CONVERGYS CORP
Form 10-Q
July 30, 2013

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

Form 10-Q

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

For the quarterly period ended June 30, 2013

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)

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 ý 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 ý 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 ý	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 ý

At June 30, 2013, there were 103,743,272 common shares, without par value, outstanding, excluding amounts held in Treasury of 85,161,606.

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Form 10-Q
For the Period Ended
June 30, 2013
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	2013	2012	2013	2012
Revenues	$504.3	$491.1	$997.8	$988.6
Costs and Expenses:				
Cost of providing services and products sold	327.3	316.5	645.5	634.2
Selling, general and administrative	119.9	114.1	234.5	238.8
Research and development costs	2.2	2.5	4.3	6.4
Depreciation	21.2	20.5	42.1	40.8
Amortization	1.4	1.8	2.6	3.7
Restructuring charges	1.1	7.6	1.1	7.6
Asset impairment charges and other	1.1	88.6	1.1	88.6
Total costs and expenses	474.2	551.6	931.2	1,020.1
Operating Income (loss)	30.1	(60.5)	66.6	(31.5)
Other income, net	—	0.7	2.3	2.1
Interest expense	(2.9)	(4.4)	(5.8)	(8.0)
Income (loss) before Income Taxes	27.2	(64.2)	63.1	(37.4)
Income tax expense (benefit)	5.2	(10.5)	10.9	(5.1)
Income (loss) from Continuing Operations, net of tax	22.0	(53.7)	52.2	(32.3)
Income (loss) from Discontinued Operations, net of tax	1.4	68.3	(3.7)	73.0
Net Income	$23.4	$14.6	$48.5	$40.7
Basic Earnings (Loss) Per Common Share:				
Continuing operations	$0.21	$(0.47)	$0.50	$(0.28)
Discontinued operations	0.02	0.60	(0.04)	0.63
Basic Earnings per Common Share	$0.23	$0.13	$0.46	$0.35
Diluted Earnings (Loss) Per Common Share:				
Continuing operations	$0.20	$(0.47)	$0.48	$(0.28)
Discontinued operations	0.02	0.60	(0.04)	0.63
Diluted Earnings per Common Share	$0.22	$0.13	$0.44	$0.35
Weighted Average Common Shares Outstanding:				
Basic	103.8	115.4	104.7	115.7
Diluted	108.1	115.4	109.2	115.7
Cash dividends declared per share	$0.06	$—	$0.12	$—

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2013	2012	2013	2012
Net Income	$23.4	$14.6	$48.5	$40.7
Other Comprehensive (Loss) Income, net of tax:				
Foreign currency translation adjustments	(1.4)	10.8	(3.3)	17.4
Change related to minimum pension liability	16.3	(3.5)	16.3	(3.5)
Unrealized holding gain (loss) on hedging activities	(26.0)	(2.2)	(27.7)	6.2
Total other comprehensive (loss) income	(11.1)	5.1	(14.7)	20.1
Total Comprehensive Income	$12.3	$19.7	$33.8	$60.8

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In Millions)	June 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$515.2	$554.7
Short term investments	72.2	83.8
Receivables, net of allowances of $6.8 and $5.9	319.5	319.8
Deferred income tax assets	22.9	8.9
Prepaid expenses	36.9	33.2
Other current assets	42.5	65.6
Current assets – held for sale	47.2	34.6
Total current assets	1,056.4	1,100.6
Property and equipment, net	251.8	279.2
Goodwill	588.1	577.7
Other intangibles, net	22.8	18.9
Deferred income tax assets	16.3	19.2
Other assets	35.3	42.3
Total Assets	$1,970.7	$2,037.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Debt and capital lease obligations maturing within one year	$0.9	$0.7
Payables and other current liabilities	257.0	285.8
Total current liabilities	257.9	286.5
Long-term debt and capital lease obligations	60.1	59.9
Deferred income tax liabilities	143.4	136.5
Accrued pension liabilities	84.5	109.2
Other long-term liabilities	88.4	73.9
Total liabilities	634.3	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, 103.7 and 105.9 outstanding, as of June 30, 2013 and December 31, 2012, respectively	1,135.6	1,133.0
Treasury stock – 85.2 and 81.6 as of June 30, 2013 and December 31, 2012, respectively	(1,388.5)	(1,329.2)
Retained earnings	1,614.5	1,578.6
Accumulated other comprehensive loss	(25.2)	(10.5)
Total shareholders' equity	1,336.4	1,371.9
Total Liabilities and Shareholders' Equity	$1,970.7	$2,037.9

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Six Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$48.5	$40.7
(Loss) income from discontinued operations, net of tax	(3.7)	73.0
Income (loss) from continuing operations, net of tax	52.2	(32.3)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	44.7	44.5
Asset impairment charges	1.1	88.6
Deferred income tax expense (benefit)	3.4	(8.3)
Stock compensation expense	7.4	9.2
Changes in assets and liabilities:		
Change in receivables	2.7	2.0
Change in other current assets	5.4	(14.3)
Change in deferred charges, net	—	1.2
Change in other assets and liabilities	(7.2)	(12.3)
Change in payables and other current liabilities	(37.8)	(34.8)
Other, net	(0.5)	—
Net cash provided by operating activities of continuing operations	71.4	43.5
Net cash provided by operating activities of discontinued operations	0.8	8.1
Net cash provided by operating activities	72.2	51.6
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(26.3)	(40.8)
Purchase of short-term investments	(59.6)	(19.0)
Proceeds from maturity of short-term investments	64.6	—
Acquisition, net of cash acquired	(15.0)	—
Net cash used in investing activities of continuing operations	(36.3)	(59.8)
Net cash used in investing activities of discontinued operations	0.3	431.6
Net cash used in investing activities	(36.0)	371.8
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of credit facilities and other debt, net	(4.9)	(66.3)
Repurchase of common shares	(64.3)	(64.6)
Proceeds from exercise of stock options	2.8	4.6
Payments of dividends	(11.5)	—
Excess tax benefits from share-based payment arrangements	2.2	—
Net cash used in financing activities of continuing operations	(75.7)	(126.3)
Net cash used in financing activities of discontinued operations	—	(0.1)
Net cash used in financing activities	(75.7)	(126.4)
Net (decrease) increase in cash and cash equivalents	(39.5)	297.0
Cash and cash equivalents at beginning of period	554.7	421.8
Cash and cash equivalents at end of period	$515.2	$718.8

See Notes to Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar 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 customer management, focused on bringing value to its clients through every customer interaction.

Prior to May 2012, the Company had two reportable segments, Customer Management and Information Management. In March 2012, the Company signed a definitive agreement to sell the Information Management line of business to NetCracker Technology Corporation (NetCracker), a wholly owned subsidiary of NEC Corporation (NEC) for $449.0 in cash. The sale closed in May 2012, for which the Company received $462.6 in cash proceeds, including working capital adjustments. As a result of the sale of the Information Management line of business, the operating results related to Information Management have been reflected as discontinued operations for the first six months of 2012. 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 the three and six months ended June 30, 2013, the Company recorded an additional gain of $1.4 and loss of $3.7, respectively, net of tax, related to the gain on sale as certain contingencies settled. As of December 31, 2012, the Company maintained one reportable segment, reflecting the internal financial reporting structure and operating focus of the management team and chief operating decision maker.

On April 30, 2013, the Company acquired New Zealand-based Datacom's contact center operations with facilities in Kuala Lumpur, Malaysia and Manila, Philippines for $20.0 AUD (approximately $20 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. See Note 13.

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting (U.S. GAAP) and U.S. Securities and Exchange Commission (SEC) regulations, 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, 2012, filed on February 21, 2013. Certain balances in prior years have been reclassified to conform to the current year presentation.

(2) RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, "Intangibles - Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment." The standard is intended to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The approach is similar to the guidance in ASU 2011-08 finalized in 2011 for goodwill impairment testing. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company adopted ASU 2012-02 effective January 1, 2013, which did not have a material effect on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The standard requires an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income if the item reclassified is required

under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For reclassification items not required under U.S. GAAP to be reclassified directly to net income in their entirety in the same reporting period, an entity is required to cross-reference to other disclosures currently required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 applies to all public and private companies that report items of other comprehensive income. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012, with prospective adoption required. The Company adopted ASU 2013-02 effective January 1, 2013. See Note 15.

(3) DIVESTITURES AND DISCONTINUED OPERATIONS

On May 16, 2012, the Company completed the sale of its Information Management line of business to NEC Corporation for $449.0 in cash. The Company recorded a gain of $99.8 pretax and $16.2, net of taxes in 2012. The sale of Information

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Management was a taxable transaction that resulted in $83.6 being recorded for the combined federal, state and foreign income tax obligations in 2012. The high effective tax rate is primarily due to a lower basis in net assets, including goodwill, for tax purposes compared to their book basis. The gain on sale included the elimination of $201.7 of goodwill and intangible assets. During the three and six months ended June 30, 2013, the Company recorded an additional gain of $1.4 and loss of $3.7, respectively, net of tax, related to the gain on sale as certain contingencies settled.

The results of the Information Management business have been classified as discontinued operations for the first six months of 2012. Certain costs previously allocated to the Information Management segment that do not qualify for discontinued operations accounting treatment are now reported as costs from continuing operations. These costs were $2.8 and $8.8 for the three and six months ended June 30, 2012, respectively. The Company is taking actions to reduce these costs and expects transition services revenue from services provided to the buyer subsequent to completion of the sale to offset a substantially all of these costs. During the three and six months ended June 30, 2013, the Company earned $4.6 and $9.5, respectively, in revenue under these transition services agreements. While the transition services agreements vary in duration up to 24 months from the date of sale depending upon the type of service provided, the Company expects to substantially eliminate the underlying costs as the transition services are completed.

The results of the Information Management business included in discontinued operations for the three and six months ended June 30, 2013 and 2012 are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue	$—	$46.8	$—	$128.8
Income before tax - Information Management operations[1]	—	11.1	—	23.7
Gain (loss) on disposition [2]	0.3	106.9	(7.7)	102.0
Income (loss) before income taxes	0.3	118.0	(7.7)	125.7
Income tax expense:				
Benefit related to Information Management operations	—	(37.0)	—	(32.5)
(Benefit) expense related to gain on disposition	(1.1)	86.7	(4.0)	85.2
Income (loss) from discontinued operations, net of tax	$1.4	$68.3	$(3.7)	$73.0

(1) Excludes costs previously allocated to Information Management that did not meet the criteria for presentation within discontinued operations of $2.8 and $8.8 for the three and six months ended June 30, 2012, respectively.

(2) Includes $13.7 and $18.6 of transaction costs related to the sale for the three and six months ended June 30, 2012, respectively.

(4) EARNINGS PER SHARE AND SHAREHOLDERS' EQUITY

Earnings per Share

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

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		Continuing Operations		Discontinued Operations		Total
Three Months Ended June 30, 2013	Shares	Income	Per Share Amount	Income	Per Share Amount	Per Share Amount
Basic EPS	103.8	$22.0	$0.21	$1.4	$0.02	$0.23
Effect of dilutive securities:						
Stock-based compensation arrangements	0.9	—		—	—	—
Convertible Debt	3.4	—	(0.01)	—	—	(0.01)
Diluted EPS	108.1	$22.0	$0.20	$1.4	$0.02	$0.22
Six Months Ended June 30, 2013						
Basic EPS	104.7	$52.2	$0.50	$(3.7)	$(0.04)	$0.46
Effect of dilutive securities:						
Stock-based compensation arrangements	1.1	—	(0.01)	—	—	(0.01)
Convertible Debt	3.4	—	(0.01)	—	—	(0.01)
Diluted EPS	109.2	$52.2	$0.48	$(3.7)	$(0.04)	$0.44
Three Months Ended June 30, 2012						
Basic EPS	115.4	$(53.7)	$(0.47)	$68.3	$0.60	$0.13
Effect of dilutive securities:						
Stock-based compensation arrangements	—	—	—	—	—	—
Convertible Debt	—	—	—	—	—	—
Diluted EPS	115.4	$(53.7)	$(0.47)	$68.3	$0.60	$0.13
Six Months Ended June 30, 2012						
Basic EPS	115.7	$(32.3)	$(0.28)	$73.0	$0.63	$0.35
Effect of dilutive securities:						
Stock-based compensation arrangements	—	—	—	—	—	—
Convertible Debt	—	—	—	—	—	—
Diluted EPS	115.7	$(32.3)	$(0.28)	$73.0	$0.63	$0.35

The diluted EPS calculation excludes the effect of 0.7 outstanding stock options for the three and six months ended June 30, 2013 and 1.9 outstanding stock options for the three and six months ended June 30, 2012 because their effect is anti-dilutive. The calculation also excludes the effect of 0.9 and 1.1 restricted stock units for the three and six months ended June 30, 2013, respectively, and 3.4 shares related to the 2029 Convertible Debentures for the three and six months ended June 30, 2013 because their effect is anti-dilutive. As the Company reported a Net Loss from Continuing Operations for the three and six months ended June 30, 2012, diluted shares outstanding are equivalent to basic shares outstanding. The calculation at June 30, 2013 also excludes 0.3 and 0.3 performance-based restricted stock units granted in 2013 and 2012 as performance criteria have not yet been met.

As described more fully in Note 8, 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 were initially 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 eighty-two and eighty-two hundredths shares per one thousand in principal amount of debentures. The conversion rate is subject to adjustment for certain events outlined in the indenture governing the Debentures (the Indenture), including payment of dividends. As of June 30, 2013, the implied conversion rate for the Convertible Debentures was $11.88 per share, or eighty-four and two tenths shares per one thousand in principal amount of debentures. There were 3.4 dilutive shares related to the 2029 Convertible Debentures for the three and six months ended June 30, 2013.

Shareholders’ Equity

The Company repurchased 1.5 and 3.6 shares of its common stock during the three and six months ended June 30, 2013 at an average price of $16.43 and $16.56 per share for a total of $25.3 and $60.7 under the Company's existing

defined repurchase

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plans. As of June 30, 2013, the Company had the authority to repurchase an additional $192.0 of outstanding common shares pursuant to current authorizations.

Dividends

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

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

On July 30, 2013, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.06 to be paid on October 4, 2013 to shareholders of record as of September 20, 2013.

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.

(5) EMPLOYEE BENEFIT PLANS

The Company sponsors a frozen defined benefit pension plan, which includes both a qualified and non-qualified portion, for eligible employees (the Cash Balance Plan) in North America. The Company recorded a liability of $47.8 and $70.0 as of June 30, 2013 and December 31, 2012, respectively, for the Cash Balance Plan. In addition, the Company sponsors an unfunded defined benefit plan for certain eligible employees in the Philippines. The Company recorded a liability of $26.1 and $23.8 as of June 30, 2013 and December 31, 2012, respectively, for the Philippines plan. Components of pension cost for these plans are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest cost on projected benefit obligation	$3.4	$2.9	$6.2	$5.9
Service cost	1.9	2.1	3.8	3.5
Curtailment benefit	—	(0.2)	—	(0.2)
Expected return on plan assets	(3.2)	(2.9)	(5.8)	(5.9)
Amortization and deferrals, net	3.3	2.8	6.8	5.6
Settlement charge	7.5	—	7.5	—
Pension cost	$12.9	$4.7	$18.5	$8.9

During the second quarter of 2013, the Company recognized a $7.5 non-cash pension settlement charge. The Company contributed $10.0 to fund the Cash Balance Plan during the first six months of 2013. Pension cost includes expense related to discontinued operations of $1.1 for the six months ended June 30, 2012. The Company recognized a $0.2 curtailment benefit during the second quarter of 2012 related to the impact of the sale of the Information Management business.

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 unfunded executive pension plans are as follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest cost on projected benefit obligation	$0.1	$0.2	$0.2	$0.4
Service cost	—	—	—	0.1
Curtailment benefit	—	(0.2)	—	(0.2)
Settlement loss	—	—	—	—
Amortization and deferrals, net	0.1	(0.1)	0.2	(0.1)
Pension cost (benefit)	$0.2	$(0.1)	$0.4	$0.2

During the six months ended June 30, 2013, the Company recognized a settlement loss of $0.2 related to the supplemental, non-qualified, unfunded plan and a settlement gain of $0.2 related to the unfunded executive compensation plan. Subsequent to recognition of the settlement loss related to the supplemental, non-qualified, unfunded plan, this plan has been fully settled. The Company recognized a $0.2 curtailment benefit during the second quarter of 2012 related to the impact of the sale of the Information Management business.

(6) RESTRUCTURING

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. Second quarter of 2012 results included $6.4 of Corporate charges related to the changes in the Company's executive team and realignment of Corporate overhead as a result of the sale of the Information Management business and $1.2 of severance costs related to ongoing operations, impacting approximately 100 professional employees. The $11.4 of full-year 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 substantially paid in cash by June 30, 2013 pursuant to the Company's severance policies. 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 $0.7 as of June 30, 2013 and $5.2 as of December 31, 2012.

Facilities Restructuring

The Company's facilities restructuring reserves are equal to the estimated future costs associated with the facilities, net of proceeds from any probable future sublease agreements. The Company uses estimates, based on consultation with the Company’s real estate advisers, to determine the proceeds from any future sublease agreements. The Company continues 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 $0.1 as of June 30, 2013 and $0.3 as of December 31, 2012.

(7) STOCK-BASED COMPENSATION PLANS

The Company’s operating results for the three and six months ended June 30, 2013 included long-term incentive plan expense of $2.9 and $7.4 compared to $5.3 and $10.5 for the same period in 2012. Long-term incentive plan expense includes expense related to discontinued operations of $0.6 and $1.4 for the three and six months ended June 30, 2012. 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 six months ended June 30, 2013 was $2.9 and $7.4 compared to $5.4 and $10.6 for the same period in 2012.

Stock Options

A summary of stock option activity for the six months ended June 30, 2013 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)
Options outstanding at January 1, 2013	1.2	$12.91	6.6	$4.73
Options exercisable at January 1, 2013	0.3	$11.86	0.8	$3.99
Exercised	(0.3)	12.18		
Forfeited	(0.1)	13.20		
Options outstanding at June 30, 2013	0.8	$13.13	7.7	$3.75
Options exercisable at June 30, 2013	0.2	$13.21	6.2	$4.06

Stock compensation expense for the 2011 and 2012 stock option grants was $0.2 and $0.5, respectively, for the three and six months ended June 30, 2013.

Restricted Stock Awards

During the six months ended June 30, 2013 and 2012, the Company granted 1.1 shares and 1.5 shares, respectively, of restricted stock units. The weighted-average fair values of these grants were $16.33 and $12.93 per share, respectively. Included in these amounts were 0.4 shares and 0.6 shares, respectively, of performance-based restricted stock units granted at the fair value of $16.22 and $12.93 per share, respectively, equal to the Company's share price at grant date, that vest upon the Company's satisfaction of certain financial performance conditions.

The 2013 performance-based grants include 0.3 shares that provide for payout based upon the extent to which the Company achieves certain EPS targets, as determined by the Compensation and Benefits Committee of the Board of Directors, over a three-year period. Payout levels range from 50% to 200% of award shares earned. No payout can be earned if performance is below the minimum threshold level. As the targets for the second and third year have not yet been set, the key terms have not been effectively communicated to the recipients; as such the expense related to these grants cannot be recognized until such terms are established. These grants have been excluded from the table below. The remaining 0.1 of performance-based shares granted in 2013 vested immediately.

The 2012 performance-related grants provide for payout based upon the extent to which the Company achieves certain EBITDA targets, as determined by the Compensation and Benefits Committee of the Board of Directors for this award, over a two-year period. Payout levels range from 50% to 200% of award shares earned. No payout can be earned if performance is below the minimum threshold level. Compensation cost related to these 2012 grants is adjusted based upon expected performance as compared to defined targets.

The 2013 time-based grants are scheduled to vest 25% at the completion of year one after the grant date, 25% after year two and 50% after year three. The 2012 time-based grants are scheduled to vest 50% at the end of year two and 50% at the end of year three. The 2011 time-based grants vested 50% at the completion of year two after grant date with the remaining 50% scheduled to vest at the end of year three.

The total compensation cost related to non-vested time-based and performance-based restricted stock units not yet recognized as of June 30, 2013 was approximately $14.2 and $2.6, respectively, which is expected to be recognized over a weighted average of 1.1 years and 0.4 years, respectively. Changes to non-vested time-based and performance-based restricted stock and restricted stock units for the six months ended June 30, 2013 were as follows:

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, 2012	1.6	$13.04
Granted	0.6	16.33
Vested	(0.7)	12.72
Forfeited	—	—

Non-vested at June 30, 2013	1.5	$14.58

Performance-based Restricted Stock Units

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Shares in Millions Except Per Share Amounts	Number of Shares	Weighted Average Fair Value at Date of Grant
Non-vested at December 31, 2012	0.9	$12.69
Granted	0.1	16.34
Vested	(0.7)	13.22
Forfeited	—	—
Non-vested at June 30, 2013	0.3	$12.90

(8) DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consist of the following:

	June 30, 2013	December 31, 2012
Revolving credit facilities	$—	$—
2029 Convertible Debentures	58.9	58.4
Capital Lease Obligations	2.1	2.2
Accounts Receivable Securitization	—	—
Total debt	61.0	60.6
Less current maturities	0.9	0.7
Long-term debt	$60.1	$59.9

On March 11, 2011, the Company entered into a $300.0 Four-Year Competitive Advance and Revolving Credit Facility Agreement (the 2011 Credit Facility), replacing the Company's $400.0 Five-Year Competitive Advance and Revolving Credit Facility Agreement (the 2006 Credit Facility), which was terminated at that time. 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. Borrowings under the 2011 Credit Facility bear interest at one of the rates described in the 2011 Credit Facility. The maturity date of the 2011 Credit Facility is March 11, 2015 except that, upon the satisfaction of certain conditions, Convergys may extend the maturity date by one year, twice during the term. Convergys will pay an annual facility fee regardless of utilization. At June 30, 2013, the facility was undrawn. The Company was in compliance with all covenants at June 30, 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. Convergys 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. At the date of issuance, the Company recognized the liability component of the 2029 Convertible Debenture at its fair value of $56.3. The liability component is recognized as the fair value of a similar instrument that does not have a conversion feature at issuance. The equity component, which is the value of the conversion feature at issuance, was recognized as the difference between the proceeds from the issuance of the debentures and the fair value of the liability component, after adjusting for the deferred tax impact of $32.7. The 2029 Convertible Debentures were issued at a coupon rate of 5.75%, which was below that of a similar instrument that does not have a conversion feature. Therefore, the valuation of the debt component, using the income approach, resulted in a debt discount. The debt discount will be amortized over the life of a similar debt instrument without a conversion feature, which the Company determined to equal the contractual maturity of the 2029 Convertible Debentures. Amortization is based upon the effective interest rate method and will be included within the interest expense caption in the accompanying Consolidated Statements of Income.

The 2029 Convertible Debentures were initially 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 eighty-two and eighty-two hundredths shares of the Company's common stock per one thousand dollars in principal amount of Debentures. As of June 30, 3013, the implied conversion rate for the Convertible Debentures was $11.88 per share, or eighty-four and two tenths per one thousand 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 Debentures

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(the Indenture), including payment of dividends. The conversion rate will increase for a holder who elects to convert this 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 June 30, 2013 or 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 of the Company. As of June 30, 2013 and December 31, 2012, the facility was undrawn.
At June 30, 2013, future minimum payments of the Company’s debt arrangements are as follows:

Remainder of 2013 and 2014	$ 1.1
2015	0.9
2016	—
2017	—
2018	—
Thereafter	125.0
Total	$ 127.0

(9) COMMITMENTS AND CONTINGENCIES
Commitments
At June 30, 2013, the Company had outstanding letters of credit of $39.2 and other bond obligations of $1.5 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 $6.5 for the remainder of 2013.
At June 30, 2013, the Company had an outstanding performance bond obligation of $30.0 related to a performance and payment guarantee for the Company’s former HR Management line of business which was sold in 2010 to NorthgateArinso. Subsequent to completion of the sale of the HR Management business, the Company continues to be responsible for this bond obligation. 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 the buyer is obligated to indemnify the Company for any and all losses, costs, liabilities and expenses incurred related to these performance bonds, as of June 30, 2013, the Company maintains a liability of $1.0 for these obligations.
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 Company’s results of operations or financial condition in the future.
In November 2011, one of the Company's call center clients, Hyundai Motor America ("Hyundai"), tendered a contractual indemnity claim to Convergys Customer Management Group, Inc., a subsidiary of the Company, relating to a putative class action captioned Brandon Wheelock, individually and on behalf of a class and subclass of similarly situated individuals, v. Hyundai Motor America, Orange County Superior Court, California, Case No. 30-2011-00522293-CU-BT-CJC. The lawsuit alleges that Hyundai violated California's telephone recording laws by

recording telephone calls with customer service representatives without providing a disclosure that the calls might be recorded. Plaintiff is seeking, among other things, an order certifying the suit as a California class action, statutory damages, payment of attorneys' fees and pre- and post-judgment interest. Convergys Customer Management Group, Inc. is not named as a defendant in the lawsuit. On March 5, 2012, the court sustained a demurrer filed by Hyundai to one of the Plaintiff's causes of action, but overruled the demurrer as the Plaintiff's other cause of action. On March 15,

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2012, Plaintiff filed an amended complaint. Hyundai answered the amended complaint on April 16, 2012, by generally denying the allegations and asserting certain affirmative defenses. On May 7, 2012, Hyundai filed a motion for summary judgment based on Hyundai's claim that an exemption under the California recording laws was intended to exempt the type of recording done by Hyundai's call centers. On February 5, 2013, the court denied the motion, and on July 2, 2013, the California Court of Appeal, Fourth Appellate District, denied Hyundai's petition for writ of mandate requesting that the court of appeal issue a petition directing the trial court to vacate its prior order and enter a new order granting Hyundai's motion for summary judgment. On July 12, 2013, Hyundai petitioned the Supreme Court of the State of California to grant review and either (1) transfer the case to the Court of Appeals and direct the Court of Appeals to issue a decision on the merits; or (2) issue a decision on the merits in a manner that interprets the exemption under the California recording laws to exempt Hyundai from liability in the case. The supreme court has not yet ruled on Hyundai's petition for writ of review.

Convergys Customer Management Group, Inc. is not named as a defendant in the lawsuit, and there has been no determination as to whether Convergys Customer Management Group, Inc. will be required to indemnify Hyundai. The Company believes Convergys Customer Management Group, Inc. has meritorious defenses to Hyundai's demand for indemnification and also believes there are meritorious defenses to Plaintiff's claims in the lawsuit. The likelihood of losses that may become payable under such claims, the amount of reasonably possible losses associated with such claims, and whether such losses may be material cannot be determined or estimated at this time. For these reasons, the Company has not established a reserve with respect to this matter.

On March 28, 2013, the Company received a demand from a subsidiary of NEC Corporation for defense and indemnification under the stock and asset purchase agreement among the Company, NEC Corporation and the subsidiary with respect to the sale by the Company of its Information Management business. The demand was made in connection with a third party claim that, among other things, the business lacked certain necessary software licenses at the time of the sale. On May 10, 2013, the parties completed a settlement agreement. The Company settled in cash its obligations under this agreement during the second quarter of 2013. The final settlement did not have a material adverse impact on the Company's results of operations or financial conditions.

(10) FAIR VALUE DISCLOSURES

U.S. GAAP defines a hierarchy which prioritizes the inputs in measuring fair value. The three levels of the fair value hierarchy 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.

At June 30, 2013 and December 31, 2012, the Company had foreign currency forward contracts measured at fair value. The fair values of these instruments were measured using valuations based upon quoted prices for similar assets and liabilities in active markets (Level 2) and are valued by reference to similar financial instruments, adjusted for terms specific to the contracts. There were no transfers between the three levels of the fair value hierarchy during the six months ended June 30, 2013 and 2012. The assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives:				
Foreign currency forward contracts (asset position)	$15.1	$ —	$15.1	$—
Foreign currency forward contracts (liability position)	$38.5	$ —	$38.5	$—

	December 31, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives:				
Foreign currency forward contracts (asset position)	$28.0	$ —	$28.0	$—
Foreign currency forward contracts (liability position)	$9.6	$ —	$9.6	$—

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The Company also had investment securities held in a grantor trust for the benefit of participants of the executive deferred compensation plan measured at fair value at June 30, 2013 and December 31, 2012. The fair value of these instruments was measured using the quoted prices in active markets for identical assets (Level 1). There were no transfers between the three levels of the fair value hierarchy during the six months ended June 30, 2013 and 2012. The assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Mutual funds	$10.2	$ 10.2	$—	$—
Convergys common stock	2.0	2.0	—	—
Money market accounts	0.8	0.8	—	—
Total	$13.0	$ 13.0	$—	$—

	December 31, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities:				
Mutual funds	$13.3	$ 13.3	$—	$—
Convergys common stock	4.9	4.9	—	—
Money market accounts	1.3	1.3	—	—
Total	$19.5	$ 19.5	$—	$—

At June 30, 2013, the Company held time deposits with maturities greater than 90 days and less than 180 days measured at fair value. The valuation technique used to measure the fair value of the time deposits was based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. There were no transfers between the three levels of the fair value hierarchy during the six months ended June 30, 2013 and 2012. The assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 were as follows:

	June 30, 2013	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short Term Investments:				
Cash Time Deposits	$59.3	$ —	$59.3	$—
Total	$59.3	$ —	$59.3	$—

	December 31, 2012	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short Term Investments:				
Cash Time Deposits	$64.3	$ —	$64.3	$—

Total	$64.3	$ —	$64.3	$—

Fair values of cash equivalents 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 June 30, 2013, the fair value of the $125.0 of the Company’s 2029 Convertible Debentures is $210.5.

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(11) FINANCIAL INSTRUMENTS

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 rates.

The Company serves many of its 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. The Company also maintains a contract with a client priced in Australian dollars (AUD). 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 to acquire a total of PHP 28,110.0 at a fixed price of $660.0 at various dates through December 2016, INR 12,423.5 at a fixed price of $213.8 at various dates through December 2016, CAD 35.9 at a fixed price of $34.7 at various dates through December 2015 and COP 32,700.0 at a fixed price of $17.0 at various dates through December 2014, and to sell a total of AUD 46.9 at a fixed price of $47.9 at various dates through September 2014. These instruments mature within the next 42 months and had a notional value of $973.4 at June 30, 2013 and $590.4 at December 31, 2012. The derivative instruments discussed above are designated and effective as cash flow hedges. The following table reflects the fair values of these derivative instruments:

	June 30, 2013	December 31, 2012
Forward exchange contracts and options designated as hedging instruments:		
Included within other current assets	$8.9	$16.4
Included within other non-current assets	2.9	11.6
Included within other current liabilities	18.3	6.0
Included within other long-term liabilities	20.2	3.5

The Company recorded a deferred tax benefit of $10.3 and a deferred tax expense of $7.1 related to these derivatives at June 30, 2013 and December 31, 2012, respectively. A total of $16.4 of deferred losses and $11.4 of deferred gains, net of tax, related to these cash flow hedges at June 30, 2013 and December 31, 2012, respectively, were included in accumulated other comprehensive loss (OCL). As of June 30, 2013, deferred losses of $9.4 ($5.8 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 six months ended June 30, 2013 and 2012:

	Gain (Loss) Recognized in OCL 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 June 30, 2013			
Foreign exchange contracts	$ (40.8)	$ 1.5	- Cost of providing services and products sold and Selling, general and administrative
Six Months Ended June 30, 2013			
Foreign exchange contracts	$ (39.5)	$ 5.7	- Cost of providing services and products sold and Selling, general

			and administrative
Three Months Ended June 30, 2012			
Foreign exchange contracts	$ (0.1)	$ 3.5	- Cost of providing services and products sold and Selling, general and administrative
Six Months Ended June 30, 2012			
Foreign exchange contracts	$ 16.0	$ 5.8	- Cost of providing services and products sold and Selling, general and administrative

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The amount recognized related to the ineffective portion of the derivative instruments was not material for the six months ended June 30, 2013.

The Company also enters into derivative instruments (forwards) to economically hedge the foreign currency impact of assets and liabilities denominated in nonfunctional currencies. The Company recorded a net gain of $4.0 and $1.0 during the six months ended June 30, 2013 and 2012, respectively, related to changes in fair value of these derivative instruments not designated as hedges. 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 Income. The fair value of these derivative instruments not designated as hedges at June 30, 2013 was $3.3.

The aggregate fair value of all derivative instruments in a liability position on June 30, 2013 is $38.5.

Short Term Investments

In December 2011, the Company made investments in certain securities, included within short-term investments in the Consolidated Balance Sheets, which are held in a grantor trust for the benefit of participants of the executive deferred compensation plan, which was frozen during the fourth quarter of 2011. This investment was made in securities reflecting the hypothetical investment balances of plan participants. As of June 30, 2013, the Company maintained investment securities with a fair value of $13.0 classified as trading securities. The investment securities include exchange-traded mutual funds, common stock of the Company and money market accounts. These securities are carried at fair value, with gains and losses, both realized and unrealized, reported in other income (expense), net in the Consolidated Statements of Income. The cost of securities sold is based upon the specific identification method. Interest and dividends on securities classified as trading are included in other income (expense), net.

Additionally, during 2012, the Company made investments in time deposits with maturities greater than 90 days and less than 180 days, included within short-term investments in the Consolidated Balance Sheets. As of June 30, 2013, the Company maintained short-term time deposits with a fair value of $59.3.

(12) INCOME TAXES

The liability for unrecognized tax benefits was $51.5 and $54.0 at June 30, 2013 and December 31, 2012, respectively, and is included in other long-term liabilities in the accompanying Consolidated Balance Sheets. As of June 30, 2013, the total amount of unrecognized tax benefits that would affect income tax expense if recognized in the Consolidated Financial Statements is $44.0. This amount includes interest and penalties of $17.2. It is reasonably possible that the total amount of unrecognized tax benefits will decrease between approximately $2 and $10 in the next twelve months; however, actual developments in this area could differ from those currently expected.

The effective tax rate on net income from continuing operations was 19.1% and 17.3% for the three and six months ended June 30, 2013 compared to 16.4% and 13.6% in the same period last year. The higher tax rate for the period ended June 30, 2013 is primarily due to a shift in the geographic mix of worldwide income and certain discrete items.

(13) GOODWILL AND OTHER INTANGIBLE AND LONG-LIVED ASSETS

Acquisition of Datacom

On April 30, 2013, the Company acquired the business process outsourcing operations of New Zealand-based Datacom, including contact centers in Kuala Lumpur, Malaysia and Manila, Philippines. The purchase price of $20.0 AUD included $15.0 of cash paid at closing and assumptions of $5.3 of debt obligations which were immediately paid by the Company. The purchase price is subject to final working capital considerations. In connection with the acquisition, the Company recognized $10.4 of goodwill and a $6.5 of customer relationship intangible asset. The customer relationship intangible asset will be amortized over an estimated economic useful life of 8 years. The determination of the useful life is based upon consideration of market participant and transaction specific factors. The Company included various industry studies, historical acquisition experience, economic factors, future cash flows of the combined company and the relative stability of the acquired customer base. The entire amount of goodwill acquired is expected to be deductible for tax purposes over a period of 15 years. The intangible assets fall with Level 3 of the fair value hierarchy under U.S. GAAP.

Goodwill and Intangible Assets
Goodwill was $588.1 at June 30, 2013 compared to $577.7 at December 31, 2012 due to the acquisition discussed above. Second quarter 2012 results of operations include a $46.0 goodwill impairment charge recorded within the asset impairment caption in the accompanying Consolidated Statements of Income.The Company tests goodwill for impairment annually as of

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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. Goodwill impairment testing is performed at the reporting unit level, one level below the business segment. The Company's three reporting units prior to the sale of Information Management were CM Live Agents, CM Customer Interaction Technology (CIT) and Information Management.
The impairment test for goodwill involves a two-step 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.
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 CIT 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. The conclusion of step two of the impairment analysis resulted in the impairment of the entire $46.0 goodwill balance of this reporting unit. The Company, therefore, recorded a $46.0 ($44.4 net of tax) goodwill impairment charge, included within operating income, for the three months ended June 30, 2012. Fair value was determined based on a discounted cash flow analysis which contains significant unobservable inputs that fall within Level 3 of the fair value hierarchy under U.S. GAAP.
Intangible assets (including software and customer relationships) increased to $35.3 at June 30, 2013 from $33.7 at December 31, 2012, primarily due to the acquisition, offset by amortization. As of June 30, 2013, the Company’s total identifiable intangible assets, acquired primarily through business combinations, consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Net
Software (classified with Property, Plant & Equipment)	$41.3	$(28.9)	$12.4
Trademarks	10.0	(10.0)	—
Customer relationships and other intangibles	126.1	(103.2)	22.9
Total	$177.4	$(142.1)	$35.3

The intangible assets are being amortized using the following amortizable lives: 5 to 8 years for software, 4 years for trademarks, and 7 to 12 years for customer relationships and other intangibles. The remaining weighted average depreciation period for software is 3.1. The remaining weighted average amortization period for trademarks, customer relationships and other intangibles is 6.6. 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 $2.6 and $3.7 for the six months ended June 30, 2013 and 2012, respectively, and is estimated to be approximately $5.3 for the year ended December 31, 2013. The related estimated expense for the five subsequent years ended December 31 is as follows:

2014	$4
2015	3
2016	3
2017	3
2018	3
Thereafter	5

Long-Lived Assets

The Company evaluates its property, plant and equipment when events or circumstances indicate a possible inability to recover their carrying amounts. During 2012, the Company committed to a plan to sell its Corporate office facilities in Cincinnati, Ohio. The facility met the "Held-for-Sale" criteria set forth in U.S. GAAP; the book value was adjusted to its fair value less costs to sell, resulting in an impairment charge of $42.6 ($27.0 after tax) recorded during the second quarter of 2012. During 2013, the Company committed to sell an additional facility in Dallas, Texas which also resulted in "Held-for-Sale" classification. During

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the second quarter of 2013 the Company recognized a $1.1 net impairment loss to adjust both facilities to fair value less costs to sell. As of June 30, 2013, $47.2 of property, plant and equipment was classified as held-for-sale for both facilities. The Company measured assets held-for-sale at the lower of net book value or fair value less cost to sell. Fair value and cost to sell estimates were based on corroborative market data, which is a Level 2 input of the fair value hierarchy under U.S. GAAP. The Company completed the sale of these facilities in July 2013.

(14) PAYABLES AND OTHER CURRENT LIABILITIES

	At June 30, 2013	At December 31, 2012
Accounts payable	$33.0	$50.6
Accrued income and other taxes	23.2	21.2
Accrued payroll-related expenses	84.7	85.6
Derivative liabilities	18.4	6.1
Accrued expenses	71.0	85.7
Deferred revenue and government grants	26.0	31.1
Restructuring and exit costs	0.7	5.5
	$257.0	$285.8

(15) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (loss):

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Foreign Currency	Derivative Financial Instruments	Pension Liability	Total
Balance at December 31, 2012	$36.4	$11.4	$(58.3)	$(10.5)
Other comprehensive (loss) income before reclassifications	(1.8)	0.8	—	(1.0)
Settlement of pension obligation	—	—	—	—
Amounts reclassified from accumulated other comprehensive loss	—	(2.6)	—	(2.6)
Net current-period other comprehensive (loss)	(1.8)	(1.8)	—	(3.6)
Balance at March 31, 2013	34.6	9.6	(58.3)	(14.1)
Other comprehensive (loss) income before reclassifications	(1.4)	(25.0)	11.5	(14.9)
Settlement of pension obligation	—	—	4.8	4.8
Amounts reclassified from accumulated other comprehensive (loss)	—	(1.0)	—	(1.0)
Net current-period other comprehensive (loss) income	(1.4)	(26.0)	16.3	(11.1)
Balance at June 30, 2013	$33.2	$(16.4)	$(42.0)	$(25.2)

The following table summarizes the reclassifications out of accumulated other comprehensive income (loss):

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
Gain on derivative instruments	1.5	5.7	Cost of providing services and products sold and Selling, general and administrative
Tax (expense)	(0.5)	(2.2)	Income tax expense (benefit)
Gain on derivative instruments, net of tax	1.0	3.5	Net of tax
Settlement of pension obligation	(7.5)	(7.5)	Selling, general and administrative
Tax benefit	2.7	2.7	Income tax expense (benefit)
Settlement of pension obligation, net of tax	(4.8)	(4.8)	Net of tax
Total reclassifications for the period	(3.8)	(1.3)	

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ITEM 2.
MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollar 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 line of business to NEC Corporation for $449.0 in cash. The sale closed in May 2012, for which we received $462.6 in cash, including $12.9 for 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 the three and six months ended June 30, 2013, we recorded an additional gain of $1.4 and loss of $3.7, respectively, net of tax, related to the gain on sale as certain contingencies settled. As of December 31, 2012, we maintained one reportable segment, reflecting the internal financial reporting structure and operating focus of our management team and chief operating decision maker.
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 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 handles more than 4 billion customer contacts per year. We have approximately 81,000 employees in over 70 locations across the globe and in our work-at-home environment. We provide multilingual, multichannel customer care with global service delivery infrastructure that operates 24 hours a day, 365 days a year.
Agent-related revenues, which accounted for more than 92% of revenues for the six months ended June 30, 2013, are typically recognized as the 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 the services are provided over the duration of the contract using contractual rates.

Additional Information
The Company files annual, quarterly and 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 York, New York 10005.

FORWARD-LOOKING STATEMENTS

This report contains statements, estimates, or projections that constitute "forward-looking statements" as defined under U.S. federal securities laws. In some cases, one can identify forward looking statements by terminology such as "will," "expect," "estimate," "think," "forecast," "guidance," "outlook," "plan," "lead," "project" or other comparable terminology. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks include, but are not limited to: (i) the loss of a significant client or significant business from a client; (ii) the future financial performance of major industries that we serve; (iii) our inability to protect personally identifiable data against unauthorized access or unintended release; (iv) our inability to maintain and upgrade our technology and network equipment in a timely manner; (v) international business and political risks, including economic weakness and operational disruption as a result of natural events, political unrest, war, terrorist attacks or other civil disruption; (vi) the failure to meet expectations regarding the tax treatment of the Information Management transaction; (vii) higher than

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expected costs of providing transition services and other support to the Information Management business and (viii) those factors contained in our periodic reports filed with the SEC, including in the "Risk Factors" section of our most recent Annual Report on Form 10-K. The forward-looking information in this document is given as of the date of the particular statement and we assume no duty to update this information. Our filings and other important information are also available on the investor relations page of our web site at www.convergys.com.

RESULTS OF OPERATIONS

Revenues

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Revenues:								
Communications	$301.1	$295.2	$5.9	2	$593.9	$590.4	$3.5	1
Technology	47.6	42.6	5.0	12	92.2	84.4	7.8	9
Financial Services	45.5	52.5	(7.0)	(13)	91.6	105.1	(13.5)	(13)
Other	110.1	100.8	9.3	9	220.1	208.7	11.4	5
Total Revenues	$504.3	$491.1	$13.2	3	$997.8	$988.6	$9.2	1

Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Consolidated revenues for the second quarter of 2013 were $504.3 compared to $491.1 for the comparable period last year. Revenues from communications clients increased 2% from the second quarter 2012, reflecting volume increases and new programs with several existing clients, partially offset by volume declines with our largest client. Revenues from technology clients increased 12% from the second quarter of 2012, reflecting new programs with an existing client. Revenues from financial services clients decreased 13% from the second quarter of 2012, primarily reflecting a program completion with one client. Other revenues, which are comprised of clients outside the Company's three largest industries, increased 9% from the second quarter of 2012. This increase is attributable to volume increases and new programs with existing clients.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Consolidated revenues for the first half of 2013 were $997.8, a 1% increase from the first half of 2012. Revenues from the communications vertical increased 1% from the first half of 2012 reflecting volume increases and new programs with several existing clients, partially offset by volume declines with our largest client. Revenues from the technology vertical increased 9% from the first half of 2012, primarily due to new programs with existing clients. Revenues from the financial services vertical decreased 13% from the first half of 2012, primarily reflecting a program completion with one client. Other revenues, which are comprised of clients outside of the Company's three largest industries, increased 5% from the first half of 2012 due to volume increases and new programs with existing clients.

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Operating Costs and Expenses

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Operating Costs:								
Cost of providing services and products sold	$327.3	$316.5	$10.8	3	$645.5	$634.2	$11.3	2
Selling, general and administrative	119.9	114.1	5.8	5	234.5	238.8	(4.3)	(2)
Research and development costs	2.2	2.5	(0.3)	(12)	4.3	6.4	(2.1)	(33)
Depreciation	21.2	20.5	0.7	3	42.1	40.8	1.3	3
Amortization	1.4	1.8	(0.4)	(22)	2.6	3.7	(1.1)	(30)
Restructuring	1.1	7.6	(6.5)	NM	1.1	7.6	(6.5)	NM
Asset impairments	1.1	88.6	(87.5)	NM	1.1	88.6	(87.5)	NM
Total costs and expenses	$474.2	$551.6	$(77.4)	(14)	$931.2	$1,020.1	$(88.9)	(9)

Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Consolidated total operating costs and expenses for the second quarter of 2013 of $474.2 decreased 14% from $551.6. Total operating costs and expenses for the three months ended 2013 include a $7.5 non-cash pension settlement charge, included with Selling, general and administrative costs. Based upon changes in the funded status of the plan, the restriction that previously limited retirees to receiving only 50% of their asset value through lump sum distributions was lifted. Therefore, in 2013, retirees are eligible to request remaining balances. As we exceeded the threshold of lump sum payments to recognize a settlement charge in the second quarter of 2013, additional settlement charges may be recognized in subsequent quarters of 2013 as additional lump sum payments are made. Second quarter 2013 also includes $1.1 of asset impairment charges related to the adjustment to fair value less costs to sell two facilities classified as held-for-sale as of June 30, 2013 and $1.1 of severance costs incurred and paid within the quarter.

As discussed above, in May 2012, we completed the sale of the Information Management business and, accordingly, the operating results for this business 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 prior to the completion of the sale of the Information Management business were $2.8 in the second quarter of 2012. These amounts are included within selling, general and administrative expenses within continuing operations. We have taken actions to reduce these costs and remaining costs are substantially offset by revenue resulting from transition services provided to the buyer subsequent to the sale. In the second quarter of 2012, the Company recognized $88.6 non-cash impairment charges, consisting of $46.0 for the impairment of goodwill in the CIT reporting unit, and $42.6 for the impairment of certain facilities within Corporate classified as held for sale. Second quarter 2012 results also include corporate restructuring charges resulting from the sale of the Information Management business of $6.4, severance charges of $1.2 related to the continuing business, and pension and other post employment benefit plan curtailment benefit of $2.7 related to changes in the executive management team following the sale.

As a percentage of revenues, the cost of providing services and products sold was 64.9% in the second quarter of 2013 compared to 64.4% in the prior year period, largely due to the classification of costs associated with transition services provided to NEC Corporation. These transition services costs were classified within Selling, general and administrative in the prior year. Selling, general and administrative expenses of $119.9 in the second quarter of 2013 increased 5% from the prior year period. As a percentage of revenues, selling, general, and administrative cost was 23.8% compared to 23.2% in the prior year. The increase reflects the $7.5 pension settlement charge in the current period, partially offset by lower stock-based compensation costs. Research and development costs of $2.2 decreased

$0.3 from the prior year due to reductions in headcount. Depreciation expense of $21.2 increased $0.7 from the prior year reflecting an increase in capital expenditures related to increased capacity. Amortization expense of $1.4 decreased $0.4 due to completion of the amortization of certain definite lived intangible assets.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Consolidated total operating costs and expenses of $931.2 decreased 9% from the first half of 2012 costs of $1,020.1. Operating costs and expenses for the first six months of 2013 include the pension settlement, asset impairment and severance costs discussed above. Costs previously allocated to the Information Management segment that do not qualify for discontinued operations accounting treatment and reported as costs from continuing operations were $8.8 in the first half of 2012. As discussed above, in the first half of 2012, the Company recognized $88.6 non-cash impairment charges, consisting of $46.0 for the impairment of

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goodwill in the CIT reporting unit, and $42.6 for the impairment of certain facilities within Corporate classified as held-for-sale. First half of 2012 results also include corporate restructuring charges resulting from the sale of the Information Management business of $6.4 and pension and other post employment benefit plan curtailment benefit of $2.7 related to changes in the executive management team following the sale.

Costs of providing services and products sold during the first half of 2013 increased 2% to $645.5 from the first half of 2012. As a percentage of revenues, cost of providing services and products sold was 64.7% compared to 64.2% in the prior year period, largely due to the classification of costs associated with transition services provided to NEC Corporation. Selling, general and administrative expenses of $234.5 in the first half of 2013 decreased 2% as compared to $238.8 in the prior year period. As a percentage of revenues, selling, general, and administrative cost was 23.5% compared to 24.2% in the prior year, reflecting cost reductions previously taken, continued efforts to control costs, and the reclassification of Information Management costs discussed above, offset by the $7.5 pension settlement charge. Research and development costs of $4.3 decreased $2.1 from the prior year due to reductions in headcount. Depreciation expense of $42.1 increased $1.3 from the prior year, reflecting an increase in capital expenditures related to increased capacity. Amortization expense of $2.6 decreased $1.1 due to completion of the amortization of certain definite lived intangible assets.

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 three and six months ended June 30, 2013, Adjusted Operating Income and Adjusted Operating Margin exclude the following:

- The $7.5 non-cash pension settlement charge discussed above and in Note 5 of the Notes to Consolidated Financial Statements; and
- The $1.1 net impairment charge related to the adjustment of two facilities held for sale to their fair values less costs to sell discussed above and in Note 13 of the Notes to Consolidated Financial Statements.

For the three and six months ended June 30, 2012, Adjusted Operating Income and Adjusted Operating Margin exclude the following:

- Certain costs previously allocated to the Information Management business that are now included in continuing operations as discussed above and in more detail in Note 3 of the Notes to Consolidated Financial Statements (these costs were $2.8 and $8.8 for the three and six months ended June 30, 2012, respectively);
- Asset impairments charges of $88.6 including $46.0 for the impairment of goodwill of the CIT reporting unit and $42.6 for the impairment of facilities classified as held for sale as discussed in Note 13 of the Notes to Consolidated Financial Statement;
- Pension and other post employment benefit plan curtailment benefit of $2.7, including $4.1 of curtailment credits from pension and other post employment benefit plans as discussed in Note 5 of the Notes to Consolidated Financial Statements and $1.4 of post-retirement benefit costs related to changes in the executive management team; and
- Corporate restructuring charges resulting from the sale of the Information Management business of $6.4.

Adjustments for these charges 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.

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Operating Income (loss)	$30.1	$(60.5)	$90.6	NM	$66.6	$(31.5)	$98.1	NM
Operating Margin	6.0 %	(12.3)%			6.7 %	(3.2)%		
Net pension and other post-employment benefit plan charges	7.5	(2.7)			7.5	(2.7)		
Asset impairments	1.1	88.6			1.1	88.6		
Restructuring	—	6.4			—	6.4		
Information Management costs not qualifying as Discontinued Operations	—	2.8			—	8.8		
Adjusted Operating Income (a non-GAAP measure)	$38.7	$34.6	$4.1	12	$75.2	$69.6	$5.6	8
Adjusted Operating Margin	7.7 %	7.0 %			7.5 %	7.0 %		

Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Consolidated operating income was $30.1 for the second quarter of 2013 compared to an operating loss of $60.5 in the prior year. Excluding the pension and other post-employment benefit plan charges, asset impairment charges, restructuring and Information Management-related costs, consolidated operating income for the second quarter of 2013 was $38.7 compared to $34.6 in the same period in the prior year due to higher revenue and controlled costs.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Consolidated operating income was $66.6 for the first half of 2013 compared to an operating loss of $31.5 in the prior year period. Excluding the pension and other post-employment benefit plan charges, asset impairment charges, restructuring and Information Management-related costs, consolidated operating income for the first half of 2013 was $75.2 compared to $69.6 in the same period in the prior year.

Non-Operating Items

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Operating Income (loss)	$30.1	$(60.5)	$90.6	NM	$66.6	$(31.5)	$98.1	NM
Other Income, net	—	0.7	(0.7)	NM	2.3	2.1	0.2	10
Interest Expense	(2.9)	(4.4)	1.5	(34)	(5.8)	(8.0)	2.2	(28)
Income (loss) before Income Taxes	$27.2	$(64.2)	$91.4	NM	$63.1	$(37.4)	$100.5	NM

Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Other income decreased from $0.7 due to foreign exchange losses in the second quarter of 2013. Interest expense of $2.9 improved from $4.4 in the prior year reflecting a lower level of debt outstanding throughout the second quarter of 2013 as well as elimination of incremental interest expense of $1.1 related to the purchase of the Orlando facility as a result of the termination of capital lease accounting treatment for this facility in the second quarter of 2012.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Interest expense of $5.8 improved from $8.0 in the prior year reflecting a lower level of debt outstanding throughout the first half of 2013 as well as the incremental interest expense related to the Orlando facility in the first six months of 2012.

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Income Taxes

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Income (loss) before Income Taxes	$27.2	$(64.2)	$91.4	NM	$63.1	$(37.4)	$100.5	NM
Income Tax Expense	5.2	(10.5)	15.7	NM	10.9	(5.1)	16.0	NM

Three Months Ended June 30, 2013 versus Three Months Ended June 30, 2012

Our effective tax rate on net income from continuing operations was 19.1% for the three months ended June 30, 2013 compared to an effective tax rate of 16.4% in the same period last year. The higher tax rate for the three months ended June 30, 2013 is primarily due to a shift in the geographic mix of worldwide income and certain discrete items.

Six Months Ended June 30, 2013 versus Six Months Ended June 30, 2012

Our effective tax rate on net income from continuing operations was 17.3% for the six months ended June 30, 2013 compared to an effective tax rate of 13.6% in the same period last year. The higher tax rate for the six months ended June 30, 2013 is primarily due to the shift in the geographic mix of worldwide income and certain discrete items.

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

We use income from continuing operations, net of tax and earnings per share data excluding the operating charges discussed above and the incremental interest charges related to the Orlando facility discussed above for the three and six months ended June 30, 2013 and 2012 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 include 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. These non-GAAP measures should be considered supplemental in nature and should not be construed as being more important than comparable GAAP measures.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	2012	Change	%	2013	2012	Change	%
Income from Continuing Operations, net of tax	$22.0	$(53.7)	$75.7	NM	$52.2	$(32.3)	$84.5	NM
Total operating charges from above, net of tax	5.4	75.5	(70.1)	NM	5.4	80.3	(74.9)	NM
Orlando financing fees of $1.1, net of tax	—	0.7	$(0.7)	NM	—	0.7	$(0.7)	NM
Adjusted Income from Continuing Operations, net of tax (a non-GAAP measure)	$27.4	$22.5	$4.9	22	$57.6	$48.7	$8.9	18
Diluted Earnings Per Common Share:								
Continuing Operations	$0.20	$(0.47)	$0.67	NM	$0.48	$(0.28)	$0.76	NM
Impact of net charges above included in continuing operations, net of tax	0.05	0.66						