CONVERGYS CORP
Form 10-Q
November 01, 2011

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

Form 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to .

Commission File Number 1-14379

CONVERGYS CORPORATION

(Exact name of registrant as specified in its charter)

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	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 September 30, 2011, there were 120,160,665 common shares, without par value, outstanding, excluding amounts held in Treasury of 64,783,099.

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Form 10-Q
For the Period Ended
September 30, 2011
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2011	2010	2011	2010
Revenues	$576.9	$556.0	$1,673.1	$1,630.2
Costs and Expenses:				
Cost of providing services and products sold	364.7	341.1	1,049.8	982.5
Selling, general and administrative	133.1	140.6	395.5	440.2
Research and development costs	11.6	13.1	38.1	42.3
Depreciation	21.6	24.1	63.9	75.4
Amortization	2.4	2.4	7.2	7.6
Restructuring charges	—	—	—	17.6
Total costs and expenses	533.4	521.3	1,554.5	1,565.6
Operating Income	43.5	34.7	118.6	64.6
Earnings and gain from Cellular Partnerships, net	265.0	11.9	285.2	36.9
Other income, net	1.2	1.3	9.0	7.9
Interest expense	(3.6)	(4.1)	(12.5)	(15.2)
Income before Income Taxes	306.1	43.8	400.3	94.2
Income tax expense	92.4	8.8	120.0	22.4
Income from Continuing Operations, net of tax	213.7	35.0	280.3	71.8
Income from Discontinued Operations, net of tax	—	(6.2)	—	19.7
Net Income	$213.7	$28.8	$280.3	$91.5
Other Comprehensive Income (Loss), net of tax:				
Foreign currency translation adjustments	(8.9)	3.5	(4.2)	12.6
Unrealized gain (loss) on hedging activities	(12.0)	20.6	(15.3)	19.5
Total other comprehensive (loss) income	(20.9)	24.1	(19.5)	32.1
Total Comprehensive Income	$192.8	$52.9	$260.8	$123.6
Basic Earnings Per Common Share:				
Continuing operations	$1.78	$0.28	2.32	$0.58
Discontinued operations	—	(0.05)	—	0.16
Basic Earnings per Common Share	$1.78	$0.23	$2.32	$0.74
Diluted Earnings Per Common Share:				
Continuing operations	$1.75	$0.28	$2.28	$0.57
Discontinued operations	—	(0.05)	—	$0.16
Diluted Earnings per Common Share	$1.75	$0.23	$2.28	$0.73
Weighted Average Common Shares Outstanding:				
Basic	120.1	123.2	120.9	123.5
Diluted	121.8	125.4	123.0	125.8

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(In Millions)	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$472.5	$186.1
Receivables, net of allowances of $10.5 and $11.0	376.8	371.6
Deferred income tax assets	59.5	40.9
Prepaid expenses	40.8	38.3
Other current assets	44.9	56.8
Current assets – held for sale	9.1	11.8
Total current assets	1,003.6	705.5
Property and equipment, net	341.2	347.6
Goodwill	818.0	820.5
Other intangibles, net	32.5	40.1
Investment in Cellular Partnerships	—	64.3
Deferred income tax assets	24.9	38.1
Other assets	124.9	109.2
Total Assets	$2,345.1	$2,125.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Debt and capital lease obligations maturing within one year	$6.4	$91.0
Payables, deferred revenue and other current liabilities	363.0	380.2
Total current liabilities	369.4	471.2
Long-term debt and capital lease obligations	121.0	119.3
Deferred income tax liabilities	153.8	76.4
Accrued pension liability	118.7	129.6
Other long-term liabilities	160.6	144.7
Total liabilities	923.5	941.2
Shareholders' Equity		
Preferred shares – without par value, 5.0 authorized; none outstanding	—	—
Common shares – without par value, 500.0 authorized; 184.9 and 184.2 issued, 120.1 and 122.1 outstanding, as of September 30, 2011 and December 31, 2010, respectively	1,107.2	1,094.5
Treasury stock – 64.8 and 62.1 as of September 30, 2011 and December 31, 2010, respectively	(1,092.6)	(1,060.2)
Retained earnings	1,441.8	1,165.1
Accumulated other comprehensive loss	(34.8)	(15.3)
Total shareholders' equity	1,421.6	1,184.1
Total Liabilities and Shareholders' Equity	$2,345.1	$2,125.3

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In Millions)	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$280.3	$91.5
Income from discontinued operations	—	19.7
Income from continuing operations	280.3	71.8
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	71.1	83.0
Gain on sale of interests in the Cellular Partnerships	(265.0)	—
Gain on sale of business	(7.0)	—
Deferred income tax expense (benefit)	79.5	(0.1)
Earnings from Cellular Partnerships, net	(20.2)	(36.9)
Distributions from Cellular Partnerships	30.7	30.7
Stock compensation expense	12.1	12.7
Changes in assets and liabilities:		
Change in receivables	(7.4)	29.7
Change in other current assets	(1.1)	60.1
Change in deferred charges, net	(29.9)	(14.6)
Change in other assets and liabilities	22.3	5.8
Change in payables and other current liabilities	(30.4)	(59.4)
Net cash provided by operating activities of continuing operations	135.0	182.8
Net cash used in operating activities of discontinued operations	—	(22.9)
Net cash provided by operating activities	135.0	159.9
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(57.0)	(48.5)
Proceeds from sale of interests in the Cellular Partnerships	320.0	—
Proceeds from disposition of assets	3.1	—
Proceeds from disposition of business	10.0	—
Acquisitions, net of cash acquired	—	(3.3)
Net cash provided by (used in) investing activities of continuing operations	276.1	(51.8)
Net cash provided by investing activities of discontinued operations	—	74.2
Net cash provided by investing activities	276.1	22.4
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of credit facilities and other debt, net	(85.8)	(334.4)
Purchase of treasury shares	(38.7)	(24.9)
Proceeds from exercise of stock options	3.0	—
Other	(3.2)	—
Net cash used in financing activities	(124.7)	(359.3)
Net increase (decrease) in cash and cash equivalents	286.4	(177.0)
Cash and cash equivalents at beginning of period	186.1	331.7
Cash and cash equivalents at end of period	$472.5	$154.7

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 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 relationships with customers.

Prior to June 1, 2010, 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 $100. The sale substantially closed on June 1, 2010. 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 which are reflected in Corporate and Other in Note 16. 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 16 for information about these segments.

Certain balances in prior years have been reclassified to conform to the current year presentation.

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, 2010, filed on February 25, 2011.

(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 adopted ASU 2009-13 and 2009-14 effective January 1, 2011. Adoption of these Standards did not have a material impact to the Company's consolidated results of operations and financial position.

(3) DIVESTITURES

HR Management

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 $100. The consideration received at 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 HR Management operations closed in the third and fourth quarters of 2010 and resulted in an additional $5 in cash received. Final settlement of working capital adjustments resulted 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.

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After final post-close adjustments, the gain on the sale of HR Management recorded in 2010 was $35.2 pretax and $5.6 after tax. For the nine months ended September 30, 2010, the Company recorded a preliminary gain on sale of $3.7, including $29.4 of tax expense. Upon completion, the sale of HR Management was a taxable transaction that resulted in $29.6 being recorded for the combined federal, state and foreign income taxes. The gain on sale included the elimination of $67.1 of goodwill and intangible assets. The high effective tax rate on the transaction was largely due to substantially lower tax basis in goodwill as compared to book value.
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 prior periods, certain costs that had been previously allocated to the HR Management segment are now included in continuing operations. These costs were $9.1 for the nine months ended September 30, 2010, and are reflected in Corporate and Other in Note 16. 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. For the three and nine months ended September 30, 2011, the Company earned $2.4 and $13.7, respectively, in revenue under these transition services agreements. The results of the HR Management business included in discontinued operations for the three and nine months ended September 30, 2010, respectively, are summarized as follows:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenue	$0.2	$107.2
(Loss) income before tax - Operations	(0.1)	25.4
(Loss) gain on disposition	(4.9)	33.1
(Loss) income before income taxes	(5.0)	58.5
Income tax expense (benefit):		
Expense related to operations	2.0	9.4
(Benefit) expense related to gain on disposition	(0.8)	29.4
(Loss) income from discontinued operations, net of tax	$(6.2)	$19.7

There were no remaining assets or liabilities related to the HR Management business at December 31, 2010. Cash flows generated from the discontinued operations are presented separately in the Company’s consolidated statements of cash flows.
Finance and Accounting outsourcing line of business (F&A)
In January 2011, the Company completed the sale of F&A for approximately $10. The gain on the sale amounted to $7.0 pretax, recorded within Other income, net in the Consolidated Statements of Income and Comprehensive Income, and $4.3 after tax in 2011. The gain on the sale included the elimination of $2.6 of goodwill and other intangible assets. The results of operations of F&A and the sale of F&A are not material to the Company’s results of operations or financial condition and, therefore, are not reflected as discontinued operations for the periods presented.

(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 September 30, 2011	Shares	Income	Per Share Amount	Income	Per Share Amount	Per Share Amount
Basic EPS	120.1	$213.7	1.78	$—	$—	$1.78
Effect of dilutive securities:						
Stock-based compensation arrangements	1.7	—	(0.03)	—	—	(0.03)
Convertible Debt	—	—	—	—	—	—
Diluted EPS	121.8	$213.7	1.75	$—	$—	$1.75
Nine Months Ended September 30, 2011						
Basic EPS	120.9	$280.3	2.32	$—	$—	$2.32
Effect of dilutive securities:						
Stock-based compensation arrangements	2.1	—	(0.04)	—	—	(0.04)
Convertible Debt	—	—	—	—	—	—
Diluted EPS	123.0	$280.3	2.28	$—	$—	$2.28
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

The diluted EPS calculation for the three and nine months ended September 30, 2011 excluded the effect of 3.9 million outstanding stock options, and for the three and nine months ended September 30, 2010 excluded the effect of 5.8 million outstanding stock options, respectively, 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 were no dilutive shares related to the 2029 Convertible Debentures for the three and nine months ended September 30, 2011.

Shareholders’ Equity

The Company repurchased 2.9 million shares during the nine months ended September 30, 2011 at an average price of $13.46 for a total of $38.7. As of September 30, 2011, the Company has the authority to repurchase 1.8 million additional common shares pursuant to current authorizations. On October 4, 2011, the Company announced that its Board of Directors authorized the Company to repurchase up to an incremental $200 of outstanding common shares from time to time as market and business conditions warrant. The amount and timing of any repurchases will be determined based on an evaluation of a variety of factors at the time of any repurchases. The share buyback authorization does not obligate the Company to acquire any specific number of shares in any period, and may be modified, suspended or discontinued at any time without notice to shareholders.

(5) INVESTMENT IN CELLULAR PARTNERSHIP

On July 1, 2011, the Company completed the sale of its 33.8% limited partnership interest in the Cincinnati SMSA Limited Partnership and its 45.0% limited partnership interest in the Cincinnati SMSA Tower Holdings LLC (collectively referred to as the "Cellular Partnerships") to AT&T. AT&T is the general and a limited partner of both Cincinnati SMSA Limited Partnership and Cincinnati SMSA Tower Holdings LLC with a partnership interest prior to Convergys' sale of its interests of approximately 66% and 53%, respectively. The Company received approximately

$320 in cash proceeds upon closing and $11.1 in quarterly distributions from the Cellular Partnerships for the second quarter of 2011 in the third quarter of 2011. The Company's interests in the Cellular Partnerships did not qualify as discontinued operations; therefore, the gain has been reported within income from continuing operations and no reclassification of prior results is required. The net gain on sale

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of its interests in the Cellular Partnerships was $265.0, or $171.8 net of tax.

Since the Cellular Partnerships were organized as limited partnerships, the partners are responsible for income taxes applicable to their share of taxable income generated by the Cellular Partnerships. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$—	$171.4	$359.8	$484.7
Income from operations	—	35.0	61.2	109.4
Net income	—	34.2	60.8	106.4

We accounted for our interest in this limited liability company under the equity method of accounting. The Company's equity in earnings of equity method investees for the three and nine months ended September 30, 2011 and 2010, respectively, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Convergys' equity in earnings of Cincinnati SMSA Limited Partnership	$—	$11.6	$20.5	$36.1
Convergys' equity in earnings of Cincinnati SMSA Tower Holdings LLC	—	0.3	0.9	0.8
Transaction costs related to the sale of Convergys' interest in Cellular Partnerships	—	—	(1.2)	—
Gain on sale of Convergys' interests in Cellular Partnerships	$265.0	$—	$265.0	$—
Total earnings and gain from Cellular Partnerships, net	$265.0	$11.9	$285.2	$36.9

(6) 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 has recorded a liability of $74.3 and $80.6 as of September 30, 2011 and December 31, 2010, 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 has recorded a liability of $13.0 and $9.5 as of September 30, 2011 and December 31, 2010, respectively, for the Philippines Plan. Components of pension cost for these plans are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest cost on projected benefit obligation	$3.0	$3.0	$9.0	$9.2
Service cost	1.1	0.6	3.0	1.9
Expected return on plan assets	(2.9)	(3.1)	(8.5)	(9.2)
Amortization and deferrals - net	2.3	1.7	5.8	4.9
Pension cost	$3.5	$2.2	$9.3	$6.8

The Company contributed $10.6 to fund the Cash Balance Plan during the first nine months of 2011 and contributed an additional $8.5 during the fourth quarter of 2011.

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	$0.1	$—	$0.4	$0.7
Interest cost on projected benefit obligation	0.3	0.5	1.0	1.5
Curtailment (benefit) / loss	—	—	(1.5)	2.3
Settlement loss	—	1.4	—	1.4
Amortization and deferrals - net	—	—	—	(0.1)
Pension cost	$0.4	$1.9	$(0.1)	$5.8

The Company recognized a $1.5 curtailment benefit during the first quarter of 2011 related to the resignation of a senior executive. The Company recognized a $2.3 curtailment loss during the first quarter of 2010 related to the termination of the employment of the former President and Chief Executive Officer of the Company, and also a settlement loss due to this transition of $1.4 during the third quarter of 2010 upon payment of benefits under the unfunded executive pension plan.

The Company sponsors postretirement health and life insurance plans for certain eligible employees. The plan provides eligible employees and retirees with the opportunity to direct an amount of their compensation or pension benefits to cover medical, dental and life insurance programs of their choice for their benefit and the benefit of their dependents. The plan covers both active and retired eligible employees of the Company and its subsidiaries. Employees' eligibility to participate in the plan is based upon their date of hire. During the second quarter of 2011, the Company amended certain components of the postretirement health and life insurance plans to reduce certain benefits. The plan amendments constitute negative amendments. As a result of the plan amendments, the accumulated postretirement benefit obligation has decreased approximately $20 from December 31, 2010, the impact of which will be recognized as a reduction to net periodic benefit cost over the remaining future service years of the active participants over a weighted-average period of approximately 3 years.

(7) RESTRUCTURING

2011 Restructuring

During the third quarter of 2011, the Company initiated operational changes that resulted in severance costs of $2.8 largely to reduce headcount and align resources to future business needs. This charge was offset by a $2.8 reduction to previously established facility-related reserves, as described below. The $2.8 of severance-related charges were comprised of $1.6 at Information Management, $1.0 at Customer Management and $0.2 at Corporate. Severance actions impact approximately 100 professional employees worldwide and charges will largely be paid in cash pursuant to the Company's existing severance policy and employment agreements. These actions are expected to be substantially completed by the middle of 2012.

Restructuring liability activity for the 2011 severance plan, the balance of which is included within Payables, deferred revenue and other current liabilities on the Company's balance sheets, consisted of the following:

	2011
Balance at January 1	$—
Severance charge	2.8
Severance payments	(0.9)
Balance as of September 30, 2011	$1.9

2010 Restructuring

As discussed more fully in the "Restructuring" footnote of Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, during 2010, the Company initiated a restructuring plan and incurred a total charge of $36.7 consisting of $22.4 of severance-related charges and $14.3 of facility-related charges. The $22.4 of severance-related charges were comprised of $13.3 at Customer Management and $3.0 at Information Management, largely to reduce headcount and align resources to future business needs, and $6.1 at Corporate to further simplify operations and to reflect the impact of the sale of the HR Management line of

business. For the nine months ended September 30, 2010, the Company recorded a charge of $17.6, including $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 and $2.3 at Corporate. The full-year severance charge of $22.4 is largely being paid in cash pursuant to the Company’s existing severance policy and employment

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agreements. When completed, these actions will affect approximately 1,000 professional employees and approximately 1,400 non-salaried employees worldwide and are expected to be mostly completed by the end of 2011. The facility-related charge of $14.3 relates to lease rent accruals and penalties 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. Therefore, facility-related reserves are maintained on a facility basis rather than a restructuring charge event basis. At September 30, 2011, the facility-related restructuring reserve for all reserved facilities had an outstanding balance of $11.0, which will be paid out over several years until the leases expire.

Restructuring liability activity for the 2010 severance plan consisted of the following:

	2011	
Balance at January 1	$12.4	
Severance payments	(10.9	)
Balance as of September 30, 2011	$1.5	

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 were completed as of March 31, 2011. 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. The facility-related restructuring reserve related to this charge is encompassed within the total outstanding facility balance of $11.0 referred to above, which will be paid over several years until the leases expire.

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 recording the facilities abandonment charge. Based upon early termination and settlement of a lease for a previously abandoned facility during the third quarter of 2011 and review of estimated future costs for other facilities, the Company recorded a net benefit of $2.8 to reduce the remaining reserves.

Restructuring liability activity for the facilities plans consisted of the following:

	2011	
Balance at January 1	$20.7	
Facility payments	(6.9	)
Facility adjustments	$(2.8	)
Balance as of September 30, 2011	$11.0	

(8) STOCK-BASED COMPENSATION PLANS

The Company's operating results for the three and nine months ended September 30, 2011 included long-term incentive plan expense of $3.9 and $12.5, respectively, compared to $3.5 and $13.0, respectively for the same periods in 2010. 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, 2011 was $3.7 and $12.1, respectively, compared to $3.4 and $13.6, respectively, for the same periods in 2010.

Stock Options

A summary of stock option activity for the nine months ended September 30, 2011 is presented below:

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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, 2011	5.7	$31.66	1.1	$12.16
Exercised	(0.2)	11.67		
Forfeited/cancelled	(2.3)	41.99		
Exercisable at September 30, 2011	3.2	$25.98	0.9	10.17
Unvested at January 1, 2011	—	—		
Granted	0.7	13.79	9.3	4.06
Forfeited/cancelled	—	13.76		
Outstanding unvested at September 30, 2011	0.7	$13.79	9.3	4.06
Outstanding at September 30, 2011	3.9	$23.91	2.4	$9.15

Approximately one-half of the stock options granted during 2011 vest in two years and the remaining vest in three years. The weighted average fair value at grant date of $4.06 per option granted included assumptions of a strike price of $13.79, a 31.11% implied volatility and an expected term of 4.5 years. These option grants resulted in stock compensation expense of $0.7 in the first nine months of 2011.

Restricted Stock Awards

During the nine months ended September 30, 2011, the Company granted 1.5 million restricted stock units at a weighted-average fair value of $13.76 per share. Included in this amount were 0.5 million performance-based restricted stock units granted at the fair value of $13.77 per share, equal to the Company's share price at grant date, that vest upon the Company's satisfaction of certain financial performance conditions. The 2011 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 2011 grants will be adjusted based upon expected performance as compared to defined targets.

During the nine months ended September 30, 2010, the Company granted 2.1 million restricted stock units at a weighted average fair value of $11.49 per share. Included in this amount were 0.8 million market-based restricted stock units granted at the fair value of $11.37 per share that vest upon the Company's satisfaction of certain market conditions (relative shareholder return versus the S&P 500 return) as of December 31, 2012. Compensation cost related to these 2010 grants is not adjusted based upon variance from initial assumptions made regarding expected performance. The Company used a Monte Carlo simulation model to estimate the fair value for market-based restricted stock units issued during 2010. 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
Expected volatility	56%
Expected term (in years)	3.0

Risk-free interest rate	1.4%

The total compensation cost related to non-vested time-based and performance-based restricted stock units not yet recognized as of September 30, 2011 was approximately $15.3 and $8.3, respectively, which is expected to be recognized over a weighted average of 1.3 years and 0.9 years, respectively. Changes to non-vested time-based and performance-based restricted stock and restricted stock units for the nine months ended September 30, 2011 were as follows:

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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, 2010	1.9	$10.76
Granted	1.0	13.76
Vested	(0.4)	12.23
Forfeited	(0.3)	11.10
Non-vested at September 30, 2011	2.2	$11.74

Performance and Market-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, 2010	2.2	$9.79
Granted	0.5	13.77
Vested	(0.1)	8.37
Forfeited	(0.8)	11.26
Non-vested at September 30, 2011	1.8	$10.31

(9) DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consist of the following:

	September 30, 2011	December 31, 2010
Revolving credit facilities	$—	$—
2029 Convertible Debentures	57.3	56.6
Capital Lease Obligations	59.1	58.0
Accounts Receivable Securitization	—	85.0
Other	11.0	10.7
Total debt	127.4	210.3
Less current maturities	6.4	91.0
Long-term debt	$121.0	$119.3

On March 11, 2011, the Company entered into a $300 Four-Year Competitive Advance and Revolving Credit Facility Agreement (the New Credit Facility). The New Credit Facility replaced the Company's $400 Five-Year Competitive Advance and Revolving Credit Facility Agreement (the Prior Credit Facility), dated as of October 20, 2006 and as amended subsequently, among Convergys and a group of financial institutions. In connection with Convergys' entry into the New Credit Facility, Convergys terminated the Prior Credit Facility. There were no balances outstanding under the Prior Revolving Facility at March 11, 2011 or December 31, 2010.

Convergys has two borrowing options available under the New 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 New Credit Facility bear interest at one of the rates described in the New Credit Facility. The New Credit Facility includes certain restrictive covenants including maintenance of interest coverage and debt-to-EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) ratios (as defined in the New Credit Facility). 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 ratio cannot be greater than 3.00 to 1.00 until December 31, 2012 and 2.75 to 1.00 after December 31, 2012. The New Credit Facility also contains customary representations and warranties. In the event of a default, the lenders may terminate the commitments and declare the amounts outstanding, and all accrued interest, immediately due and payable. The maturity date of the New 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.

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Convergys will pay an annual facility fee regardless of utilization. At September 30, 2011, the facility was undrawn. The Company was in compliance with all covenants at September 30, 2011.

In December 2004, Convergys issued $250.0 in 4.875% Unsecured Senior Notes (4.875% Senior Notes) due December 15, 2009. In the fourth quarter of 2009, the Company announced an exchange offer (Exchange Offer), under the terms of which the Company offered to exchange one thousand twenty dollars in principal amount of its new 5.75% Junior Subordinated Convertible Debentures due September 2029 (2029 Convertible Debentures) for each one thousand dollars in principal amount of its 4.875% Senior Notes. 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 Operations and Comprehensive Income (Loss).

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 Debentures (the Indenture). 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 September 30, 2011 or December 31, 2010.

During 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 was extended through June 2011. During June 2011, the Company renegotiated the terms of the agreement, increasing the purchase limit to $150.0 and extending the terms to June 2014. The asset securitization program is conducted through Convergys Funding Inc., a wholly-owned bankruptcy remote subsidiary of the Company. As of September 30, 2011, the facility was undrawn. As of December 31, 2010, the Company had borrowings of $85.0 under this facility.

The Company leased an office complex in Orlando, Florida, under an agreement that expired in June 2010 (the “Orlando lease”). On June 30, 2010, the Company refinanced this lease arrangement. The new facility provides for a new lease period of five years, and 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). The Company accounts for the new facility as a capital lease. Including the $55.0 obligation for the Orlando facility, total capital lease obligations were $59.1 and $58.0 at September 30, 2011 and December 31, 2010, respectively.

Other debt of $11.0 and $10.7 at September 30, 2011 and December 31, 2010, respectively, consisted of miscellaneous domestic and international borrowings.

At September 30, 2011, future minimum payments of the Company’s debt arrangements are as follows:

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Remainder of 2011 and 2012	$7.6
2013	0.7
2014	6.7
2015	55.2
2016	—
Thereafter	125.0
Total	$195.2

(10) COMMITMENTS AND CONTINGENCIES

Commitments

At September 30, 2011, the Company had outstanding letters of credit of approximately $33 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 $1 for the remainder of 2011 and $17 for 2012.

At September 30, 2011, the Company had outstanding performance bond obligations of approximately $35 related to performance and payment guarantees for the Company's former HR Management line of business. Subsequent to completion of the sale of the HR Management business, the Company continues to be responsible for these bond obligations. 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, 2011 the Company maintains a liability of approximately $1 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 more likely than not 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. At September 30, 2011, 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 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 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 Company and the plaintiffs signed a term sheet to settle and terminate the lawsuit. The District Court granted final approval of the parties' joint stipulation of settlement on September 27, 2011. The joint stipulation of settlement was not appealed prior to the deadline for filing an appeal. The final settlement did not have a material adverse impact on the Company's results of operations or financial condition at September 30, 2011.

(11) FAIR VALUE DISCLOSURES

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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 September 30, 2011 and December 31, 2010, 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 nine months ended September 30, 2011 and 2010. The assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	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)	$18.5	—	$18.5	—
Foreign currency forward contracts (liability position)	$12.1	—	$12.1	—

	December 31, 2010	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)	$38.8	—	$38.8	—
Foreign currency forward contracts (liability position)	$8.0	—	$8.0	—

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 September 30, 2011, the fair value of the $125.0 of the Company's 2029 Convertible Debentures is $144.2.

(12) FINANCIAL 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.
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 33 months and had a notional value of $453.4 at September 30, 2011 and $571.6 at December 31, 2010. The derivative instruments discussed above are designated and effective as cash flow hedges. The following table reflects the fair

values of these derivative instruments:

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	September 30, 2011	December 31, 2010
Forward exchange contracts and options designated as hedging instruments:		
Included within other current assets	$13.0	$19.5
Included within other non-current assets	4.8	19.2
Included within other current liabilities	6.8	7.2
Included within other long-term liabilities	5.3	0.8

The Company recorded deferred tax expense of $2.2 and $12.0 related to these derivatives at September 30, 2011 and December 31, 2010, respectively. A total of $3.5 and $18.7 of deferred gains, net of tax, related to these cash flow hedges at September 30, 2011 and December 31, 2010, respectively, were accumulated in Other Comprehensive Income (OCI) (Loss) (OCL). As of September 30, 2011, deferred gains of $3.5 ($2.2 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, 2011 and 2010:

	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 September 30, 2011			
Foreign exchange contracts	$ (15.4)	$ 4.3	- Cost of providing services and products sold and Selling, general and administrative
Nine Months Ended September 30, 2011			
Foreign exchange contracts	$ (14.7)	$ 10.4	- Cost of providing services and products sold and Selling, general and administrative

	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 amount recognized related to the ineffective portion of the derivative instruments was not material for the nine months ended September 30, 2011.
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, 2011, a

loss of $1.4 was recognized related to changes in fair value of these derivative instruments not designated as hedges, compared to a gain of $0.8 for the same period in 2010. 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 and Comprehensive Income. The fair value of these derivative instruments not designated as hedges at September 30, 2011 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, 2011 is $12.1 for which the Company has posted no collateral. Future downgrades in the Company's credit ratings and/or changes in the foreign currency markets could result in collateral to counterparties.

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(13) INCOME TAXES

The liability for unrecognized tax benefits was $91.7 and $84.4 at September 30, 2011 and December 31, 2010, 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 recognized in the Consolidated Financial Statements is $80.7. This amount includes interest and penalties of $17.5. 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 30.2% and 30.0% for the three and nine months ended September 30, 2011, respectively, compared to 20.1% and 23.8% in the same periods last year. The year over year rate increase is primarily driven by the sale of the Company's interests in the Cellular Partnerships during the third quarter of 2011.

(14) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill decreased to $818.0 at September 30, 2011 from $820.5 at December 31, 2010. The decrease was largely the result of the $2.2 reduction to goodwill from the sale of the Finance and Accounting outsourcing line of business. Intangible assets (including software and customer relationships) decreased to $56.7 at September 30, 2011 from $69.1 at December 31, 2010, principally due to amortization. As of September 30, 2011, 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)	$88.7	$(64.5)	$24.2
Trademarks	12.0	(9.7)	2.3
Customer relationships and other intangibles	152.7	(122.5)	30.2
Total	$253.4	$(196.7)	$56.7

The intangible assets are being amortized using the following amortizable lives: five to eight years for software, four years for trademarks and seven to twelve years for customer relationships and other intangibles. The remaining weighted average depreciation period for software is 4.3 years. The remaining weighted average amortization period for trademarks, customer relationships and other intangibles is 5.8 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 $7.2 and $7.6 for the nine months ended September 30, 2011 and 2010, respectively, and is estimated to be approximately $9.6 for the year ended December 31, 2011. The related estimated expense for the five subsequent years ended December 31 is as follows:

2012	$9
2013	7
2014	3
2015	3
2016	2
Thereafter	6

(15) PAYABLES AND OTHER CURRENT LIABILITIES

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	At September 30, 2011	At December 31, 2010
Accounts payable	$33.0	$53.6
Accrued income and other taxes	40.8	19.7
Accrued payroll-related expenses	120.4	100.2
Derivative liabilities	6.8	7.2
Accrued expenses	81.7	103.6
Deferred revenue and government grants	65.9	60.1
Restructuring and exit costs	14.4	35.8
	$363.0	$380.2

(16) BUSINESS SEGMENT INFORMATION

As discussed in Note 1, after the sale of HR Management, the Company reorganized its reportable segments into the following segments: (i) Customer Management, which provides agent-assisted services, self-service, and intelligent technology care solutions; and (ii) Information Management, which provides business support system (BSS) solutions. 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,	
	2011	2010	2011	2010
Revenues:				
Customer Management	$490.9	$462.9	$1,419.0	$1,372.6
Information Management	83.6	81.9	240.4	242.3
Corporate and Other	2.4	11.2	13.7	15.3
	$576.9	$556.0	$1,673.1	$1,630.2
Depreciation:				
Customer Management	$14.9	$16.6	$44.5	$50.8
Information Management	3.6	3.5	9.9	11.1
Corporate and Other	3.1	4.0	9.5	13.5
	$21.6	$24.1	$63.9	$75.4
Amortization:				
Customer Management	$1.9	$1.9	$5.6	$5.7
Information Management	0.6	0.6	1.7	2.0
	$2.4	$2.4	$7.2	$7.6
Restructuring Charges:				
Customer Management	$1.0	$—	$1.0	$15.3
Information Management	(1.2)	—	(1.2)	—
Corporate and Other	0.2	—	0.2	2.3
	$—	$—	$—	$17.6
Operating Income (Loss):				
Customer Management	$39.0	$31.3	$108.5	$73.1
Information Management	9.7	11.3	23.4	27.6
Corporate and Other[(1)]	(5.2)	(7.9)	(13.3)	(36.1)
	$43.5	$34.7	$118.6	$64.6
Capital Expenditures:[(2)]				
Customer Management	$10.6	$15.0	$35.2	$32.2
Information Management	2.6	2.6	9.6	7.2
Corporate and Other[(3)]	6.5	3.7	12.2	9.1
	$19.7	$21.3	$57.0	$48.5

(1) Includes a $1.5 benefit associated with the Supplemental Executive Retirement Plan (SERP) curtailment for the nine months ended September 30, 2011, costs previously allocated to the HR Management line of business of $0.0 and $9.1 for the three and nine months ended September 30, 2010, and CEO transition costs of $1.4 and