. Plaintiffs have asserted that these alleged statements resulted in artificially inflated stock prices.

The District Court dismissed the plaintiffs' complaint because it lacked the degree of specificity and factual support to meet the pleading standards applicable to federal securities litigation. On appeal, the United States Court of Appeals for the Fifth Circuit affirmed the dismissal in part and reversed in part. The Fifth Circuit remanded a limited number of issues for further proceedings in the District Court.

In 2006, the District Court granted the plaintiffs' motion to certify a class of purchasers of Intervoice stock during the Class Period. Intervoice appealed and in 2008, the Fifth Circuit vacated the District Court's class-certification order and remanded the case to the District Court for further consideration. In October 2009, the District Court denied the plaintiffs' motion to certify a class. In January 2010, the Fifth Circuit granted the plaintiffs' petition for permission to appeal the denial of class certification. The case has been stayed in the District Court pending the Fifth Circuit's decision on the plaintiffs' appeal. The Company intends to vigorously defend the denial of class certification and the portion of the case that remains pending in the District Court.

Since 2002, the Company has been cooperating with the U.S. Department of Labor's wage and hour division (DOL) on a number of matters to investigate and resolve allegations that the Company incorrectly measured hourly call center employees' work time. The Company expects to conclude its negotiations with the DOL, and to reach a mutually-satisfactory resolution in 2010. Such resolution would involve, among other things, the payment of back wages to some of the Company's U.S. agents formerly employed at one of the Company's facilities. The Company expects that the outcome of this DOL matter will not individually or in the aggregate have a material adverse effect on the Company's results of operations or financial condition.

(11) FAIR VALUE DISCLOSURES

The following table summarizes the Company's assets and liabilities measured and reported in the Financial Statements at fair value on a recurring basis as of September 30, 2010 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy defined by FASB Topic 820, Fair Value Measurement and Disclosures, in the ASC are as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table summarizes financial assets and liabilities subject to recurring fair value measurements as of September 30, 2010.

	September 30, 2010	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	\$ 19.9		\$ 19.9	
Derivative liabilities	\$ 12.5		\$ 12.5	

There were no transfers of assets or liabilities involving Level 3 fair value measurements.

Fair values of cash equivalents, short-term investments and current accounts receivable and payable approximate the carrying amounts because of their short-term nature. The fair value of short-term debt approximates its recorded value because of its short-term nature. Based on quoted market prices at September 30, 2010, the fair value of the \$125.0 of the Company's 2029 Convertible Debentures is \$142.3.

(12) DERIVATIVE INSTRUMENTS

The Company is 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. The Company's risk management strategy includes the use of derivative instruments to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency

exchange and interest rates.

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The Company serves many of its U.S.-based clients using contact center capacity in the Philippines, India and Canada. 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) or Canadian dollars (CAD), which represents a foreign exchange exposure. The Company has hedged a portion of its 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. These instruments mature within the next 36 months and had a notional value of \$632.4 at September 30, 2010 and \$601.3 at December 31, 2009. The derivative instruments discussed above are designated and effective as cash flow hedges. The following table reflects the fair values of these derivative instruments:

	September 30, 2010	December 31, 2009
Forward exchange contracts and options designated as hedging instruments:		
Included within other current assets	\$ 12.5	\$ 8.3
Included within other non-current assets	7.4	3.2
Included within other current liabilities	9.1	18.3
Included within other long-term liabilities	3.4	14.9

The Company recorded a deferred tax liability of \$2.8 related to these derivatives at September 30, 2010, compared to a deferred tax benefit of \$8.0 at December 31, 2009. A total of \$4.6 of deferred gains and \$14.8 of deferred losses, net of tax, related to these cash flow hedges at September 30, 2010 and December 31, 2009, respectively, were accumulated in Other Comprehensive Loss (OCL). As of September 30, 2010, deferred gains of \$3.1 (\$1.9 net of tax), on derivative instruments included in accumulated OCL are expected to be reclassified into earnings during the next twelve months. The following table provides the effect of these derivative instruments on the Company's Consolidated Financial Statements for the three and nine months ended September 30, 2010:

	Gain (Loss) Recognized in OCI on Derivative (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCL into Income (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCL into Income (Effective Portion)
Three Months Ended September 30, 2010			
Foreign exchange contracts	\$ 30.2	(\$ 1.8)	- Cost of providing services and products sold and Selling, general and administrative
Nine Months Ended September 30, 2010			
Foreign exchange contracts	\$ 28.2	(\$ 2.1)	- Cost of providing services and products sold and Selling, general and administrative

The gain recognized related to the ineffective portion of the derivative instruments was less than \$1 for the three and nine months ended September 30, 2010.

The Company also enters into derivative instruments (forwards) to economically hedge the foreign currency impact of assets and liabilities denominated in nonfunctional currencies. During the nine months ended September 30, 2010, a gain of \$0.8 was recognized related to changes in fair value of these derivative instruments not designated as hedges, compared to a loss of \$9.2 for the same period in 2009. The gains and losses largely offset the currency gains and losses that resulted from changes in the assets and liabilities denominated in nonfunctional currencies. These gains and losses are classified within other income, net in the accompanying consolidated statements of operations. The fair value of these derivative instruments not designated as hedges at September 30, 2010 was not material to the Company's Consolidated Balance Sheet.

A few of the Company's counterparty agreements related to derivative instruments contain provisions that require that the Company maintain collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments in liability position on September 30, 2010 is \$12.5 for which the Company has no posted collateral. Future downgrades in the Company's credit ratings and/or changes in the foreign currency markets could result in collateral to counterparties.

(13) INCOME TAXES

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The liability for unrecognized tax benefits was \$93.2 and \$80.9 at September 30, 2010 and December 31, 2009, respectively, and is included in other long-term liabilities in the accompanying Consolidated Balance Sheets. The total amount of unrecognized tax benefits that would affect income tax expense if ever recognized in the Consolidated Financial Statements is \$69.6. This amount includes interest and penalties of \$18.4. The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits will decrease by \$5 to \$10 in the next twelve months based upon the anticipated resolution of audits; however, actual developments in this area could differ from those currently expected.

The effective tax rate on net income from continuing operations was 20.1% for the three months ended September 30, 2010 compared to a tax benefit rate of 5.6% in the same period last year. The tax benefit rate for the three months ended September 30, 2009 was primarily a result of a downward adjustment made to the projected full year 2009 tax rate in that period as a reflection of third quarter 2009 results.

(14) ASSET SECURITIZATION

During the second quarter of 2009, the Company entered into a \$125.0 asset securitization facility collateralized by accounts receivables of certain of its subsidiaries, of which \$50.0 was scheduled to expire in June 2010 and \$75.0 expires in June 2012. The \$50.0 that was scheduled to expire in June 2010 has been extended through June 2011. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. 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 included in FASB Topic 860, 'Transfers and Servicing,' in the ASC. Accordingly, the accounts receivable and related debt obligation will remain on the Company's Consolidated Balance Sheet. At September 30, 2010, the Company had borrowings of \$68.0 under this facility. At December 31, 2009, this facility was undrawn.

(15) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill increased to \$986.7 at September 30, 2010 from \$979.3 at December 31, 2009. The increase was largely due to earn-out payments of \$3.0 related to the Ceon Corporation acquisition completed during 2008. The Company is not obligated to make any additional earn-out payments related to this acquisition. Intangible assets (including software and customer relationships) decreased to \$73.3 at September 30, 2010 from \$86.6 at December 31, 2009, principally due to normal amortization. As of September 30, 2010, the Company's total intangible assets, acquired primarily through business combinations, consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Net
Software (classified with Property, Plant & Equipment)	\$ 88.6	\$ (57.9)	\$ 30.7
Trademarks	12.0	(7.2)	4.8
Customer relationships and other intangibles	154.6	(116.8)	37.8
Total	\$ 255.2	\$ (181.9)	\$ 73.3

The intangible assets are being amortized using the following amortizable lives: two to eight years for software, four years for trademarks and five to twelve years for customer relationships and other. The remaining weighted average depreciation period for software is 5.1 years. The remaining weighted average amortization period for trademarks, customer relationships and other intangibles is 6.2 years. Amortization of software is included within depreciation expense as the underlying assets are classified within property, plant and equipment.

Trademarks, customer relationships, and other intangibles amortization expense was \$7.6 and \$8.5 for the nine months ended September 30, 2010 and 2009, respectively, and is estimated to be approximately \$10 for the year ended December 31, 2010. The related estimated expense for the five subsequent years ended December 31 is as follows:

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2011	\$ 10
2012	9
2013	7
2014	3
2015	3
Thereafter	8

The Company tests 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. The impairment test for goodwill involves a two-step

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process. The first step compares the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the second step requires the comparison of the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill. 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. Fair value of the reporting units is determined using a combination of the market approach and the income approach. Under the market approach, fair value is based on actual stock price or transaction prices of comparable companies. Under the income approach, value is dependent on the present value of net cash flows to be derived from the ownership. For 2010, the Company tests goodwill for the following reporting units: Customer Management, Relationship Technology Management (RTM), which is included in the Customer Management segment, and Information Management. HR Management, a separate reporting unit in 2009, was sold in June 2010. In 2009, the Information Management reporting unit was tested on a disaggregated basis as the Information Management North America and Information Management International reporting units. As a result of changes in the organizational and financial reporting structure of the Company, these reporting units have now been combined. The Company is currently in the process of performing its 2010 annual assessment of goodwill.

The fair values of each reporting unit substantially exceeded the respective carrying values as of October 1, 2009, the date of the Company's last annual goodwill impairment test. Fair value exceeded carrying value by greater than 50% for all reporting units except for RTM, whose fair value exceeded its carrying value by greater than 10%. The goodwill associated with the RTM reporting unit principally related to an acquisition completed in the second half of 2008. Continued overall economic softness has placed pressure on revenue expectations for the RTM business. The Company continues to assess the business and financial plans for the RTM reporting unit and is pursuing efforts to reduce costs in line with revenues; however, it is possible that the carrying value of the RTM reporting unit may exceed its estimated fair value. This would result in further analysis during the fourth quarter of 2010 to measure the amount of impairment of the \$212.3 of goodwill associated with this reporting unit, if any.

(16) PAYABLES AND OTHER CURRENT LIABILITIES

	At Sep. 30, 2010	At Dec. 31, 2009
Accounts payable	\$ 34.9	\$ 33.5
Accrued income and other taxes	21.3	37.5
Accrued payroll-related expenses	108.4	107.9
Derivative liabilities	9.1	19.8
Accrued expenses, other	98.8	127.8
Deferred revenue and government grants	63.3	70.7
Restructuring and exit costs	24.9	38.2
	\$ 360.7	\$ 435.4

(17) BUSINESS SEGMENT INFORMATION

As discussed in Note 1, for 2009, the Company had three reportable segments, (i) Customer Management, which provides agent-assisted services, self-service, and intelligent technology care solutions; (ii) Information Management, which provides BSS solutions; and (iii) HR Management, which provides human resource business process outsourcing solutions. In connection with the sale of the HR Management line of business, the Company reorganized its reportable segments into the following segments: Customer Management and Information Management. These segments are consistent with the Company's management of the business and reflect its internal financial reporting structure and operating focus.

The Company does not allocate activities below the operating income level to its reported segments. The Company's business segment information is as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Customer Management	\$ 462.9	\$ 491.6	\$ 1,372.6	\$ 1,503.1
Information Management	81.9	99.2	242.3	321.9
Corporate and Other	11.2		15.3	
	\$ 556.0	\$ 590.8	\$ 1,630.2	\$ 1,825.0
Depreciation:				
Customer Management	\$ 16.6	\$ 16.8	\$ 50.8	\$ 50.5
Information Management	3.5	5.7	11.1	17.7
Corporate and Other	4.0	5.4	13.5	15.6
	\$ 24.1	\$ 27.9	\$ 75.4	\$ 83.8
Amortization:				
Customer Management	\$ 1.9	\$ 2.0	\$ 5.7	\$ 5.6
Information Management	0.6	0.9	2.0	2.9
	\$ 2.4	\$ 2.9	\$ 7.6	\$ 8.5
Restructuring Charges:				
Customer Management	\$	\$ 3.5	\$ 15.3	\$ 3.5
Information Management		5.6		5.6
Corporate and Other			2.3	0.0
	\$	\$ 9.1	\$ 17.6	\$ 9.1
Operating Income (Loss):				
Customer Management	\$ 31.3	\$ 33.5	\$ 73.1	\$ 110.7
Information Management	11.3	3.3	27.6	32.8
Corporate and Other ⁽¹⁾	(7.9)	(10.0)	(36.1)	(36.5)
	\$ 34.7	\$ 26.8	\$ 64.6	\$ 107.0
Capital Expenditures: ⁽²⁾				
Customer Management	\$ 15.0	\$ 7.3	\$ 32.2	\$ 33.5
Information Management	2.6	2.9	7.2	10.0
Corporate and Other ⁽³⁾	3.7	3.5	9.1	12.8
	\$ 21.3	\$ 13.7	\$ 48.5	\$ 56.3

⁽¹⁾ Includes costs previously allocated to the HR Management line of business of \$9.1 for the nine months ended September 30, 2010, and \$7.8 and \$24.2 for the three and nine months ended September 30, 2009, respectively.

⁽²⁾ Excludes proceeds from the disposal of property and equipment.

⁽³⁾ Includes shared services-related capital expenditures.

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	At Sep. 30, 2010	At Dec. 31, 2009
Goodwill:		
Customer Management	\$ 789.8	\$ 785.9
Information Management	196.9	193.4
	\$ 986.7	\$ 979.3

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ITEM 2.

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Amounts in Millions Except Per Share Amounts)

BACKGROUND

Convergys Corporation (the Company or Convergys) is a global leader in relationship management. We provide solutions that drive value from the relationships our clients have with their customers. Convergys turns these everyday interactions into a source of profit and strategic advantage for our clients. Our unique combination of domain expertise, operational excellence and innovative technologies has delivered process improvement and actionable business insight to clients to enhance their relationships with customers.

Historically, we had three reportable segments, Customer Management, Information Management and Human Resources Management (HR Management). In March 2010, we signed a definitive agreement to sell the HR Management line of business to NorthgateArinso for approximately \$100 with \$85 to be paid in cash at closing and \$15 in cash over three years, subject to post-closing working capital adjustments. The sale substantially closed on June 1, 2010, for which we received approximately \$80 in cash as well as a zero coupon note in the principal amount of \$15. The sales of certain foreign operations of the HR Management business completed during the third quarter of 2010, resulted in a receipt of an additional \$1 in cash. The sale of the remaining HR Management foreign operations are expected to close in the fourth quarter of 2010 and result in an additional \$4 in cash received. Final settlement of working capital adjustments is expected to result in cash payments to NorthgateArinso of approximately \$7 during the fourth quarter of 2010. In connection with the sale of the HR Management line of business, we reorganized our reportable segments into two segments; Customer Management, which provides agent-assisted services, self-service, and intelligent technology care solutions, and Information Management, which provides business support system (BSS) solutions. See Note 17 for information about these segments.

As a result of the sale of the HR Management line of business, the operating results and assets and liabilities related to HR Management have been reflected as discontinued operations for all periods presented. For the periods prior to June 2010, certain costs that had previously been allocated to the HR Management segment are now included in continuing operations. These costs were \$7.8 in the third quarter of 2009 and \$9.1 and \$24.2 for the nine months ended September 30, 2010 and 2009, respectively, and are reflected in Corporate and Other. Beginning June 1, 2010, we began earning transition services revenues for services provided to the buyer under agreements lasting from three to eighteen months, largely. Through the end of the third quarter, we earned \$15.3 in revenue under these transition services agreements subsequent to the close of the sale. These revenues are reflected in Corporate and Other and largely offset the related costs described above. While the length of the transition services agreements vary depending upon the type of service provided, we have taken and continue to take actions to reduce these costs and our expectation is that we will eliminate the underlying costs as the transition services complete.

The total gain on the sale of the HR Management business amounted to \$33.1 pretax and \$3.7 after tax at September 30, 2010. The sale of the HR Management business was a taxable transaction that resulted in \$29.4 being recorded for the combined federal and state income tax obligation. Upon the successful closing of the sale of the remaining HR Management foreign operations, expected in the fourth quarter of 2010, we anticipate an additional gain of approximately \$2, net of tax.

Customer Management

Our Customer Management segment partners with clients to deliver solutions that enhance the value of their customer relationships, turning the customer experience into a strategic differentiator. As an end-to-end single-source provider of self-service, agent-assisted and proactive care, we combine consulting, innovative technology and agent-assisted services to optimize the customer experience and strengthen customer relationships.

Agent-related revenues, which account for approximately 90% of Customer Management revenues for the nine months ended September 30, 2010, are typically recognized as services are performed based on staffing hours or the number of contacts handled by service agents using contractual rates. In a limited number of engagements where the client pays a fixed fee, we recognize revenues based on the specific facts and circumstances of the engagement, either using the proportional performance method or recognizing the entire amount upon final completion of the engagement. Customer Management remaining revenues are derived from the sale of premise-based and hosted automated self-care and

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technology solutions. License, professional and consulting and maintenance and software support services revenues recognized from sale of these advanced speech recognition solutions are recognized pursuant to authoritative guidance for software revenue recognition.

During the nine months ended September 30, 2010, Customer Management revenues decreased 8.7% to \$1,372.6 compared to

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the prior year period. The decrease in revenue was largely driven by several of our clients' own volume declines, volume shifts offshore and certain program completions. These declines were partially offset by increases in revenue from other clients. Customer Management operating income and operating margin were \$73.1 and 5.3%, respectively, compared with \$110.7 and 7.4% in the prior year period, reflecting lower revenues and restructuring charges of \$15.3 in 2010 compared to \$3.5 in 2009. Further detail on Customer Management results is presented in Results of Operations, below.

Information Management

Our Information Management segment serves clients principally by providing and managing complex business support system (BSS) solutions.

License and related support and maintenance fees, which accounted for 43% of Information Management revenues for the nine months ended September 30, 2010, are earned under perpetual and term license arrangements. We invoice our clients for licenses either up-front or monthly based on the number of subscribers, events or units processed using the software. Fees for support and maintenance normally are charged in advance either on an annual, quarterly or monthly basis. Professional and consulting services for installation, implementation, customization, migration, training and managed services accounted for 37% of Information Management revenues for the nine months ended September 30, 2010. The professional and consulting fees are either invoiced monthly to our clients based on time and material costs incurred at contractually agreed upon rates or, in some instances, for a fixed fee. Information Management remaining revenues consist of monthly fees for processing client transactions in Information Management data centers and, in some cases, the clients' data centers. These data processing revenues are recognized based on the number of invoices, subscribers or events that are processed by Information Management using contractual rates.

During the first nine months of 2010, Information Management revenue was \$242.3, a 24.7% decline compared to the prior year period largely due to the impact of client migrations and program completions. Information Management operating income and operating margin were \$27.6 and 11.4%, respectively, compared with \$32.8 and 10.2%, respectively, in the prior year period, reflecting lower revenues.

Information Management continues to face competition as well as the effects of consolidation within the communications industry. AT&T, our largest client, has completed migration of its subscribers from the legacy wireless billing system that we supported through a managed services agreement onto AT&T's other wireless billing system. In addition, AT&T acquired several other Convergys clients that also migrated to this other billing system. We anticipate the loss of revenue resulting from the AT&T related migrations to be approximately \$38 in 2010 compared to our 2009 Information Management revenues. The impact of this migration on our first nine months of 2010 revenues was approximately \$33 compared to the first nine months of 2009 Information Management revenues.

Sprint PCS, a large data processing outsourcing client, substantially completed migration of its billing systems onto a competitor's system by the end of 2009. Revenues from Sprint Nextel were down approximately \$8 for the first nine months of 2010 compared to the corresponding period last year. We expect revenue from Sprint Nextel to be down by approximately \$8 in 2010 compared to our 2009 Information Management revenues.

These revenue declines are incorporated in our 2010 guidance discussed in the Business Outlook section, and we do not expect these migrations to have a material impact on our liquidity and capital resources. Further detail on Information Management results is presented in Results of Operations, below.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, which are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the beliefs and expectations of the Company, are forward-looking statements. Sometimes these statements will contain words such as believes, expects, intends, could, should, plans, anticipates and other similar words. These statements discuss potential risks and uncertainties; 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 expressly states that it has no current intention to update any forward-looking statements, whether as a result of new information, future events or otherwise. See the discussion under Part II, Item 1A of this report and the Risks Relating to Convergys and Its Business section of Management Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed Consolidated Financial Statements and segment

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data. Detailed comparisons of revenue and expenses are presented in the discussions of the operating segments, which follow the consolidated results discussion. Results for interim periods may not be indicative of the results for subsequent periods or the full year.

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CONSOLIDATED RESULTS

Three Months				Nine Months	
Ended September 30,				Ended	
2010				September 30,	
2009					
Change					
				%	